

CITY OF CHANDLER, TEXAS

**BASIC FINANCIAL STATEMENTS and
REQUIRED SUPPLEMENTAL and
OTHER INFORMATION**

FISCAL YEAR ENDED SEPTEMBER 30, 2011

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CITY OF CHANDLER, TEXAS

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Chandler, Texas
Chandler, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Chandler, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Chandler, Texas' management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Chandler, Texas, as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011, on our consideration of the City of Chandler, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chandler, Texas' financial statements as a whole. The introductory section, combining and

individual non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gollob Morgan Peddy PC

Certified Public Accountants

Tyler, Texas

December 29, 2011

Management's Discussion and Analysis

As management of the City of Chandler, 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, 2011.

Financial Highlights

- As of the end of the current fiscal year, the assets of the City exceed its liabilities by \$7,309,669 (net assets). Of this amount \$944,360 may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$812,235. Of this amount \$424,050 (52.22%) is available for spending at the government's discretion.
- The total net assets of \$7,309,669 are made up of \$5,694,609 in capital assets net of related debt and \$1,615,060 in other net assets.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The financial statements are prepared using Governmental Accounting Statement No. 34 *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*.

The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

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

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, other nonfinancial factors must also be considered.

The *statement of activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the City of Chandler that are principally supported by taxes and other governmental revenue (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 and streets and drainage. The business-type activities include water and sewer.

The fund financial statements are presented using fund designations. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, used fund accounting to ensure and demonstrate

compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. These 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 funds 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 fiscal 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 City'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 maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other governmental fund is presented as a single aggregated presentation as it is considered a nonmajor governmental fund.

Proprietary funds. The City of Chandler maintains one type of proprietary fund – an enterprise fund. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The City used enterprise funds to account for its water and sewer operations and capital projects.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer as well as for the capital projects. A combination of the two funds was presented in the government-wide financial statements.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. As of the end of the fiscal year, September 30, 2011, the City's assets exceeded liabilities by \$7,309,669.

By far the largest portion of the City's net assets, \$5,694,609, reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure); less any related debt used to acquire these assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. This amount decreased by \$77,600 from the prior year primarily from the construction of improvements to the City's water and sewer system and the issuance of new debt. The amount of unrestricted net assets \$944,360

increased by \$112,149 from the prior year due to additional revenue generated by the business-type activities.

City of Chandler's Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 972,149	\$ 973,987	\$ 1,865,656	\$ 659,769	\$ 2,837,805	\$ 1,633,756
Capital assets	3,595,207	3,706,081	5,125,648	4,819,690	8,720,855	8,525,771
Total assets	4,567,356	4,680,068	6,991,304	5,479,459	11,558,660	10,159,527
Current liabilities	225,562	69,882	241,996	53,065	467,558	122,947
Noncurrent liabilities	361,433	482,961	3,420,000	2,390,000	3,781,433	2,872,961
Total liabilities	586,995	552,843	3,661,996	2,443,065	4,248,991	2,995,908
Net invested in capital assets	3,157,516	3,245,259	2,537,093	2,526,950	5,694,609	5,772,209
Restricted	366,662	354,987	304,038	204,212	670,700	559,199
Unrestricted	456,183	526,979	488,177	305,232	944,360	832,211
Total net assets	\$ 3,980,361	\$ 4,127,225	\$ 3,329,308	\$ 3,036,394	\$ 7,309,669	\$ 7,163,619

Governmental activities. Governmental activities decreased net assets by \$146,864 during the year which is \$147,992 less than the prior year's increase which was primarily attributable to increased expenses in general government, public safety and streets. The business-type activities resulted in a \$292,914 increase to net assets which is \$240,091 more than the prior year.

City of Chandler's Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2011	2010	2011	2010	2011	2010
Revenues						
Charges for services	\$ 974,934	\$ 962,308	\$ 1,364,917	\$ 928,945	\$ 2,339,851	\$ 1,891,253
Capital grants and contributions	-	-	-	-	-	-
General Revenue						
Property taxes	561,233	529,645	-	-	561,233	529,645
Franchise taxes	113,192	108,648	-	-	113,192	108,648
Sales and use taxes	448,743	412,565	-	-	448,743	412,565
Interest income	5,003	9,919	11,883	5,866	16,886	15,785
Other	-	-	-	-	-	-
Total revenue	2,103,105	2,023,085	1,376,800	934,811	3,479,905	2,957,896

Expenses						
General government	1,016,891	850,767	-	-	1,016,891	850,767
Public safety	726,794	717,716	-	-	726,794	717,716
Environmental and public service	87,942	86,971	-	-	87,942	86,971
Highways and streets	237,931	226,626	-	-	237,931	226,626
Parks and recreation	136,055	128,943	-	-	136,055	128,943
Interest	44,356	10,934	-	-	44,356	10,934
Water and sewer operations	-	-	1,083,886	881,988	1,083,886	881,988
Total expenses	2,249,969	2,021,957	1,083,886	881,988	3,333,855	2,903,945
Other						
Transfers	-	-	-	-	-	-
Change in net assets	(146,864)	1,128	292,914	52,823	146,050	53,951
Net assets, beginning of the year	4,127,225	4,126,097	3,036,394	2,983,571	7,163,619	7,109,668
Net assets, end of the year	\$ 3,980,361	\$ 4,127,225	\$ 3,329,308	\$ 3,036,394	\$ 7,309,669	\$ 7,163,619

Financial Analysis of the Government's Funds

As noted earlier, the City of Chandler uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

At the end of the current fiscal year, the City's governmental funds reported an ending fund balance of \$812,235 of which \$424,050 is unrestricted and available for spending at the City's discretion. The remainder is reserved to indicate that it is not available for new spending because it has already been committed for future capital improvements.

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

Unrestricted net assets of the proprietary fund amounted to \$488,177. The total net assets increased by \$292,914 for the year.

General Fund Budgetary Highlights

Over the year, the City of Chandler did not make any revisions to its original budget. At the end of the year, revenues were less than the budgeted amount by \$7,630. Actual expenditures were less than budgeted amounts by \$4,748 and GAAP adjustments of \$67,539 resulted in an actual decrease to fund balance of \$70,421 at year end.

Capital Assets and Debt Administration

Capital Assets. The City of Chandler's investment in capital assets for the governmental and business-type activities as of September 30, 2011, amounts to \$5,694,609 net of accumulated depreciation and related debt. This investment in capital assets includes land, construction in progress, buildings, machinery and equipment, water and sewer systems, and infrastructure. The total decrease in the City's investment in fixed assets for the current year was \$77,600.

City of Chandler's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 575,760	\$ 575,760	\$ 108,962	\$ 108,962	\$ 684,722	\$ 684,722
Construction in Progress	-	-	383,430	-	383,430	-
Buildings and improvements	598,236	643,044	-	-	598,236	643,044
Infrastructure	2,010,226	2,097,827	-	-	2,010,226	2,097,827
Machinery and equipment	410,985	389,450	13,338	17,438	424,323	406,888
Water and sewer system	-	-	4,619,918	4,693,290	4,619,918	4,693,290
Combined total	\$ 3,595,207	\$ 3,706,081	\$ 5,125,648	\$ 4,819,690	\$ 8,720,855	\$ 8,525,771

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt. At the end of the current year, the City had total debt outstanding of \$4,032,405. Of this amount, \$3,580,000 comprises debt backed by revenue bonds, refunding bonds and certificates of obligation. During the current year, the City issued \$1,300,000 in new revenue bonds, and incurred \$50,143 in a note payable with the acquisition of a law enforcement computer system.

Several of the City's bonds are insured thus holding a Triple A rating from both Moody's and Standard & Poor's. Additional information on the City's long-term debt can be found in the footnotes to this financial report.

City of Chandler's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Capital leases	\$ 38,926	\$ 75,822	\$ -	\$ -	\$ 38,926	\$ 75,822
Compensated absences	14,713	22,139	-	-	14,713	22,139
Revenue bonds	-	-	3,580,000	2,390,000	3,580,000	2,390,000
Note payable	398,766	385,000	-	-	398,766	385,000
Combined total	\$ 452,405	\$ 482,961	\$ 3,580,000	\$ 2,390,000	\$ 4,032,405	\$ 2,872,961

Economic Factors and Next Year's Budgets and Rates

Economic trends in the area mirror those of Tyler, Texas that is located in a U. S. Census metropolitan economic region within commuting distance of most of the City's citizens. In the region, unemployment has risen due to the declining economy in the area that reflects that of the whole country.

The City strives to keep expenditures to a minimum. With controlled spending and use of reserves, the City should be able to absorb any unexpected inflationary price change such as fuel and power costs.

All of these factors were considered in preparing the City's budget for the 2012 fiscal year.

Request for Information

This financial report is designed to provide a general overview of the City of Chandler's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City of Chandler, Attn: City Secretary, P. O. Box 425, Chandler, TX 75758 or call 903-849-6853 or email sparker@chandlertx.com.

BASIC FINANCIAL STATEMENTS

CITY OF CHANDLER, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and certificates of deposit	\$ 775,225	\$ 395,380	\$ 1,170,605
Inventory	-	39,819	39,819
Receivables (net of allowance for doubtful accounts)	122,305	147,218	269,523
Internal balances	74,619	(74,619)	-
Restricted Assets:			
Temporarily restricted:			
Revenue bond debt service	-	304,038	304,038
Cash for construction	-	991,445	991,445
Bond issue costs (net)	-	62,375	62,375
Capital Assets (net of accumulated depreciation):			
Land	575,760	108,962	684,722
Construction in Progress	-	383,430	383,430
Buildings and improvements	598,236	-	598,236
Water and sewer system	-	4,619,918	4,619,918
Machinery and equipment	410,985	13,338	424,323
Infrastructure	2,010,226	-	2,010,226
Total Assets	4,567,356	6,991,304	11,558,660
LIABILITIES			
Accounts payable and accrued expenses	134,590	81,996	216,586
Non-current liabilities:			
Due within one year	90,972	160,000	250,972
Due in more than one year	361,433	3,420,000	3,781,433
Total Liabilities	586,995	3,661,996	4,248,991
NET ASSETS			
Investment in capital assets, net of related debt	3,157,516	2,537,093	5,694,609
Restricted for:			
Debt service	-	304,038	304,038
Future construction	366,662	-	366,662
Unrestricted	456,183	488,177	944,360
Total Net Assets	\$ 3,980,361	\$ 3,329,308	\$ 7,309,669

The notes to the financial statements are an integral part of this statement.

**CITY OF CHANDLER, TEXAS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2011**

PROGRAM ACTIVITIES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	
	EXPENSES	CHARGES FOR SERVICES	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
PRIMARY GOVERNMENT:				
Governmental activities:				
General government	\$ 1,016,891	\$ 571,329	\$ (445,562)	\$ -
Public safety	726,794	383,506	(343,288)	-
Environmental and public service	87,942	-	(87,942)	-
Highways and streets	237,931	-	(237,931)	-
Parks and recreation	136,055	20,099	(115,956)	-
Interest and fees	44,356	-	(44,356)	-
Total governmental activities	2,249,969	974,934	(1,275,035)	-
Business-type activities:				
Water and sewer	1,083,886	1,364,917	-	281,031
Total business-type activities	1,083,886	1,364,917	-	281,031
Total primary government	\$ 3,333,855	\$ 2,339,851	\$ (1,275,035)	\$ 281,031
General revenues:				
Property taxes			561,233	-
Franchise taxes			113,192	-
Sales and use taxes			448,743	-
Interest income			5,003	11,883
Total general revenues			1,128,171	11,883
Change in net assets			(146,864)	292,914
Net assets - beginning of year			4,127,225	3,036,394
Net assets - end of year			\$ 3,980,361	\$ 3,329,308
				\$ 7,309,669

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	GENERAL	ECONOMIC DEVELOPMENT FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and Certificates of Deposit	\$ 437,581	\$ 337,644	\$ 775,225
Receivables:			
Sales Tax Receivable	58,035	29,018	87,053
Trash Services Receivable	24,642	-	24,642
Property Tax Receivable (net of allowance for estimated uncollectibles)	10,610	-	10,610
Due from Other Funds	74,619	-	74,619
Total Assets	\$ 605,487	\$ 366,662	\$ 972,149
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 134,591	\$ -	\$ 134,591
Accrued Compensated Absences	14,713	-	14,713
Deferred Revenue	10,610	-	10,610
Total Liabilities	159,914	-	159,914
Fund Balances:			
Restricted:			
Capital Improvements	-	366,662	366,662
Court Security and Technology	21,523	-	21,523
Unassigned	424,050	-	424,050
Total Fund Balances	445,573	366,662	812,235
Total Liabilities and Fund Balances	\$ 605,487	\$ 366,662	

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets (Exhibit 1)

	Total Governmental Funds
Total fund balances governmental funds (Exhibit 3 page 1)	\$ 812,235
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	3,595,207
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	10,610
Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	<u>(437,691)</u>
Net Assets of governmental activities	<u>\$ 3,980,361</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2011

	GENERAL	ECONOMIC DEVELOPMENT FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Property taxes	\$ 561,608	\$ -	\$ 561,608
Sales tax	335,480	113,263	448,743
Franchise tax	113,192	-	113,192
Fines	383,506	-	383,506
Licenses and permits	49,805	-	49,805
Little league fees	4,525	-	4,525
Winchester park	15,574	-	15,574
Subdivision fees	3,500	-	3,500
Interest	2,804	2,199	5,003
Rents	21,018	-	21,018
Expense reimbursements	38,000	-	38,000
Miscellaneous	152,840	-	152,840
Trash and tax collection	293,566	-	293,566
Lease income	12,600	-	12,600
	<u>1,988,018</u>	<u>115,462</u>	<u>2,103,480</u>
Total Revenues			
	<u>1,988,018</u>	<u>115,462</u>	<u>2,103,480</u>
EXPENDITURES			
General government	870,622	103,787	974,409
Public safety	428,372	-	428,372
Municipal court	211,537	-	211,537
Environmental and public service	87,162	-	87,162
Highways and streets	100,596	-	100,596
Parks and recreation	88,824	-	88,824
Capital outlay	203,839	-	203,839
Debt service - principal	73,274	-	73,274
Debt service - interest	33,724	-	33,724
Appraisal and collection fees	10,632	-	10,632
	<u>2,108,582</u>	<u>103,787</u>	<u>2,212,369</u>
Total Expenditures			
	<u>2,108,582</u>	<u>103,787</u>	<u>2,212,369</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(120,564)</u>	<u>11,675</u>	<u>(108,889)</u>
Other Financing Sources (Uses):			
Loan proceeds	<u>50,143</u>	<u>-</u>	<u>50,143</u>
Total Other Financing Sources (Uses)	<u>50,143</u>	<u>-</u>	<u>50,143</u>
Net Change in Fund Balances	<u>(70,421)</u>	<u>11,675</u>	<u>(58,746)</u>
Fund Balance, October 1, 2010	<u>515,994</u>	<u>354,987</u>	<u>870,981</u>
Fund Balance, September 30, 2011	<u>\$ 445,573</u>	<u>\$ 366,662</u>	<u>\$ 812,235</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2011

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds	\$ (58,746)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(110,874)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(375)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	23,131
	<hr/>
Change in net assets of governmental activities	<u><u>\$ (146,864)</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2011

	GENERAL FUND			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES				
Property taxes	\$ 551,822	\$ 551,822	\$ 561,608	\$ 9,786
Sales tax	402,131	402,131	326,855	(75,276)
Franchise tax	110,750	110,750	113,192	2,442
Fines	425,334	425,334	383,506	(41,828)
Licenses and permits	10,000	10,000	49,805	39,805
Library	21,000	21,000	27,951	6,951
Little league fees	4,000	4,000	4,525	525
Winchester park	22,256	22,256	15,574	(6,682)
Subdivision fees	4,000	4,000	3,500	(500)
Interest	5,010	5,010	2,804	(2,206)
Rents	7,500	7,500	21,018	13,518
Expense reimbursements	40,000	40,000	38,000	(2,000)
Contributions	500	500	(240)	(740)
ACH Deposit	60,000	60,000	107,783	47,783
Land Account	52,800	52,800	52,800	-
Miscellaneous	19,328	19,328	17,346	(1,982)
Trash and tax collection	290,400	290,400	293,174	2,774
Lease income	12,600	12,600	12,600	-
Total Revenues	<u>2,039,431</u>	<u>2,039,431</u>	<u>2,031,801</u>	<u>(7,630)</u>
EXPENDITURES				
General government	755,376	755,376	883,782	(128,406)
Public safety	441,547	441,547	438,928	2,619
Municipal court	275,825	275,825	209,117	66,708
Environmental and public service	106,377	106,377	83,378	22,999
Highways and streets	274,007	274,007	241,291	32,716
Parks and recreation	102,125	102,125	94,281	7,844
Debt service - principal	73,274	73,274	73,274	-
Appraisal and collection fees	10,900	10,900	10,632	268
Total Expenditures	<u>2,039,431</u>	<u>2,039,431</u>	<u>2,034,683</u>	<u>4,748</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures - Budget Basis	-	-	(2,882)	(2,882)
Budget Basis to GAAP Basis Adjustments (Note A)	<u>-</u>	<u>-</u>	<u>(67,539)</u>	<u>(67,539)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures - GAAP Basis	<u>-</u>	<u>-</u>	<u>(70,421)</u>	<u>(70,421)</u>
Net Change in Fund Balances	-	-	(70,421)	(70,421)
Fund Balance, October 1, 2010	<u>-</u>	<u>-</u>	<u>515,994</u>	<u>515,994</u>
Fund Balance, September 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 445,573</u>	<u>\$ 445,573</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2011

Note A - Explanation of Differences Between Budget Basis Presentation and GAAP

Basis Presentation:

Sources/Inflows of Resources:

Differences - Budget to GAAP

Increase in accrued sales taxes	\$ 8,624
Increase in accrued revenues on charges for services	393
Loan proceeds for capital acquisitions	50,143
Total Sources/Inflows of Resources	59,160

Uses/Outflows of Resources:

Differences - Budget to GAAP

Funds reserved for debt service	(52,800)
Capital outlay acquired through financing agreements	(50,143)
Increase in accrued expenses	(23,756)
Total Uses/Outflows of Resources	(126,699)

Net Change in Budget Basis Presentation and GAAP Basis Presentation	\$ (67,539)
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The notes to the financial statements are an integral part of this statement.

**CITY OF CHANDLER, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011**

	<u>BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND OPERATING FUND</u>
ASSETS	
Current Assets:	
Cash and certificates of deposit	\$ 395,380
Inventory	39,819
Accounts receivable (Net)	<u>147,218</u>
Total Current Assets	<u>582,417</u>
Restricted Assets:	
Temporarily Restricted	
Revenue bond debt service	304,038
Cash for construction	<u>991,445</u>
Total Restricted Assets	<u>1,295,483</u>
Bond Issue Costs (Net)	62,375
Capital Assets:	
Land	108,962
Water and sewer system	6,322,036
Machinery & equipment	58,641
Construction in progress	383,430
Less: Accumulated depreciation	<u>(1,747,421)</u>
Total Capital Assets Net Of Accumulated Depreciation	<u>5,125,648</u>
Total Assets	7,065,923
LIABILITIES	
Current Liabilities:	
Accounts payable	13,118
Accrued interest	68,878
Due to other funds	74,619
Revenue bonds payable	<u>160,000</u>
Total Current Liabilities	<u>316,615</u>
Noncurrent Liabilities:	
Revenue bonds payable	<u>3,420,000</u>
Total Liabilities	<u>3,736,615</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,537,093
Restricted for debt service	304,038
Unrestricted	<u>488,177</u>
Total Net Assets	<u>\$ 3,329,308</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2011

	BUSINESS-TYPE ACTIVITIES
	ENTERPRISE FUND
	OPERATING FUND
OPERATING REVENUES	
Water sales and sewer service	\$ 939,160
Charges for services	425,757
	1,364,917
OPERATING EXPENSES	
Water and sewer operations	796,812
Depreciation	134,808
	931,620
Operating Income (Loss)	433,297
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(146,687)
Amortization of bond issue costs	(5,579)
Interest income	11,883
	(140,383)
Change in Net Assets	292,914
Net Assets, October 1, 2010	3,036,394
Net Assets, September 30, 2011	\$ 3,329,308

The notes to the financial statements are an integral part of this statement.

**CITY OF CHANDLER, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2011**

Increase (Decrease) in Cash and Cash Equivalents

	<u>OPERATING FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers and users	\$ 1,325,242
Cash paid to suppliers for goods and services	(752,793)
Cash paid to employees for services	<u>(38,000)</u>
Net cash provided by operating activities	<u>534,449</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from Bond Issued	1,300,000
Bond issue cost	(36,551)
Capital asset purchases	(440,767)
Interest paid	(123,775)
Principal paid on bonds	<u>(110,000)</u>
Net cash used in capital and related financing activities	<u>588,907</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned on investments	<u>11,883</u>
Net cash provided by investing activities	<u>11,883</u>
Net decrease in cash	1,135,239
Cash, beginning of period	<u>555,624</u>
Cash, end of period	<u>\$ 1,690,863</u>
Reconciliation of Cash on Exhibit 7:	
Cash and certificates of deposit	\$ 395,380
Cash - restricted assets	<u>1,295,483</u>
Total Cash	<u>\$ 1,690,863</u>
Reconciliation of Operating Income (Loss) To Net Cash Provided By (Used In) Operating Activities:	
Operating income (loss)	\$ 433,297
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Depreciation expense	134,808
Increase in accounts receivable	(32,415)
Increase in inventory	(1)
Decrease in due to other funds	(7,260)
Increase in accounts payable	<u>6,020</u>
Total adjustments	<u>101,152</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 534,449</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1: — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Chandler, Texas (the "City") was incorporated on January 9, 1913, under the provisions of the State of Texas. The City operates under a council form of government and provides the following services as authorized by its charter: public safety (police), streets, health and social services, culture, recreation, public improvements, planning, general administrative services, and utilities operations.

The accounting policies of the City of Chandler, Texas conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

B. The Reporting Entity

These financial statements present all of the funds of the City.

The financial statements of the City of Chandler, Texas include all funds and account groups and other organizations for which the City is financially accountable. Financial accountability is determined on the basis of appointment of a voting majority of the respective governing board, imposition of will, financial benefit or burden and financial accountability as a result of fiscal dependency. In determining the financial reporting entity, the City complies with the provisions of Government Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", and includes all component units of which the City appointed a voting majority of the units' board and the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

The Chandler Area Economic Development Corporation, Inc. was formed in 1998, and is governed by a nine-member board of directors, which includes the City's council members. For financial reporting purposes, the Chandler Area Economic Development Corporation, Inc. has been presented as a blended component unit of the City and is reported as a Capital Projects Fund, because its purpose is to account for construction activities funded by the revenues generated by the one-half cent sales tax. The Chandler Area Economic Development Corporation, Inc. does not issue separate financial statements.

Health Facilities Development Corporations

The Chandler Health Facilities Development Corporation and the Rusk County Health Facilities Corporation are public non-profit health facilities development corporations. The Corporations were created pursuant to the provisions of the Health Facilities Development Act. The purpose of the Corporations is to provide health facilities for the promotion and development of health care, research, and education for the public purpose of promoting the health and welfare of the City's residents and the citizens of the State of Texas and to issue bonds on its behalf to finance the cost of health facilities. The Corporations are designated as duly constituted authorities and instrumentalities of the City existing and acting on behalf of, but separate and apart from the City. The City has issued revenue bonds on behalf of these Corporations for the purpose of expanding existing health facilities. The City is not liable for any of the obligations of the Corporations or bound by any actions or proceedings of the Corporations except as may be specifically assumed by the City Council and, accordingly, these obligations are not reported as liabilities in the City's general purpose financial statements. The City has appointed the current Board of Directors, which consists of five persons. The positive response to this particular criteria does not constitute sufficient control to include the Corporations as component units of the City because the corporations are autonomous entities.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government.

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

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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.

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

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Economic Development Fund is used to account for the use of the one-half cent sales tax proceeds for capital improvement projects of the City.

The government reports the following major proprietary fund:

The Water and Sewer Fund is used to account for sale of water and wastewater treatment by the City to businesses and residential customers.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivery goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Assets, Liabilities, and Net Assets or Equity

1. Cash and cash equivalents – the City considers all cash in demand deposit accounts and petty cash accounts to be cash and cash equivalents.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (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.” 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, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectible.

The City provides an allowance for doubtful accounts based upon the anticipated collectibility of each specific account, as determined by experience.

Property taxes are levied October 1 on the assessed value of property at January 1 and are due by January 31 of the following year. Unpaid taxes attach as an enforceable lien on property as of January 31. Revenue from taxes assessed is recorded as deferred revenue on October 1. The deferred revenue from taxes is then recognized as revenue during the year as the taxes are actually received.

3. Due from Other Funds

Current portions of long-term interfund loans receivable (reported in “Due from” asset accounts) are considered “available spendable resources”.

4. Inventory – is stated at cost using the first in/first out method. Quantities are determined by physical counts made at year end.

5. Capital Assets – includes property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 (amount not rounded) and an estimated 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. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20
Machinery and equipment	5
Infrastructure	20
Police vehicles	3

6. Construction in progress – Expenditures on incomplete capital projects have been capitalized as construction in progress. The assets resulting from these projects will be transferred from the construction in progress accounts to the appropriate asset accounts as the projects are completed.
7. Bond issue costs – Bond issue costs are amortized over the life of the bonds under the effective interest method and straight line method.
8. Fund Balance Classification – During the current year, the City adopted GASB Statement No. 54, which redefined how fund balances of governmental funds are presented in the financial statements. Fund balances are classified as follows:
 - Nonspendable – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
 - Restricted – Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
 - Committed – Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution. This includes any budgeted reserve account.
 - Assigned – Amounts that are designated by City Council for a specific purpose but are not spendable until a budget ordinance is passed.
 - Unassigned – All amounts not included in other spendable classifications.
8. Net Assets – Represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of the City’s capital assets, net of accumulated depreciation, reduced by any outstanding debt used for the acquisition or construction of those assets. Net assets reported as restricted are those amounts which have limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors or other laws and regulations.
9. 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 — 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 assets - One element of that reconciliation states that “Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.” The details of this \$3,595,207 difference are as follows:

Capital assets, October 1, 2010, net of accumulated depreciation	\$3,706,081
Capital asset additions, net of retirements	203,839
Depreciation of capital assets, current year	<u>(314,713)</u>
	<u>\$3,595,207</u>

- B. Explanation of certain differences between the governmental fund statement of revenue, expenditures, and changes in fund balance and the government-wide statement of activities - One element of that reconciliation

explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated to their estimated useful lives and reported as depreciation expense.” The detail of this \$110,874 difference are as follows:

Capital outlay, asset additions, net of retirements	\$ 203,839
Depreciation expense	<u>(314,713)</u>
	<u><u>\$(110,874)</u></u>

NOTE 3 — STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The budget for the General Fund is adopted essentially on the cash basis. The budgetary comparisons for this fund are on this non-GAAP budgetary basis.
2. Appropriations lapse at year end.
3. Encumbrance accounting is not used.

NOTE 4 — DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2011, the City had the following deposits and investments:

	<u>BOOK BALANCE</u>	<u>BANK BALANCE</u>
Depository Accounts		
Insured	\$ 271,841	\$ 286,938
Collateral held by pledging bank's Trust Department in City's name	<u>2,193,672</u>	<u>2,404,671</u>
Total Deposits	2,465,513	2,691,609
Petty Cash on hand	<u>575</u>	-
Total Cash and Cash Equivalents	<u><u>\$ 2,466,088</u></u>	<u><u>\$ 2,691,609</u></u>

Interest Rate Risk – The City’s investment policy allows for investments in certificates of deposit and money market funds to be made in order to achieve the highest return of interest on excess cash.

B. Receivables

Receivables as of year end for the government's individual major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Economic Development Fund</u>	<u>Water & Sewer Fund</u>	<u>Total</u>
Receivables:				
Taxes	\$ 17,431	\$ -	\$ -	\$ 17,431
Sales Tax	58,035	29,018	-	87,053
Accounts (services)	<u>24,642</u>	<u>-</u>	<u>155,141</u>	<u>179,783</u>
Gross Receivables	100,108	29,018	155,141	284,267
Less: Allowance for Uncollectibles	<u>(6,821)</u>	<u>-</u>	<u>(7,923)</u>	<u>(14,744)</u>
Net Receivables	<u>\$ 93,287</u>	<u>\$ 29,018</u>	<u>\$ 147,218</u>	<u>\$269,523</u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2011 was as follows:

<u>PRIMARY GOVERNMENT</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 575,760	\$ -	\$ -	\$ 575,760
Total Capital Assets, Not Being Depreciated	<u>575,760</u>	<u>-</u>	<u>-</u>	<u>575,760</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	1,371,088	25,000	-	1,396,088
Infrastructure	2,733,826	49,296	-	2,783,122
Machinery and Equipment	<u>860,667</u>	<u>129,543</u>	<u>-</u>	<u>990,210</u>
Total Capital Assets, Being Depreciated	4,965,581	203,839	-	5,169,420
Less Accumulated Depreciation For:				
Buildings and Improvements	(728,044)	(69,808)	-	(797,852)
Infrastructure	(635,999)	(136,897)	-	(772,896)
Machinery and Equipment	<u>(471,217)</u>	<u>(108,008)</u>	<u>-</u>	<u>(579,225)</u>
Total Accumulated Depreciation	(1,835,260)	(314,713)	-	(2,149,973)
Net Total Assets Being Depreciated	<u>3,130,321</u>	<u>(110,874)</u>	<u>-</u>	<u>3,019,447</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,706,081</u>	<u>\$ (110,874)</u>	<u>\$ -</u>	<u>\$ 3,595,207</u>

<u>PRIMARY GOVERNMENT</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ -	\$ 383,430	\$ -	\$ 383,430
Land	108,962	-	-	108,962
Total Capital Assets, Not Being Depreciated	108,962	383,430	-	492,392
Capital Assets, Being Depreciated:				
Water and Sewer System	6,264,700	57,336	-	6,322,036
Machinery and Equipment	58,641	-	-	58,641
Total Capital Assets, Being Depreciated	6,323,341	57,336	-	6,380,677
Less Accumulated Depreciation For:				
Water and Sewer System	(1,571,410)	(130,708)	-	(1,702,118)
Machinery and Equipment	(41,203)	(4,100)	-	(45,303)
Total Accumulated Depreciation	(1,612,613)	(134,808)	-	(1,747,421)
Net Total Assets Being Depreciated	4,710,728	(77,472)	-	4,633,256
Business-Type Activities Capital Assets, Net	<u>\$ 4,819,690</u>	<u>\$ 305,958</u>	<u>\$ -</u>	<u>\$ 5,125,648</u>

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

Governmental Activities:

General Government	\$ 42,482
Public Safety	86,885
Environmental and Public Service	780
Parks and Recreation	47,231
Highways and Streets	<u>137,335</u>

Total depreciation expense, governmental activities \$314,713

Business-Type Activities:

Water, Sewer and Sanitation Operations \$134,808

Construction Commitments

The government has several active construction projects as of September 30, 2011. At year-end the government's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to- Date</u>	<u>Estimated Remaining</u>
Water Well	\$ 293,128	\$ 120,000
Waste Water Treatment Improvements	<u>90,302</u>	<u>244,698</u>
	<u>\$ 383,430</u>	<u>\$ 364,698</u>

The commitments for the projects are being financed by revenue bond proceeds.

During the year ended September 30, 2010, the City acquired land adjacent to land it owned at Winchester Park for possible future park expansion or a possible new city hall site. The title to the land has been placed with the Texas Parks and Recreation Foundation which will allow the City to pursue grant funding for any park expansion. This will also allow the City to use the price of the land as matching funds against future grant proceeds.

D. Leases

Operating Leases

Effective March 15, 2005, the City entered into a 10-year agreement to lease land to Alltel Communications, formerly Sprint Cellular, for a communications tower site. Effective August 14, 2007, the lease agreement was amended. The lease term was extended with Alltel Communications having the option to extend the agreement for each of four additional five year terms. Commencing on March 15, 2008, the rent increased to \$9,000 per year. On March 15, 2015 and on each March 15th thereafter, rent shall increase by an amount equal to 3% of the rent payable for the year immediately preceding such increase. During the year ended September 30, 2011, the City received \$9,000 in rent under this agreement.

Future rentals to be earned by the City under this agreement are as follows:

<u>Year Ended</u>	<u>Amount</u>
2012	\$ 9,000
2013	9,000
2014	9,000
2015	9,270
2016	9,548
2017-2021	52,210
2022-2026	60,524
2027-2031	70,163
2032-2036	81,337
	<u>\$ 310,052</u>

The City also entered into a lease agreement to rent a piece of property for a monthly amount of \$600. Effective April 10, 2007, this lease agreement was amended and the rent was increased to \$650 per month. The City will sublease a portion of this property to an organization for \$300 per month. Under these two agreements, the City paid \$7,800 in rent and received \$3,600 in rent during the year ended September 30, 2011.

Capital Leases

The City has entered into a lease agreement as lessee for financing the purchase of police vehicles. This lease agreement qualifies as a capital lease for accounting purposes.

The assets acquired through the capital lease are as follows:

	<u>Governmental Activities</u>
Asset:	
(3) Police Tahoe Cruisers	\$ 116,889
Less: Accumulated depreciation	(68,185)
Total	<u>\$ 48,704</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2011 were as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2012	<u>\$ 41,067</u>
Total minimum lease payments	41,067
Less: Amount representing interest	<u>(2,141)</u>
Present Value of minimum lease payments	<u>\$ 38,926</u>

E. Long-term debt

Revenue Bonds and Certificates of Obligation

The government has issued bonds where the government pledges tax revenue and income derived from the acquired or constructed assets to pay debt service. The bonds issued by the City in prior years were to fund construction projects to improve or expand the water and sewer system. Income derived from the sale of water will be used to service the debt requirements. In prior years, the City issued refunding bonds to refinance a portion of its old bonds and the City also issued certificates of obligation to pay for wastewater system and street improvements.

During the current year, the City issued \$1,300,000 in revenue bonds for the purpose of improving or expanding the water and sewer system.

Revenue bonds outstanding are as follows:

<u>Issue</u>	<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Series - 2006	Refunding Issue	4.90%	\$ 575,000
Series - 2006	Certificate of Obligation	4.90%	1,705,000
Series - 2010	Revenue Bond	4.20%	<u>1,300,000</u>

Total Outstanding Revenue Bonds and Certificates of Obligation \$3,580,000

The respective bond ordinances of the issues listed above require the following of the City: (a) creation of an interest and sinking fund for each issue; (b) establish a minimum balance to be held by each issue in order to pay the next interest and sinking requirement due; and (c) maintain tax revenue and net income from the City's water and sewer system sufficient to meet annual debt service requirement for all bond issues before the passage of a resolution authorizing the issuance of any new obligations.

As of September 30, 2011, the City was in compliance with all of its bond ordinances.

Annual debt service requirements to maturity for bonds are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 160,000	\$ 149,187
2013	160,000	142,479
2014	165,000	135,770
2015	175,000	128,747
2016	185,000	121,410
2017-2021	1,035,000	484,514
2022-2026	1,270,000	247,935
2027-2031	<u>430,000</u>	<u>46,830</u>
	<u>\$ 3,580,000</u>	<u>\$ 1,456,872</u>

Revenue bond ordinances require that the following information concerning insurance coverage as of September 30, 2011 be disclosed.

<u>ANNUAL PREMIUM</u>	<u>POLICY NO.</u>	<u>NATURE OF COVERAGE</u>	<u>AMOUNT OF COVERAGE</u>	<u>POLICY PERIOD</u>
\$ 18,808	#H5490-01	Workers Compensation	Statutory Limits	10-1-10 - 10-1-11
\$ 11,903	#NYA803565	Liability General	\$2,000,000/ occurrence	10-1-10 - 10-1-11
		Auto and Law Enforcement	\$1,000,000/occurrence	
		Property:		
		Real & Personal & Mobile Equipment	\$3,964,216	10-1-10 - 10-1-11
		Boiler & Machinery	\$100,000/ accident	10-1-10 - 10-1-11
\$ 3,564	#NYA812114	Errors & Omissions	\$1,000,000	10-1-10 - 10-1-11

Notes Payable

The City entered into a note payable with an individual; original loan amount of \$385,000; bearing 6% interest; payable in equal annual installments of \$52,317.95, due May 1 of each year beginning in 2011 and ending in 2021; secured by land

\$ 362,236

The City entered into a note payable for purchase of a law enforcement mobile computer system in the amount of \$50,143; bearing 5.8% interest payable in equal annual installments of \$13,613.09, due July 12 of each year beginning in 2011 and ending in 2014; secured by equipment

\$ 36,530

Less: Current Portion (37,333)

LONG-TERM PORTION \$ 361,433

Annual debt service requirements to maturity for the City's note payable are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 37,333	\$ 28,598
2013	39,888	26,043
2014	42,619	23,312
2015	31,926	20,392
2016	34,260	18,058
2017-2021	212,740	48,850
	<u>\$ 398,766</u>	<u>\$ 165,253</u>

Changes in long-term liabilities

Long term liability activity for the year ended September 30, 2011 was as follows:

	Beginning Balance <u>10/1/2010</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>9/30/2011</u>	Due Within <u>One Year</u>
Governmental Activities:					
Capital Leases	\$ 75,822	\$ -	\$ 36,896	\$ 38,926	\$ 38,926
Notes Payable	385,000	50,143	36,377	398,766	37,333
Compensated Absences	<u>22,139</u>	<u>-</u>	<u>7,426</u>	<u>14,713</u>	<u>14,713</u>
Governmental Activity Long-Term Liabilities	<u>\$ 482,961</u>	<u>\$ 50,143</u>	<u>\$ 80,699</u>	<u>\$ 452,405</u>	<u>\$ 90,972</u>
Business-Type Activities:					
Revenue Bonds	<u>\$2,390,000</u>	<u>\$1,300,000</u>	<u>\$ 110,000</u>	<u>\$3,580,000</u>	<u>\$ 160,000</u>
Business-Type Activity Long-Term Liabilities	<u>\$2,390,000</u>	<u>\$1,300,000</u>	<u>\$ 110,000</u>	<u>\$3,580,000</u>	<u>\$ 160,000</u>

NOTE 5 — GROUP CONCENTRATIONS OF CREDIT RISK

The City provides water and sewer services as well as solid waste collection and disposal services to its residents. Residents use the City's water and sewer system and the solid waste collection services and are billed each month for usage in the prior month. The credit granted by the City for usage of these services is all with residents of the City. As of September 30, 2011, the City had \$171,860 in net receivables from its residents for the usage of these services.

NOTE 6 — 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 carries commercial insurance and insurance with the Texas Municipal League (TML), a public entity risk pool for municipalities. The City pays premiums in monthly installments for this coverage. As of September 30, 2011, the City did not have any liability for unpaid claims or adjustments under policies carried with TML. During the year ended September 30, 2011, there was no reduction in insurance coverage from the prior year. There were no settlements in the prior three fiscal years which exceeded insurance coverage carried by the City.

NOTE 7 — COMMITMENTS

The City has a contract with the Chandler Volunteer Fire Department in which it makes an annual contribution of \$30,000 in exchange for fire protection for residents of the City. During the year ended September 30, 2011, the City paid \$30,000 under this contract.

The City has a contract with its water superintendent for meter reading services. This contract, which calls for the City to pay \$11.50 per meter read each month, is for a three-year period beginning September 30, 2008 and ending on September 30, 2011.

The City has a contract with the BMC Boys Baseball and the East Texas Girls Softball Leagues to lease the concession operation at Winchester Park. Under the agreement, the lessee will pay the City the first \$10,000 made on concession sales, with the funds to be used by the City for park projects. Revenues received under this agreement during the year ended September 30, 2011 were \$10,000.

The City has a contract with Sanitation Solutions for solid waste collection and disposal services for the residents of the City. The contract began May 1, 2007 and is effective until September 30, 2012. The City paid \$191,211 under this contract as of September 30, 2011.

NOTE 8 – EMPLOYEES’ PENSION PLAN OBLIGATIONS

Plan Description

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 (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

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

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

	<u>Plan Year 2010</u>	<u>Plan Year 2011</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	1 to 1	1 to 1
Year 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	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Contributions

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$ 44,519
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
	<hr/>
Annual Pension Cost (APC)	44,519
Contribution Made	<u>44,519</u>
Increase (decrease) in net pension obligation	-
Net Pension Obligation/(Asset), beginning of year	<hr/> -
Net Pension Obligation/(Asset), end of year	<u>\$ -</u>

Three Year Trend

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
9/30/2009	\$ 53,139	\$ 53,139	100%	\$ -
9/30/2010	41,280	41,280	100%	-
9/30/2011	44,519	44,519	100%	-

General System-wide Actuarial Assumptions

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2010 actuarial valuations. Information as of the latest actuarial valuation, December 31, 2010, follows:

Valuation Date	12/31/2008	12/31/2009	12/31/2010 - Prior to restructuring	12/31/2010 - Restructured
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	24 years; closed period	23 years; closed period	22.0 years; closed period	22.1 years; closed period
Amortization Period for new Gains / Losses	25 years	25 years	25 years	22 years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return*	7.5%	7.5%	7.5%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	N/A	N/A	N/A	N/A

Funding Status and Funding Progress

In June, 2011 SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impacts of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2010, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/10 (a)	\$ 131,045	\$ 376,484	34.8%	\$ 245,439	\$ 525,607	46.7%
12/31/10 (b)	135,377	400,587	33.8%	265,210	525,607	50.5%

(a) Actuarial valuation performed under the original fund structure.

(b) Actuarial valuation performed under the new fund structure.

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

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

Schedule of Funding Progress (unaudited):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2008	\$ 13,275	\$ 258,531	5.1%	\$ 245,256	\$ 451,632	54.3%
12/31/2009	69,727	319,393	21.8%	249,666	483,165	51.7%
12/31/2010 (a)	131,045	376,484	34.8%	245,439	525,607	46.7%
12/31/2010 (b)	135,377	400,587	33.8%	265,210	525,607	50.5%

(a) Actuarial valuation performed under the original fund structure.

(b) Actuarial valuation performed under the new fund structure.

NOTE 9 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2011, expenditures exceeded appropriations in the General Government department of the General Fund by \$128,406. This over expenditure was funded by available fund balance in the General Fund. Expenditures also exceeded appropriations in the Enterprise fund by \$164,443. This over expenditure was funded by greater than expected revenues and by available beginning net assets.

NOTE 10 – CONTINGENCIES

During the year ended September 30, 2010, the City received a grant under the State of Texas CDBG program to drill a water well in order to increase pressure in the City's water system. The site selected produced water of unsatisfactory quality and had to be abandoned. The City was granted an extension of the grant contract performance period in order to drill another well on a different site. If a working well is not successfully drilled the City may have to refund to the State \$133,215 of grant funds expended to date. As of September 30, 2011, this item is still pending the completion of the new well.

ADDITIONAL SUPPLEMENTAL INFORMATION

CITY OF CHANDLER, TEXAS
DETAILED SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS) - GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2011

	GENERAL FUND			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
EXPENDITURES				
General government	\$ 747,312	\$ 747,312	\$ 872,407	\$ (125,095)
Public safety	492,057	492,057	475,824	16,233
Municipal court	275,825	275,825	222,730	53,095
Environmental and public service	106,377	106,377	83,378	22,999
Highways and streets	274,007	274,007	241,291	32,716
Parks and recreation	102,125	102,125	94,281	7,844
Interest and fees	10,900	10,900	10,632	268
City library	<u>30,828</u>	<u>30,828</u>	<u>34,140</u>	<u>(3,312)</u>
Total Expenditures - Budget Basis	\$ <u>2,039,431</u>	\$ <u>2,039,431</u>	2,034,683	\$ <u>4,748</u>
Financial Statement Adjustments:				
Capital outlay acquired through financing agreements			50,143	
Increase in accrued expenses			<u>23,756</u>	
TOTAL EXPENDITURES - GAAP BASIS			\$ <u>2,108,582</u>	

CITY OF CHANDLER, TEXAS
DETAILED SCHEDULE OF REVENUES - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS) - ENTERPRISE FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2011

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<u>REVENUES</u>				
Water and sewer service	\$ 783,011	\$ 783,011	\$ 906,745	\$ 123,734
Interest income	2,200	2,200	11,883	9,683
Water connections	6,000	6,000	7,150	1,150
Sewer connections	6,000	6,000	7,150	1,150
Initial turn on	6,000	6,000	5,250	(750)
Reconnection fees	1,500	1,500	1,700	200
Trash Collection	290,400	290,400	292,774	2,374
Pump truck dumping	75,000	75,000	106,319	31,319
Grants	127,575	127,575	-	(127,575)
Miscellaneous	<u>3,200</u>	<u>3,200</u>	<u>5,414</u>	<u>2,214</u>
Total Revenues - Budget Basis	<u>\$ 1,300,886</u>	<u>\$ 1,300,886</u>	1,344,385	<u>\$ 43,499</u>
Financial Statement Adjustments:				
Increase in accrued revenues for water and sewer service			<u>32,415</u>	
TOTAL REVENUES - GAAP BASIS			<u>\$ 1,376,800</u>	

CITY OF CHANDLER, TEXAS
DETAILED SCHEDULE OF EXPENSES - BUDGET AND ACTUAL
 (NON-GAAP BUDGET BASIS) - ENTERPRISE FUND
 FISCAL YEAR ENDED SEPTEMBER 30, 2011

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<u>EXPENSES</u>				
Contract services	\$ 182,850	\$ 182,850	\$ 180,823	\$ 2,027
Material and supplies	141,800	141,800	155,824	(14,024)
Personnel services	40,000	40,000	38,000	2,000
Other expenses	67,635	67,635	61,604	6,031
Bond principal	175,000	175,000	110,000	65,000
Bond interest and fees	134,331	134,331	123,775	10,556
Trash collection	290,400	290,400	293,174	(2,774)
Capital improvements	<u>268,870</u>	<u>268,870</u>	<u>502,129</u>	<u>(233,259)</u>
Total Expenses - Budget Basis	<u>\$ 1,300,886</u>	<u>\$ 1,300,886</u>	1,465,329	<u>\$ (164,443)</u>
Financial Statement Adjustments:				
Expenses reclassified as decreases in liabilities			(110,000)	
Increase in accrued expenses			28,936	
Expenses reclassified as capital assets			(440,766)	
Amortization of bond issue costs			5,579	
Depreciation			<u>134,808</u>	
TOTAL EXPENSES - GAAP BASIS			<u>\$ 1,083,886</u>	

OTHER REPORTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
City of Chandler, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Chandler, Texas, as of and for the year ended September 30, 2011, which collectively comprise City of Chandler, Texas' basic financial statements and have issued our report thereon dated December 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Chandler, Texas is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Chandler, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Chandler, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Chandler, Texas' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses.

Posting of Activity

Effective internal control over financial reporting requires certain procedures and policies be established for the correct posting of transactions. During the course of our audit, it was noted that a number of transactions were posted to the general ledger resulting in the duplication of revenues and

expenditures. These transactions should have been posted as fund transfers between accounts. We recommend that the City seek guidance in the posting of non-standard journal entries.

Audit Adjustments – Depreciation Expense

Effective internal control over financial reporting involves the identification and analysis of the risk of material misstatements to the City's audited financial statements. Management has not developed policies and procedures to compute, review, and record depreciation expense. As a result of these policies and procedures not being developed, material adjustments were necessary to record depreciation expense in the financial statements.

Preparing Financial Statements

Effective internal control over financial reporting involves identification and analysis of the risk of material misstatements to the City's audited financial statements. Controls should also determine how those identified risks should be managed. Management has not identified risks to the preparation of reliable financial statements and as a result has not designed effective controls over the preparation of the financial statements to prevent or detect material misstatements, including footnote disclosures. The City relies on its auditors to prepare its financial statements and footnote disclosures. The auditors cannot be part of the City's internal controls over financial reporting.

Budget

Effective internal control over financial reporting requires certain procedures and policies be established for accurate budgeting of revenues and expenditures. During our audit, we noted that during the budget process, the City included amounts in revenues that were actually funds set aside for payment of debt and not actually revenue items. We also noted budgeted revenues that are normally funds collected and deposited in the general fund and subsequently moved to the water and sewer funds. These amounts are not spendable revenues and therefore cause an overstatement of budgeted revenues. Likewise, we noted expenditures for items that are normally for moving funds between accounts and not actual expenditures. We recommend that the City carefully examine the sources of revenues and expenditures when budgeting in order to prevent overstatement of revenues and expenditures.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Chandler, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

Tyler, Texas

December 29, 2011

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