

**CITY OF CHANDLER, TEXAS**

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

**FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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**CITY OF CHANDLER, TEXAS**

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**SEPTEMBER 30, 2012**

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INDEPENDENT AUDITORS' REPORT

To the City Council  
City of 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, 2012, 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's 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, each major fund, and the aggregate remaining fund information of the City of Chandler, Texas, as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows 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 February 12, 2013, on our consideration of the City of Chandler, Texas's 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 and analysis on pages 3 through 9 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's financial statements as a whole. The accompanying financial information listed as additional supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. This financial information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The additional supplemental 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.



Certified Public Accountants

Tyler, Texas  
February 12, 2013

## 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, 2012.

### Financial Highlights

- As of the end of the current fiscal year, the assets of the City exceed its liabilities by \$7,585,235 (net assets). Of this amount \$1,018,947 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 \$933,582. Of this amount \$345,556 (37.01%) is available for spending at the government's discretion.
- The total net assets of \$7,585,235 are made up of \$5,663,653 in capital assets net of related debt and \$1,921,582 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, 2012, the City's assets exceeded liabilities by \$7,585,235.

By far the largest portion of the City's net assets, \$5,663,653, 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 \$30,956 from the prior year primarily from current year depreciation of capital assets. The amount of unrestricted net assets \$1,018,947 increased by \$74,587 from the prior year due to the current year excess of revenue over expenditures by the governmental and business-type activities.

### City of Chandler's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 1,102,589	\$ 972,149	\$ 1,527,348	\$ 1,865,656	\$ 2,629,937	\$ 2,837,805
Capital assets	3,433,230	3,595,207	5,533,682	5,125,648	8,966,912	8,720,855
<b>Total assets</b>	<b>4,535,819</b>	<b>4,567,356</b>	<b>7,061,030</b>	<b>6,991,304</b>	<b>11,596,849</b>	<b>11,558,660</b>
Current liabilities	193,910	225,562	236,159	241,996	430,069	467,558
Noncurrent liabilities	321,545	361,433	3,260,000	3,420,000	3,581,545	3,781,433
<b>Total liabilities</b>	<b>515,455</b>	<b>586,995</b>	<b>3,496,159</b>	<b>3,661,996</b>	<b>4,011,614</b>	<b>4,248,991</b>
Net invested in capital assets	3,071,798	3,157,516	2,591,855	2,537,093	5,663,653	5,694,609
Restricted	574,388	366,662	328,247	304,038	902,635	670,700
Unrestricted	374,178	456,183	644,769	488,177	1,018,947	944,360
<b>Total net assets</b>	<b>\$ 4,020,364</b>	<b>\$ 3,980,361</b>	<b>\$ 3,564,871</b>	<b>\$ 3,329,308</b>	<b>\$ 7,585,235</b>	<b>\$ 7,309,669</b>

Governmental activities. Governmental activities increased net assets by \$40,003 during the year which is \$186,867 more than the prior year's decrease which was primarily attributable to increased revenues and decreased expenses in general government and public service. The business-type activities resulted in a \$235,563 increase to net assets, which is \$57,351 less than the prior year.

### City of Chandler's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Charges for services	\$ 963,160	\$ 974,934	\$ 1,291,108	\$ 1,364,917	\$ 2,254,268	\$ 2,339,851
Capital grants and contributions	-	-	-	-	-	-
General Revenue						
Property taxes	597,419	561,233	-	-	597,419	561,233
Franchise taxes	129,541	113,192	-	-	129,541	113,192
Sales and use taxes	475,335	448,743	-	-	475,335	448,743
Interest income	2,796	5,003	4,686	11,883	7,482	16,886
Other	-	-	-	-	-	-
<b>Total revenue</b>	<b>2,168,251</b>	<b>2,103,105</b>	<b>1,295,794</b>	<b>1,376,800</b>	<b>3,464,045</b>	<b>3,479,905</b>

<b>Expenses</b>						
General government	909,342	1,016,891	-	-	909,342	1,016,891
Public safety	729,952	726,794	-	-	729,952	726,794
Environmental and public service	70,594	87,942	-	-	70,594	87,942
Highways and streets	250,744	237,931	-	-	250,744	237,931
Parks and recreation	124,558	136,055	-	-	124,558	136,055
Interest	43,058	44,356	-	-	43,058	44,356
Water and sewer operations	-	-	1,060,231	1,083,886	1,060,231	1,083,886
<b>Total expenses</b>	<b>2,128,248</b>	<b>2,249,969</b>	<b>1,060,231</b>	<b>1,083,886</b>	<b>3,188,479</b>	<b>3,333,855</b>
<b>Change in net assets</b>	40,003	(146,864)	235,563	292,914	275,566	146,050
<b>Net assets, beginning of the year</b>	3,980,361	4,127,225	3,329,308	3,036,394	7,309,669	7,163,619
<b>Net assets, end of the year</b>	<b>\$ 4,020,364</b>	<b>\$ 3,980,361</b>	<b>\$ 3,564,871</b>	<b>\$ 3,329,308</b>	<b>\$ 7,585,235</b>	<b>\$ 7,309,669</b>

### 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 \$933,582 of which \$345,556 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 \$644,769. The total net assets increased by \$235,563 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 \$112,130. Actual expenditures were less than budgeted amounts by \$51,316 and GAAP adjustments of \$25,565 resulted in an actual decrease to fund balance of \$86,379 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, 2012, amounts to \$5,663,653 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 \$30,956.

### City of Chandler's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 575,760	\$ 575,760	\$ 108,962	\$ 108,962	\$ 684,722	\$ 684,722
Construction in Progress	-	-	19,949	383,430	19,949	383,430
Buildings and improvements	577,113	598,236	-	-	577,113	598,236
Infrastructure	1,945,537	2,010,226	-	-	1,945,537	2,010,226
Machinery and equipment	334,820	410,985	9,228	13,338	344,048	424,323
Water and sewer system	-	-	5,395,543	4,619,918	5,395,543	4,619,918
<b>Combined total</b>	<b>\$ 3,433,230</b>	<b>\$ 3,595,207</b>	<b>\$ 5,533,682</b>	<b>\$ 5,125,648</b>	<b>\$ 8,966,912</b>	<b>\$ 8,720,855</b>

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 \$3,791,930. Of this amount, \$3,420,000 comprises debt backed by revenue bonds, refunding bonds and certificates of obligation. During the current year, the City did not incur any new debt.

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	
	2012	2011	2012	2011	2012	2011
Capital leases	\$ -	\$ 38,926	\$ -	\$ -	\$ -	\$ 38,926
Compensated absences	10,497	14,713	-	-	10,497	14,713
Revenue bonds	-	-	3,420,000	3,580,000	3,420,000	3,580,000
Note payable	361,433	398,766	-	-	361,433	398,766
<b>Combined total</b>	<b>\$ 371,930</b>	<b>\$ 452,405</b>	<b>\$ 3,420,000</b>	<b>\$ 3,580,000</b>	<b>\$ 3,791,930</b>	<b>\$ 4,032,405</b>

### **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 remained steady and is generally better than 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 2013 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 [sparmer@chandlertx.com](mailto:sparmer@chandlertx.com).

## **BASIC FINANCIAL STATEMENTS**

**CITY OF CHANDLER, TEXAS  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
Cash and certificates of deposit	\$ 896,653	\$ 585,597	\$ 1,482,250
Inventory	-	39,819	39,819
Receivables (net of allowance for doubtful accounts)	129,001	115,967	244,968
Internal balances	76,935	(76,935)	-
Restricted Assets:			
Temporarily restricted:			
Revenue bond debt service	-	328,247	328,247
Cash for construction	-	478,173	478,173
Bond issue costs (net)	-	56,480	56,480
Capital Assets (net of accumulated depreciation):			
Land	575,760	108,962	684,722
Construction in Progress	-	19,949	19,949
Buildings and improvements	577,113	-	577,113
Water and sewer system	-	5,395,543	5,395,543
Machinery and equipment	334,820	9,228	344,048
Infrastructure	1,945,537	-	1,945,537
<b>Total Assets</b>	<b>4,535,819</b>	<b>7,061,030</b>	<b>11,596,849</b>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	143,525	76,159	219,684
Non-current liabilities:			
Due within one year	50,385	160,000	210,385
Due in more than one year	321,545	3,260,000	3,581,545
<b>Total Liabilities</b>	<b>515,455</b>	<b>3,496,159</b>	<b>4,011,614</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	3,071,798	2,591,855	5,663,653
Restricted for:			
Debt service	-	328,247	328,247
Future construction	574,388	-	574,388
Unrestricted	374,178	644,769	1,018,947
<b>Total Net Assets</b>	<b>\$ 4,020,364</b>	<b>\$ 3,564,871</b>	<b>\$ 7,585,235</b>

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, 2012**

	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	
	EXPENSES	CHARGES FOR SERVICES	GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT BUSINESS-TYPE ACTIVITIES
<b>PROGRAM ACTIVITIES</b>				
<b>PRIMARY GOVERNMENT:</b>				
Governmental activities:				
General government	\$ 909,342	\$ 579,747	\$ (329,595)	\$ -
Public safety	729,952	368,782	(361,170)	-
Environmental and public service	70,594	-	(70,594)	-
Highways and streets	250,744	-	(250,744)	-
Parks and recreation	124,558	14,631	(109,927)	-
Interest and fees	43,058	-	(43,058)	-
Total governmental activities	2,128,248	963,160	(1,165,088)	-
Business-type activities:				
Water and sewer	1,060,231	1,291,108	-	230,877
Total business-type activities	1,060,231	1,291,108	-	230,877
Total primary government	\$ 3,188,479	\$ 2,254,268	(1,165,088)	230,877
General revenues:				
Property taxes			597,419	-
Franchise taxes			129,541	-
Sales and use taxes			475,335	-
Interest income			2,796	4,686
Total general revenues			1,205,091	4,686
Change in net assets			40,003	235,563
Net assets - beginning of year			3,980,361	3,329,308
Net assets - end of year			\$ 4,020,364	\$ 3,564,871
				\$ 7,585,235

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

**CITY OF CHANDLER, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012**

	<u>GENERAL</u>	<u>ECONOMIC DEVELOPMENT FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>			
Cash and Certificates of Deposit	\$ 344,435	\$ 552,218	\$ 896,653
Receivables:			
Sales Tax Receivable	66,508	22,170	88,678
Trash Services Receivable	25,339	-	25,339
Property Tax Receivable (net of allowance for estimated uncollectibles)	14,984	-	14,984
Due from Other Funds	76,935	-	76,935
	<u>528,201</u>	<u>574,388</u>	<u>1,102,589</u>
Total Assets	<u>\$ 528,201</u>	<u>\$ 574,388</u>	<u>\$ 1,102,589</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$ 143,525	\$ -	\$ 143,525
Accrued Compensated Absences	10,498	-	10,498
Deferred Revenue	14,984	-	14,984
	<u>169,007</u>	<u>-</u>	<u>169,007</u>
Total Liabilities	<u>169,007</u>	<u>-</u>	<u>169,007</u>
Fund Balances:			
Restricted:			
Capital Improvements	-	574,388	574,388
Court Security and Technology	13,638	-	13,638
Unassigned	345,556	-	345,556
	<u>359,194</u>	<u>574,388</u>	<u>933,582</u>
Total Fund Balances	<u>359,194</u>	<u>574,388</u>	<u>933,582</u>
Total Liabilities and Fund Balances	<u>\$ 528,201</u>	<u>\$ 574,388</u>	

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

CITY OF CHANDLER, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012

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)	\$ 933,582
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	3,433,230
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	14,984
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>(361,432)</u>
Net Assets of governmental activities	<u>\$ 4,020,364</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, 2012**

	GENERAL	ECONOMIC DEVELOPMENT FUND	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>			
Property taxes	\$ 593,045	\$ -	\$ 593,045
Sales tax	363,755	111,580	475,335
Franchise tax	129,541	-	129,541
Fines	368,782	-	368,782
Licenses and permits	15,660	-	15,660
Little league fees	3,450	-	3,450
Winchester park	11,181	-	11,181
Subdivision fees	1,475	-	1,475
Interest	1,407	1,389	2,796
Rents	15,100	-	15,100
Expense reimbursements	38,000	-	38,000
Miscellaneous	51,139	142,716	193,855
Trash and tax collection	302,907	-	302,907
Lease income	12,750	-	12,750
	<u>1,908,192</u>	<u>255,685</u>	<u>2,163,877</u>
<b>EXPENDITURES</b>			
General government	809,504	47,959	857,463
Public safety	428,434	-	428,434
Municipal court	217,630	-	217,630
Environmental and public service	69,814	-	69,814
Highways and streets	111,150	-	111,150
Parks and recreation	77,626	-	77,626
Capital outlay	161,096	-	161,096
Debt service - principal	76,259	-	76,259
Debt service - interest	30,807	-	30,807
Appraisal and collection fees	12,251	-	12,251
	<u>1,994,571</u>	<u>47,959</u>	<u>2,042,530</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(86,379)</u>	<u>207,726</u>	<u>121,347</u>
Fund Balance, October 1, 2011	<u>445,573</u>	<u>366,662</u>	<u>812,235</u>
Fund Balance, September 30, 2012	<u>\$ 359,194</u>	<u>\$ 574,388</u>	<u>\$ 933,582</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, 2012**

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

Net change in fund balances - total governmental funds	\$	121,347
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.		(161,977)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		4,374
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.		<u>76,259</u>
Change in net assets of governmental activities	\$	<u><u>40,003</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, 2012**

	GENERAL FUND			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
<b>REVENUES</b>				
Property taxes	\$ 593,952	\$ 593,952	\$ 593,045	\$ (907)
Sales tax	433,000	433,000	355,282	(77,718)
Franchise tax	109,500	109,500	129,541	20,041
Fines	385,000	385,000	368,782	(16,218)
Licenses and permits	15,000	15,000	15,660	660
Library	18,500	18,500	18,474	(26)
Little league fees	3,500	3,500	3,450	(50)
Winchester park	-	-	11,181	11,181
Subdivision fees	2,000	2,000	1,475	(525)
Interest	2,750	2,750	1,407	(1,343)
Rents	14,400	14,400	15,100	700
Expense reimbursements	40,000	40,000	38,000	(2,000)
Contributions	500	500	-	(500)
ACH Deposit	75,000	75,000	-	(75,000)
Miscellaneous	17,845	17,845	32,665	14,820
Trash and tax collection	291,000	291,000	302,005	11,005
Lease income	9,000	9,000	12,750	3,750
<b>Total Revenues</b>	<u>2,010,947</u>	<u>2,010,947</u>	<u>1,898,817</u>	<u>(112,130)</u>
<b>EXPENDITURES</b>				
General government	861,135	861,135	880,890	(19,755)
Public safety	439,088	439,088	424,775	14,313
Municipal court	227,002	227,002	226,384	618
Environmental and public service	72,100	72,100	83,801	(11,701)
Highways and streets	242,672	242,672	159,907	82,765
Parks and recreation	82,191	82,191	95,364	(13,173)
Debt service - principal	76,259	76,259	76,259	-
Appraisal and collection fees	10,500	10,500	12,251	(1,751)
<b>Total Expenditures</b>	<u>2,010,947</u>	<u>2,010,947</u>	<u>1,959,631</u>	<u>51,316</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures - Budget Basis	-	-	(60,814)	(60,814)
Budget Basis to GAAP Basis Adjustments (Note A)	-	-	(25,565)	(25,565)
Excess (Deficiency) of Revenues Over (Under) Expenditures - GAAP Basis	-	-	(86,379)	(86,379)
Net Change in Fund Balances	-	-	(86,379)	(86,379)
Fund Balance, October 1, 2011	-	-	445,573	445,573
Fund Balance, September 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 359,194</u>	<u>\$ 359,194</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, 2012**

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

\$ 8,473

Increase in accrued revenues on charges for services

902

Total Sources/Inflows of Resources

9,375

Uses/Outflows of Resources:

Differences - Budget to GAAP

Increase in accrued expenses

(34,940)

Total Uses/Outflows of Resources

(34,940)

Net Change in Budget Basis Presentation and GAAP Basis Presentation

\$ (25,565)

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, 2012**

	<u>BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND OPERATING FUND</u>
<b>ASSETS</b>	
Current Assets:	
Cash and certificates of deposit	\$ 585,597
Inventory	39,819
Accounts receivable (Net)	<u>115,967</u>
Total Current Assets	<u>741,383</u>
Restricted Assets:	
Temporarily Restricted	
Revenue bond debt service	328,247
Cash for construction	<u>478,173</u>
Total Restricted Assets	<u>806,420</u>
Bond Issue Costs (Net)	56,480
Capital Assets:	
Land	108,962
Water and sewer system	7,239,637
Machinery & equipment	58,641
Construction in progress	19,949
Less: Accumulated depreciation	<u>(1,893,507)</u>
Total Capital Assets Net Of Accumulated Depreciation	<u>5,533,682</u>
Total Assets	7,137,965
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	10,387
Accrued interest	65,772
Due to other funds	76,935
Revenue bonds payable	<u>160,000</u>
Total Current Liabilities	<u>313,094</u>
Noncurrent Liabilities:	
Revenue bonds payable	<u>3,260,000</u>
Total Liabilities	<u>3,573,094</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	2,591,855
Restricted for debt service	328,247
Unrestricted	<u>644,769</u>
Total Net Assets	<u>\$ 3,564,871</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, 2012**

	BUSINESS-TYPE ACTIVITIES <u>ENTERPRISE FUND</u> OPERATING <u>FUND</u>
<b>OPERATING REVENUES</b>	
Water sales and sewer service	\$ 874,038
Charges for services	417,070
	<u>1,291,108</u>
<b>OPERATING EXPENSES</b>	
Water and sewer operations	815,862
Depreciation	146,086
	<u>961,948</u>
Operating Income (Loss)	<u>329,160</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest expense	(92,388)
Amortization of bond issue costs	(5,895)
Interest income	4,686
	<u>(93,597)</u>
Change in Net Assets	235,563
Net Assets, October 1, 2011	<u>3,329,308</u>
Net Assets, September 30, 2012	<u>\$ 3,564,871</u>

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, 2012**

**Increase (Decrease) in Cash and Cash Equivalents**

	<u>OPERATING FUND</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers and users	\$ 1,324,675
Cash paid to suppliers for goods and services	(780,594)
Cash paid to employees for services	<u>(38,000)</u>
Net cash provided by operating activities	<u>506,081</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Capital asset purchases	(554,119)
Interest paid	(95,494)
Principal paid on bonds	<u>(160,000)</u>
Net cash used in capital and related financing activities	<u>(809,613)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest earned on investments	<u>4,686</u>
Net cash provided by investing activities	<u>4,686</u>
Net decrease in cash	(298,846)
Cash, beginning of period	<u>1,690,863</u>
Cash, end of period	<u>\$ 1,392,017</u>
<b>Reconciliation of Cash on Exhibit 7:</b>	
Cash and certificates of deposit	\$ 585,597
Cash - restricted assets	<u>806,420</u>
Total Cash	<u>\$ 1,392,017</u>
<b>Reconciliation of Operating Income (Loss) To Net Cash Provided By (Used In) Operating Activities:</b>	
Operating income (loss)	\$ 329,160
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Depreciation expense	146,086
Decrease in accounts receivable	31,251
Increase in due to other funds	2,316
Decrease in accounts payable	<u>(2,732)</u>
Total adjustments	<u>176,921</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u><u>\$ 506,081</u></u>

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

**CITY OF CHANDLER, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2012**

**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 seven-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.

**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, as well as certificates of deposit with original maturities of 90 days or less.
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 \$3,433,230 difference are as follows:

Capital assets, October 1, 2011, net of accumulated depreciation	\$3,595,207
Capital asset additions, net of retirements	161,096
Depreciation of capital assets, current year	<u>(323,073)</u>
	<u>\$3,433,230</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 \$161,977 difference are as follows:

Capital outlay, asset additions, net of retirements	\$ 161,096
Depreciation expense	<u>(323,073)</u>
	<u>\$(161,977)</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, 2012, the City had the following deposits and investments:

	<u>BOOK BALANCE</u>	<u>BANK BALANCE</u>
Depository Accounts		
Insured	\$ 267,493	\$ 265,956
Collateral held by pledging bank's Trust Department in City's name	<u>2,020,482</u>	<u>2,075,947</u>
Total Deposits	2,287,975	2,341,903
Petty Cash on hand	<u>695</u>	<u>-</u>
Total Cash and Cash Equivalents	<u>\$ 2,288,670</u>	<u>\$ 2,341,903</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 &amp; Sewer Fund</u>	<u>Total</u>
Receivables:				
Taxes	\$ 26,400	\$ -	\$ -	\$ 26,400
Sales Tax	66,508	22,170	-	88,678
Accounts (services)	<u>25,339</u>	<u>-</u>	<u>119,818</u>	<u>145,157</u>
Gross Receivables	118,247	22,170	119,818	260,235
Less: Allowance for Uncollectibles	<u>(11,416)</u>	<u>-</u>	<u>(3,851)</u>	<u>(15,267)</u>
Net Receivables	<u>\$ 106,831</u>	<u>\$ 22,170</u>	<u>\$ 115,967</u>	<u>\$ 244,968</u>

### C. Capital Assets

Capital asset activity for the year ended September 30, 2012 was as follows:

<u>PRIMARY GOVERNMENT</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 575,760	\$ -	\$ -	\$ 575,760
Total Capital Assets, Not Being Depreciated	575,760	-	-	575,760
<b>Capital Assets, Being Depreciated:</b>				
Buildings and Improvements	1,396,088	49,306	-	1,445,394
Infrastructure	2,783,122	74,467	-	2,857,589
Machinery and Equipment	990,210	37,323	34,034	993,499
Total Capital Assets, Being Depreciated	5,169,420	161,096	34,034	5,296,482
<b>Less Accumulated Depreciation For:</b>				
Buildings and Improvements	(797,852)	(70,429)	-	(868,281)
Infrastructure	(772,896)	(139,156)	-	(912,052)
Machinery and Equipment	(579,225)	(113,488)	(34,034)	(658,679)
Total Accumulated Depreciation	(2,149,973)	(323,073)	(34,034)	(2,439,012)
Net Total Assets Being Depreciated	3,019,447	(161,977)	-	2,857,470
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 3,595,207</b>	<b>\$ (161,977)</b>	<b>\$ -</b>	<b>\$ 3,433,230</b>
<b>Business-Type Activities:</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Construction in Progress	\$ 383,430	\$ 19,949	\$ 383,430	\$ 19,949
Land	108,962	-	-	108,962
Total Capital Assets, Not Being Depreciated	492,392	19,949	383,430	128,911
<b>Capital Assets, Being Depreciated:</b>				
Water and Sewer System	6,322,036	917,601	-	7,239,637
Machinery and Equipment	58,641	-	-	58,641
Total Capital Assets, Being Depreciated	6,380,677	917,601	-	7,298,278
<b>Less Accumulated Depreciation For:</b>				
Water and Sewer System	(1,702,118)	(141,976)	-	(1,844,094)
Machinery and Equipment	(45,303)	(4,110)	-	(49,413)
Total Accumulated Depreciation	(1,747,421)	(146,086)	-	(1,893,507)
Net Total Assets Being Depreciated	4,633,256	771,515	-	5,404,771
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$ 5,125,648</b>	<b>\$ 791,464</b>	<b>\$ 383,430</b>	<b>\$ 5,533,682</b>

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

<b>Governmental Activities:</b>	
General Government	\$ 51,879
Public Safety	83,888
Environmental and Public Service	780
Parks and Recreation	46,932
Highways and Streets	<u>139,594</u>
<b>Total depreciation expense, governmental activities</b>	<b><u>\$323,073</u></b>
<b>Business-Type Activities:</b>	
Water, Sewer and Sanitation Operations	<u>\$146,086</u>

**Construction Commitments**

The government has several active construction projects as of September 30, 2012. At year-end the government's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Estimated Remaining</u>
Waste Water Treatment Improvements	<u>\$ 19,949</u>	<u>\$ 86,117</u>
	<u>\$ 19,949</u>	<u>\$ 86,117</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 15<sup>th</sup> 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, 2012, 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>
2013	\$ 9,000
2014	9,000
2015	9,270
2016	9,548
2017	9,834
2018-2022	53,776
2023-2027	62,340
2028-2032	72,267
2033-2036	66,017
	<u>\$ 301,052</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, 2012.

#### **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.

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%	\$ 545,000
Series - 2006	Certificate of Obligation	4.90%	1,620,000
Series - 2010	Revenue Bond	4.20%	<u>1,255,000</u>
Total Outstanding Revenue Bonds and Certificates of Obligation			<u>\$ 3,420,000</u>

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, 2012, the City was in compliance with all of its bond ordinances.

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

Year Ending September 30	<u>Principal</u>	<u>Interest</u>
2013	\$ 160,000	\$ 142,479
2014	165,000	135,770
2015	175,000	128,747
2016	185,000	121,410
2017	190,000	113,653
2018-2022	1,075,000	440,804
2023-2027	1,120,000	194,372
2028-2031	350,000	30,450
	<u>\$ 3,420,000</u>	<u>\$ 1,307,685</u>

Revenue bond ordinances require that the following information concerning insurance coverage as of September 30, 2012 be disclosed.

<u>ANNUAL PREMIUM</u>	<u>POLICY NO.</u>	<u>NATURE OF COVERAGE</u>	<u>AMOUNT OF COVERAGE</u>	<u>POLICY PERIOD</u>
\$ 12,901	#H5490-01	Workers Compensation	Statutory Limits	10-1-11 - 10-1-12
\$ 13,525	#NYA803565	Liability General	\$2,000,000/ occurrence	10-1-11 - 10-1-12
		Auto and Law Enforcement Property: Real & Personal & Mobile Equipment	\$1,000,000/occurrence	
		Boiler & Machinery	\$100,000/ accident	10-1-11 - 10-1-12
\$ 3,302	#NYA812114	Errors & Omissions	\$1,000,000	10-1-11 - 10-1-12

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

\$ 336,401

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

\$ 25,032

Total 361,433

Less: Current Portion (39,888)

LONG-TERM PORTION \$ 321,545

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>
2013	\$ 39,888	\$ 26,043
2014	42,619	23,312
2015	31,926	20,392
2016	34,260	18,058
2017	36,765	15,553
2018-2021	175,975	33,297
	<u>\$ 361,433</u>	<u>\$ 136,655</u>

Changes in long-term liabilities

Long term liability activity for the year ended September 30, 2012 was as follows:

	<u>Beginning Balance 10/1/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance 9/30/2012</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Capital Leases	\$ 38,926	\$ -	\$ 38,926	\$ -	\$ -
Notes Payable	398,766	-	37,333	361,433	39,888
Compensated Absences	14,713	-	4,216	10,497	10,497
<b>Governmental Activity Long-Term Liabilities</b>	<u>\$ 452,405</u>	<u>\$ -</u>	<u>\$ 80,475</u>	<u>\$ 371,930</u>	<u>\$ 50,385</u>
<b>Business-Type Activities:</b>					
Revenue Bonds	\$ 3,580,000	\$ -	\$ 160,000	\$ 3,420,000	\$ 160,000
<b>Business-Type Activity Long-Term Liabilities</b>	<u>\$ 3,580,000</u>	<u>\$ -</u>	<u>\$ 160,000</u>	<u>\$ 3,420,000</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, 2012, the City had \$141,306 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, 2012, the City did not have any liability for unpaid claims or adjustments under policies carried with TML. During the year ended September 30, 2012, 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, 2012, 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 five-year period beginning January 1, 2011 and ending on January 1, 2016. During the year ended September 30, 2012, the City paid \$174,754 under this contract.

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, 2012 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. This contract has been extended until September 30, 2015. The City paid \$195,365 under this contract as of September 30, 2012.

**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](http://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 2011</u>	<u>Plan Year 2012</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)	\$ 37,995
Interest on Net Pension Obligation	-
Adjustment to the ARC	<u>-</u>
Annual Pension Cost (APC)	37,995
Contribution Made	<u>37,995</u>
Increase (decrease) in net pension obligation	-
Net Pension Obligation/(Asset), beginning of year	<u>-</u>
Net Pension Obligation/(Asset), end of year	<u><u>\$ -</u></u>

### Three Year Trend

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
9/30/2010	\$ 41,280	\$ 41,280	100%	\$ -
9/30/2011	42,363	42,363	100%	-
9/30/2012	37,995	37,995	100%	-

### General System-wide Actuarial Assumptions

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	23 years; closed period	22.1 years; closed period	21.0 years; closed period
Amortization Period for new Gains / Losses	25 years	22 years	22 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	N/A	N/A	N/A

#### Funding Status and Funding Progress

The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2011	\$ 203,183	\$ 454,317	44.7%	\$ 251,134	\$ 592,425	42.4%

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):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2009	69,727	319,393	21.8%	249,666	483,165	51.7%
12/31/2010	135,377	400,587	33.8%	265,210	525,607	50.5%
12/31/2011	203,183	454,317	44.7%	251,134	592,425	42.4%

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

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

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

The city's contributions to the TMRS SDBF for the years ended 2012, 2011 and 2010 were \$1,415, \$2,014 and \$1,787, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates:

(RETIREE-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2010	0.00%	0.00%	100.00%
2011	0.01%	0.01%	100.00%
2012	0.01%	0.01%	100.00%

**NOTE 9 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended September 30, 2012, expenditures exceeded appropriations in the following departments of the General Fund; General Government by \$19,755, Environmental and Public Service by \$11,701, Parks & Recreation by \$13,173, and Appraisal and Collection Fees by \$1,751. This over expenditure was funded by available fund balance in the General Fund. Expenditures also exceeded appropriations in the Enterprise fund by \$405,847. This over expenditure was funded by greater than expected revenues and by available beginning net assets.

**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, 2012**

	GENERAL FUND			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
<b>EXPENDITURES</b>				
General government	\$ 850,651	\$ 850,651	\$ 873,775	\$ (23,124)
Public safety	489,512	489,512	475,199	14,313
Municipal court	227,002	227,002	226,384	618
Environmental and public service	72,100	72,100	83,801	(11,701)
Highways and streets	242,672	242,672	159,907	82,765
Parks and recreation	82,191	82,191	95,364	(13,173)
Interest and fees	10,500	10,500	12,251	(1,751)
City library	36,319	36,319	32,950	3,369
<b>Total Expenditures - Budget Basis</b>	<b>\$ 2,010,947</b>	<b>\$ 2,010,947</b>	1,959,631	<b>\$ 51,316</b>
Financial Statement Adjustments:				
Increase in accrued expenses			34,940	
<b>TOTAL EXPENDITURES - GAAP BASIS</b>			<b>\$ 1,994,571</b>	

**CITY OF CHANDLER, TEXAS**  
**DETAILED SCHEDULE OF REVENUES - BUDGET AND ACTUAL**  
**(NON-GAAP BUDGET BASIS) - ENTERPRISE FUND**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2012**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<b><u>REVENUES</u></b>				
Water and sewer service	\$ 794,700	\$ 794,700	\$ 905,289	\$ 110,589
Interest income	7,910	7,910	4,686	(3,224)
Water connections	6,000	6,000	5,950	(50)
Sewer connections	6,000	6,000	4,200	(1,800)
Initial turn on	6,000	6,000	6,925	925
Reconnection fees	1,500	1,500	1,425	(75)
Trash & Tax Collection	290,600	290,600	300,963	10,363
Pump truck dumping	108,700	108,700	94,684	(14,016)
Grants	-	-	2,575	2,575
Miscellaneous	200	200	348	148
	<u>200</u>	<u>200</u>	<u>348</u>	<u>148</u>
Total Revenues - Budget Basis	<u>\$ 1,221,610</u>	<u>\$ 1,221,610</u>	1,327,045	<u>\$ 105,435</u>
Financial Statement Adjustments:				
Decrease in accrued revenues for water and sewer service			<u>(31,251)</u>	
TOTAL REVENUES - GAAP BASIS			<u>\$ 1,295,794</u>	

## CITY OF CHANDLER, TEXAS

## DETAILED SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

## (NON-GAAP BUDGET BASIS) - ENTERPRISE FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2012

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
<b>EXPENSES</b>				
Contract services	\$ 184,850	\$ 184,850	\$ 186,136	\$ (1,286)
Material and supplies	142,600	142,600	157,155	(14,555)
Personnel services	40,000	40,000	38,000	2,000
Other expenses	76,460	76,460	50,556	25,904
Bond principal	160,000	160,000	160,000	-
Bond interest and fees	149,187	149,187	149,146	41
Trash collection	290,400	290,400	301,529	(11,129)
Capital improvements	<u>178,863</u>	<u>178,863</u>	<u>585,685</u>	<u>(406,822)</u>
Total Expenses - Budget Basis	\$ <u>1,222,360</u>	\$ <u>1,222,360</u>	1,628,207	\$ <u>(405,847)</u>
Financial Statement Adjustments:				
Expenses reclassified as decreases in liabilities			(160,000)	
Decrease in accrued expenses			(5,837)	
Expenses reclassified as capital assets			(554,120)	
Amortization of bond issue costs			5,895	
Depreciation			<u>146,086</u>	
TOTAL EXPENSES - GAAP BASIS			\$ <u>1,060,231</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, each major fund, and the aggregate remaining fund information of City of Chandler, Texas, as of and for the year ended September 30, 2012, which collectively comprise City of Chandler, Texas' basic financial statements and have issued our report thereon dated February 12, 2013. 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. .

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.

### **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  
February 12, 2013