

ANNUAL FINANCIAL REPORT

of the

City of Shenandoah, Texas

For the Year Ended
September 30, 2013



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City of Shenandoah, Texas

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September 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shenandoah, Texas (the "City"), as of and for the year ended September 30, 2013, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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. 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 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 as of September 30, 2013 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.

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

statements. 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.

Brooks Cardiel, PLLC

BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
February 4, 2014

*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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City of Shenandoah, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2013

As management of the City of Shenandoah, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2013.

Financial Highlights

- The City's total combined net position was \$34,927,613 at September 30, 2013. Of this, \$7,698,030 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$11,377,007, an increase of \$3,391,264.
- As of the end of the year, the unassigned fund balance of the general fund was \$6,441,514 or 89% of total general fund expenditures.
- The City had an overall increase in net position of \$5,157,885, which is due to revenues exceeding expenses and the sale of land in the current year.

Overview of the Financial Statements

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

Government-Wide Statements

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

The *statement of net position* presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

City of Shenandoah, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2013

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

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The City of Shenandoah, Texas maintains eight 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 and debt service fund, and Shenandoah Municipal Development District which are considered to be major funds. The Capital Improvements fund is considered nonmajor, but the City has chosen to present the fund as a major fund. Fund data for the remaining nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The City of Shenandoah, Texas adopts an annual appropriated budget for its general, debt service, special revenue, and utility funds. A budgetary comparison schedule has been provided to demonstrate compliance with general fund budget.

Proprietary Funds. The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment

City of Shenandoah, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2013

and water construction operations. The proprietary fund financial statements provide separate information for the water distribution, and wastewater collection/treatment fund. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* (RSI) concerning the City's progress in funding its obligation to provide pension and other post employment benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pension and OPEB.

Government-Wide Financial Analysis

As noted previously, net position over time, may serve as a useful indicator of the City's financial position. For the City of Shenandoah, Texas, assets exceed liabilities by \$34,927,613 as of September 30, 2013.

The largest portion of the City's net position, \$22,380,314, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

City of Shenandoah, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2013

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2013			2012		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 12,696,823	\$ 1,710,233	\$ 14,407,056	\$ 9,681,073	\$ 1,353,002	\$ 11,034,075
Capital assets, net	33,776,379	15,425,246	49,201,625	34,075,434	15,047,982	49,123,416
Total Assets	46,473,202	17,135,479	63,608,681	43,756,507	16,400,984	60,157,491
Deferred Outflows	673,089	-	673,089	-	-	-
Other liabilities	1,398,494	142,939	1,541,433	1,798,789	177,091	1,975,880
Long-term liabilities	27,772,743	39,981	27,812,724	28,354,611	57,272	28,411,883
Total Liabilities	29,171,237	182,920	29,354,157	30,153,400	234,363	30,387,763
Net Position:						
Invested in capital assets, net of related debt	6,955,068	15,425,246	22,380,314	7,984,094	15,047,982	23,032,076
Restricted	4,849,269	-	4,849,269	4,251,741	-	4,251,741
Unrestricted	6,170,717	1,527,313	7,698,030	1,367,272	1,118,639	2,485,911
Total Net Position	\$ 17,975,054	\$ 16,952,559	\$ 34,927,613	\$ 13,603,107	\$ 16,166,621	\$ 29,769,728

City of Shenandoah, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2013

Statement of Activities:

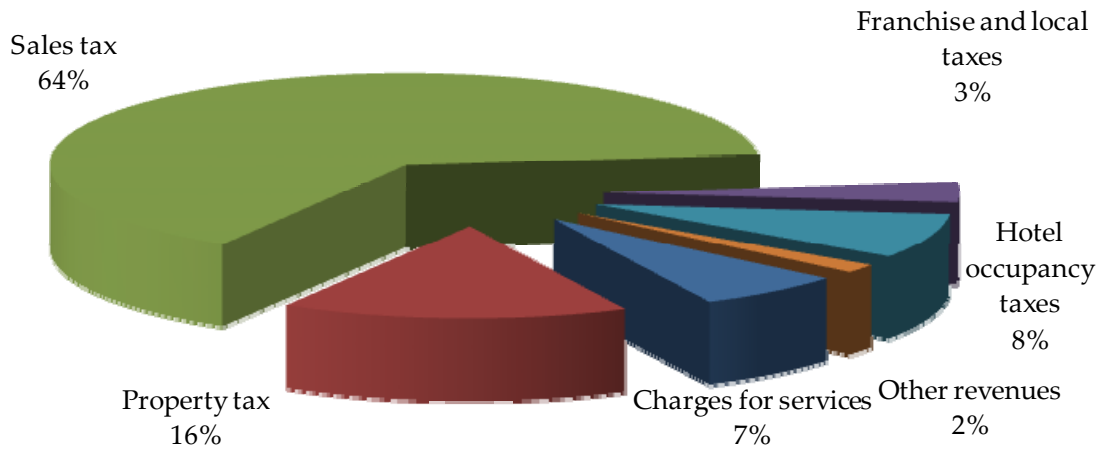
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2013			For the Year Ended September 30, 2012		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 722,202	\$ 2,703,651	\$ 3,425,853	\$ 587,313	\$ 2,544,909	\$ 3,132,222
General revenues:						
Property tax	1,704,882	-	1,704,882	1,695,116	-	1,695,116
Sales tax	6,975,888	-	6,975,888	6,349,683	-	6,349,683
Franchise and local taxes	382,369	-	382,369	399,178	-	399,178
Hotel occupancy taxes	847,523	-	847,523	713,812	-	713,812
Intergovernmental	4,319	-	4,319	325,288	-	325,288
Investment income	6,256	2,337	8,593	7,049	2,641	9,690
Other revenues	165,016	93	165,109	302,028	-	302,028
Gain in sale of assets	1,601,466	-	1,601,466	2,225,558	144,063	2,369,621
Total Revenues	12,409,921	2,706,081	15,116,002	12,605,025	2,691,613	15,296,638
Expenses						
General government	2,185,027	-	2,185,027	2,181,818	-	2,181,818
Public safety	2,783,890	-	2,783,890	2,611,739	-	2,611,739
Public works	1,187,459	-	1,187,459	1,327,671	-	1,327,671
Community development	114,813	-	114,813	102,729	-	102,729
Economic development	392,802	-	392,802	351,288	-	351,288
Tourism	509,808	-	509,808	412,176	-	412,176
Interest and fiscal charges	1,116,306	-	1,116,306	1,246,954	-	1,246,954
Water & sewer	-	1,668,012	1,668,012	-	1,725,439	1,725,439
Total Expenses	8,290,105	1,668,012	9,958,117	8,234,375	1,725,439	9,959,814
Change in Net Position						
Before Transfers	4,119,816	1,038,069	5,157,885	4,370,650	966,174	5,336,824
Special items	-	-	-	(677,123)	-	(677,123)
Transfers in (out)	252,131	(252,131)	-	(736,922)	736,922	-
Total	252,131	(252,131)	-	(1,414,045)	736,922	(677,123)
Change in Net Position	4,371,947	785,938	5,157,885	2,956,605	1,703,097	4,659,702
Beginning Net Position	13,603,107	16,166,621	29,769,728	10,646,502	14,463,524	25,110,026
Ending Net Position	\$ 17,975,054	\$ 16,952,559	\$ 34,927,613	\$ 13,603,107	\$ 16,166,621	\$ 29,769,728

City of Shenandoah, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2013

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

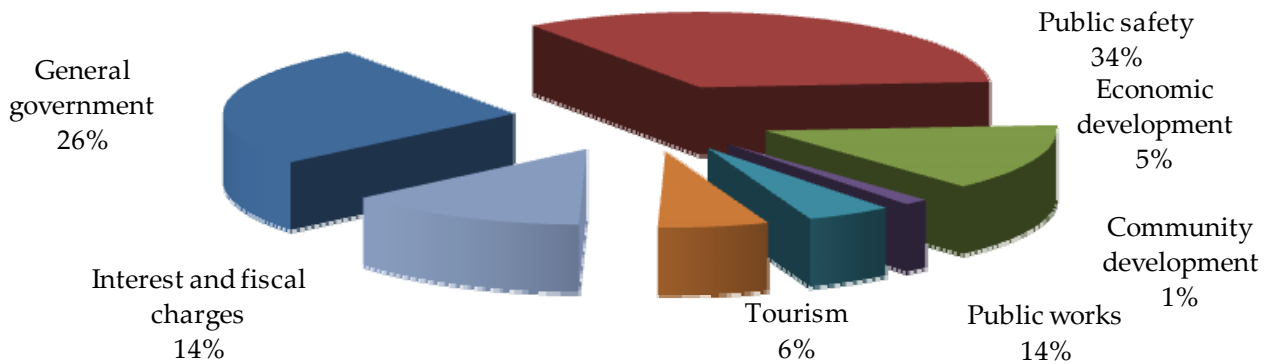
Governmental Activities - Revenues



For the year ended September 30, 2013, revenues from governmental activities totaled \$12,409,921. Property tax, franchise tax and hotel/motel taxes are the City's largest revenue sources. Sales tax increased \$626,205 or 9% due to an overall recovery in the economy. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses

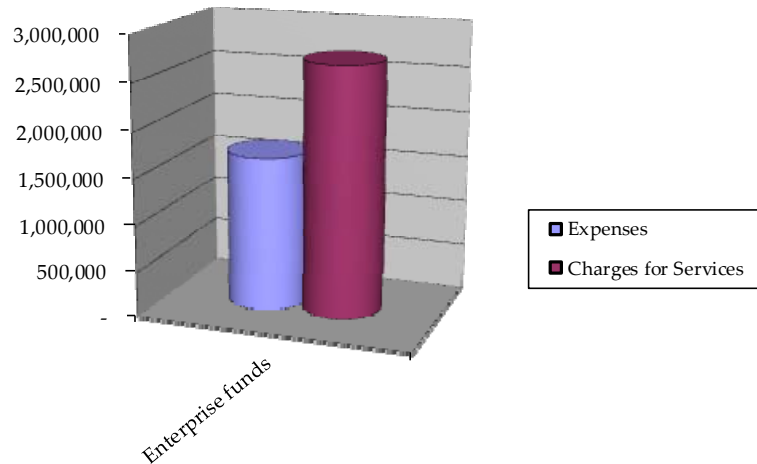


For the year ended September 30, 2013, expenses for governmental activities totaled \$8,290,105. This represents a decrease of \$55,730 or 3% from the prior year. The City's largest functional expense is public safety of \$2,783,890. Public works expenses decreased by 6% or \$140,212 as a result of decreased consulting fees. All other expenditures remained relatively consistent with the previous year.

City of Shenandoah, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2013

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

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2013, charges for services by business-type activities totaled \$2,703,651. This is an increase of \$158,742, or 6%, from the previous year. This increase directly relates to increased water usage and an increase in tap fees.

Total expenses decreased \$57,427 due primarily to reduced personnel expenses and decreased expenditures on supplies and services.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the year the general fund reflected a total fund balance of \$6,441,514. The general fund demonstrated the largest increase in fund balance due to the sale of land that occurred in the current year.

The debt service fund demonstrated a small change of \$11,445. This change is the result of an unplanned surplus caused by a debt issuance premium.

The Shenandoah Municipal Development District (SMDD) had an increase of \$421,201 due to revenues outpacing SMDD expenditures.

City of Shenandoah, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2013

There was an increase in governmental fund balance of \$3,391,264 over the prior year. The increase is directly related to the sale of capital assets in the current year.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive budget variance of \$3,738,649 in the general fund. All revenue sources received more revenue than anticipated with the exception of property taxes. All expenditures were less than budgeted except for capital outlay.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$33,776,379 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$15,425,246 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- The replacement of the City Hall HVAC system for \$634,255.
- The completion and ongoing construction of the multiple drainage projects.
- The addition of three police vehicles for \$131,551

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

LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding of \$26,820,000. During the year, the City had a net reduction in the long-term debt of \$1,135,000. During the current year the City issued a refunding bond in the amount of \$7,345,000 to pay down a 2007 issuance. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

City of Shenandoah, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2013

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Shenandoah, Texas's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Administrator, 29955 I-45 North, Shenandoah, Texas 77381.

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FINANCIAL STATEMENTS

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City of Shenandoah, Texas

STATEMENT OF NET POSITION

September 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 11,223,807	\$ 1,665,885	\$ 12,889,692
Receivables, net	1,267,987	249,378	1,517,365
Internal balances	205,029	(205,030)	(1)
Total Current Assets	12,696,823	1,710,233	14,407,056
Capital assets:			
Non-depreciable	5,148,453	1,742,077	6,890,530
Net depreciable capital assets	28,627,926	13,683,169	42,311,095
	33,776,379	15,425,246	49,201,625
Total Assets	46,473,202	17,135,479	63,608,681
<u>Deferred Outflows of Resources</u>			
Deferred charge on refunding	673,089	-	673,089
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	243,409	40,023	283,432
Accrued liabilities	141,950	17,220	159,170
Accrued interest payable	120,532	-	120,532
Customer deposits	892,603	85,696	978,299
	1,398,494	142,939	1,541,433
Noncurrent liabilities:			
Due within one year	1,509,303	21,850	1,531,153
Due in more than one year	26,173,703	5,461	26,179,164
Net pension obligation	89,737	12,670	102,407
	27,772,743	39,981	27,812,724
Total Liabilities	29,171,237	182,920	29,354,157
<u>Net Position</u>			
Invested in capital assets, net of related debt	6,955,068	15,425,246	22,380,314
Restricted for:			
Debt service	14,561	-	14,561
Capital projects	1,170,660	-	1,170,660
Economic development	2,948,709	-	2,948,709
Tourism	715,339	-	715,339
Unrestricted	6,170,717	1,527,313	7,698,030
Total Net Position	\$ 17,975,054	\$ 16,952,559	\$ 34,927,613

See Notes to Financial Statements.

City of Shenandoah, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 2,185,027	\$ 673,241	\$ -
Public safety	2,783,890	48,961	4,319
Public works	1,187,459	-	-
Community development	114,813	-	-
Economic development	392,802	-	-
Tourism	509,808	-	-
Interest and fiscal charges	1,116,306	-	-
Total Governmental Activities	8,290,105	722,202	4,319
Business-Type Activities			
Water & Sewer	1,668,012	2,703,651	-
Total Business-Type Activities	1,668,012	2,703,651	-
Total Primary Government	\$ 9,958,117	\$ 3,425,853	\$ 4,319

General Revenues:

- Taxes
 - Property tax
 - Sales tax
 - Franchise and local taxes
 - Hotel occupancy taxes
- Investment income
- Other revenues
- Gain on sale of capital assets

Transfers:

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (1,511,786)	\$ -	\$ (1,511,786)
(2,730,610)	-	(2,730,610)
(1,187,459)	-	(1,187,459)
(114,813)	-	(114,813)
(392,802)	-	(392,802)
(509,808)	-	(509,808)
(1,116,306)	-	(1,116,306)
(7,563,584)	-	(7,563,584)
-	1,035,639	1,035,639
-	1,035,639	1,035,639
(7,563,584)	1,035,639	(6,527,945)
1,704,882	-	1,704,882
6,975,888	-	6,975,888
382,369	-	382,369
847,523	-	847,523
6,256	2,337	8,593
165,016	93	165,109
1,601,466	-	1,601,466
252,131	(252,131)	-
11,935,531	(249,701)	11,685,830
4,371,947	785,938	5,157,885
13,603,107	16,166,621	29,769,728
<u>\$ 17,975,054</u>	<u>\$ 16,952,559</u>	<u>\$ 34,927,613</u>

City of Shenandoah, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2013

	General Fund	Debt Service Fund	Shenandoah Municipal Development District	Nonmajor Capital Improvements Fund
<u>Assets</u>				
Cash and cash equivalents	\$ 6,094,054	\$ 14,594	\$ 3,266,272	\$ 1,180,314
Receivables, net				
Property taxes	17,632	24,222	-	-
Franchise taxes	33,939	-	-	-
Sales tax	902,960	-	288,125	-
Accounts and other	1,109	-	-	-
Due from other funds	636,314	-	4,222	-
Total Assets	\$ 7,686,008	\$ 38,816	\$ 3,558,619	\$ 1,180,314
<u>Liabilities</u>				
Accounts payable	\$ 95,748	\$ -	\$ 145,917	\$ -
Accrued liabilities	121,327	-	19,356	-
Due to other funds	117,184	33	444,637	9,654
Customer deposits	892,603	-	-	-
Total Liabilities	1,226,862	33	609,910	9,654
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	17,632	24,222	-	-
<u>Fund Balances</u>				
Restricted for:				
Debt service	-	14,561	-	-
Capital projects	-	-	-	1,170,660
Economic development	-	-	2,948,709	-
Tourism	-	-	-	-
Committed for:				
Equipment replacement	-	-	-	-
Unassigned	6,441,514	-	-	-
Total Fund Balances	6,441,514	14,561	2,948,709	1,170,660
Inflows of Resources, and Fund Balances	\$ 7,686,008	\$ 38,816	\$ 3,558,619	\$ 1,180,314

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 668,573	\$ 11,223,807
-	41,854
-	33,939
-	1,191,085
-	1,109
140,584	781,120
<u>\$ 809,157</u>	<u>\$ 13,272,914</u>
\$ 1,744	\$ 243,409
1,267	141,950
4,583	576,091
-	892,603
<u>7,594</u>	<u>1,854,053</u>
-	41,854
-	14,561
-	1,170,660
-	2,948,709
715,339	715,339
89,223	89,223
(2,999)	6,438,515
<u>801,563</u>	<u>11,377,007</u>
<u>\$ 809,157</u>	<u>\$ 13,272,914</u>

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City of Shenandoah, Texas

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

September 30, 2013

Fund Balances - Total Governmental Funds	\$	11,377,007
 Adjustments for the Statement of Net Position:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Capital assets - non-depreciable		5,148,453
Capital assets - net depreciable		28,627,926
 Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		
Property tax receivable		41,854
 Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/expenditure) until then.		
Deferred charge on refunding		673,089
 Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.		
Accrued interest		(120,532)
Premiums on bonds payable		(683,393)
Discounts of bonds payable		8,993
Net pension obligation		(89,737)
Non-current liabilities due in one year		(1,509,303)
Non-current liabilities due in more than one year		(25,499,303)
Net Position of Governmental Activities	\$	17,975,054

See Notes to Financial Statements.

City of Shenandoah, Texas

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

For the Year Ended September 30, 2013

	General Fund	Debt Service Fund	Shenandoah Municipal Development District	Nonmajor Capital Improvements Fund
Revenues				
Property tax	\$ 791,224	\$ 905,067	\$ -	\$ -
Sales tax	5,279,766	-	1,696,122	-
Franchise and local taxes	382,369	-	-	-
Hotel occupancy taxes	-	-	-	-
License and permits	466,706	-	-	-
Charges for services	206,535	-	-	-
Fines and forfeitures	47,352	-	-	-
Intergovernmental	4,319	-	-	-
Investment income	3,206	17	1,156	1,200
Other revenues	154,514	-	4,223	-
Total Revenues	7,335,991	905,084	1,701,501	1,200
Expenditures				
Current:				
General government	2,175,979	1,800	-	-
Public safety	2,447,047	-	-	-
Public works	1,001,098	-	-	-
Community development	84,272	-	-	-
Economic development	-	-	392,802	-
Tourism	-	-	-	-
Debt service:				
Principal	-	1,395,000	-	-
Interest and fiscal charges	-	1,008,723	-	-
Bond issuance costs	-	170,353	-	-
Capital outlay	1,551,194	-	-	139,785
Total Expenditures	7,259,590	2,575,876	392,802	139,785
Revenues Over (Under) Expenditures	76,401	(1,670,792)	1,308,699	(138,585)
Other Financing (Uses)				
Transfers in	651,332	1,508,653	-	-
Transfers (out)	(1,068,374)	-	(887,498)	-
Proceeds from bonds issued	-	7,345,000	-	-
Premium on bonds issued	-	592,688	-	-
Payment to refunded bond escrow agent	-	(7,764,104)	-	-
Sale of capital assets	3,045,255	-	-	-
Total Other Financing Sources (Uses)	2,628,213	1,682,237	(887,498)	-
Net Change in Fund Balances	2,704,614	11,445	421,201	(138,585)
Beginning fund balances	3,736,900	3,116	2,527,508	1,309,245
Ending Fund Balances	\$ 6,441,514	\$ 14,561	\$ 2,948,709	\$ 1,170,660

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 1,696,291
-	6,975,888
-	382,369
847,523	847,523
-	466,706
-	206,535
1,609	48,961
-	4,319
677	6,256
6,279	165,016
856,088	10,799,864
-	2,177,779
1,709	2,448,756
-	1,001,098
-	84,272
-	392,802
509,808	509,808
-	1,395,000
-	1,008,723
-	170,353
-	1,690,979
511,517	10,879,570
344,571	(79,706)
89,223	2,249,208
(41,205)	(1,997,077)
-	7,345,000
-	592,688
-	(7,764,104)
-	3,045,255
48,018	3,470,970
392,589	3,391,264
408,974	7,985,743
\$ 801,563	\$ 11,377,007

City of Shenandoah, Texas

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

For the Year Ended September 30, 2013

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

Net changes in fund balances - total governmental funds	\$	3,391,264
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		2,301,005
Depreciation expense		(1,156,271)
Net gain on sale of capital assets		(1,443,789)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		8,591
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences		(7,494)
Accrued interest		16,190

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

Issuance and amortization of deferred charges on refunding		673,089
Issuance and amortization of debt premium		(539,641)
Amortization of debt discount		(452)
Issuance of refunding bond		(7,345,000)
Principal payments		8,480,000

The (increase) decrease in the net pension obligation is reported in the statement of activities but does not require the use of current financial resources; therefore, it is not reported as an expenditure in the governmental funds		(5,545)
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Change in Net Position of Governmental Activities	\$	4,371,947
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See Notes to Financial Statements.

City of Shenandoah, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2013

	<u>Water and Sewer Fund</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 1,665,885
Accounts and other receivables	249,378
Due from other funds	9,654
Total Current Assets	<u>1,924,917</u>
<u>Noncurrent Assets</u>	
Capital assets:	
Non-depreciable	1,742,077
Net depreciable capital assets	13,683,169
Total Noncurrent Assets	<u>15,425,246</u>
Total Assets	<u>17,350,163</u>
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable	40,023
Accrued liabilities	17,220
Customer deposits	85,696
Compensated absences payable, current	21,850
Due to other funds	214,684
Total Current Liabilities	<u>379,473</u>
<u>Noncurrent Liabilities</u>	
Compensated absences payable, noncurrent	5,461
Net pension obligation	12,670
Total Liabilities	<u>397,604</u>
<u>Net Position</u>	
Invested in capital assets, net of related debt	15,425,246
Unrestricted	1,527,313
Total Net Position	<u>\$ 16,952,559</u>

See Notes to Financial Statements.

City of Shenandoah, Texas

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

For the Year Ended September 30, 2013

	Water and Sewer Fund
<u>Operating Revenues</u>	
Water sales	\$ 1,384,054
Sewer revenue	935,136
Penalties and reconnect fees	164,868
Groundwater reduction plan fees	219,593
Total Operating Revenues	2,703,651
 <u>Operating Expenses</u>	
Personnel	423,541
Supplies and services	210,477
Maintenance	354,957
Depreciation	679,037
Total Operating Expenses	1,668,012
Operating Income	1,035,639
 <u>Nonoperating Revenues (Expenses)</u>	
Investment income	2,337
Other revenue	93
Total Nonoperating Revenues (Expenses)	2,430
Income Before Transfers	1,038,069
Capital contributions	572,067
Transfers (out)	(824,198)
Change in Net Position	785,938
Beginning net position	16,166,621
Ending Net Position	\$ 16,952,559

See Notes to Financial Statements.

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City of Shenandoah, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2) For the Year Ended September 30, 2013

	<u>Water, Sewer & Sanitation</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,829,531
Payments to suppliers, contractors and employees	(1,004,497)
Net Cash Provided by Operating Activities	<u>1,825,034</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Operating transfer (out)	(824,198)
Net Cash Provided by Noncapital Financing Activities	<u>(824,198)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(484,234)
Net Cash (Used) by Capital and Related Financing Activities	<u>(484,234)</u>
<u>Cash Flows from Investing Activities</u>	
Interest on investments	2,430
Net Cash Provided by Investing Activities	<u>2,430</u>
Net increase in Cash and Cash Equivalents	519,032
Beginning cash and cash equivalents	<u>1,146,853</u>
Ending Cash and Cash Equivalents	<u><u>\$ 1,665,885</u></u>

See Notes to Financial Statements.

City of Shenandoah, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 2 of 2) For the Year Ended September 30, 2013

	<u>Water, Sewer & Sanitation</u>
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 1,035,639
Adjustments to reconcile operating income to net cash provided:	
Depreciation	679,037
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(10,393)
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(16,305)
Customer deposits	(17,847)
Net pension obligation	783
Due from other funds	154,120
Net Cash Provided by Operating Activities	\$ 1,825,034
 <u>Schedule of Non-Cash Capital Activities</u>	
Contributions of capital assets	\$ 572,067

See Notes to Financial Statements.

City of Shenandoah, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Shenandoah, Texas (the "City") was incorporated in 1974. The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. The City provides a full range of municipal services including public safety, streets, parks and recreation, community development, planning and zoning, and general administrative services. In addition, the City provides water and sewer service as an enterprise function of the City.

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

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Blended Component Units

Shenandoah Municipal Development District

The Shenandoah Municipal Development District (SMDD) is a political subdivision of the City of Shenandoah, authorized under Chapter 377 of the Texas Government Code, which was formed on May 9, 2009 when the citizens of Shenandoah approved its creation and authorized it to impose a one-half percent sales tax to finance development projects

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

beneficial to the District. State law allows the District to collect a sales tax up to one-half of one percent, and tax receipts began in October 2009.

The SMDD is governed by a five member board of directors. Originally, the City Council decided that three councilmembers would sit on the board. The Council then decided that the board will consist of two councilmembers and the remaining directors appointed by the Council and serve at the Council's will. Although it is legally separate from the City, because the City has the ability to dissolve the district and appoints members of the Board, the SMDD is reported as a blended component unit. The District was created for the purpose of planning, acquiring, establishing, developing, consulting, or renovating one or more development projects, as defined by law.

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

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

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

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

The government reports the following governmental funds:

General Fund

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

Expenditures include general government and public safety. The general service fund is considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of governmental funds. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Shenandoah Municipal Development District

This fund is a special revenue fund used to account for the revenues collected from sales taxes on transactions within the City's limits. Revenues are authorized to be sent on development within the City. The District is considered a major fund for reporting purposes and is a blended component unit.

Capital Improvements

The Capital Improvements fund is used to account for funds received and expended for construction, renovation, expansion and major improvements of various City facilities, acquisition of land and other large nonrecurring projects. Although a nonmajor fund, the Capital Improvements fund has been reported as major by management.

The City reports the following major enterprise fund:

Water and Sewer Fund

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

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

C. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary, pension and other postemployment benefit trust, and private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds have no measurement focus but utilize the *accrual basis of accounting* for reporting its assets and liabilities.

D. Assets, Liabilities, and Fund Equity or Net Position

1. Deposits and Investments

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

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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

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

2. Receivables and Interfund Transactions

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

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

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

3. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

4. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

5. Capital Assets

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

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

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

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

Asset Description	Estimated Useful Life
Vehicles	5 years
Furniture and equipment	3 - 20 years
Infrastructure	30 - 40 years
Water and sewer system	40 years
Buildings and improvements	30 - 40 years

6. Fund Balance Flow Assumptions

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

7. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through the following spending constraints:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. City council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by City Council or by an official or body to which the Council delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

8. Compensated Absences

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

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

9. Long-Term Obligations

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

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

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

10. Estimates

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, special revenue, and utility funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the function level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. Several supplemental budget appropriations were made during the year.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

A. Expenditures Over Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control and as follows:

General Fund:

Capital outlay	\$402,014
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B. Deficit Fund Equity

At September 30, 2013, the LEOSE and the Discretionary Court funds, both nonmajor funds, had deficit fund balances of \$2,752 and \$247 respectively. The deficits will be eliminated in the future with a transfer from the general fund or recognition of restricted revenue.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2013, the primary government had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
External investment pools	\$ 2,712,542	0.00
Total fair value	\$ 2,712,542	
Portfolio weighted average maturity		0

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

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

at least one nationally recognized rating service. As of September 30, 2013, the City's investment in TexPool was rated AAAM by Standard & Poor's.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2013, the market values of pledged securities and FDIC exceeded bank balances.

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

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

B. Receivables

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

	General	Debt Service	Shenandoah Municipal Development District	Water & Sewer	Total
Property tax	\$ 17,632	\$ 24,222	\$ -	\$ -	\$ 41,854
Sales tax	902,960	-	288,125	-	1,191,085
Franchise tax	27,462	-	-	-	27,462
Accounts, net	-	-	-	249,378	249,378
Other	1,109	-	-	-	1,109
Total	\$ 949,163	\$ 24,222	\$ 288,125	\$ 249,378	\$ 1,510,888

C. Capital Assets

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

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 5,296,854	\$ -	\$ (1,375,000)	\$ 3,921,854
Construction in progress	6,308,700	2,143,802	(7,225,903)	1,226,599
Total capital assets not being depreciated	<u>11,605,554</u>	<u>2,143,802</u>	<u>(8,600,903)</u>	<u>5,148,453</u>
Capital assets, being depreciated:				
Infrastructure	23,044,551	-	6,572,685	29,617,236
Buildings and improvements	5,951,564	-	634,255	6,585,819
Furniture and equipment	1,982,576	157,203	(124,566)	2,015,213
Total capital assets being depreciated	<u>30,978,691</u>	<u>157,203</u>	<u>7,082,374</u>	<u>38,218,268</u>
Less accumulated depreciation				
Infrastructure	(6,457,104)	(783,348)	-	(7,240,452)
Buildings and improvements	(871,861)	(181,841)	-	(1,053,702)
Furniture and equipment	(1,179,846)	(191,082)	74,740	(1,296,188)
Total accumulated depreciation	<u>(8,508,811)</u>	<u>(1,156,271)</u>	<u>74,740</u>	<u>(9,590,342)</u>
Net capital assets being depreciated	22,469,880	(999,068)	7,157,114	28,627,926
Total Capital Assets	\$ 34,075,434	\$ 1,144,734	\$ (1,443,789)	\$ 33,776,379

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

Depreciation was charged to governmental functions as follows:

Public safety	\$	461,950
Public works		663,817
Community development		30,504
Total Governmental Activities Depreciation Expense	\$	<u>1,156,271</u>

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 1,673,568	\$ -	\$ -	\$ 1,673,568
Construction in progress	3,288,853	1,056,305	(4,276,649)	68,509
Total capital assets not being depreciated	<u>4,962,421</u>	<u>1,056,305</u>	<u>(4,276,649)</u>	<u>1,742,077</u>
Capital assets, being depreciated:				
Furniture and equipment	452,868	-	-	452,868
Water and sewer system	21,654,685	-	4,276,649	25,931,334
Total capital assets being depreciated	<u>22,107,553</u>	<u>-</u>	<u>4,276,649</u>	<u>26,384,202</u>
Less accumulated depreciation				
Furniture and equipment	(261,073)	(30,751)	-	(291,824)
Water and sewer system	(11,760,923)	(648,286)	-	(12,409,209)
Total accumulated depreciation	<u>(12,021,996)</u>	<u>(679,037)</u>	<u>-</u>	<u>(12,701,033)</u>
Net capital assets being depreciated	<u>10,085,557</u>	<u>679,037</u>	<u>4,276,649</u>	<u>13,683,169</u>
Total capital assets	\$ <u>15,047,978</u>	\$ <u>1,735,342</u>	\$ <u>-</u>	\$ <u>15,425,246</u>

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

D. Long-term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Certificates of Obligation	\$ 12,150,000	\$ -	\$ (7,775,000)	\$ 4,375,000	\$ 715,000
General Improvement Bonds	15,805,000	-	(635,000)	15,170,000	650,000
General Obligation Refunding Bonds	-	7,345,000	(70,000)	7,275,000	50,000
Less: Deferred Amounts					
Issuance Premium	143,752	592,688	(53,047)	683,393	
Issuance Discount	(9,445)		452	(8,993)	
Compensated Absences	181,112	16,878	(9,384)	188,606	94,303
Net Pension Obligation	84,192	5,545		89,737	
Total Governmental Activities	<u>\$ 28,354,611</u>	<u>\$ 7,960,111</u>	<u>\$ (8,541,979)</u>	<u>\$ 27,772,743</u>	<u>\$ 1,509,303</u>
Long-term Liabilities Due in More than One Year				<u>\$ 26,263,440</u>	
Business-Type Activities:					
Compensated Absences	\$ 45,385	\$ 5,028	\$ (23,102)	\$ 27,311	\$ 21,850
Net Pension Obligation	11,887	783		12,670	
Total Business-Type Activities	<u>\$ 57,272</u>	<u>\$ 5,811</u>	<u>\$ (23,102)</u>	<u>\$ 39,981</u>	<u>\$ 21,850</u>

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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

Description	Interest Rates	Original Balance	Current Balance
Governmental Activities:			
2007 Certificates of obligation	4.00%	\$ 9,045,000	\$ 890,000
2008 Certificates of obligation	3.5-4.125%	2,225,000	1,615,000
2009 Certificates of obligation	2-4%	2,405,000	1,870,000
Total Certificates of Obligation		<u>13,675,000</u>	<u>4,375,000</u>
2008 General improvement bonds	4-4.5%	5,660,000	5,150,000
2009 General improvement bonds	2-4.5%	6,395,000	5,890,000
2011 General improvement bonds	3-4.25%	4,300,000	4,130,000
Total General Obligation Bonds		<u>16,355,000</u>	<u>15,170,000</u>
2013 General obligation refunding bonds	2-3.5%	7,345,000	7,275,000
Total Governmental Activities		<u>\$ 37,375,000</u>	<u>\$ 26,820,000</u>

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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

Governmental Activities

Year ending September 30,	General Obligation Bonds		Certificates of Obligation		General Obligation Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 650,000	\$ 596,988	\$ 715,000	\$ 1,086,994	\$ 50,000	\$ 205,600
2015	670,000	575,738	745,000	1,089,519	50,000	204,600
2016	690,000	553,838	300,000	615,919	520,000	203,600
2017	715,000	531,288	305,000	600,069	530,000	193,200
2018	735,000	507,888	320,000	593,819	545,000	182,600
2019	765,000	482,113	335,000	583,194	555,000	168,975
2020	790,000	455,288	345,000	566,769	570,000	155,100
2021	810,000	424,713	355,000	548,719	585,000	140,850
2022	855,000	393,363	370,000	534,894	595,000	126,225
2023	885,000	360,263	385,000	517,013	615,000	108,375
2024	920,000	325,681	200,000	297,925	635,000	89,925
2025	960,000	287,488	-	70,875	650,000	70,875
2026	1,000,000	247,300	-	48,125	675,000	48,125
2027	1,040,000	205,438	-	24,500	700,000	24,500
2028	1,085,000	160,325	-	-	-	-
2029	600,000	113,250	-	-	-	-
2030	625,000	88,069	-	-	-	-
2031	650,000	61,100	-	-	-	-
2032	355,000	32,625	-	-	-	-
2033	370,000	16,650	-	-	-	-
Total	\$ 15,170,000	\$ 6,419,406	\$ 4,375,000	\$ 7,178,334	\$ 7,275,000	\$ 1,922,550

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

Advance Refunding Bond

The City issued \$7,345,000 in bonds with interest rates ranging from 2.0-3.5%. The proceeds were used to refund \$7,085,000 of outstanding 2007 Certificates of Obligation bonds which had an interest rate of 4-4.15%. The net proceeds of \$7,764,104 (including a \$592,688 premium and after payment of \$173,584 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the liability for those bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$673,088. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. The result is a reduction in total debt service payments over 11 years of \$745,656 and to obtain an economic gain of \$430,598. The effect of the issuance is demonstrated below:

Year ending September 30,	Original Issue 2007 Certificates of Obligation		Advance Refunding 2013 Refunding Bond	
	Principal	Interest	Principal	Interest
2013	\$ n/a	\$ 340,933	\$ 70,000	\$ 69,000
2014	n/a	324,133	50,000	205,600
2015	n/a	306,733	50,000	204,600
2016	470,000	288,533	520,000	203,600
2017	490,000	269,733	530,000	193,200
2018	510,000	250,133	545,000	182,600
2019	530,000	229,733	555,000	168,975
2020	550,000	208,533	570,000	155,100
2021	575,000	186,533	585,000	140,850
2022	595,000	163,533	595,000	126,225
2023	620,000	138,989	615,000	108,375
2024	645,000	113,414	635,000	89,925
2025	670,000	86,808	650,000	70,875
2026	700,000	59,170	675,000	48,125
2027	730,000	30,295	700,000	24,500
Total	\$ 7,085,000	\$ 2,997,206	\$ 7,345,000	\$ 1,991,550

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

E. Interfund Receivables and Payables

The composition of interfund balances as of September 30, 2013, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Debt service	\$ 33
	SMDD	444,637
	Water and sewer	187,920
	Nonmajor funds	3,051
SMDD	Water and sewer	4,222
Nonmajor funds	General	117,184
	Water and sewer	20,100
	Nonmajor funds	3,300
Water and sewer	Capital improvement	9,654
		<u>\$ 790,101</u>

The City had multiple interfund balances because each fund has multiple bank accounts and extensive transfers from accounts needed to be made at year end.

F. Interfund Transactions

Transfers between the primary government funds during the year were as follows:

<u>Transfers Out</u>	<u>Transfers In</u>			
	<u>General</u>	<u>Debt Service</u>	<u>Equipment Replacement</u>	<u>Total Transfers Out</u>
General	\$ -	\$ 1,002,551	\$ 65,823	\$ 1,068,374
SMDD	315,431	-	-	315,431
Water and sewer	297,996	506,102	20,100	824,198
Hotel/Motel	37,905	-	3,300	41,205
Total Transfers In	<u>\$ 651,332</u>	<u>\$ 1,508,653</u>	<u>\$ 89,223</u>	<u>\$ 2,249,208</u>

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

G. Fund Equity

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

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

	Restricted	Committed
Debt service	\$ 14,561	\$ -
Capital projects	1,170,660	-
Economic development	2,948,709	-
Tourism	713,571	-
Equipment replacement	-	89,223
Total	\$ 4,847,501	\$ 89,223

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

C. Arbitrage

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

D. Pension Plans

1. Texas Municipal Retirement Systems

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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 2012</u>	<u>Plan Year 2013</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI repeating

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:

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

Three-Year Contribution Information

	<u>September 30,</u> <u>2013</u>	<u>September 30,</u> <u>2012</u>	<u>September 30,</u> <u>2011</u>
Annual Required Contribution (ARC)	421,643	394,262	461,955
Interest on Net Pension Obligation	6,725	6,682	4,617
Adjustment to the ARC	(5,909)	(5,744)	(3,759)
Annual Pension Cost (APC)	422,460	395,200	462,813
Actual Contributions Made	(416,131)	(394,580)	(428,919)
Increase (decrease) in net pension	6,329	620	33,894
Beginning Net Pension Obligation/Asset	96,078	95,458	61,564
NPO at the End of Period	\$ 102,407	\$ 96,078	\$ 95,458

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

Valuation Date	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	27.3 years; closed period	26.6 years; closed period	25.5 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at Cost-of-Living Adjustments	3.00%	3.00%	3.00%
	2.1%	2.1%	2.1%

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

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

Actuarial Valuation Date	12/31/2012
Actuarial Value of Assets	\$ 4,778,107
Actuarial Accrued Liability	\$ 7,977,527
Percentage Funded	59.9
Annual Covered Payroll	\$ 2,977,471
Unfunded Actuarial Accrued Liability	\$ (3,199,420)
(UAAL) % of Covered Payroll	(107.5)%

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

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

Supplemental Death Benefits Plan

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

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2013

to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's retiree contribution rates to the TMRS SDBF for the years ended 2013, 2012 and 2011 are as follows:

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2010	0.01%	0.01%	100.0%
2011	0.01%	0.01%	100.0%
2012	0.01%	0.01%	100.0%

E. Restatement

The City has restated beginning net position within governmental activities due to a change in the reporting of bond issuance and a blended component unit. Fund balances were not affected. The restatement of beginning net position is as follows:

	Governmental Activities
Prior year ending net position as reported	\$ 11,744,321
Change in reporting of bond issuance costs	(668,722)
Change in reporting of component unit	2,527,508
Restated beginning net position	\$ 13,603,107

F. Subsequent Events

There were no material subsequent events through February 4, 2014, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Shenandoah, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended September 30, 2013

	Original and Final Budget	2013 Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 804,290	\$ 791,224	\$ (13,066)
Sales tax	4,734,292	5,279,766	545,474
Franchise and local taxes	373,740	382,369	8,629
License and permits	234,600	466,706	232,106
Charges for services	205,972	206,535	563
Fines and forfeitures	18,000	47,352	29,352
Intergovernmental	-	4,319	4,319
Investment income	2,000	3,206	1,206
Other revenues	-	154,514	154,514
Total Revenues	6,372,894	7,335,991	963,097
<u>Expenditures</u>			
Current:			
General government	2,349,088	2,175,979	173,109
Public safety	2,580,673	2,447,047	133,626
Public works	1,058,838	1,001,098	57,740
Community development	103,898	84,272	19,626
Capital outlay	1,149,180	1,551,194	(402,014) *
Total Expenditures	7,241,677	7,259,590	(17,913)
Revenues Over (Under) Expenditures	(868,783)	76,401	945,184
<u>Other Financing Sources (Uses)</u>			
Transfers in	844,223	651,332	(192,891)
Transfers (out)	(1,062,475)	(1,068,374)	(5,899)
Sale of capital assets	53,000	3,045,255	2,992,255
Total Other Financing Sources (Uses)	(165,252)	2,628,213	2,793,465
Net Change in Fund Balance	\$ (1,034,035)	2,704,614	\$ 3,738,649
Beginning fund balance		3,736,900	
Ending Fund Balance		\$ 6,441,514	

Notes to Required Supplementary Information

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

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City of Shenandoah, Texas
SCHEDULE OF FUNDING PROGRESS-
TEXAS MUNICIPAL RETIREMENT SYSTEM

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City does not make all the annually required contributions, a net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

Actuarial Valuation Date	<u>12/31/2012</u>		<u>12/31/2011</u>		<u>12/31/2010</u>
Actuarial Value of Assets	\$ 4,778,107	(a)	\$ 4,018,682	(b)	\$ 3,225,935
Actuarial Accrued Liability	\$ 7,977,527		\$ 7,198,193		\$ 6,182,564
Percentage Funded	59.9%		55.8%		52.2%
Unfunded Actuarial					
Accrued Liability	\$ 3,199,420		\$ 3,179,511		\$ 2,956,629
Annual Covered Payroll	\$ 2,977,471		\$ 3,298,172		\$ 3,589,815
Unfunded Actuarial Accrued Liability					
(UAAL) % of Covered Payroll	107.5%		96.4%		82.4%
Net Pension Obligation (NPO)					
at the Beginning of Period	\$ 96,078		\$ 95,458		\$ 61,564
Annual Req. Contrib. (ARC)	\$ 422,460		\$ 395,200		\$ 462,813
Contributions Made	\$ 416,131		\$ 394,580		\$ 428,919
NPO at the End of Period	<u>\$ 102,407</u>		<u>\$ 96,078</u>		<u>\$ 95,458</u>

- (a) Actuarial valuation performed under the new fund structure
(b) Actuarial valuation performed under the old fund structure

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NONMAJOR GOVERNMENTAL FUNDS

HOTEL/MOTEL OCCUPANCY TAX FUND

This fund accounts for funds derived from hotel/motel occupancy taxes and is legally restricted to promote tourism within the City.

EQUIPMENT REPLACEMENT FUND

This fund accounts for funds that have been committed to replacing City equipment.

LEOSE FUND

This fund accounts for funds that are used for Law Enforcement Officer Safety Equipment grants to be used for Law Enforcement Officer Safety Equipment.

DISCRETIONARY COURT FUND

This fund accounts for court fees that are legally restricted for court expenses.

City of Shenandoah, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2013

	<u>Hotel/Motel Occupancy Tax Fund</u>	<u>Equipment Replacement Fund</u>	<u>LEOSE Fund</u>	<u>Discretionary Court Fund</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 668,573	\$ -	\$ -	\$ -
Due from other funds	51,361	89,223	-	-
Total Assets	\$ 719,934	\$ 89,223	\$ -	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 1,744	\$ -	\$ -	\$ -
Accrued liabilities	1,267	-	-	-
Due to other funds	1,584	-	2,752	247
Total Liabilities	4,595	-	2,752	247
<u>Fund Balances</u>				
Restricted for:				
Tourism	715,339	-	-	-
Committed for:				
Equipment replacement	-	89,223	-	-
Unassigned	-	-	(2,752)	(247)
Total Fund Balances	715,339	89,223	(2,752)	(247)
Total Liabilities and Fund Balances	\$ 719,934	\$ 89,223	\$ -	\$ -

**Total
Nonmajor
Governmental**

\$	668,573
	140,584
\$	<u>809,157</u>

\$	1,744
	1,267
	<u>4,583</u>
	<u>7,594</u>

715,339

	89,223
	(2,999)
	<u>801,563</u>

\$	<u>809,157</u>
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City of Shenandoah, Texas

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2013

	Hotel/Motel Occupancy Tax Fund	Equipment Replacement Fund	LEOSE Fund	Discretionary Court Fund
<u>Revenues</u>				
Hotel occupancy taxes	\$ 847,523	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	-	1,609
Investment earnings	677	-	-	-
Other revenue	6,279	-	-	-
Total Revenues	854,479	-	-	1,609
<u>Expenditures</u>				
Public safety	-	-	-	1,709
Tourism	509,808	-	-	-
Total Expenditures	509,808	-	-	1,709
Revenues Over (Under) Expenditures	344,671	-	-	(100)
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	89,223		
Transfers (out)	(41,205)	-	-	-
Total Other Financing Sources (Uses)	(41,205)	89,223	-	-
Net Change in Fund Balances	303,466	89,223	-	(100)
Beginning fund balances	411,873	-	(2,752)	(147)
Ending Fund Balances	\$ 715,339	\$ 89,223	\$ (2,752)	\$ (247)

**Total
Nonmajor
Governmental**

\$	847,523
	1,609
	677
	6,279
	<u>856,088</u>
	1,709
	509,808
	<u>511,517</u>
	<u>344,571</u>
	89,223
	<u>(41,205)</u>
	<u>48,018</u>
	392,589
	408,974
\$	<u><u>801,563</u></u>

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