

*ANNUAL FINANCIAL REPORT*

of the

**City of Shenandoah, Texas**

For the Year Ended  
September 30, 2014



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# City of Shenandoah, Texas

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*INDEPENDENT AUDITOR'S REPORT*

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

**Report on the Financial Statements**

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

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.

#### *Other Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information, such as the combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the

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

*Brooks Cardiel, PLLC*

BrooksCardiel, PLLC  
Certified Public Accountants  
The Woodlands, Texas  
February 27, 2015

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

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# City of Shenandoah, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

### September 30, 2014

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, 2014.

#### **Financial Highlights**

- The City's total combined net position was \$39,363,072 at September 30, 2014. Of this, \$9,070,332 (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 \$13,198,572, an increase of \$1,821,565.
- As of the end of the year, the unassigned fund balance of the general fund was \$7,177,555 or 92% of total general fund expenditures.
- The City had an overall increase in net position of \$4,435,459, which is due to revenues exceeding expenses and contributed capital that occurred 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, 2014

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 nine 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, 2014**

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 \$39,363,072 as of September 30, 2014.

The largest portion of the City's net position, \$24,446,445, 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 is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

**City of Shenandoah, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2014**

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

	2014			2013		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 13,872,095	\$ 2,401,656	\$ 16,273,751	\$ 12,696,823	\$ 1,710,233	\$ 14,407,056
Capital assets, net	34,865,670	14,978,529	49,844,199	33,776,379	15,425,246	49,201,625
<b>Total Assets</b>	<b>48,737,765</b>	<b>17,380,185</b>	<b>66,117,950</b>	<b>46,473,202</b>	<b>17,135,479</b>	<b>63,608,681</b>
<b>Deferred Outflows</b>	<b>625,011</b>	<b>-</b>	<b>625,011</b>	<b>673,089</b>	<b>-</b>	<b>673,089</b>
Other liabilities	2,354,148	281,879	2,636,027	1,398,494	142,939	1,541,433
Long-term liabilities	24,722,129	21,733	24,743,862	27,772,743	39,981	27,812,724
<b>Total Liabilities</b>	<b>27,076,277</b>	<b>303,612</b>	<b>27,379,889</b>	<b>29,171,237</b>	<b>182,920</b>	<b>29,354,157</b>
Net Position:						
Net investment						
in capital assets	9,467,916	14,978,529	24,446,445	6,955,068	15,425,246	22,380,314
Restricted	5,845,371	-	5,845,371	4,849,269	-	4,849,269
Unrestricted	6,972,288	2,098,044	9,070,332	6,170,717	1,527,313	7,698,030
<b>Total Net Position</b>	<b>\$ 22,285,575</b>	<b>\$ 17,076,573</b>	<b>\$ 39,362,148</b>	<b>\$ 17,975,054</b>	<b>\$ 16,952,559</b>	<b>\$ 34,927,613</b>

**City of Shenandoah, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2014**

**Statement of Activities:**

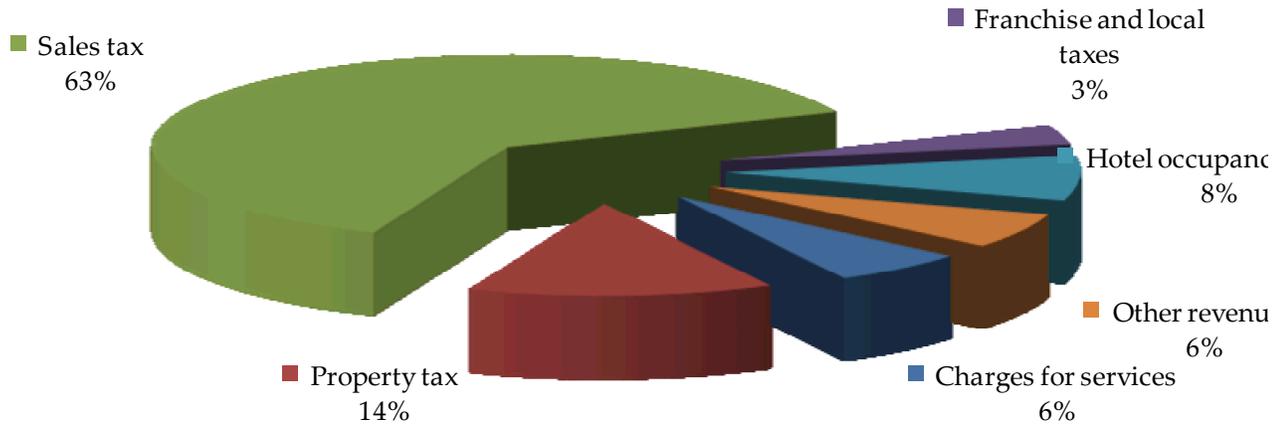
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2014			For the Year Ended September 30, 2013		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 719,633	\$ 2,632,698	\$ 3,352,331	\$ 722,202	\$ 2,703,651	\$ 3,425,853
Capital contributions	464,113	-	464,113	-	-	-
General revenues:						
Property tax	1,622,475	-	1,622,475	1,704,882	-	1,704,882
Sales tax	7,323,513	-	7,323,513	6,975,888	-	6,975,888
Franchise and local taxes	388,794	-	388,794	382,369	-	382,369
Hotel occupancy taxes	913,767	-	913,767	847,523	-	847,523
Intergovernmental	3,995	-	3,995	4,319	-	4,319
Investment income	13,953	2,465	16,418	6,256	2,337	8,593
Other revenues	714,773	3,998	718,771	165,016	93	165,109
Gain in sale of assets	90,705	-	90,705	1,601,466	-	1,601,466
<b>Total Revenues</b>	<b>12,255,721</b>	<b>2,639,161</b>	<b>14,894,882</b>	<b>12,409,921</b>	<b>2,706,081</b>	<b>15,116,002</b>
<b>Expenses</b>						
General government	2,427,406	-	2,427,406	2,185,027	-	2,185,027
Public safety	2,940,616	-	2,940,616	2,783,890	-	2,783,890
Public works	1,883,410	-	1,883,410	1,187,459	-	1,187,459
Community development	133,518	-	133,518	114,813	-	114,813
Economic development	94,488	-	94,488	392,802	-	392,802
Tourism	359,242	-	359,242	509,808	-	509,808
Interest and fiscal charges	963,965	-	963,965	1,116,306	-	1,116,306
Water & sewer	-	1,686,430	1,686,430	-	1,668,012	1,668,012
<b>Total Expenses</b>	<b>8,802,645</b>	<b>1,686,430</b>	<b>10,489,075</b>	<b>8,290,105</b>	<b>1,668,012</b>	<b>9,958,117</b>
<b>Change in Net Position</b>						
<b>Before Transfers</b>	3,453,076	952,731	4,405,807	4,119,816	1,038,069	5,157,885
Transfers in (out)	828,717	(828,717)	-	252,131	(252,131)	-
<b>Total</b>	<b>828,717</b>	<b>(828,717)</b>	<b>-</b>	<b>252,131</b>	<b>(252,131)</b>	<b>-</b>
<b>Change in Net Position</b>	<b>4,281,793</b>	<b>124,014</b>	<b>4,405,807</b>	<b>4,371,947</b>	<b>785,938</b>	<b>5,157,885</b>
Beginning Net Position	17,975,054	16,952,559	34,927,613	13,603,107	16,166,621	29,769,728
<b>Ending Net Position</b>	<b>\$ 22,256,847</b>	<b>\$ 17,076,573</b>	<b>\$ 39,333,420</b>	<b>\$ 17,975,054</b>	<b>\$ 16,952,559</b>	<b>\$ 34,927,613</b>

**City of Shenandoah, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2014**

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

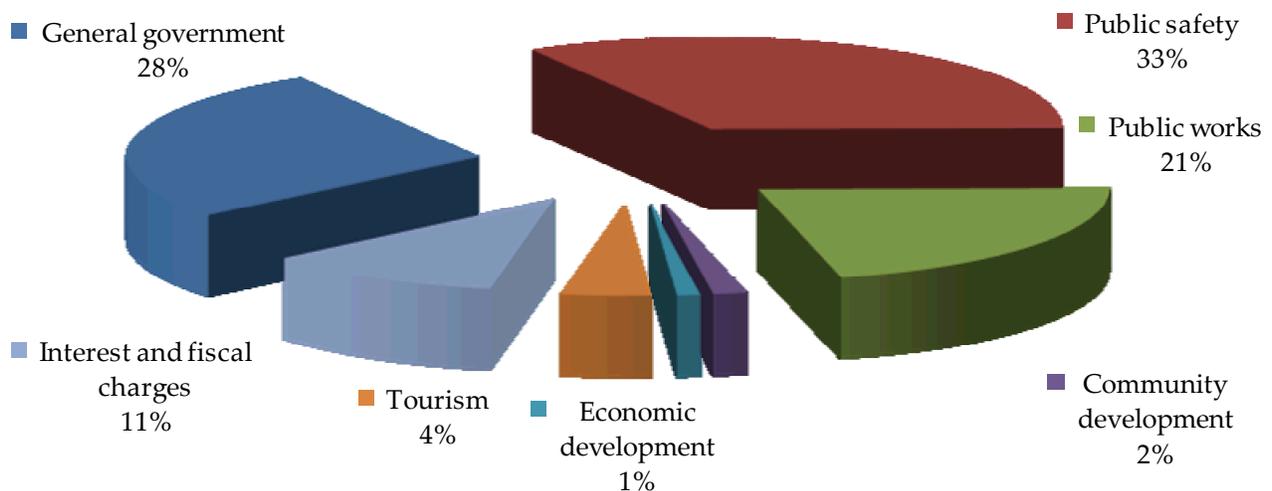
**Governmental Activities - Revenues**



For the year ended September 30, 2014, revenues from governmental activities totaled \$12,255,721. Sales tax, property tax, and hotel/motel taxes are the City's largest revenue sources. Sales tax increased \$347,625 or 5% due to continued retail sales growth within City limits. In the current year the City also received contributed capital worth \$464,133 and a reimbursement for construction of a water well. 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**



# City of Shenandoah, Texas

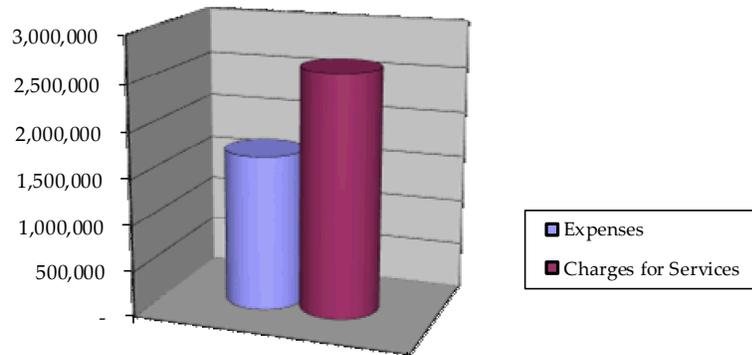
## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2014

For the year ended September 30, 2014, expenses for governmental activities totaled \$8,772,993. This represents an increase of \$482,888 or 3% from the prior year. The City's largest functional expense is public safety of \$2,914,865. Economic development spending decreased by \$298,314, mostly due to spending on capital assets which is only recognized as an expense as those assets depreciate. Public works expenses increased by 37% or \$691,692 as due to increased salaries, trash collection costs, and maintenance of the City's parks and right of ways. All other expenditures remained relatively consistent with the previous year.

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, 2014, charges for services by business-type activities totaled \$2,632,698. This is a decrease of \$70,953, or 3%, from the previous year. This decrease directly relates to water usage and tap fees.

Total expenses decreased \$66,920, a negligible change within the fund.

### 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.

**City of Shenandoah, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued***  
**September 30, 2014**

As of the end of the year the general fund reflected a total fund balance of \$7,177,555. The general fund demonstrated an increase of \$736,041. During the year large amounts of capital outlay occurred in the fund and these expenses were offset by transfers from the capital improvement fund.

The debt service fund demonstrated a small change of \$2,560. This change is the result of planned debt service.

The Shenandoah Municipal Development District (SMDD) had an increase of \$1,719,817 due to revenues outpacing SMDD expenditures.

There was an increase in governmental fund balance of \$1,821,565 over the prior year. The increase is due to overall revenues exceeding expenses.

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 negative budget variance of \$1,844,731 in the general fund. Total actual revenue exceeded budgeted revenue by \$377,473. 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 \$34,865,670 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 \$14,978,529 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 roof for \$635,301.
- The completion and ongoing construction of the multiple infrastructure projects including streetlights, drainage, and contributed capital.
- The addition of three police vehicles for \$83,275

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

# **City of Shenandoah, Texas**

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued***

**September 30, 2014**

### **LONG-TERM DEBT**

At the end of the current year, the City had total bonds outstanding of \$25,405,000. During the year, the City had a net reduction in the long-term debt of \$1,415,000. More detailed information about the City's long-term liabilities is presented in note IV. E to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

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

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City of 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, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>			
Current assets:			
Cash and cash equivalents	\$ 12,398,937	\$ 2,263,669	\$ 14,662,606
Receivables, net	1,189,921	421,224	1,611,145
Internal balances	283,237	(283,237)	-
<b>Total Current Assets</b>	13,872,095	2,401,656	16,273,751
Capital assets:			
Non-depreciable	4,705,452	1,673,568	6,379,020
Net depreciable capital assets	30,160,218	13,304,961	43,465,179
	34,865,670	14,978,529	49,844,199
<b>Total Assets</b>	48,737,765	17,380,185	66,117,950
<b><u>Deferred Outflows of Resources</u></b>			
Deferred charge on refunding	625,011	-	625,011
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts payable	247,440	127,727	375,167
Accrued liabilities	191,812	9,654	201,466
Accrued interest payable	114,420	-	114,420
Customer deposits	192,417	125,296	317,713
Due within one year	1,608,059	19,202	1,627,261
	2,354,148	281,879	2,636,027
Noncurrent liabilities:			
Due in more than one year	24,583,314	2,134	24,585,448
Net pension obligation	138,815	19,599	158,414
	24,722,129	21,733	24,743,862
<b>Total Liabilities</b>	27,076,277	303,612	27,379,889
<b><u>Net Position</u></b>			
Net investment in capital assets	9,467,916	14,978,529	24,446,445
Restricted for:			
Debt service	17,121	-	17,121
Capital projects	93,085	-	93,085
Economic development	4,668,526	-	4,668,526
Tourism	1,066,639	-	1,066,639
Court	924	-	924
Unrestricted	6,972,288	2,098,044	9,070,332
<b>Total Net Position</b>	\$ 22,286,499	\$ 17,076,573	\$ 39,363,072

See Notes to Financial Statements.

# City of Shenandoah, Texas

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
<b>Governmental Activities</b>				
General government	\$ 2,428,113	\$ 678,317	\$ -	\$ -
Public safety	2,914,865	41,316	3,995	-
Public works	1,879,151	-	-	464,113
Community development	133,169	-	-	-
Economic development	94,488	-	-	-
Tourism	359,242	-	-	-
Interest and fiscal charges	963,965	-	-	-
<b>Total Governmental Activities</b>	<b>8,772,993</b>	<b>719,633</b>	<b>3,995</b>	<b>464,113</b>
<b>Business-Type Activities</b>				
Water & Sewer	1,686,430	2,632,698	-	-
<b>Total Business-Type Activities</b>	<b>1,686,430</b>	<b>2,632,698</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 10,459,423</b>	<b>\$ 3,352,331</b>	<b>\$ 3,995</b>	<b>\$ 464,113</b>

**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**

<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (1,749,796)	\$ -	\$ (1,749,796)
(2,869,554)	-	(2,869,554)
(1,415,038)	-	(1,415,038)
(133,169)	-	(133,169)
(94,488)	-	(94,488)
(359,242)	-	(359,242)
(963,965)	-	(963,965)
<u>(7,585,252)</u>	<u>-</u>	<u>(7,585,252)</u>
-	946,268	946,268
-	946,268	946,268
<u>(7,585,252)</u>	<u>946,268</u>	<u>(6,638,984)</u>
1,622,475	-	1,622,475
7,323,513	-	7,323,513
388,794	-	388,794
913,767	-	913,767
13,953	2,465	16,418
714,773	3,998	718,771
90,705	-	90,705
828,717	(828,717)	-
<u>11,896,697</u>	<u>(822,254)</u>	<u>11,074,443</u>
4,311,445	124,014	4,435,459
17,975,054	16,952,559	34,927,613
<u>\$ 22,286,499</u>	<u>\$ 17,076,573</u>	<u>\$ 39,363,072</u>

# City of Shenandoah, Texas

## BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2014

	General Fund	Debt Service Fund	Shenandoah Municipal Development District	Nonmajor Capital Improvements Fund
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 6,491,993	\$ 14,604	\$ 4,498,069	\$ 102,739
Receivables, net				
Property taxes	17,632	24,222	-	-
Franchise taxes	17,910	-	-	-
Sales tax	855,341	-	271,161	-
Accounts and other	3,655	-	-	-
Due from other funds	427,396	2,517	-	-
<b>Total Assets</b>	<b>\$ 7,813,927</b>	<b>\$ 41,343</b>	<b>\$ 4,769,230</b>	<b>\$ 102,739</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 225,237	\$ -	\$ -	\$ -
Accrued liabilities	191,812	-	-	-
Due to other funds	9,274	-	100,704	9,654
Customer deposits	192,417	-	-	-
<b>Total Liabilities</b>	<b>618,740</b>	<b>-</b>	<b>100,704</b>	<b>9,654</b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue - property taxes	17,632	24,222	-	-
<b><u>Fund Balances</u></b>				
Restricted for:				
Debt service	-	17,121	-	-
Capital projects	-	-	-	93,085
Economic development	-	-	4,668,526	-
Tourism	-	-	-	-
Court	-	-	-	-
Committed for:				
Equipment replacement	-	-	-	-
Unassigned	7,177,555	-	-	-
<b>Total Fund Balances</b>	<b>7,177,555</b>	<b>17,121</b>	<b>4,668,526</b>	<b>93,085</b>
<b>Inflows of Resources, and Fund</b>				
<b>Balances</b>	<b>\$ 7,813,927</b>	<b>\$ 41,343</b>	<b>\$ 4,769,230</b>	<b>\$ 102,739</b>

See Notes to Financial Statements.

<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 1,291,532	\$ 12,398,937
-	41,854
-	17,910
-	1,126,502
-	3,655
7,582	437,495
<u>\$ 1,299,114</u>	<u>\$ 14,026,353</u>
\$ 22,203	\$ 247,440
-	191,812
34,626	154,258
-	192,417
<u>56,829</u>	<u>785,927</u>
<u>-</u>	<u>41,854</u>
-	17,121
-	93,085
-	4,668,526
1,066,639	1,066,639
924	924
178,446	178,446
(3,724)	7,173,831
<u>1,242,285</u>	<u>13,198,572</u>
<u>\$ 1,299,114</u>	<u>\$ 14,026,353</u>

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**City of Shenandoah, Texas**  
**RECONCILIATION OF THE BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**GOVERNMENTAL FUNDS**  
**September 30, 2014**

<b>Fund Balances - Total Governmental Funds</b>	\$	13,198,572
 <b>Adjustments for the Statement of Net Position:</b>		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Capital assets - non-depreciable		4,705,452
Capital assets - net depreciable		30,160,218
 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		625,011
 Some liabilities, including bonds payable and deferred charges are not reported as liabilities in the governmental funds.		
Accrued interest		(114,420)
Premiums on bonds payable		(635,960)
Discounts of bonds payable		8,541
Net pension obligation		(138,815)
Non-current liabilities due in one year		(1,608,059)
Non-current liabilities due in more than one year		(23,955,895)
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<u><u>22,286,499</u></u>

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, 2014

	General Fund	Debt Service Fund	Shenandoah Municipal Development District	Nonmajor Capital Improvements Fund
<b>Revenues</b>				
Property tax	\$ 801,321	\$ 821,154	\$ -	\$ -
Sales tax	5,595,882	-	1,727,631	-
Franchise and local taxes	388,794	-	-	-
Hotel occupancy taxes	-	-	-	-
License and permits	462,908	-	-	-
Charges for services	215,409	-	-	-
Fines and forfeitures	35,811	-	-	-
Intergovernmental	3,995	-	-	-
Investment income	9,540	10	3,208	258
Other revenues	99,000	-	612,910	-
<b>Total Revenues</b>	<b>7,612,660</b>	<b>821,164</b>	<b>2,343,749</b>	<b>258</b>
<b>Expenditures</b>				
Current:				
General government	2,415,393	2,250	-	-
Public safety	2,478,844	-	-	-
Public works	1,169,942	-	-	-
Community development	100,992	-	-	-
Economic development	-	-	218,478	-
Tourism	-	-	-	-
Debt service:				
Principal	-	1,415,000	-	-
Interest and fiscal charges	-	968,981	-	-
Capital outlay	1,601,510	-	-	-
<b>Total Expenditures</b>	<b>7,766,681</b>	<b>2,386,231</b>	<b>218,478</b>	<b>-</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(154,021)</b>	<b>(1,565,067)</b>	<b>2,125,271</b>	<b>258</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	1,925,586	1,567,627	-	-
Transfers (out)	(1,126,229)	-	(405,454)	(1,077,833)
Sale of capital assets	90,705	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>890,062</b>	<b>1,567,627</b>	<b>(405,454)</b>	<b>(1,077,833)</b>
<b>Net Change in Fund Balances</b>	<b>736,041</b>	<b>2,560</b>	<b>1,719,817</b>	<b>(1,077,575)</b>
Beginning fund balances	6,441,514	14,561	2,948,709	1,170,660
<b>Ending Fund Balances</b>	<b>\$ 7,177,555</b>	<b>\$ 17,121</b>	<b>\$ 4,668,526</b>	<b>\$ 93,085</b>

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 1,622,475
-	7,323,513
-	388,794
913,767	913,767
-	462,908
-	215,409
5,505	41,316
-	3,995
937	13,953
2,863	714,773
923,072	11,700,903
-	2,417,643
5,306	2,484,150
-	1,169,942
-	100,992
-	218,478
422,064	422,064
-	1,415,000
-	968,981
-	1,601,510
427,370	10,798,760
495,702	902,143
89,223	3,582,436
(144,203)	(2,753,719)
-	90,705
(54,980)	919,422
440,722	1,821,565
801,563	11,377,007
\$ 1,242,285	\$ 13,198,572

# 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, 2014

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

Net changes in fund balances - total governmental funds	\$	1,821,565
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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		2,366,714
Depreciation expense		(1,277,423)

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.

Accrued interest		6,113
Net pension obligation		(49,078)
Compensated absences		29,651

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.

Amortization of deferred charges on refunding		(48,078)
Amortization of debt premium		47,433
Amortization of debt discount		(452)
Principal payments		1,415,000

	\$	<u><u>4,311,445</u></u>
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See Notes to Financial Statements.

# City of Shenandoah, Texas

## STATEMENT OF NET POSITION

### PROPRIETARY FUND

September 30, 2014

	<b>Water and Sewer Fund</b>
<b><u>Assets</u></b>	
<b><u>Current Assets</u></b>	
Cash and cash equivalents	\$ 2,263,669
Accounts and other receivables	421,224
Due from other funds	14,677
<b>Total Current Assets</b>	<b>2,699,570</b>
<b><u>Noncurrent Assets</u></b>	
Capital assets:	
Non-depreciable	1,673,568
Net depreciable capital assets	13,304,961
<b>Total Noncurrent Assets</b>	<b>14,978,529</b>
<b>Total Assets</b>	<b>17,678,099</b>
<b><u>Liabilities</u></b>	
<b><u>Current Liabilities</u></b>	
Accounts payable	127,727
Accrued liabilities	9,654
Customer deposits	125,296
Compensated absences payable, current	19,202
Due to other funds	297,914
<b>Total Current Liabilities</b>	<b>579,793</b>
<b><u>Noncurrent Liabilities</u></b>	
Compensated absences payable, noncurrent	2,134
Net pension obligation	19,599
<b>Total Liabilities</b>	<b>601,526</b>
<b><u>Net Position</u></b>	
Net investment in capital assets	14,978,529
Unrestricted	2,098,044
<b>Total Net Position</b>	<b>\$ 17,076,573</b>

See Notes to Financial Statements.

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# City of Shenandoah, Texas

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

For the Year Ended September 30, 2014

		<u>Water and Sewer Fund</u>
<b><u>Operating Revenues</u></b>		
Water sales	\$	1,343,706
Sewer revenue		989,992
Penalties and reconnect fees		106,599
Groundwater reduction plan fees		192,401
<b>Total Operating Revenues</b>		<u>2,632,698</u>
 <b><u>Operating Expenses</u></b>		
Personnel		473,304
Supplies and services		237,582
Maintenance		503,911
Depreciation		471,633
<b>Total Operating Expenses</b>		<u>1,686,430</u>
<b>Operating Income</b>		<u>946,268</u>
 <b><u>Nonoperating Revenues (Expenses)</u></b>		
Investment income		2,465
Other revenue		3,998
<b>Total Nonoperating Revenues (Expenses)</b>		<u>6,463</u>
<b>Income Before Transfers</b>		952,731
Transfers (out)		<u>(828,717)</u>
<b>Change in Net Position</b>		124,014
Beginning net position		<u>16,952,559</u>
<b>Ending Net Position</b>	\$	<u><u>17,076,573</u></u>

See Notes to Financial Statements.

# City of Shenandoah, Texas

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2) For the Year Ended September 30, 2014

	<u>Water and Sewer Fund</u>
<b><u>Cash Flows from Operating Activities</u></b>	
Receipts from customers	\$ 2,572,684
Payments to employees	(466,375)
Payments to suppliers and contractors	(661,354)
<b>Net Cash Provided by Operating Activities</b>	<u>1,444,955</u>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>	
Operating transfer (out)	(828,717)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>(828,717)</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
Capital purchases	(24,915)
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<u>(24,915)</u>
<b><u>Cash Flows from Investing Activities</u></b>	
Interest on investments	6,461
<b>Net Cash Provided by Investing Activities</b>	<u>6,461</u>
<b>Net increase in Cash and Cash Equivalents</b>	597,784
Beginning cash and cash equivalents	<u>1,665,885</u>
<b>Ending Cash and Cash Equivalents</b>	<u><u>\$ 2,263,669</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, 2014

	<u>Water and Sewer Fund</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u></b>	
Operating Income	\$ 946,268
Adjustments to reconcile operating income to net cash provided:	
Depreciation	471,633
<b>Changes in Operating Assets and Liabilities:</b>	
<b>(Increase) Decrease in:</b>	
Accounts receivable	(171,846)
<b>Increase (Decrease) in:</b>	
Accounts payable and accrued liabilities	80,139
Customer deposits	39,600
Net pension obligation	6,929
Due from other funds	72,232
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 1,444,955</u></u>

See Notes to Financial Statements.

# City of Shenandoah, Texas

## NOTES TO FINANCIAL STATEMENTS

September 30, 2014

### 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 beneficial to the

**City of Shenandoah, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2014

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

**City of Shenandoah, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2014

**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.

The City reports the following major enterprise fund:

**Water and Sewer Fund**

This fund is used to account for the provision of water and sewer 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 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

**City of Shenandoah, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

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 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*

**City of Shenandoah, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2014

*accounting.* Agency funds have no measurement focus but utilize the *accrual basis of accounting* for reporting its assets and liabilities.

**D. Assets, Deferred Outflows, 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.

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."

**City of Shenandoah, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2014

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 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.

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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.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
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. Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, fines, and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**7. Net Position Flow Assumptions**

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

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**8. 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.

**9. 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

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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.

**10. 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.

**11. 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.

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

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

**12. 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 premiums, discounts, and similar items

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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.

**A. Expenditures Over Appropriations**

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

General Fund:

Capital outlay	\$1,421,198
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**B. Deficit Fund Equity**

At September 30, 2014, the LEOSE and the Building Technology funds, both nonmajor funds, had deficit fund balances of \$494 and \$3,230 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, 2014, the primary government had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
External investment pools	\$ 1,635,064	0.00
Total fair value	\$ 1,635,064	
Portfolio weighted average maturity		0.00

*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

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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 at least one nationally recognized rating service. As of September 30, 2014, 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, 2014, 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.

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**B. Receivables**

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

	<b>General</b>	<b>Debt Service</b>	<b>Shenandoah Municipal Development District</b>	<b>Water &amp; Sewer</b>	<b>Total</b>
Property tax	\$ 17,632	\$ 24,222	\$ -	\$ -	\$ 41,854
Sales tax	855,341	-	271,161	-	1,126,502
Franchise tax	17,910	-	-	-	17,910
Accounts, net	-	-	-	421,224	421,224
Other	3,655	-	-	-	3,655
<b>Total</b>	<b>\$ 894,538</b>	<b>\$ 24,222</b>	<b>\$ 271,161</b>	<b>\$ 421,224</b>	<b>\$ 1,611,145</b>

**C. Capital Assets**

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

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases/ Reclassifications</b>	<b>Ending Balances</b>
Capital assets, not being depreciated:				
Land	\$ 3,921,854	\$ -	\$ -	\$ 3,921,854
Construction in progress	1,226,599	1,995,616	(2,438,617)	783,598
Total capital assets not being depreciated	5,148,453	1,995,616	(2,438,617)	4,705,452
Capital assets, being depreciated:				
Infrastructure	29,617,236	201,779	1,803,316	31,622,331
Buildings and improvements	6,585,819	-	635,301	7,221,120
Furniture and equipment	2,015,213	169,319	(223,148)	1,961,384
Total capital assets being depreciated	38,218,268	371,098	2,215,469	40,804,835
Less accumulated depreciation				
Infrastructure	(7,240,452)	(849,191)	-	(8,089,643)
Buildings and improvements	(1,053,702)	(205,527)	-	(1,259,229)
Furniture and equipment	(1,296,188)	(222,705)	223,148	(1,295,745)
Total accumulated depreciation	(9,590,342)	(1,277,423)	223,148	(10,644,617)
Net capital assets being depreciated	28,627,926	(906,325)	2,438,617	30,160,218
<b>Total Capital Assets</b>	<b>\$ 33,776,379</b>	<b>\$ 1,089,291</b>	<b>\$ -</b>	<b>\$ 34,865,670</b>

**City of Shenandoah, Texas**  
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Depreciation was charged to governmental functions as follows:

Public safety	\$	510,352
Public works		733,371
Community development		33,700
<b>Total Governmental Activities Depreciation Expense</b>	<b>\$</b>	<b>1,277,423</b>

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	68,509	-	(68,509)	-
Total capital assets not being depreciated	<u>1,742,077</u>	<u>-</u>	<u>(68,509)</u>	<u>1,673,568</u>
Capital assets, being depreciated:				
Furniture and equipment	452,868	24,915	-	477,783
Water and sewer system	25,931,334	-	68,509	25,999,843
Total capital assets being depreciated	<u>26,384,202</u>	<u>24,915</u>	<u>68,509</u>	<u>26,477,626</u>
Less accumulated depreciation				
Furniture and equipment	(291,823)	(30,846)	-	(322,669)
Water and sewer system	(12,409,209)	(440,787)	-	(12,849,996)
Total accumulated depreciation	<u>(12,701,032)</u>	<u>(471,633)</u>	<u>-</u>	<u>(13,172,665)</u>
Net capital assets being depreciated	<u>13,683,170</u>	<u>496,548</u>	<u>68,509</u>	<u>13,304,961</u>
<b>Total capital assets</b>	<b>\$ <u>15,425,247</u></b>	<b>\$ <u>496,548</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>14,978,529</u></b>

**D. Deferred Charge on Refunding**

A deferred charge resulting from the issuance of the 2013 general obligation refunding bonds has been recorded as a deferred outflow of resources and is being amortized to interest expense over the term of the refunded debt. Current year balances for governmental activities totaled \$625,011. Current year amortization expense for governmental activities totaled \$48,078.

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**NOTES TO FINANCIAL STATEMENTS, Continued**  
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**E. 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>
<b>Governmental Activities:</b>					
Certificates of Obligation	\$ 4,375,000	\$ -	\$ (715,000)	\$ 3,660,000	\$ 745,000
General Improvement Bonds	15,170,000	-	(650,000)	14,520,000	670,000
General Obligation Refunding Bonds	7,275,000	-	(50,000)	7,225,000	50,000
Less: Deferred Amounts					
Issuance Premium	683,393	-	(47,433)	635,960	-
Issuance Discount	(8,993)	-	452	(8,541)	-
Compensated Absences	188,606	188,870	(218,522)	158,954	143,059
Net Pension Obligation	89,737	49,078	-	138,815	-
<b>Total Governmental Activities</b>	<u>\$ 27,772,743</u>	<u>\$ 237,948</u>	<u>\$ (1,680,503)</u>	<u>\$ 26,330,188</u>	<u>\$ 1,608,059</u>
				<u>\$ 24,722,129</u>	
<b>Long-term Liabilities Due in More than One Year</b>					
<b>Business-Type Activities:</b>					
Compensated Absences	\$ 27,311	\$ 26,527	\$ (32,502)	\$ 21,336	\$ 19,202
Net Pension Obligation	12,670	6,929	-	19,599	-
<b>Total Business-Type Activities</b>	<u>\$ 39,981</u>	<u>\$ 33,456</u>	<u>\$ (32,502)</u>	<u>\$ 40,935</u>	<u>\$ 19,202</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**  
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Long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Original Balance	Current Balance
<b>Governmental Activities:</b>			
2007 Certificates of obligation	4.00%	\$ 9,045,000	\$ 455,000
2008 Certificates of obligation	3.5-4.125%	2,225,000	1,480,000
2009 Certificates of obligation	2-4%	2,405,000	1,725,000
<b>Total Certificates of Obligation</b>		<b>13,675,000</b>	<b>3,660,000</b>
2008 General improvement bonds	4-4.5%	5,660,000	4,975,000
2009 General improvement bonds	2-4.5%	6,395,000	5,585,000
2011 General improvement bonds	3-4.25%	4,300,000	3,960,000
<b>Total General Obligation Bonds</b>		<b>16,355,000</b>	<b>14,520,000</b>
2013 General obligation refunding bonds	2-3.5%	7,345,000	7,225,000
<b>Total Governmental Activities</b>		<b>\$ 37,375,000</b>	<b>\$ 25,405,000</b>

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

<b>Governmental Activities</b>						
<b>Year ending September 30,</b>	<b>General Obligation Bonds</b>		<b>Certificates of Obligation</b>		<b>General Obligation Refunding Bonds</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
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	-	-	-	-
<b>Total</b>	<b>\$ 14,520,000</b>	<b>\$ 5,822,418</b>	<b>\$ 3,660,000</b>	<b>\$ 6,091,340</b>	<b>\$ 7,225,000</b>	<b>\$ 1,716,950</b>

**City of Shenandoah, Texas**  
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**F. Interfund Receivables and Payables**

The composition of interfund balances as of September 30, 2014, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	SMDD	\$ 100,704
	Water and sewer	297,914
	Nonmajor funds	28,778
Debt service fund	General	2,517
Nonmajor funds	General	6,757
	Nonmajor funds	825
Water and sewer	Capital improvement	9,654
	Nonmajor funds	5,023
		<u>\$ 452,172</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.

**G. 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	\$ -	\$ 1,060,406	\$ 65,823	\$ 1,126,229
SMDD	405,454	-	-	405,454
Water and sewer	301,396	507,221	20,100	828,717
Hotel/Motel	140,903	-	3,300	144,203
Capital improvement	1,077,833	-	-	1,077,833
<b>Total Transfers In</b>	<u>\$ 1,925,586</u>	<u>\$ 1,567,627</u>	<u>\$ 89,223</u>	<u>\$ 2,504,603</u>

**City of Shenandoah, Texas**  
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**H. 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:

	<u>Restricted</u>	<u>Committed</u>
Debt service	\$ 17,121	\$ -
Capital projects	93,085	-
Economic development	4,668,526	-
Tourism	1,066,639	-
Court	924	
Equipment replacement	-	178,446
<b>Total</b>	<u>\$ 5,846,295</u>	<u>\$ 178,446</u>

**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 over 2,700 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**  
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**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](http://www.TMRS.com).

**City of Shenandoah, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

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, 2014**

Three-Year Contribution Information

	<u>September 30, 2014</u>	<u>September 30, 2013</u>	<u>September 30, 2012</u>
Annual Required Contribution (ARC)	\$ 533,475	\$ 421,643	\$ 394,262
Interest on Net Pension Obligation	7,169	6,725	6,682
Adjustment to the ARC	(6,446)	(5,908)	(5,744)
Annual Pension Cost (APC)	534,198	422,460	395,200
Actual Contributions Made	(478,190)	(416,131)	(394,580)
Increase (decrease) in net pension	56,008	6,329	620
Beginning Net Pension Obligation/Asset	102,407	96,078	95,458
<b>NPO at the End of Period</b>	<b>\$ 158,415</b>	<b>\$ 102,407</b>	<b>\$ 96,078</b>

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
Valuation Date	Projected Unit	Projected Unit	Entry Age Normal
Actuarial Cost Method	Credit	Credit	
Amortization Method	Level Percent of	Level Percent of	Level Percent of
	Payroll	Payroll	Payroll
GASB 25 Equivalent Single	26.6 years; closed	25.5 years; closed	30.0 years; closed
Amortization Period	period	period	period
Amortization Period for new	30 years	30 years	30 years
Gains/Losses			
Asset Valuation Method	10-year Smoothed	10-year Smoothed	10-year Smoothed
	Market	Market	Market
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age and	Varies by age and	Varies by age and
	service	service	service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

**City of Shenandoah, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2014

The funded status as of December 31, 2013, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	12/31/2013
Actuarial Value of Assets	\$ 5,509,058
Actuarial Accrued Liability	\$ 8,727,896
Percentage Funded	63.1
Annual Covered Payroll	\$ 2,995,280
Unfunded Actuarial Accrued Liability	\$ (3,218,838)
(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 to meet

**City of Shenandoah, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2014**

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 contributions to the TMRS SDBF for the years ended 2014, and 2013 were \$300, and \$298, respectively, which equaled the required contributions each year.

Three-Year Contribution Information

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2012	0.00%	0.00%	100.0%
2013	0.01%	0.01%	100.0%
2014	0.01%	0.01%	100.0%

**E. Subsequent Events**

There were no material subsequent events through February 27, 2015, the date the financial statements were issued.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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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>12/31/2013</u>	<u>12/31/2013</u>	<u>12/31/2012</u>	<u>12/31/2011</u>
Actuarial Value of Assets	(a) \$ 5,509,058	(b) \$ 5,509,058	\$ 4,778,107	\$ 4,018,682
Actuarial Accrued Liability	\$ 8,727,896	\$ 8,636,190	\$ 7,977,527	\$ 7,198,193
Percentage Funded	63.1%	63.8%	59.9%	55.8%
Unfunded Actuarial				
Accrued Liability	\$ 3,218,838	\$ 3,127,132	\$ 3,199,420	\$ 3,179,511
Annual Covered Payroll	\$ 2,995,280	\$ 2,977,471	\$ 2,977,471	\$ 3,298,172
Unfunded Actuarial Accrued Liability				
(UAAL) % of Covered Payroll	107.5%	105.0%	107.5%	96.4%
Net Pension Obligation (NPO)				
at the Beginning of Period	\$ 102,407	\$ 102,407	\$ 96,078	\$ 95,458
Annual Req. Contrib. (ARC)	\$ 534,197	\$ 534,197	\$ 422,460	\$ 395,200
Contributions Made	\$ 478,190	\$ 478,190	\$ 416,131	\$ 394,580
<b>NPO at the End of Period</b>	<u>\$ 158,414</u>	<u>\$ 158,414</u>	<u>\$ 102,407</u>	<u>\$ 96,078</u>

(a) Actuarial valuation performed under the new fund structure

(b) Actuarial valuation performed under the old fund structure

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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, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b><u>Revenues</u></b>				
Property tax	\$ 813,488	\$ 813,488	\$ 801,321	\$ (12,167)
Sales tax	5,344,365	5,344,365	5,595,882	251,517
Franchise and local taxes	358,213	358,213	388,794	30,581
License and permits	324,416	324,416	462,908	138,492
Charges for services	235,893	235,893	215,409	(20,484)
Fines and forfeitures	50,500	50,500	35,811	(14,689)
Intergovernmental	-	-	3,995	3,995
Investment income	3,120	3,120	9,540	6,420
Other revenues	105,192	105,192	99,000	(6,192)
<b>Total Revenues</b>	<u>7,235,187</u>	<u>7,235,187</u>	<u>7,612,660</u>	<u>377,473</u>
<b><u>Expenditures</u></b>				
Current:				
General government	2,486,908	2,486,908	2,415,393	71,515
Public safety	2,631,622	2,631,622	2,478,844	152,778
Public works	1,224,173	1,224,173	1,169,942	54,231
Community development	124,822	124,822	100,992	23,830
Capital outlay	545,083	180,312	1,601,510	(1,421,198) *
<b>Total Expenditures</b>	<u>7,012,608</u>	<u>6,647,837</u>	<u>7,766,681</u>	<u>(1,118,844)</u>
<b>Revenues Over (Under) Expenditures</b>	<u>222,579</u>	<u>587,350</u>	<u>(154,021)</u>	<u>(741,371)</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers in	875,822	875,822	1,925,586	1,049,764
Transfers (out)	(1,130,195)	(2,607,862)	(1,126,229)	1,481,633
Sale of capital assets	36,000	36,000	90,705	54,705
<b>Total Other Financing Sources (Uses)</b>	<u>(218,373)</u>	<u>(1,696,040)</u>	<u>890,062</u>	<u>2,586,102</u>
<b>Net Change in Fund Balance</b>	<u>\$ 4,206</u>	<u>\$ (1,108,690)</u>	<u>736,041</u>	<u>\$ 1,844,731</u>
Beginning fund balance			6,441,514	
<b>Ending Fund Balance</b>			<u>\$ 7,177,555</u>	

Notes to Required Supplementary Information

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

**City of Shenandoah, Texas**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**  
**For the Year Ended September 30, 2014**

	<b>Original and Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>			
Property tax	\$ 813,488	\$ 821,154	\$ 7,666
Investment income	100	10	(90)
<b>Total Revenues</b>	<b>813,588</b>	<b>821,164</b>	<b>7,576</b>
<b><u>Expenditures</u></b>			
Current:			
General government	1,200	2,250	(1,050)
Debt service:			
Principal	1,415,000	1,415,000	-
Interest	968,982	968,981	1
<b>Total Expenditures</b>	<b>2,385,182</b>	<b>2,386,231</b>	<b>(1,049)</b>
<b>Revenues Over (Under)</b>			
<b>Expenditures</b>	<b>(1,571,594)</b>	<b>(1,565,067)</b>	<b>6,527</b>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers in	1,571,594	1,567,627	(3,967)
<b>Total Other Financing Sources (Uses)</b>	<b>1,571,594</b>	<b>1,567,627</b>	<b>(3,967)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>2,560</b>	<b>\$ 2,560</b>
Beginning fund balance		14,561	
<b>Ending Fund Balance</b>		<b>\$ 17,121</b>	

Notes to Required Supplementary Information

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

**City of Shenandoah, Texas**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**SHENANDOAH MUNICIPAL DEVELOPMENT DISTRICT FUND**  
**For the Year Ended September 30, 2014**

	<u>Original and Final Budget</u>	<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>			
Sales tax	\$ 1,726,033	\$ 1,727,631	\$ 1,598
Investment income	1,200	3,208	2,008
Other revenues	1,010,000	612,910	(397,090)
<b>Total Revenues</b>	<u>2,737,233</u>	<u>2,343,749</u>	<u>(393,484)</u>
<b><u>Expenditures</u></b>			
Current:			
Economic development	2,107,025	218,478	1,888,547
<b>Total Expenditures</b>	<u>2,107,025</u>	<u>218,478</u>	<u>1,888,547</u>
<b>Revenues Over (Under)</b>			
<b>Expenditures</b>	<u>630,208</u>	<u>2,125,271</u>	<u>1,495,063</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers (out)	(433,240)	(405,454)	27,786
<b>Total Other Financing Sources (Uses)</b>	<u>(433,240)</u>	<u>(405,454)</u>	<u>27,786</u>
<b>Net Change in Fund Balance</b>	<u>\$ 196,968</u>	1,719,817	<u>\$ 1,522,849</u>
Beginning fund balance		2,948,709	
<b>Ending Fund Balance</b>		<u>\$ 4,668,526</u>	

Notes to Required Supplementary Information

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

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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.

## ***BUILDING TECHNOLOGY FUND***

This fund accounts for technology fees that are used for improving the City's technology.

**City of Shenandoah, Texas**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**September 30, 2014**

	<u>Hotel/Motel Occupancy Tax</u>	<u>Equipment Replacement</u>	<u>LEOSE</u>	<u>Discretionary Court</u>
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 1,113,069	\$ 178,463	\$ -	\$ -
Due from other funds	825	5,833	-	924
<b>Total Assets</b>	<b>\$ 1,113,894</b>	<b>\$ 184,296</b>	<b>\$ -</b>	<b>\$ 924</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 22,203	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-
Due to other funds	25,052	5,850	494	-
<b>Total Liabilities</b>	<b>47,255</b>	<b>5,850</b>	<b>494</b>	<b>-</b>
<b><u>Fund Balances</u></b>				
Restricted for:				
Tourism	1,066,639	-	-	-
Court	-	-	-	924
Committed for:				
Equipment replacement	-	178,446	-	-
Unassigned	-	-	(494)	-
<b>Total Fund Balances</b>	<b>1,066,639</b>	<b>178,446</b>	<b>(494)</b>	<b>924</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,113,894</b>	<b>\$ 184,296</b>	<b>\$ -</b>	<b>\$ 924</b>

<u>Building Technology</u>	<u>Total Nonmajor Governmental</u>
\$ -	\$ 1,291,532
-	7,582
<u>\$ -</u>	<u>\$ 1,299,114</u>
\$ -	\$ 22,203
-	-
3,230	34,626
<u>3,230</u>	<u>56,829</u>
-	1,066,639
-	924
-	178,446
(3,230)	(3,724)
<u>(3,230)</u>	<u>1,242,285</u>
<u>\$ -</u>	<u>\$ 1,299,114</u>

# City of Shenandoah, Texas

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

### NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2014

	Hotel/Motel Occupancy Tax	Equipment Replacement	LEOSE	Discretionary Court
<b><u>Revenues</u></b>				
Hotel occupancy taxes	\$ 913,767	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	2,258	1,171
Investment earnings	937	-	-	-
Other revenue	2,863	-	-	-
<b>Total Revenues</b>	917,567	-	2,258	1,171
<b><u>Expenditures</u></b>				
General government	-	-	-	-
Tourism	422,064	-	-	-
<b>Total Expenditures</b>	422,064	-	-	-
<b>Revenues Over (Under) Expenditures</b>	495,503	-	2,258	1,171
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers in	-	89,223		
Transfers (out)	(144,203)	-	-	-
<b>Total Other Financing Sources (Uses)</b>	(144,203)	89,223	-	-
<b>Net Change in Fund Balances</b>	351,300	89,223	2,258	1,171
Beginning fund balances	715,339	89,223	(2,752)	(247)
<b>Ending Fund Balances</b>	\$ 1,066,639	\$ 178,446	\$ (494)	\$ 924

<u>Building Technology</u>	<u>Total Nonmajor Governmental</u>
\$ -	\$ 913,767
2,076	5,505
-	937
-	2,863
2,076	923,072
5,306	5,306
-	422,064
5,306	427,370
(3,230)	495,702
-	89,223
-	(144,203)
-	(54,980)
(3,230)	440,722
-	801,563
\$ (3,230)	\$ 1,242,285
\$ (3,230)	\$ 1,242,285

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