

ANNUAL FINANCIAL REPORT

Fiscal Year Ended September 30, 2015

ANNUAL FINANCIAL REPORT

of the

City of Shenandoah, Texas

For the Year Ended
September 30, 2015



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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, 2015, 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note V.E. the City adopted new accounting guidance GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the 2015 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

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.

A handwritten signature in cursive script that reads "Brooks Cardiel, PLLC".

BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
March 18, 2016

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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, 2015

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, 2015.

Financial Highlights

- The City's total combined net position was \$40,954,755 at September 30, 2015. Of this, \$6,048,996 (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 \$12,571,048, a decrease of \$627,524.
- As of the end of the year, the unassigned fund balance of the general fund was \$8,192,380 or 130% of total general fund expenditures.
- The City had an overall increase in net position of \$4,009,343, which is due to revenues exceeding expenses 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, 2015

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, the Shenandoah Municipal Development District and the Capital Improvements fund considered to be major funds. 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 the 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, 2015

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 \$40,954,755 as of September 30, 2015.

The largest portion of the City's net position, \$28,722,355, 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, 2015

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2015			2014		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
Current and other assets	\$ 13,606,767	\$ 2,694,981	\$ 16,301,748	\$ 13,872,095	\$ 2,401,656	\$ 16,273,751
Capital assets, net	37,420,773	15,245,088	52,665,861	34,865,670	14,978,529	49,844,199
Total Assets	51,027,540	17,940,069	68,967,609	48,737,765	17,380,185	66,117,950
Deferred Outflows	1,014,310	59,642	1,073,952	950,549	44,391	994,940
Other liabilities	2,796,597	154,602	2,951,199	2,354,148	281,879	2,636,027
Long-term liabilities	25,761,601	374,006	26,135,607	27,156,953	353,084	27,510,037
Total Liabilities	28,558,198	528,608	29,086,806	29,511,101	634,963	30,146,064
Net Position:						
Net investment						
in capital assets	13,477,267	15,245,088	28,722,355	9,467,916	14,978,529	24,446,445
Restricted	6,183,404	-	6,183,404	5,845,371	-	5,845,371
Unrestricted	3,822,981	2,226,015	6,048,996	4,863,926	1,811,084	6,675,010
Total Net Position	\$ 23,483,652	\$ 17,471,103	\$ 40,954,755	\$ 20,177,213	\$ 16,789,613	\$ 36,966,826

City of Shenandoah, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

Statement of Activities:

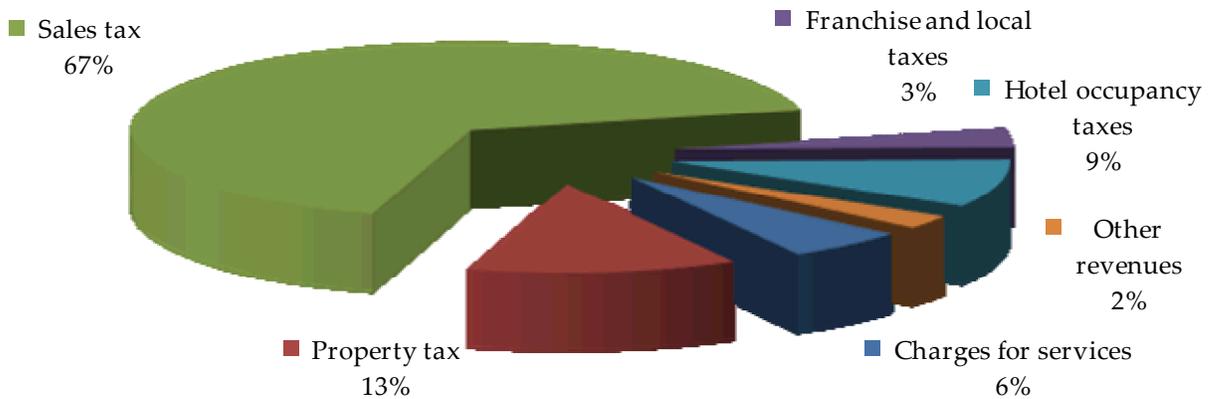
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2015			For the Year Ended September 30, 2014		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 742,447	\$ 2,701,190	\$ 3,443,637	\$ 719,633	\$ 2,632,698	\$ 3,352,331
Capital contributions	-	-	-	464,113	-	464,113
General revenues:						
Property tax	1,657,172	-	1,657,172	1,622,475	-	1,622,475
Sales tax	8,608,664	-	8,608,664	7,323,513	-	7,323,513
Franchise and local taxes	442,991	-	442,991	388,794	-	388,794
Hotel occupancy taxes	1,153,216	-	1,153,216	913,767	-	913,767
Intergovernmental	-	-	-	3,995	-	3,995
Investment income	12,952	2,962	15,914	13,953	2,465	16,418
Other revenues	314,814	52	314,866	714,773	3,998	718,771
Gain in sale of assets	25,218	-	25,218	90,705	-	90,705
Total Revenues	12,957,474	2,704,204	15,661,678	12,255,721	2,639,161	14,894,882
Expenses						
General government	2,920,284	-	2,920,284	2,427,406	-	2,427,406
Public safety	2,575,505	-	2,575,505	2,940,616	-	2,940,616
Public works	2,072,029	-	2,072,029	1,883,410	-	1,883,410
Community development	108,678	-	108,678	133,518	-	133,518
Economic development	815,275	-	815,275	94,488	-	94,488
Tourism	747,290	-	747,290	359,242	-	359,242
Interest and fiscal charges	915,240	-	915,240	963,965	-	963,965
Water & sewer	-	1,498,034	1,498,034	-	1,686,430	1,686,430
Total Expenses	10,154,301	1,498,034	11,652,335	8,802,645	1,686,430	10,489,075
Change in Net Position						
Before Transfers	2,803,173	1,206,170	4,009,343	3,453,076	952,731	4,405,807
Transfers in (out)	503,266	(503,266)	-	828,717	(828,717)	-
Total	503,266	(503,266)	-	828,717	(828,717)	-
Change in Net Position	3,306,439	702,904	4,009,343	4,281,793	124,014	4,405,807
Beginning Net Position	20,177,213	16,768,199	36,945,412	15,895,420	16,644,185	32,539,605
Ending Net Position	\$ 23,483,652	\$ 17,471,103	\$ 40,954,755	\$ 20,177,213	\$ 16,768,199	\$ 36,945,412

City of Shenandoah, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

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

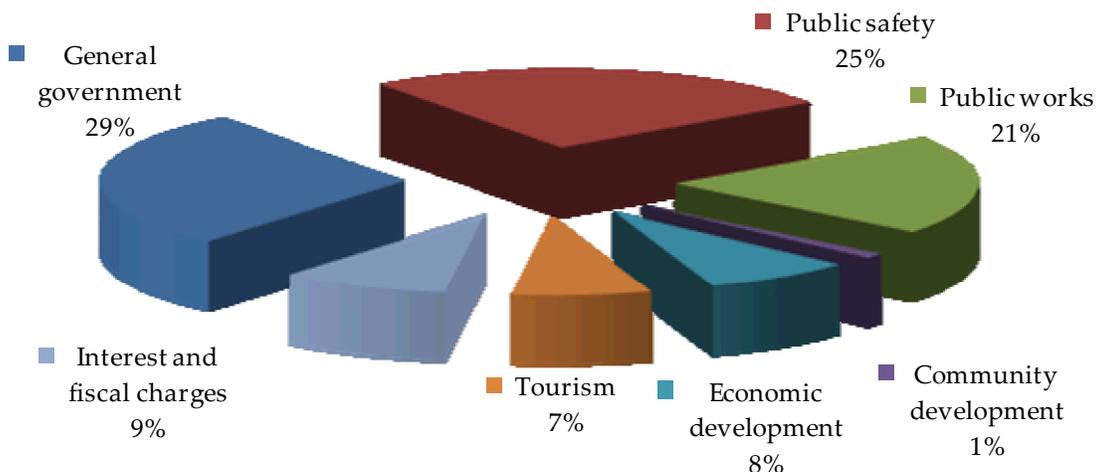
Governmental Activities - Revenues



For the year ended September 30, 2015, revenues from governmental activities totaled \$12,957,474. Sales tax, property tax, and hotel/motel taxes are the City's largest revenue sources. Sales tax increased \$1,285,151 or 15% due to continued retail sales growth within City limits along with one specific company. In the current year the City also realized hotel occupancy taxes increase by \$239,449.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses

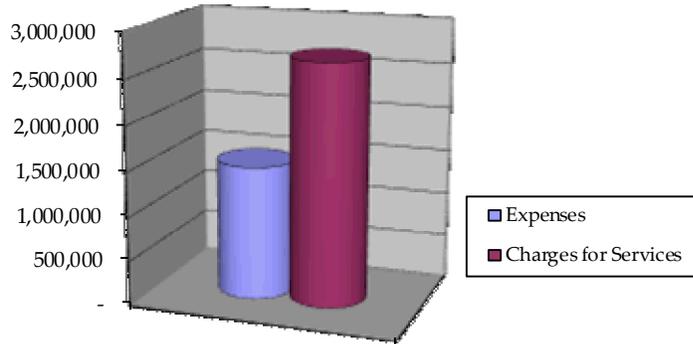


For the year ended September 30, 2015, expenses for governmental activities totaled \$10,154,301. This represents an increase of \$1,351,656 or 3% from the prior year. The City's largest functional expense is general government of \$2,920,284. Spending on public safety decreased by \$365,111.

City of Shenandoah, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

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, 2015, charges for services by business-type activities totaled \$2,701,190. This is an increase of \$68,492, or 3%, from the previous year. This increase directly relates to water usage and tap fees.

Total expenses decreased \$188,396 or 11% due to reduced maintenance and utility costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the year the general fund reflected a total fund balance of \$8,192,380. The general fund demonstrated an increase of \$1,014,825. During the year the general fund received more revenue than anticipated while experience less costs than planned.

The debt service fund demonstrated a small change of \$12,314. This change is the result of planned debt service.

The Shenandoah Municipal Development District (SMDD) had an increase of \$103,960 due to revenues outpacing SMDD expenditures.

City of Shenandoah, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2015

There was an overall decrease in governmental fund balance of \$627,524. This is due to large capital expenditures that occurred in the Capital Improvements fund.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive budget variance of \$939,618 in the general fund. Total actual revenue exceeded budgeted revenue by \$921,787. All expenditures were less than budgeted.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$37,420,773 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$15,245,088 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding of \$23,940,000. During the year, the City had a net reduction in the long-term debt of \$1,465,000. 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.

FINANCIAL STATEMENTS

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City of Shenandoah, Texas

STATEMENT OF NET POSITION

September 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 11,409,914	\$ 2,851,091	\$ 14,261,005
Receivables, net	1,517,878	522,865	2,040,743
Internal balances	678,975	(678,975)	-
Total Current Assets	13,606,767	2,694,981	16,301,748
Capital assets:			
Non-depreciable	7,971,200	1,673,568	9,644,768
Net depreciable capital assets	29,449,573	13,571,520	43,021,093
	37,420,773	15,245,088	52,665,861
Total Assets	51,027,540	17,940,069	68,967,609
<u>Deferred Outflows of Resources</u>			
Pension contributions	341,409	46,556	387,965
Pension investment earnings	43,780	5,970	49,750
Pension losses on investments	52,188	7,116	59,304
Deferred charge on refunding	576,933	-	576,933
Total Deferred Outflows of Resources	1,014,310	59,642	1,073,952
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	297,160	26,921	324,081
Accrued liabilities	530,188	9,654	539,842
Accrued interest payable	108,307	-	108,307
Customer deposits	166,518	103,250	269,768
Due within one year	1,694,424	14,777	1,709,201
	2,796,597	154,602	2,951,199
Noncurrent liabilities:			
Due in more than one year	23,030,930	1,642	23,032,572
Net pension liability	2,730,671	372,364	3,103,035
	25,761,601	374,006	26,135,607
Total Liabilities	28,558,198	528,608	29,086,806
<u>Net Position</u>			
Net investment in capital assets	13,477,267	15,245,088	28,722,355
Restricted for:			
Debt service	29,435	-	29,435
Economic development	4,772,486	-	4,772,486
Tourism	1,381,483	-	1,381,483
Unrestricted	3,822,981	2,226,015	6,048,996
Total Net Position	\$ 23,483,652	\$ 17,471,103	\$ 40,954,755

See Notes to Financial Statements.

City of Shenandoah, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 2,920,284	\$ 705,339	\$ -	\$ -
Public safety	2,575,505	37,108	-	-
Public works	2,072,029	-	-	-
Community development	108,678	-	-	-
Economic development	815,275	-	-	-
Tourism	747,290	-	-	-
Interest and fiscal charges	915,240	-	-	-
Total Governmental Activities	10,154,301	742,447	-	-
Business-Type Activities				
Water & Sewer	1,498,034	2,701,190	-	-
Total Business-Type Activities	1,498,034	2,701,190	-	-
Total Primary Government	\$ 11,652,335	\$ 3,443,637	\$ -	\$ -

General Revenues:

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

Transfers:

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (2,214,945)	\$ -	\$ (2,214,945)
(2,538,397)	-	(2,538,397)
(2,072,029)	-	(2,072,029)
(108,678)	-	(108,678)
(815,275)	-	(815,275)
(747,290)	-	(747,290)
(915,240)	-	(915,240)
<u>(9,411,854)</u>	<u>-</u>	<u>(9,411,854)</u>
-	1,203,156	1,203,156
-	1,203,156	1,203,156
<u>(9,411,854)</u>	<u>1,203,156</u>	<u>(8,208,698)</u>
1,657,172	-	1,657,172
8,608,664	-	8,608,664
442,991	-	442,991
1,153,216	-	1,153,216
12,952	2,962	15,914
314,814	52	314,866
25,218	-	25,218
503,266	(503,266)	-
<u>12,718,293</u>	<u>(500,252)</u>	<u>12,218,041</u>
3,306,439	702,904	4,009,343
20,177,213	16,768,199	36,945,412
<u>\$ 23,483,652</u>	<u>\$ 17,471,103</u>	<u>\$ 40,954,755</u>

City of Shenandoah, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2015

	General Fund	Debt Service Fund	Shenandoah Municipal Development District	Capital Improvements Fund
<u>Assets</u>				
Cash and cash equivalents	\$ 3,208,358	\$ 14,648	\$ 5,558,527	\$ 1,097,083
Receivables, net				
Property taxes	17,631	24,222	-	-
Franchise taxes	23,984	-	-	-
Sales tax	1,095,375	-	356,666	-
Due from other funds	4,548,997	14,787	-	-
Total Assets	\$ 8,894,345	\$ 53,657	\$ 5,915,193	\$ 1,097,083
<u>Liabilities</u>				
Accounts payable	\$ 198,753	\$ -	\$ 10,793	\$ 77,549
Accrued liabilities	214,467	-	90,716	225,005
Due to other funds	104,596	-	1,041,198	2,814,101
Customer deposits	166,518	-	-	-
Total Liabilities	684,334	-	1,142,707	3,116,655
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	17,631	24,222	-	-
<u>Fund Balances</u>				
Restricted for:				
Debt service	-	29,435	-	-
Economic development	-	-	4,772,486	-
Tourism	-	-	-	-
Municipal court	-	-	-	-
Public safety	-	-	-	-
Committed for:				
Equipment replacement	-	-	-	-
Unassigned	8,192,380	-	-	(2,019,572)
Total Fund Balances	8,192,380	29,435	4,772,486	(2,019,572)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 8,894,345	\$ 53,657	\$ 5,915,193	\$ 1,097,083

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,531,298	\$ 11,409,914
-	41,853
-	23,984
-	1,452,041
150,088	4,713,872
<u>\$ 1,681,386</u>	<u>\$ 17,641,664</u>
\$ 10,065	\$ 297,160
-	530,188
75,002	4,034,897
-	166,518
<u>85,067</u>	<u>5,028,763</u>
<u>-</u>	<u>41,853</u>
-	29,435
-	4,772,486
1,381,483	1,381,483
472	472
1,269	1,269
214,588	214,588
(1,493)	6,171,315
<u>1,596,319</u>	<u>12,571,048</u>
<u>\$ 1,681,386</u>	<u>\$ 17,641,664</u>

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City of Shenandoah, Texas
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
September 30, 2015

Fund Balances - Total Governmental Funds	\$	12,571,048
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Adjustments for the Statement of Net Position:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - non-depreciable		7,971,200
Capital assets - net depreciable		29,449,573

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

Property tax receivable		41,853
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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.

Pension contributions		341,409
Pension investment earnings		43,780
Pension losses on investments		52,188
Deferred charge on refunding		576,933

Some liabilities, including bonds payable and deferred charges are not reported as liabilities in the governmental funds.

Accrued interest		(108,307)
Premiums on bonds payable		(588,527)
Discounts of bonds payable		8,089
Non-current liabilities due in one year		(1,694,424)
Non-current liabilities due in more than one year		(22,450,492)
Net pension liability		(2,730,671)

Net Position of Governmental Activities	\$	23,483,652
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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, 2015

	General Fund	Debt Service Fund	Shenandoah Municipal Development District	Capital Improvements Fund
<u>Revenues</u>				
Property tax	\$ 800,640	\$ 856,534	\$ -	\$ -
Sales tax	6,544,872	-	2,063,792	-
Franchise and local taxes	442,991	-	-	-
Hotel occupancy taxes	-	-	-	-
License and permits	473,570	-	-	-
Charges for services	231,769	-	-	-
Fines and forfeitures	27,549	-	-	-
Investment income	5,319	44	4,892	1,493
Other revenues	311,479	-	-	-
Total Revenues	8,838,189	856,578	2,068,684	1,493
<u>Expenditures</u>				
Current:				
General government	2,572,597	2,000	-	-
Public safety	2,383,604	-	-	-
Public works	1,221,517	-	-	-
Community development	107,335	-	-	-
Economic development	-	-	1,534,341	-
Tourism	-	-	-	-
Debt service:				
Principal	-	1,465,000	-	-
Interest and fiscal charges	-	920,256	-	-
Capital outlay	-	-	-	3,866,006
Total Expenditures	6,285,053	2,387,256	1,534,341	3,866,006
Revenues Over (Under) Expenditures	2,553,136	(1,530,678)	534,343	(3,864,513)
<u>Other Financing Sources (Uses)</u>				
Transfers in	853,642	1,542,992	-	1,751,856
Transfers (out)	(2,446,653)	-	(430,383)	-
Sale of capital assets	54,700	-	-	-
Total Other Financing Sources (Uses)	(1,538,311)	1,542,992	(430,383)	1,751,856
Net Change in Fund Balances	1,014,825	12,314	103,960	(2,112,657)
Beginning fund balances	7,177,555	17,121	4,668,526	93,085
Ending Fund Balances	\$ 8,192,380	\$ 29,435	\$ 4,772,486	\$ (2,019,572)

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 1,657,174
-	8,608,664
-	442,991
1,153,216	1,153,216
-	473,570
-	231,769
9,559	37,108
1,204	12,952
3,335	314,814
1,167,314	12,932,258
-	2,574,597
6,511	2,390,115
56,219	1,277,736
-	107,335
-	1,534,341
739,379	739,379
-	1,465,000
-	920,256
-	3,866,006
802,109	14,874,765
365,205	(1,942,507)
92,361	4,240,851
(103,532)	(2,980,568)
-	54,700
(11,171)	1,314,983
354,034	(627,524)
1,242,285	13,198,572
\$ 1,596,319	\$ 12,571,048

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, 2015

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

Net changes in fund balances - total governmental funds	\$	(627,524)
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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		4,641,293
Depreciation expense		(1,299,688)
Sale of capital asset		(29,482)
Transfer of assets to business-type activities		(757,019)

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

Compensated absences		(45,962)
Accrued interest		6,111
Pension expense		(45,193)

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 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		1,465,000

	\$	3,306,439
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See Notes to Financial Statements.

City of Shenandoah, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2015

	<u>Water & Sewer</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 2,851,091
Accounts and other receivables	522,865
Due from other funds	9,654
Total Current Assets	<u>3,383,610</u>
<u>Noncurrent Assets</u>	
Capital assets:	
Non-depreciable	1,673,568
Net depreciable capital assets	13,571,520
Total Noncurrent Assets	<u>15,245,088</u>
Total Assets	<u>18,628,698</u>
<u>Deferred Outflows of Resources</u>	
Pension contributions	46,556
Pension investment earnings	5,970
Pension gain on investments	7,116
Total Deferred Outflows of Resources	<u>59,642</u>
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable	26,921
Accrued liabilities	9,654
Customer deposits	103,250
Compensated absences payable, current	14,777
Due to other funds	688,629
Total Current Liabilities	<u>843,231</u>
<u>Noncurrent Liabilities</u>	
Compensated absences payable, noncurrent	1,642
Net pension liability	372,364
Total Liabilities	<u>1,217,237</u>
<u>Net Position</u>	
Net investment in capital assets	15,245,088
Unrestricted	2,226,015
Total Net Position	<u>\$ 17,471,103</u>

See Notes to Financial Statements.

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City of Shenandoah, Texas

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

For the Year Ended September 30, 2015

	Water & Sewer
<u>Operating Revenues</u>	
Water sales	\$ 1,424,304
Sewer revenue	1,056,834
Penalties and reconnect fees	148,396
Groundwater reduction plan fees	71,656
Total Operating Revenues	2,701,190
 <u>Operating Expenses</u>	
Personnel	488,407
Supplies and services	256,686
Maintenance	262,483
Depreciation	490,458
Total Operating Expenses	1,498,034
Operating Income	1,203,156
 <u>Nonoperating Revenues (Expenses)</u>	
Investment income	2,962
Other revenue	52
Total Nonoperating Revenues (Expenses)	3,014
Income Before Transfers	1,206,170
Transfers in	757,017
Transfers (out)	(1,260,283)
Change in Net Position	702,904
Beginning net position	16,768,199
Ending Net Position	\$ 17,471,103

See Notes to Financial Statements.

City of Shenandoah, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUND (Page 1 of 2) For the Year Ended September 30, 2015

	<u>Water & Sewer</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,978,464
Payments to suppliers, contractors and employees	(1,133,773)
Net Cash Provided by Operating Activities	<u>1,844,691</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfers (out)	(1,260,283)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,260,283)</u>
<u>Cash Flows from Investing Activities</u>	
Interest on investments	3,014
Net Cash Provided by Investing Activities	<u>3,014</u>
Net Increase in Cash and Cash Equivalents	587,422
Beginning cash and cash equivalents	<u>2,263,669</u>
Ending Cash and Cash Equivalents	<u>\$ 2,851,091</u>

See Notes to Financial Statements.

City of Shenandoah, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUND (Page 2 of 2) For the Year Ended September 30, 2015

	<u>Water & Sewer</u>
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 1,203,156
Adjustments to reconcile operating income to net cash provided:	
Depreciation	490,458
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(101,641)
Deferred outflows - pension contributions	(2,165)
Deferred outflows - pension investment earnings	(5,970)
Deferred outflows - pension gain on investments	(7,116)
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(100,808)
Customer deposits	(11,906)
Net pension liability	(10,138)
Due from other funds	390,821
Net Cash Provided by Operating Activities	\$ 1,844,691
 <u>Schedule of Non-Cash Capital and Related Financing Activities:</u>	
Transfer of assets constructed by governmental activities	\$ 757,019

See Notes to Financial Statements.

City of Shenandoah, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

Blended Component Units

Shenandoah Municipal Development District

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

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

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

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

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

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

The government reports the following 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.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

Debt Service Fund

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

Shenandoah Municipal Development District

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

Capital Improvements Fund

This fund is a capital projects fund used to account for capital improvements that occur. The fund is considered a major fund for reporting purposes.

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.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). All other revenue items are considered to be measurable and available only when cash is received by the government.

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

D. Assets, 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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

are classified as “due to/from component unit/primary government.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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

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

3. Property Taxes

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

4. Inventories and Prepaid Items

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

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

<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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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statements only for the portion expected to be financed from expendable available financial resources.

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

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.

13. Pensions

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (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:

Transfers (out) \$321,806

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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Shenandoah Municipal Development District Fund:

Transfers (out) \$510,725

B. Deficit Fund Equity

At September 30, 2015, the capital improvement fund and the discretionary court fund had deficit fund balances of \$2,019,572 and \$1,493 respectively. The deficits will be eliminated in the future with a transfer from the general fund or other sources.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2015, the primary government had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
External investment pools	\$ 1,587,140	0.39
Total fair value	\$ 1,587,140	
Portfolio weighted average maturity		0.39

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

Credit risk The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2015, 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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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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, 2015, 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.

B. Receivables

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

	General	Debt Service	Shenandoah Municipal Development District	Water & Sewer	Total
Property tax	\$ 17,631	\$ 24,222	\$ -	\$ -	\$ 41,853
Sales tax	1,095,375	-	356,666	-	1,452,041
Franchise tax	23,984	-	-	-	23,984
Accounts, net	-	-	-	534,031	534,031
Allowance	-	-	-	(11,166)	(11,166)
Total	\$ 1,136,990	\$ 24,222	\$ 356,666	\$ 522,865	\$ 2,040,743

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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C. Capital Assets

A summary of changes in governmental 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	\$ 3,921,854	\$ -	\$ -	\$ 3,921,854
Construction in progress	783,599	4,022,766	(757,019)	4,049,346
Total capital assets not being depreciated	<u>4,705,453</u>	<u>4,022,766</u>	<u>(757,019)</u>	<u>7,971,200</u>
Capital assets, being depreciated:				
Infrastructure	31,622,331	107,225	-	31,729,556
Buildings and improvements	7,221,119	220,899	-	7,442,018
Furniture and equipment	1,961,384	290,403	(105,610)	2,146,177
Total capital assets being depreciated	<u>40,804,834</u>	<u>618,527</u>	<u>(105,610)</u>	<u>41,317,751</u>
Less accumulated depreciation				
Infrastructure	(8,089,645)	(767,987)	-	(8,857,632)
Buildings and improvements	(1,272,029)	(245,853)	-	(1,517,882)
Furniture and equipment	(1,282,944)	(285,848)	76,128	(1,492,664)
Total accumulated depreciation	<u>(10,644,618)</u>	<u>(1,299,688)</u>	<u>76,128</u>	<u>(11,868,178)</u>
Net capital assets being depreciated	<u>30,160,216</u>	<u>(681,161)</u>	<u>(29,482)</u>	<u>29,449,573</u>
Total Capital Assets	<u>\$ 34,865,669</u>	<u>\$ 3,341,605</u>	<u>\$ (786,501)</u>	<u>\$ 37,420,773</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 320,580
Public safety	132,512
Public works	839,198
Tourism	7,398
Total Governmental Activities Depreciation Expense	<u>\$ 1,299,688</u>

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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
Total capital assets not being depreciated	<u>1,673,568</u>	<u>-</u>	<u>-</u>	<u>1,673,568</u>
Capital assets, being depreciated:				
Furniture and equipment	477,783	-	-	477,783
Water and sewer system	25,999,839	-	757,019	26,756,858
Total capital assets being depreciated	<u>26,477,622</u>	<u>-</u>	<u>757,019</u>	<u>27,234,641</u>
Less accumulated depreciation				
Furniture and equipment	(322,670)	(30,846)	-	(353,516)
Water and sewer system	(12,849,993)	(459,612)	-	(13,309,605)
Total accumulated depreciation	<u>(13,172,663)</u>	<u>(490,458)</u>	<u>-</u>	<u>(13,663,121)</u>
Net capital assets being depreciated	<u>13,304,959</u>	<u>490,458</u>	<u>757,019</u>	<u>13,571,520</u>
Total capital assets	<u><u>\$ 14,978,527</u></u>	<u><u>\$ 490,458</u></u>	<u><u>\$ 757,019</u></u>	<u><u>\$ 15,245,088</u></u>

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 \$576,933. Current year amortization expense for governmental activities totaled \$48,078.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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>
Governmental Activities:					
Certificates of Obligation	\$ 3,660,000	\$ -	\$ (745,000)	\$ 2,915,000	\$ 300,000
General Improvement Bonds	14,520,000	-	(670,000)	13,850,000	690,000
General Obligation Refunding Bonds	7,225,000	-	(50,000)	7,175,000	520,000
Less: Deferred Amounts					
Issuance Premium	635,960	-	(47,433)	588,527	-
Issuance Discount	(8,541)	-	452	(8,089)	-
Compensated Absences	158,954	188,870	(142,908)	204,916	184,424
Net Pension Liability	2,573,639	157,032	-	2,730,671	-
Total Governmental Activities	<u>\$ 28,765,012</u>	<u>\$ 345,902</u>	<u>\$ (1,654,889)</u>	<u>\$ 27,456,025</u>	<u>\$ 1,694,424</u>
Long-term Liabilities Due in More than One Year				<u>\$ 25,761,601</u>	
Business-Type Activities:					
Compensated Absences	\$ 21,336	\$ 26,527	\$ (31,444)	\$ 16,419	\$ 14,777
Net Pension Liability	365,248	7,116	-	372,364	-
Total Business-Type Activities	<u>\$ 386,584</u>	<u>\$ 33,643</u>	<u>\$ (31,444)</u>	<u>\$ 388,783</u>	<u>\$ 14,777</u>
Long-term Liabilities Due in More than One Year				<u>\$ 374,006</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
Governmental Activities:			
2008 Certificates of obligation	3.5-4.125%	\$ 2,225,000	\$ 1,340,000
2009 Certificates of obligation	2-4%	2,405,000	1,575,000
Total Certificates of Obligation		4,630,000	2,915,000
2008 General improvement bonds	4-4.5%	5,660,000	4,795,000
2009 General improvement bonds	2-4.5%	6,395,000	5,270,000
2011 General improvement bonds	3-4.25%	4,300,000	3,785,000
Total General Obligation Bonds		16,355,000	13,850,000
2013 General obligation refunding bonds	2-3.5%	7,345,000	7,175,000
Total Governmental Activities		\$ 28,330,000	\$ 23,940,000

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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The annual requirements to amortize governmental activities debt issues outstanding at year ending were as follows:

Year ending September 30,	Governmental Activities					
	General Obligation Bonds		Certificates of Obligation		General Obligation Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 690,000	\$ 553,838	\$ 300,000	\$ 112,319	\$ 520,000	\$ 203,600
2017	715,000	531,288	305,000	101,869	530,000	193,200
2018	735,000	507,888	320,000	91,219	545,000	182,600
2019	765,000	482,113	335,000	79,219	555,000	168,975
2020	790,000	455,288	345,000	66,669	570,000	155,100
2021	810,000	424,713	355,000	52,869	585,000	140,850
2022	855,000	393,363	370,000	38,669	595,000	126,225
2023	885,000	360,263	385,000	23,638	615,000	108,375
2024	920,000	325,681	200,000	8,000	635,000	89,925
2025	960,000	287,488	-	-	650,000	70,875
2026	1,000,000	247,300	-	-	675,000	48,125
2027	1,040,000	205,438	-	-	700,000	24,500
2028	1,085,000	160,325	-	-	-	-
2029	600,000	113,250	-	-	-	-
2030	625,000	88,069	-	-	-	-
2031	650,000	61,100	-	-	-	-
2032	355,000	32,625	-	-	-	-
2033	370,000	16,650	-	-	-	-
Total	\$ 13,850,000	\$ 5,246,680	\$ 2,915,000	\$ 574,471	\$ 7,175,000	\$ 1,512,350

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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F. Interfund Receivables and Payables

The composition of interfund balances as of September 30, 2015, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	SMDD	\$ 1,041,198
	Water and sewer	683,061
	Capital improvement	2,804,447
	Nonmajor funds	20,291
Debt service fund	General	14,787
Nonmajor funds	General	89,809
	Water and sewer	5,568
	Nonmajor funds	54,711
Water and sewer	Capital improvement	9,654
		<u>\$ 4,723,526</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>Total Transfers Out</u>
	<u>General</u>	<u>Debt Service</u>	<u>Capital Improvement</u>	<u>Nonmajor Funds</u>	
General	\$ -	\$ 1,034,876	\$ 1,345,954	\$ 65,823	\$ 2,446,653
SMDD	430,383	-	-	-	430,383
Water and sewer	326,697	508,116	405,902	19,568	1,260,283
Nonmajor	96,562	-	-	6,970	103,532
Total Transfers In	<u>\$ 853,642</u>	<u>\$ 1,542,992</u>	<u>\$ 1,751,856</u>	<u>\$ 92,361</u>	<u>\$ 4,240,851</u>

Additionally, the City transferred assets that were completed in the City's capital improvement fund to the water and sewer fund upon completion for the amount of \$757,019.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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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	\$ 29,435	\$ -
Economic development	4,772,486	-
Tourism	1,381,483	-
Municipal court	472	-
Public safety	1,269	-
Equipment replacement	-	214,588
Total	<u>\$ 6,185,145</u>	<u>\$ 214,588</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 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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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

Texas Municipal Retirement Systems

1. Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

2. Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments

City of Shenandoah, Texas
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options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

	<u>Plan Year 2014</u>	<u>Plan Year 2015</u>
Employee deposit rate	7.00%	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	70% of CPI

Employees covered by benefit terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	32
Active employees	48
Total	94

3. Contributions

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

Employees for the City of Shenandoah were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Shenandoah were 15.58% and 15.60% in calendar years 2014 and 2015, respectively. The City's contributions to

City of Shenandoah, Texas
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TMRS for the year ended September 30, 2015, were \$519,256, and were equal to the required contributions.

4. Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return

City of Shenandoah, Texas
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(expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate:

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/13	\$ 8,727,896	\$ 5,803,307	\$ 2,924,589
Changes for the year:			
Service Cost	547,482	-	547,482
Interest	624,317	-	624,317
Change in benefit terms	-	-	-
Difference between expected and actual experience	61,388	-	61,388
Contributions – employer	-	500,912	(500,912)
Contributions – employee	-	225,479	(225,479)
Net investment income	-	332,101	(332,101)
Benefit payments, including refunds of emp. contributions	(165,656)	(165,656)	-
Administrative expense	-	(3,466)	3,466
Other changes	-	(285)	285
Net changes	1,067,531	889,085	178,446
Balance at 12/31/14	\$ 9,795,427	\$ 6,692,392	\$ 3,103,035

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

1% Decrease 6.00%	Current Single Rate Assumption 7.00%	1% Increase 8.00%
\$ 4,904,936	\$ 3,103,035	\$ 1,669,444

Pension Plan Fiduciary Net Position:

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 49,750	\$ -
Difference between projected and investment earnings	59,304	-
Contributions subsequent to the measurement date	387,965	-
Total	\$ 497,019	\$ -

The City reported \$387,965 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2016	\$ 26,464
2017	26,464
2018	26,464
2019	26,464
2020	3,198
Thereafter	-
Total	\$ 109,054

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.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

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

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

The City's contributions to the TMRS SDBF for the years ended 2015, and 2014 were \$4,497, and \$4,395, 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
2013	0.01%	0.01%	100.0%
2013	0.15%	0.15%	100.0%
2014	0.13%	0.13%	100.0%

E. Restatement

The City has restated beginning fund balance/net position within governmental and business type activities due to the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The restatement of beginning net position/fund balance is as follows:

	Governmental Activities	Water & Sewer	Business-Type Activities
Prior year ending net position			
fund balance as reported	\$ 22,286,499	\$ 17,076,573	\$ 17,076,573
Adoption of GASB 68	(2,109,286)	(308,374)	(308,374)
Restated beginning net position	\$ 20,177,213	\$ 16,768,199	\$ 16,768,199

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2015

F. Subsequent Events

On December 1, 2015 the City issued \$8,670,000 in general obligation refunding bonds. The purchase price of the bonds was \$9,726,145 which is the par amount of the bonds plus a premium of \$1,119,077. The proceeds from these bonds will be used to refund existing debt. There were no other material subsequent events through March 18, 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 REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2015

	Original Budget	Final Budget	2015 Actual	Variance with Final Budget Positive (Negative)
Revenues				
Property tax	\$ 801,899	\$ 801,899	\$ 800,640	\$ (1,259)
Sales tax	6,020,053	6,020,053	6,544,872	524,819
Franchise and local taxes	397,873	397,873	442,991	45,118
License and permits	368,100	368,100	473,570	105,470
Charges for services	274,981	274,981	231,769	(43,212)
Fines and forfeitures	45,000	45,000	27,549	(17,451)
Investment income	8,496	8,496	5,319	(3,177)
Other revenues	-	-	311,479	311,479
Total Revenues	7,916,402	7,916,402	8,838,189	921,787
Expenditures				
Current:				
General government	2,582,926	2,582,897	2,572,597	10,300
Public safety	2,555,676	2,555,676	2,383,604	172,072
Public works	1,389,443	1,394,716	1,221,517	173,199
Community development	120,317	120,317	107,335	12,982
Total Expenditures	6,648,362	6,653,606	6,285,053	368,553
Revenues Over (Under)				
Expenditures	1,268,040	1,262,796	2,553,136	1,290,340
Other Financing Sources (Uses)				
Transfers in	877,258	877,258	853,642	(23,616)
Transfers (out)	(1,968,847)	(2,124,847)	(2,446,653)	(321,806) *
Sale of capital assets	60,000	60,000	54,700	(5,300)
Total Other Financing Sources (Uses)	(1,031,589)	(1,187,589)	(1,538,311)	(350,722)
Net Change in Fund Balance	\$ 236,451	\$ 75,207	1,014,825	\$ 939,618
Beginning fund balance			7,177,555	
Ending Fund Balance			\$ 8,192,380	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. * Denotes over budget at the legal level of control.

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, 2015

	Original and Final Budget	2015 Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 801,899	\$ 856,534	\$ 54,635
Investment income	-	44	44
Total Revenues	801,899	856,578	54,679
<u>Expenditures</u>			
Current:			
General government	4,600	2,000	2,600
Debt service:			
Principal	1,465,000	1,465,000	-
Interest	920,256	920,256	-
Total Expenditures	2,389,856	2,387,256	2,600
Revenues Over (Under)			
Expenditures	(1,587,957)	(1,530,678)	57,279
<u>Other Financing Sources (Uses)</u>			
Transfers in	1,523,588	1,542,992	19,404
Total Other Financing Sources (Uses)	1,523,588	1,542,992	19,404
Net Change in Fund Balance	\$ (64,369)	12,314	\$ 76,683
Beginning fund balance		17,121	
Ending Fund Balance		\$ 29,435	

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
SHENANDOAH MUNICIPAL DEVELOPMENT DISTRICT FUND
For the Year Ended September 30, 2015

	Original Budget	Final Budget	2015 Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Sales tax	\$ 1,860,472	\$ 1,860,472	\$ 2,063,792	\$ 203,320
Investment income	3,000	3,000	4,892	1,892
Total Revenues	1,863,472	1,863,472	2,068,684	205,212
<u>Expenditures</u>				
Current:				
Economic development	1,401,716	1,023,616	1,534,341	(510,725) *
Total Expenditures	1,401,716	1,023,616	1,534,341	(510,725)
Revenues Over (Under)				
Expenditures	461,756	839,856	534,343	(305,513)
<u>Other Financing Sources (Uses)</u>				
Transfers (out)	(461,756)	(839,856)	(430,383)	409,473
Total Other Financing Sources (Uses)	(461,756)	(839,856)	(430,383)	409,473
Net Change in Fund Balance	\$ -	\$ -	103,960	\$ 103,960
Beginning fund balance			4,668,526	
Ending Fund Balance			\$ 4,772,486	

Notes to Required Supplementary Information

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

* Denotes over budget at the legal level of control.

City of Shenandoah, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2015

	2014 ¹
Total pension liability	
Service cost	\$ 547,482
Interest	624,317
Changes in benefit terms	-
Differences between expected and actual experience	61,388
Changes of assumptions	-
Benefit payments, including refunds of participant contributions	(165,656)
Net change in total pension liability	1,067,531
Total pension liability - beginning	\$ 8,727,896
Total pension liability - ending (a)	\$ 9,795,427
Plan fiduciary net position	
Contributions - employer	\$ 500,912
Contributions - members	225,479
Net investment income	332,101
Benefit payments, including refunds of participant contributions	(165,656)
Administrative expenses	(3,466)
Other	(285)
Net change in plan fiduciary net position	889,085
Plan fiduciary net position - beginning	5,803,307
Plan fiduciary net position - ending (b)	\$ 6,692,392
Fund's net pension liability - ending (a) - (b)	\$ 3,103,035
Plan fiduciary net position as a percentage of the total pension liability	68.32%
Covered employee payroll	\$ 3,221,134
Fund's net position as a percentage of covered employee payroll	96.33%

Notes to schedule:

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

City of Shenandoah, Texas
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2015

1

	9/30/2014
Actuarially determined employer contributions	\$ 519,256
Contributions in relation to the actuarially determined contribution	\$ 519,256
Contribution deficiency (excess)	\$ -
Annual covered employee payroll	\$ 3,329,643
Employer contributions as a percentage of covered employee payroll	16%

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

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.

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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, 2015

	<u>Hotel/Motel Occupancy Tax</u>	<u>Equipment Replacement</u>	<u>LEOSE</u>	<u>Discretionary Court</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 1,352,652	\$ 178,646	\$ -	\$ -
Due from other funds	57,200	91,147	1,269	-
Total Assets	\$ 1,409,852	\$ 269,793	\$ 1,269	\$ -
<u>Liabilities</u>				
Accounts payable	\$ 10,065	\$ -	\$ -	\$ -
Due to other funds	18,304	55,205	-	1,493
Total Liabilities	28,369	55,205	-	1,493
<u>Fund Balances</u>				
Restricted for:				
Tourism	1,381,483	-	-	-
Municipal court	-	-	-	-
Public safety	-	-	1,269	-
Committed for:				
Equipment replacement	-	214,588	-	-
Unassigned	-	-	-	(1,493)
Total Fund Balances	1,381,483	214,588	1,269	(1,493)
Total Liabilities and Fund Balances	\$ 1,409,852	\$ 269,793	\$ 1,269	\$ -

<u>Municipal Court</u>	<u>Total Nonmajor Governmental</u>
\$ -	\$ 1,531,298
472	150,088
<u>\$ 472</u>	<u>\$ 1,681,386</u>
\$ -	\$ 10,065
-	75,002
<u>-</u>	<u>85,067</u>
-	1,381,483
472	472
-	1,269
	214,588
-	(1,493)
<u>472</u>	<u>1,596,319</u>
<u>\$ 472</u>	<u>\$ 1,681,386</u>

City of Shenandoah, Texas

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2015

	Hotel/Motel Occupancy Tax	Equipment Replacement	LEOSE	Discretionary Court
<u>Revenues</u>				
Hotel occupancy taxes	\$ 1,153,216	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	1,763	749
Investment earnings	1,204	-	-	-
Other revenue	3,335	-	-	-
Total Revenues	1,157,755	-	1,763	749
<u>Expenditures</u>				
General government	-	-	-	3,166
Public works	-	56,219	-	-
Tourism	739,379	-	-	-
Total Expenditures	739,379	56,219	-	3,166
Revenues Over (Under) Expenditures	418,376	(56,219)	1,763	(2,417)
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	92,361	-	-
Transfers (out)	(103,532)	-	-	-
Total Other Financing Sources (Uses)	(103,532)	92,361	-	-
Net Change in Fund Balances	314,844	36,142	1,763	(2,417)
Beginning fund balances	1,066,639	178,446	(494)	924
Ending Fund Balances	\$ 1,381,483	\$ 214,588	\$ 1,269	\$ (1,493)

<u>Municipal Court</u>	<u>Total Nonmajor Governmental</u>
\$ -	\$ 1,153,216
7,047	9,559
-	1,204
-	3,335
7,047	1,167,314
3,345	6,511
-	56,219
-	739,379
3,345	802,109
3,702	365,205
-	92,361
-	(103,532)
-	(11,171)
3,702	354,034
(3,230)	1,242,285
\$ 472	\$ 1,596,319

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