

2018

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2018



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ANNUAL FINANCIAL REPORT

of the

City of Shenandoah, Texas

For the Year Ended
September 30, 2018



City of Shenandoah, Texas

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September 30, 2018

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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, the discretely presented component unit, and the aggregate remaining fund information of the City of Shenandoah, Texas (the "City"), as of and for the year ended September 30, 2018, 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, the discretely presented component unit, and the aggregate remaining fund information of the City as of September 30, 2018, 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 has restated beginning fund balance/net position within governmental and business-type activities due to the implementation of GASB Statement No. 75 and changes in fund reporting. 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, schedule of changes in net pension liability and related ratios, schedule of employer contributions to pension plan, schedule of changes in postemployment benefits other than pensions and related ratios, and budgetary comparison information as listed in the table on contents 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 and budgetary comparison information for the discretely presented component unit 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 and budgetary comparison information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, slightly stylized font.

BrooksWatson & Co., PLLC
Certified Public Accountants
Houston, Texas
January 11, 2019

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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, 2018

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, 2018.

Financial Highlights

- The City's total combined net position was \$44,573,172 at September 30, 2018. Of this, \$5,958,689 (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 \$23,525,941, an increase of \$14,127,511.
- As of the end of the year, the unassigned fund balance of the general fund was \$7,573,609 or 107% of total general fund expenditures.
- The City had an overall increase in net position of \$2,461,513, 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, 2018

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 ten 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, debt service fund, the hotel occupancy fund, the Metrosquare Park Public Improvement District ("PID"), 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 and each major special revenue fund.

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, 2018

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.

Component Unit

The City maintains the accounting and financial statements for one component unit. The Shenandoah Municipal Development District ("SMDD") is a discretely presented component unit displayed on the government-wide financial statements.

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.

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 \$44,573,172 as of September 30, 2018.

The largest portion of the City's net position, \$23,979,132, 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.

Current and other assets of Governmental Activities as of September 30, 2018 and September 30, 2017 were \$24,080,679 and \$10,254,750, respectively. The increase of \$13,825,929 was primarily attributable to the increased cash on hand from the issuance of \$15,200,000 special assessment revenue bonds in the current year. Current and other assets of Business-Type Activities as of September 30, 2018 and September 30, 2017 were \$717,405 and \$2,217,028, respectively. The decrease of \$1,499,623 was primarily a result of cash reserves being transferred to other funds.

City of Shenandoah, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

Capital assets of Business-Type Activities as of September 30, 2018 and September 30, 2017 were \$17,848,280 and \$15,024,463, respectively. The increase of \$2,823,817 was primarily attributable to the \$3,299,250 transfer of capital assets from governmental funds.

Long-term liabilities of Governmental Activities as of September 30, 2018 and September 30, 2017 were \$36,402,921 and \$23,827,194, respectively. The increase of \$12,575,727 was attributable to the aforementioned issuance of special assessment revenue bonds in the current year.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 24,080,679	\$ 717,405	\$ 24,798,084	\$ 10,254,750	\$ 2,217,028	\$ 12,471,778
Capital assets, net	40,690,629	17,848,280	58,538,909	39,978,822	15,024,463	55,003,285
Total Assets	64,771,308	18,565,685	83,336,993	50,233,572	17,241,491	67,475,063
Deferred Outflows	1,389,958	50,642	1,440,600	1,746,020	87,329	1,833,349
Other liabilities	2,652,320	218,563	2,870,883	2,638,688	211,815	2,850,503
Long-term liabilities	36,402,921	369,639	36,772,560	23,827,194	459,656	24,286,850
Total Liabilities	39,055,241	588,202	39,643,443	26,465,882	671,471	27,137,353
Deferred Inflows	493,661	67,317	560,978	52,272	7,128	59,400
Net Position:						
Net investment						
in capital assets	6,130,852	17,848,280	23,979,132	18,953,639	15,024,463	33,978,102
Restricted	14,635,351	-	14,635,351	2,425,751	-	2,425,751
Unrestricted	5,846,161	112,528	5,958,689	4,082,048	1,625,758	5,707,806
Total Net Position	\$ 26,612,364	\$ 17,960,808	\$ 44,573,172	\$ 25,461,438	\$ 16,650,221	\$ 42,111,659

City of Shenandoah, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

Statement of Activities:

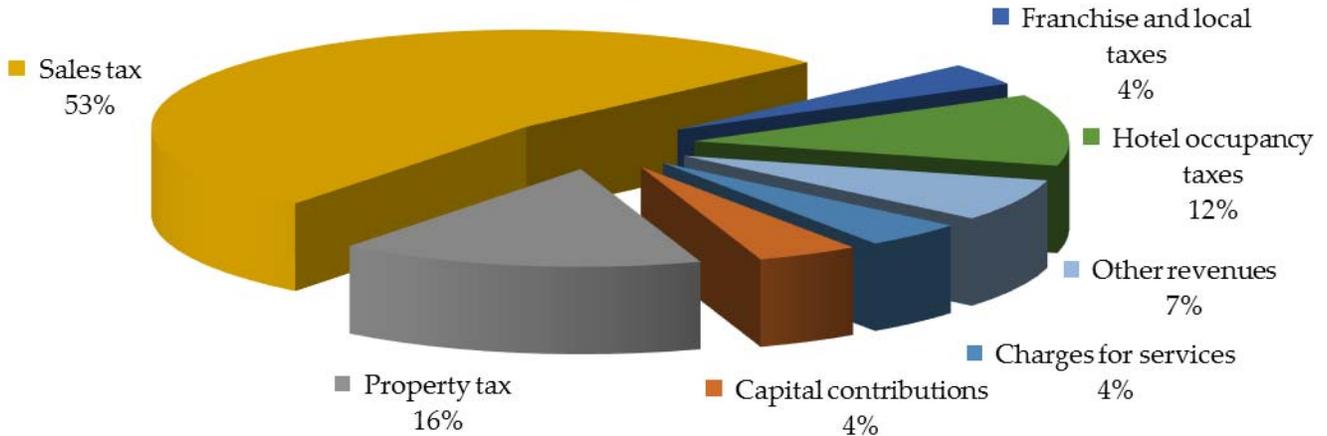
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2018			For the Year Ended September 30, 2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 552,609	\$ 2,625,172	\$ 3,177,781	\$ 783,672	\$ 2,526,510	\$ 3,310,182
Capital contributions	558,080	-	558,080	1,747,167	-	1,747,167
General revenues:						
Property tax	1,995,541	-	1,995,541	1,943,370	-	1,943,370
Sales tax	6,732,269	-	6,732,269	5,699,852	-	5,699,852
Franchise and local taxes	466,347	-	466,347	456,189	-	456,189
Hotel occupancy taxes	1,514,681	-	1,514,681	1,213,222	-	1,213,222
Investment income	85,832	1,180	87,012	11,240	2,556	13,796
Other revenues	809,506	18,802	828,308	828,224	140	828,364
Total Revenues	12,714,865	2,645,154	15,360,019	12,682,936	2,529,206	15,212,142
Expenses						
General government	3,101,786	-	3,101,786	3,903,242	-	3,903,242
Public safety	2,714,173	-	2,714,173	2,728,037	-	2,728,037
Public works	2,228,437	-	2,228,437	2,343,900	-	2,343,900
Community development	112,738	-	112,738	107,182	-	107,182
Tourism	487,422	-	487,422	759,945	-	759,945
Garbage collection	264,895	-	264,895	251,299	-	251,299
Interest and fiscal charges	2,349,329	-	2,349,329	757,266	-	757,266
Water & sewer	-	1,639,726	1,639,726	-	1,623,541	1,623,541
Total Expenses	11,258,780	1,639,726	12,898,506	10,850,871	1,623,541	12,474,412
Change in Net Position						
Before Transfers	1,456,085	1,005,428	2,461,513	1,832,065	905,665	2,737,730
Transfers in (out)	(305,159)	305,159	-	1,893,036	(1,893,036)	-
Total	(305,159)	305,159	-	1,893,036	(1,893,036)	-
Change in Net Position	1,150,926	1,310,587	2,461,513	3,725,101	(987,371)	2,737,730
Beginning Net Position	25,461,438	16,650,221	42,111,659	21,736,337	17,637,592	39,373,929
Ending Net Position	\$ 26,612,364	\$ 17,960,808	\$ 44,573,172	\$ 25,461,438	\$ 16,650,221	\$ 42,111,659

City of Shenandoah, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2018

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

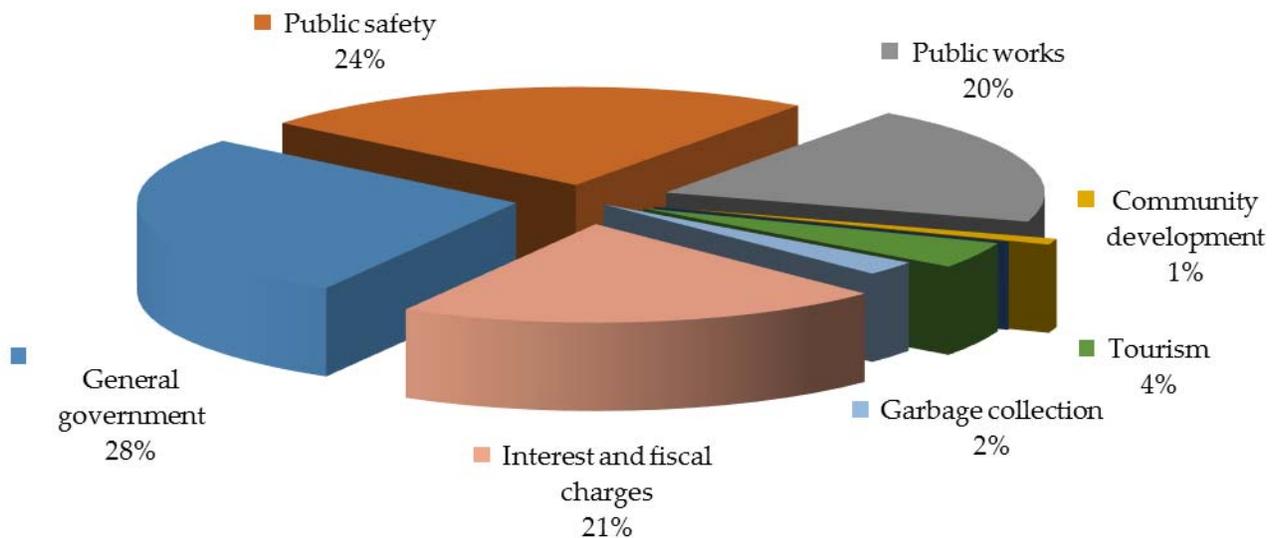
Governmental Activities - Revenues



For the year ended September 30, 2018, revenues from governmental activities totaled \$12,714,865. Overall revenues increased slightly by \$31,929. Sales tax, property tax, and hotel occupancy taxes are the City's largest revenue sources. Sales taxes increased by \$1,032,417 or 18% due to increased economic growth and development. Hotel occupancy taxes increased \$301,459 or 25% due to the opening of new hotels within the City limits. Capital contributions decreased by \$1,189,087 due to less SMDD capital contributions in the current year. Investment income increased by \$74,592 as a result of PID funds being held in an interest-bearing account.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



City of Shenandoah, Texas

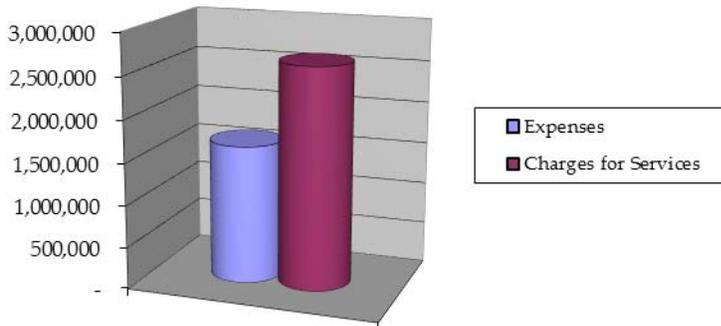
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2018

For the year ended September 30, 2018, expenses for governmental activities totaled \$11,258,780. This represents an increase of \$407,909 or 4% from the prior year. The City's largest functional expense is general governmental of \$3,101,786. This is a decrease of \$801,456 or 21%, which is primarily due to nonrecurring severance paid in the previous year. Tourism expenses decreased \$272,523 or 36% due to the City hosting an NCAA sports competition in the prior year. The City hosts the competition every other year. Interest and fiscal charges increased by \$1,592,063 primarily as a result the issuance of special assessment revenue bonds in the current year.

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

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2018, charges for services by business-type activities totaled \$2,625,172. This is an increase of \$98,662, or 4%, from the previous year. This increase is a result of increased consumption when compared to the prior year.

Total expenses increased slightly \$16,185 or 1%, which is consistent with the prior year.

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 \$7,573,609. The general fund reflected an increase of \$1,488,701. This is primarily a result of the general fund receiving more revenue than anticipated.

City of Shenandoah, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2018

The debt service fund reflected a fund balance of \$104,442, an increase of \$496, which is considered minimal.

The capital improvements fund reflected a fund balance of \$763,454, an increase of \$352,277, which is primarily due to transfers in exceeding capital outlay expenditures.

The hotel occupancy fund reflected a fund balance of \$3,232,447. The fund balance increased by \$920,822 from the prior year due to hotel occupancy tax revenues exceeding expenses incurred.

The Metro Park PID fund reflected a fund balance of \$11,280,935. The fund balance increased by the same amount, as fiscal year 2018 was the initial year this fund was created. The increase in fund balance is primarily a result of bond proceeds received in the current year.

There was an overall increase in governmental fund balance of \$14,127,511. This is primarily due to current year bond proceeds recognized as other financing sources in the current year.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a positive budget variance of \$2,117,519 before other financing sources and uses, with a total positive budget variance of \$1,386,811 in the general fund after other sources and uses. Total actual revenue exceeded budgeted revenue by \$1,246,381. Total actual expenditures were \$871,138 under budget.

Expenditures exceeded appropriations at the legal level of control in the amount of \$162,951 for general government and \$451,435 for transfers out. All other expenditures were less than budgeted.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$40,690,629 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 \$17,848,280 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- Investment in water plant facilities totaling \$1,592,218
- Investment in Metro Park PID of \$2,354,396.
- Purchase of new vehicles totaling \$207,630

City of Shenandoah, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2018

- New investments in roadways, pathways, and detention pond in the municipal development district totaling \$424,483
- Water plant facilities improvements totaling \$3,299,250 were transferred from governmental activities to the water and sewer fund.

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 \$34,195,000. During the year, the City issued \$15,200,000 of special revenue assessment bonds and made \$1,600,000 in principal payments on outstanding debt. More detailed information about the City's long-term liabilities is presented in note IV. F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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FINANCIAL STATEMENTS

City of Shenandoah, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 22,864,439	\$ 358,633	\$ 23,223,072
Receivables, net	1,216,240	358,772	1,575,012
Total Current Assets	24,080,679	717,405	24,798,084
Capital assets:			
Non-depreciable	7,055,180	1,673,568	8,728,748
Net depreciable capital assets	33,635,449	16,174,712	49,810,161
	40,690,629	17,848,280	58,538,909
Total Assets	64,771,308	18,565,685	83,336,993
<u>Deferred Outflows of Resources</u>			
Pension contributions	362,909	49,488	412,397
OPEB contributions	206	28	234
OPEB assumption changes	8,367	1,126	9,493
Deferred charge on refunding	1,018,476	-	1,018,476
Total Deferred Outflows of Resources	1,389,958	50,642	1,440,600

City of Shenandoah, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	311,618	84,068	395,686
Accrued liabilities	166,212	18,507	184,719
Accrued interest payable	85,809	-	85,809
Customer deposits	34,074	90,906	124,980
Long-term debt due within one year	2,054,607	25,082	2,079,689
	2,652,320	218,563	2,870,883
Noncurrent liabilities:			
Long-term debt due in more than one year	33,711,279	2,787	33,714,066
Net pension liability	2,585,389	352,553	2,937,942
OPEB liability	106,253	14,299	120,552
	36,402,921	369,639	36,772,560
Total Liabilities	39,055,241	588,202	39,643,443
<u>Deferred Inflows of Resources</u>			
Pension gain (losses) on investments	255,738	34,873	290,611
Pension investment earnings	237,923	32,444	270,367
Total Deferred Inflows of Resources	493,661	67,317	560,978
<u>Net Position</u>			
Net investment in capital assets	6,130,852	17,848,280	23,979,132
Restricted for:			
Debt service	104,442	-	104,442
Economic development	-	-	-
Tourism	3,232,447	-	3,232,447
Municipal court	13,094	-	13,094
Public improvement	11,280,935	-	11,280,935
Public safety	4,433	-	4,433
Unrestricted	5,846,161	112,528	5,958,689
Total Net Position	\$ 26,612,364	\$ 17,960,808	\$ 44,573,172

See Notes to Financial Statements.

Component Unit

**Shenandoah
Municipal
Development
District**

14,533

-

-

-

-

14,533

-

-

-

14,533

-

-

6,357,632

-

-

-

-

-

\$ 6,357,632

City of Shenandoah, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 3,101,786	\$ 527,597	\$ -
Public safety	2,714,173	25,012	-
Public works	2,228,437	-	558,080
Community development	112,738	-	-
Tourism	487,422	-	-
Garbage collection	264,895	-	-
Interest and fiscal charges	2,349,329	-	-
Total Governmental Activities	11,258,780	552,609	558,080
Business-Type Activities			
Water & Sewer	1,639,726	2,625,172	-
Total Business-Type Activities	1,639,726	2,625,172	-
Total Primary Government	\$ 12,898,506	\$ 3,177,781	\$ 558,080
Component Unit			
Shenandoah Municipal Development District	\$ 1,105,345	\$ -	\$ -
Total Component Unit Activities	\$ 1,105,345	\$ -	\$ -

General Revenues:

- Taxes
 - Property tax
 - Sales tax
 - Franchise and local taxes
 - Hotel occupancy taxes
 - Intergovernmental revenue
- Investment income
- Other revenues

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			Component Unit
Primary Government			Shenandoah Municipal Development District
Governmental Activities	Business-Type Activities	Total	
\$ (2,574,189)	\$ -	\$ (2,574,189)	\$ -
(2,689,161)	-	(2,689,161)	-
(1,670,357)	-	(1,670,357)	-
(112,738)	-	(112,738)	-
(487,422)	-	(487,422)	-
(264,895)	-	(264,895)	-
(2,349,329)	-	(2,349,329)	-
(10,148,091)	-	(10,148,091)	-
-	985,446	985,446	-
-	985,446	985,446	-
(10,148,091)	985,446	(9,162,645)	-
			(1,105,345)
			(1,105,345)
1,995,541	-	1,995,541	-
6,732,269	-	6,732,269	2,032,589
466,347	-	466,347	-
1,514,681	-	1,514,681	-
519,589	-	519,589	-
85,832	1,180	87,012	19,799
289,917	18,802	308,719	-
(305,159)	305,159	-	-
11,299,017	325,141	11,624,158	2,052,388
1,150,926	1,310,587	2,461,513	947,043
25,461,438	16,650,221	42,111,659	5,410,589
\$ 26,612,364	\$ 17,960,808	\$ 44,573,172	\$ 6,357,632

City of Shenandoah, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2018

	General Fund	Debt Service Fund	Metro Park PID	Capital Improvements Fund
<u>Assets</u>				
Cash and cash equivalents	\$ 6,942,592	\$ 104,442	\$ 11,280,935	\$ 815,351
Receivables, net				
Property taxes	20,436	22,398	-	-
Sales taxes	959,346	-	-	-
Franchise taxes	29,201	-	-	-
Mixed beverage taxes	73,161	-	-	-
Hotel occupancy taxes	-	-	-	-
Accounts receivable	9,426	-	-	-
Due from other funds	11,981	-	-	-
Total Assets	\$ 8,046,143	\$ 126,840	\$ 11,280,935	\$ 815,351
<u>Liabilities</u>				
Accounts payable	\$ 282,173	\$ -	\$ -	\$ 23,301
Accrued liabilities	133,659	-	-	28,596
Due to other funds	2,192	-	-	-
Customer deposits	34,074	-	-	-
Total Liabilities	452,098	-	-	51,897
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	20,436	22,398	-	-
Total Deferred Inflows of Resources	20,436	22,398	-	-
<u>Fund Balances</u>				
Restricted for:				
Debt service	-	104,442	-	-
Tourism	-	-	-	-
Municipal court	-	-	-	-
Public safety	-	-	-	-
Public improvement	-	-	11,280,935	-
Capital projects	-	-	-	763,454
Committed for:				
Equipment replacement	-	-	-	-
Land	-	-	-	-
Unassigned	7,573,609	-	-	-
Total Fund Balances	7,573,609	104,442	11,280,935	763,454
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 8,046,143	\$ 126,840	\$ 11,280,935	\$ 815,351

See Notes to Financial Statements.

<u>Hotel Occupancy Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 3,140,276	\$ 580,843	\$ 22,864,439
-	-	42,834
-	-	959,346
-	-	29,201
-	-	73,161
102,272	-	102,272
-	-	9,426
-	2,192	14,173
<u>\$ 3,242,548</u>	<u>\$ 583,035</u>	<u>\$ 24,094,852</u>
\$ 6,144	\$ -	\$ 311,618
3,957	-	166,212
-	11,981	14,173
-	-	34,074
<u>10,101</u>	<u>11,981</u>	<u>526,077</u>
-	-	42,834
-	-	42,834
-	-	104,442
3,232,447	-	3,232,447
-	13,094	13,094
-	4,433	4,433
-	-	11,280,935
-	-	763,454
-	551,024	551,024
-	3,494	3,494
-	(991)	7,572,618
<u>3,232,447</u>	<u>571,054</u>	<u>23,525,941</u>
<u>\$ 3,242,548</u>	<u>\$ 583,035</u>	<u>\$ 24,094,852</u>

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City of Shenandoah, Texas
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
September 30, 2018

Fund Balances - Total Governmental Funds \$ 23,525,941

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	7,055,180
Capital assets - net depreciable	33,635,449

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

Property tax receivable	42,834
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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	362,909
OPEB contributions	206
Pension investment earnings	(237,923)
Pension gain (losses) on investments	(255,738)
OPEB gain (losses) on investments	8,367
Deferred charge on refunding	1,018,476

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

Accrued interest	(85,809)
Premiums on bonds payable	(1,354,656)
Non-current liabilities due in one year	(2,054,607)
Non-current liabilities due in more than one year	(32,356,623)
Net pension liability	(2,585,389)
OPEB liability	(106,253)

Net Position of Governmental Activities	\$ 26,612,364
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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, 2018

	General Fund	Debt Service Fund	Metro Park PID	Capital Improvements Fund
<u>Revenues</u>				
Property tax	\$ 895,628	\$ 1,099,913	\$ -	\$ -
Sales tax	6,732,269	-	-	-
Franchise and local taxes	466,347	-	-	-
Hotel occupancy taxes	-	-	-	-
Intergovernmental revenue	519,589	-	-	-
License and permits	445,146	-	-	-
Charges for services	82,451	-	-	-
Fines and forfeitures	16,628	-	-	-
Investment income	7,249	631	73,277	-
Other revenues	266,684	-	-	-
Total Revenues	9,431,991	1,100,544	73,277	-
<u>Expenditures</u>				
Current:				
General government	2,754,580	3,000	-	-
Public safety	2,728,298	-	-	-
Public works	1,187,890	-	-	-
Community development	111,312	-	-	-
Tourism	-	-	-	-
Garbage collection	264,895	-	-	-
Debt service:				
Principal	-	1,600,000	-	-
Interest and fiscal charges	-	737,875	455,499	-
Bond issuance costs	-	-	1,182,447	-
Capital outlay	-	-	2,354,396	2,377,312
Total Expenditures	7,046,975	2,340,875	3,992,342	2,377,312
Revenues Over (Under) Expenditures	2,385,016	(1,240,331)	(3,919,065)	(2,377,312)
<u>Other Financing Sources (Uses)</u>				
Transfers in	437,320	1,240,827	-	2,739,539
Transfers (out)	(1,365,635)	-	-	(9,950)
Bond proceeds	-	-	15,200,000	-
Sale of capital assets	32,000	-	-	-
Total Other Financing Sources (Uses)	(896,315)	1,240,827	15,200,000	2,729,589
Net Change in Fund Balances	1,488,701	496	11,280,935	352,277
Beginning fund balances	6,084,908	103,946	-	411,177
Ending Fund Balances	\$ 7,573,609	\$ 104,442	\$ 11,280,935	\$ 763,454

See Notes to Financial Statements.

Hotel Occupancy Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,995,541
-	-	6,732,269
-	-	466,347
1,514,681	-	1,514,681
-	-	519,589
-	-	445,146
-	-	82,451
-	8,384	25,012
4,675	-	85,832
189	-	266,873
1,519,545	8,384	12,133,741
-	-	2,757,580
-	875	2,729,173
-	-	1,187,890
-	-	111,312
473,942	-	473,942
-	-	264,895
-	-	1,600,000
-	-	1,193,374
-	-	1,182,447
-	-	4,731,708
473,942	875	16,232,321
1,045,603	7,509	(4,098,580)
-	144,196	4,561,882
(124,781)	(67,425)	(1,567,791)
-	-	15,200,000
-	-	32,000
(124,781)	76,771	18,226,091
920,822	84,280	14,127,511
2,311,625	486,774	9,398,430
\$ 3,232,447	\$ 571,054	\$ 23,525,941

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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, 2018

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

Net changes in fund balances - total governmental funds	\$ 14,127,511
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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	4,809,545
Transfer of assets from component unit	558,080
Depreciation expense	(1,347,612)
Transfer of assets to business-type activities	(3,299,250)
Adjustment for sale of capital assets	(8,956)

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	(68,488)
Accrued interest	6,425
Pension expense	(35,640)
OPEB liability	(10,756)
Amortization of deferred charges on refunding	(87,132)
Amortization of debt premium	107,199

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.

Issuance of debt	(15,200,000)
Principal payments	1,600,000

Change in Net Position of Governmental Activities	\$ 1,150,926
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See Notes to Financial Statements.

City of Shenandoah, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2018

	Water & Sewer
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 358,633
Accounts and other receivables, net	358,772
Total Current Assets	717,405
<u>Noncurrent Assets</u>	
Capital assets:	
Non-depreciable	1,673,568
Net depreciable capital assets	16,174,712
Total Noncurrent Assets	17,848,280
Total Assets	18,565,685
<u>Deferred Outflows of Resources</u>	
Pension contributions	49,488
OPEB contributions	28
OPEB assumption changes	1,126
Total Deferred Outflows of Resources	50,642
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable	84,068
Accrued liabilities	18,507
Customer deposits	90,906
Compensated absences payable, current	25,082
Total Current Liabilities	218,563
<u>Noncurrent Liabilities</u>	
Compensated absences payable, noncurrent	2,787
Net pension liability	352,553
OPEB liability	14,299
Total Liabilities	588,202
<u>Deferred Inflows of Resources</u>	
Pension gain (loss) on investments	34,873
Pension investment earnings	32,444
<u>Net Position</u>	
Net investment in capital assets	17,848,280
Unrestricted	112,528
Total Net Position	\$ 17,960,808

See Notes to Financial Statements.

City of Shenandoah, Texas

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

For the Year Ended September 30, 2018

	Water & Sewer
<u>Operating Revenues</u>	
Water sales	\$ 1,436,016
Sewer revenue	1,009,906
Penalties and reconnect fees	56,396
Groundwater reduction plan fees	122,854
Total Operating Revenues	2,625,172
 <u>Operating Expenses</u>	
Personnel	471,443
Supplies and services	296,104
Maintenance	360,122
Depreciation	512,057
Total Operating Expenses	1,639,726
Operating Income	985,446
 <u>Nonoperating Revenues (Expenses)</u>	
Investment income	1,180
Other revenue	18,802
Total Nonoperating Revenues (Expenses)	19,982
Income Before Transfers	1,005,428
Transfers in	3,309,416
Transfers (out)	(3,004,257)
Change in Net Position	1,310,587
Beginning net position	16,650,221
Ending Net Position	\$ 17,960,808

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, 2018

	<u>Water & Sewer</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,641,232
Payments to employees	(459,610)
Payments to suppliers and contractors	(638,422)
Net Cash Provided by Operating Activities	<u>1,543,200</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Transfer from other funds	10,166
Transfer to other funds	(3,004,257)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(2,994,091)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Purchase of capital assets	(36,624)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(36,624)</u>
<u>Cash Flows from Investing Activities</u>	
Interest on investments	19,982
Net Cash Provided by Investing Activities	<u>19,982</u>
Net Increase in Cash and Cash Equivalents	(1,467,533)
Beginning cash and cash equivalents	<u>1,826,166</u>
Ending Cash and Cash Equivalents	<u>\$ 358,633</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, 2018

	Water & Sewer
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 985,446
Adjustments to reconcile operating income to net cash provided:	
Depreciation	512,057
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	32,090
Deferred outflows - pension and OPEB contributions	1,189
Deferred outflows - pension investment earnings	69,038
Deferred inflows - pension and OPEB losses on investments	26,619
Increase (Decrease) in:	
Accounts payable and accrued liabilities	17,804
Customer deposits	(16,030)
Net pension liability	(93,141)
OPEB liability	2,601
Compensated absences	5,527
Net Cash Provided by Operating Activities	\$ 1,543,200
 <u>Schedule of Non-Cash Capital and Related Financing Activities:</u>	
Transfer of assets from governmental activities	\$ 3,299,250

See Notes to Financial Statements.

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City of Shenandoah, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

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 ("SMDD") is legally separate and presented as a discretely presented component unit. The Metro Park Public Improvement 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

Metro Park Public Improvement District ("PID")

The Metro Park Public Improvement District (the "PID") was created pursuant to the Public Improvement District Assessment Act, Subchapter A of Chapter 372, Texas Local Government Code, as amended (the "PID Act") and a resolution of the City Council. The

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

purpose of the PID is to finance the Costs of Authorized Improvements that confer a special benefit on the assessed property within the PID, all of which is located within the corporate limits of the City. The PID is governed by the City Council, and accordingly has been reported as a blended component unit.

Discretely Presented Component Units

Shenandoah Municipal Development District

The Shenandoah Municipal Development District (“SMDD”) is a political subdivision of the City of Shenandoah, authorized under Chapter 377 of the Texas Government Code, which was formed on May 9, 2009 when the citizens of Shenandoah approved its creation and authorized it to impose a one-half percent sales tax to finance development projects beneficial to the 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 council members would sit on the board. The Council then decided that the board will consist of two council members and the remaining directors appointed by the Council and serve at the Council’s will. The SMDD is legally separate from the City and is not fiscally dependent on the City. Given these facts, the SMDD is reported as a discretely presented 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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

General Fund

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

Metro Park Public Improvement District ("PID")

The purpose of the PID is to finance the costs of authorized improvements that confer a special benefit on the assessed property within the PID, all of which is located within the corporate limits of the City.

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.

Hotel Occupancy Fund

This fund accounts for funds derived from hotel and motel occupancy taxes and is legally restricted to promote tourism within the City. The fund is considered a major fund for reporting purposes.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

The City reports the following major enterprise fund:

Water and Sewer Fund

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

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

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of yearend). All other revenue items are considered to be measurable and available only when cash is received by the government.

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

D. Assets, Deferred Outflows/Inflows, 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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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. Fair Value Measurement

The City has applied Governmental Accounting Standards Board (“GASB”) Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

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

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

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

4. 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

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

5. 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.

6. Capital Assets

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

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

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

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

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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7. 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.

8. Net Position Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

9. Fund Balance Flow Assumptions

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

10. Fund Balance Policies

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

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

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

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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11. 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.

12. Long-Term Obligations

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

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

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, 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.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

13. 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.

14. 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.

15. Other Postemployment Benefits ("OPEB")

The City has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan, with retiree coverage. The TMRS SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 (i.e., no assets are accumulated for OPEB) as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. 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 on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is \$7,500. GASB No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

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.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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, discretely presented component units, 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:		
General government	\$	162,951
Transfers (out)	\$	451,435

B. Deficit Fund Equity

At September 30, 2018, the discretionary court fund had a deficit fund balance of \$991. The deficit balance will be eliminated in the future with a transfer from the general fund or other sources.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2018, the primary government had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
External investment pools	\$ 476,682	0.08
Total fair value	\$ 476,682	
Portfolio weighted average maturity		0.08

As of September 30, 2018, the discretely presented component unit had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
External investment pools	\$ 1,119,725	0.08
Total value	\$ 1,119,725	
Portfolio weighted average maturity		0.08

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, 2018, the City's investment in TexPool was rated AAAM by Standard & Poor's.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2018, 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. At September 30, 2018, the fair value of the portion in TexPool approximates fair value of the shares. There were no limitations or restrictions on withdrawals.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

B. Receivables

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

	General	Debt Service	Hotel Occupancy	Water & Sewer	Total
Property tax	\$ 20,436	\$ 22,398	\$ -	\$ -	\$ 42,834
Sales tax	959,346	-	-	-	959,346
Franchise tax	29,201	-	-	-	29,201
Mixed beverage taxes	73,161	-	-	-	73,161
Hotel occupancy taxes	-	-	102,272	-	102,272
Accounts, net	9,426	-	-	369,944	379,370
Allowance	-	-	-	(11,172)	(11,172)
Total	\$ 1,091,570	\$ 22,398	\$ 102,272	\$ 358,772	\$ 1,575,012

The following comprise receivable balances of the discretely presented component unit at year end:

	Shenandoah Municipal Development District
Sales tax	\$ 327,723
Total	\$ 327,723

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

C. Capital Assets

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

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 3,929,303	\$ -	\$ -	\$ 3,929,303
Construction in progress	3,900,297	5,011,881	(5,786,301)	3,125,877
Total capital assets not being depreciated	<u>7,829,600</u>	<u>5,011,881</u>	<u>(5,786,301)</u>	<u>7,055,180</u>
Capital assets, being depreciated:				
Infrastructure	33,396,539	-	2,487,051	35,883,590
Buildings and improvements	10,783,493	10,000	-	10,793,493
Furniture and equipment	2,282,933	345,744	(85,712)	2,542,965
Total capital assets being depreciated	<u>46,462,965</u>	<u>355,744</u>	<u>2,401,339</u>	<u>49,220,048</u>
Less accumulated depreciation				
Infrastructure	(10,522,197)	(840,281)	-	(11,362,478)
Buildings and improvements	(1,986,826)	(301,254)	-	(2,288,080)
Furniture and equipment	(1,804,720)	(206,077)	76,756	(1,934,041)
Total accumulated depreciation	<u>(14,313,743)</u>	<u>(1,347,612)</u>	<u>76,756</u>	<u>(15,584,599)</u>
Net capital assets being depreciated	32,149,222	(991,868)	2,478,095	33,635,449
Total Capital Assets	<u>\$ 39,978,822</u>	<u>\$ 4,020,013</u>	<u>\$ (3,308,206)</u>	<u>\$ 40,690,629</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 338,069
Public safety	126,046
Public works	870,447
Tourism	13,050
Total Governmental Activities Depreciation Expense	<u>\$ 1,347,612</u>

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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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	717,969	36,624	-	754,593
Water and sewer system	27,288,012	3,299,250	-	30,587,262
Total capital assets being depreciated	<u>28,005,981</u>	<u>3,335,874</u>	<u>-</u>	<u>31,341,855</u>
Less accumulated depreciation				
Furniture and equipment	(422,541)	(39,166)	-	(461,707)
Water and sewer system	(14,232,545)	(472,891)	-	(14,705,436)
Total accumulated depreciation	<u>(14,655,086)</u>	<u>(512,057)</u>	<u>-</u>	<u>(15,167,143)</u>
Net capital assets being depreciated	<u>13,350,895</u>	<u>3,847,931</u>	<u>-</u>	<u>16,174,712</u>
Total capital assets	<u>\$ 15,024,463</u>	<u>\$ 3,847,931</u>	<u>\$ -</u>	<u>\$ 17,848,280</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 \$432,700. Current year amortization expense for governmental activities totaled \$48,078.

A deferred charge resulting from the issuance of the 2015 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 \$585,776. Current year amortization expense for governmental activities totaled \$39,054.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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E. Accrued Liabilities

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

	<u>General</u>	<u>Hotel Occupancy</u>	<u>Capital Improvements</u>	<u>Water & Sewer</u>	<u>Total</u>
Accrued wages	\$ 108,109	\$ 3,957	\$ -	\$ 14,012	\$ 126,078
Accrued taxes	8,270	-	-	-	8,270
Retainage	-	-	28,596	-	28,596
Contingent accrued severance	17,280	-	-	-	17,280
Building services - meters	-	-	-	4,495	4,495
Total	<u>\$ 133,659</u>	<u>\$ 3,957</u>	<u>\$ 28,596</u>	<u>\$ 18,507</u>	<u>\$ 184,719</u>

F. 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	\$ 1,000,000	\$ -	\$ (320,000)	\$ 680,000	\$ 335,000
General Improvement Bonds	4,900,000	-	(735,000)	4,165,000	765,000
General Obligation Refunding Bonds	14,695,000	-	(545,000)	14,150,000	555,000
Special Revenue Assessment Bonds - PID	-	15,200,000	-	15,200,000	205,000
Less: Deferred Amounts					
Issuance Premium	1,461,855	-	(107,199)	1,354,656	-
Compensated Absences	147,742	216,230	(147,742)	216,230	194,607
Total Governmental Activities	<u>\$ 22,204,597</u>	<u>\$ 15,416,230</u>	<u>\$ (1,854,941)</u>	<u>\$ 35,765,886</u>	<u>\$ 2,054,607</u>
Long-term Liabilities Due in More than One Year				<u>\$ 33,711,279</u>	
Business-Type Activities:					
Compensated Absences	\$ 22,342	\$ 27,869	\$ (22,342)	\$ 27,869	\$ 25,082
Total Business-Type Activities	<u>\$ 22,342</u>	<u>\$ 27,869</u>	<u>\$ (22,342)</u>	<u>\$ 27,869</u>	<u>\$ 25,082</u>
Long-term Liabilities Due in More than One Year				<u>\$ 2,787</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	Maturity Date	Original Balance	Current Balance
Governmental Activities:				
2008 Certificates of obligation	3.5%-4.125%	8/15/2020	\$ 2,225,000	\$ 335,000
2009 Certificates of obligation	2%-4%	8/15/2020	2,405,000	345,000
		Total Certificates of Obligation	\$ 4,630,000	\$ 680,000
2008 General improvement bonds	4-4.5%	8/15/2019	5,660,000	210,000
2009 General improvement bonds	2-4.5%	8/15/2020	6,395,000	725,000
2011 General improvement bonds	3-4.25%	8/15/2031	4,300,000	3,230,000
		Total General Obligation Bonds	\$ 16,355,000	\$ 4,165,000
2013 General obligation refunding bonds	2-3.5%	8/15/2027	7,345,000	5,580,000
2015 General obligation refunding bonds	2%-4%	8/15/2033	8,670,000	8,570,000
		Total General Obligation Refunding Bonds	\$ 16,015,000	\$ 14,150,000
2018 Special Revenue Assessment Bonds - PID	4.5-5.7%	9/1/2047	15,200,000	15,200,000
		Total General Obligation Refunding Bonds	\$ 15,200,000	\$ 15,200,000
		Total Governmental Activities	\$ 52,200,000	\$ 34,195,000

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:

Governmental Activities						
Year ending September 30,	General Improvement Bonds		Certificates of Obligation		General Obligation Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 765,000	\$ 160,050	\$ 335,000	\$ 26,350	\$ 555,000	\$ 500,075
2020	575,000	133,225	345,000	13,800	785,000	486,200
2021	210,000	111,250	-	-	1,540,000	465,500
2022	220,000	103,900	-	-	1,590,000	422,225
2023	225,000	96,200	-	-	1,650,000	364,575
2024	235,000	88,325	-	-	1,505,000	304,725
2025	245,000	78,925	-	-	1,350,000	250,875
2026	255,000	69,125	-	-	1,400,000	200,125
2027	265,000	58,925	-	-	1,455,000	147,500
2028	275,000	48,325	-	-	785,000	92,800
2029	285,000	37,325	-	-	285,000	61,400
2030	300,000	25,925	-	-	295,000	50,000
2031	310,000	13,175	-	-	305,000	38,200
2032	-	-	-	-	320,000	26,000
2033	-	-	-	-	330,000	13,200
Total	\$ 4,165,000	\$ 1,024,675	\$ 680,000	\$ 40,150	\$ 14,150,000	\$ 3,423,400

Governmental Activities		
Year ending September 30,	Special Revenue Assessment Bonds	
	Principal	Interest
2019	\$ 205,000	\$ 836,630
2020	220,000	827,405
2021	235,000	817,505
2022	245,000	806,930
2023	260,000	795,905
2024	275,000	784,205
2025	295,000	770,455
2026	310,000	755,705
2027	330,000	740,205
2028	350,000	723,705
2029	370,000	706,205
2030	390,000	685,485
2031	415,000	663,645
2032	440,000	640,405
2033-2047	10,860,000	5,605,685
Total	\$ 15,200,000	\$ 16,160,075

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

G. Interfund Receivables and Payables

The composition of interfund balances as of September 30, 2018, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 11,981
Nonmajor governmental funds	General fund	2,192
		<u>\$ 14,173</u>

H. Interfund Transactions

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

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Total</u>
General	Capital Improvements	\$ 521,522
General	Equipment Replacement	107,339
General	Debt Service	736,774
Capital Improvements	Water & Sewer	9,950
Hotel/Motel Occupancy	General	113,538
Hotel/Motel Occupancy	Water & Sewer	216
Hotel/Motel Occupancy	Equipment Replacement	11,027
Equipment Replacement	Capital Improvements	67,425
Water & Sewer	General	323,782
Water & Sewer	Debt Service	504,053
Water & Sewer	Capital Improvements	2,150,592
Water & Sewer	Equipment Replacement	25,830
	Total Transfers	<u>\$ 4,572,048</u>

Additionally, the City transferred assets that were completed within the City's governmental activity funds to the water and sewer fund upon completion for the amount of \$3,299,250. These transfers were not at the governmental fund level as they are related to capital assets that are only recorded at the government wide level. Transferred assets can be seen between the governmental activities capital assets and business-type activities capital assets in note IV.C.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

I. Fund Equity

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

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

	Restricted	Committed
Debt service	\$ 104,442	\$ -
Public improvement	11,280,935	-
Tourism	3,232,447	-
Municipal court	13,094 *	-
Public safety	4,433	-
Capital projects	763,454	-
Equipment replacement	-	551,024
Land	-	3,494
Total	\$ 15,398,805	\$ 554,518

*Restricted by enabling legislation

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 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,

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

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 883 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.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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 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 2017</u>	<u>Plan Year 2016</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	19
Inactive employees entitled to but not yet receiving benefits	47
Active employees	47
Total	113

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

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

16.82% and 17.61% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$559,052, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, 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 Tables with Blue Collar Adjustment, 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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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 (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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

Discount Rate:

The discount rate used to measure the Total Pension Liability was 6.75%. 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, 2018

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 5,220,940	\$ 2,937,942	\$ 1,125,828

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/16	\$ 11,961,720	\$ 8,247,606	\$ 3,714,114
Changes for the year:			
Service Cost	641,310	-	641,310
Interest	819,403	-	819,403
Change in benefit terms	-	-	-
Difference between expected and actual experience	(292,981)	-	(292,981)
Changes of assumptions	-	-	-
Contributions – employer	-	570,241	(570,241)
Contributions – employee	-	237,920	(237,920)
Net investment income	-	1,141,967	(1,141,967)
Benefit payments, including refunds of emp. contributions	(286,147)	(286,147)	-
Administrative expense	-	(5,924)	5,924
Other changes	-	(300)	300
Net changes	881,585	1,657,757	(776,172)
Balance at 12/31/17	\$ 12,843,305	\$ 9,905,363	\$ 2,937,942

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.tmrs.com.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

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

For the year ended September 30, 2018, the City recognized pension expense of \$599,885.

At September 30, 2018, 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	\$ -	\$ (290,611)
Difference between projected and investment earnings	-	(270,367)
Contributions subsequent to the measurement date	412,397	-
Total	\$ 412,397	\$ (560,978)

The City reported \$412,397 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year			
2018	\$	(72,419)	
2019		(95,685)	
2020		(219,118)	
2021		(173,756)	
2022		-	
Thereafter		-	
Total	\$	(560,978)	

6. Supplemental Death Benefits Fund

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, 2018

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.

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	17
Inactive employees entitled to but not yet receiving benefits	15
Active employees	47
Total	79

The City’s contributions to the TMRS SDBF for the years ended 2016, 2017, and 2018 were \$321, \$359 and \$343, 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
2016	0.01%	0.01%	100.0%
2017	0.01%	0.01%	100.0%
2018	0.01%	0.01%	100.0%

Total OPEB Liability

The City’s Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2017, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5%, including inflation per year
Discount rate	3.31%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

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 Tables with Blue Collar Adjustment, 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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 3.31%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 3.31%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

1% Decrease (2.31%)	Current Single Rate Assumption 3.31%	1% Increase (4.31%)
<u>\$ 150,864</u>	<u>\$ 120,552</u>	<u>\$ 97,974</u>

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/16	\$ 98,873
Changes for the year:	
Service Cost	6,768
Interest	3,859
Changes of assumptions	11,391
Benefit payments	(339)
Net changes	21,679
Balance at 12/31/17	\$ 120,552

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$12,526.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows (Inflows) of Resources
Assumption changes	\$ 9,493
Contributions subsequent to the measurement date	234
Total	\$ 9,727

The City reported \$234 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, 2019.

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2018	\$ 1,899
2019	1,899
2020	1,899
2021	1,899
2022	1,897
Thereafter	-
	\$ 9,493

E. Restatement

Due to the implementation of GASB No. 75, the City restated its beginning net position within governmental activities and business-type activities to properly reflect the total OPEB liability and related deferred outflows and inflows of resources, as prescribed by this accounting standard. This adjustment was recorded at the fund level for proprietary funds only, and recorded at the government-wide level for both governmental and business-type activities. The City also restated beginning fund balance/net position within governmental type activities due to a correction to deferred franchise tax revenue, in addition to the change in fund reporting within the major and nonmajor governmental funds and change in presentation of component unit. The restatement of beginning net position/fund balance is as follows:

	Governmental Activities	General	Shenandoah Municipal Development District	Nonmajor Governmental
Prior year ending net position/ fund balance as reported	\$ 31,046,657	\$ 6,079,421	\$ 5,410,589	\$ 5,487
Change in deferred franchise tax revenue	(87,706)	-	-	-
Implementation of GASB 75 for OPEB liability	(86,924)	-	-	-
Change in reporting of component unit - major fund to discretely presented component unit	(5,410,589)	-	(5,410,589)	-
Reclassification in fund reporting	-	5,487	-	(5,487)
Restated beginning net position/fund balance	\$ 25,461,438	\$ 6,084,908	\$ -	\$ -

City of Shenandoah, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018

	<u>Business-Type Activities</u>	<u>Water & Sewer</u>
Prior year ending net position/fund balance as reported	\$ 16,661,919	\$ 16,661,919
Impact of implementation of GASB 75	(11,698)	(11,698)
Restated beginning net position/fund balance	<u>\$ 16,650,221</u>	<u>\$ 16,650,221</u>

	<u>Component Unit Activities</u>	<u>Shenandoah Municipal Development District</u>
Prior year ending net position as reported	\$ -	\$ -
Change in reporting of component unit	5,410,589	5,410,589
Restated beginning net position	<u>\$ 5,410,589</u>	<u>\$ 5,410,589</u>

F. Subsequent Events

There were no material subsequent events through January 11, 2019, 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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Property tax	\$ 897,486	\$ 897,486	\$ 895,628	\$ (1,858)
Sales tax	5,701,500	5,701,500	6,732,269	1,030,769
Franchise and local taxes	445,000	445,000	466,347	21,347
License and permits	387,600	387,600	445,146	57,546
Charges for services	81,124	81,124	82,451	1,327
Intergovernmental revenue	560,500	560,500	519,589	(40,911)
Fines and forfeitures	13,200	13,200	16,628	3,428
Investment income	5,000	5,000	7,249	2,249
Other revenues	94,200	94,200	266,684	172,484
Total Revenues	<u>8,185,610</u>	<u>8,185,610</u>	<u>9,431,991</u>	<u>1,246,381</u>
Expenditures				
Current:				
General government	2,581,514	2,591,629	2,754,580	(162,951) *
Public safety	3,480,090	3,480,090	2,728,298	751,792
Public works	1,366,797	1,449,959	1,187,890	262,069
Garbage services	275,299	275,299	264,895	10,404
Community development	113,352	121,136	111,312	9,824
Total Expenditures	<u>7,817,052</u>	<u>7,918,113</u>	<u>7,046,975</u>	<u>871,138</u>
Revenues Over (Under)				
Expenditures	<u>368,558</u>	<u>267,497</u>	<u>2,385,016</u>	<u>2,117,519</u>
Other Financing Sources (Uses)				
Transfers in	483,231	697,593	437,320	(260,273)
Transfers (out)	(914,200)	(914,200)	(1,365,635)	(451,435) *
Sale of capital assets	51,000	51,000	32,000	(19,000)
Total Other				
Financing Sources (Uses)	<u>(379,969)</u>	<u>(165,607)</u>	<u>(896,315)</u>	<u>(730,708)</u>
Net Change in Fund Balance	<u>\$ (11,411)</u>	<u>\$ 101,890</u>	<u>1,488,701</u>	<u>\$ 1,386,811</u>
Beginning fund balance			6,084,908	
Ending Fund Balance			<u>\$ 7,573,609</u>	

Notes to Required Supplementary Information

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

See Notes to Financial Statements.

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City of Shenandoah, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
HOTEL OCCUPANCY FUND
For the Year Ended September 30, 2018

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Hotel occupancy taxes	\$ 1,285,000	\$ 1,514,681	\$ 229,681
Investment income	2,600	4,675	2,075
Other revenue	-	189	189
Total Revenues	1,287,600	1,519,545	231,945
<u>Expenditures</u>			
Current:			
Tourism	694,524	473,942	220,582
Total Expenditures	694,524	473,942	220,582
Revenues Over (Under)			
Expenditures	593,076	1,045,603	452,527
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	(253,786)	(124,781)	129,005
Total Other Financing Sources (Uses)	(253,786)	(124,781)	129,005
Net Change in Fund Balance	\$ 339,290	920,822	\$ 581,532
Beginning fund balance		2,311,625	
Ending Fund Balance		\$ 3,232,447	

Notes to Required Supplementary Information

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

See Notes to Financial Statements.

City of Shenandoah, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM

Years Ended December 31,

	2017	2016	2015
Total pension liability			
Service cost	\$ 641,310	\$ 670,410	\$ 633,992
Interest	819,403	759,134	699,946
Differences between expected and actual experience	(292,981)	(227,957)	66,347
Changes of assumptions	-	-	93,017
Benefit payments, including refunds of participant contributions	(286,147)	(302,194)	(226,402)
Net change in total pension liability	881,585	899,393	1,266,900
Total pension liability - beginning	\$ 11,961,720	\$ 11,062,327	\$ 9,795,427
Total pension liability - ending (a)	\$ 12,843,305	\$ 11,961,720	\$ 11,062,327
Plan fiduciary net position			
Contributions - employer	\$ 570,241	\$ 571,598	\$ 534,546
Contributions - members	237,920	250,498	239,759
Net investment income	1,141,967	489,670	9,878
Benefit payments, including refunds of participant contributions	(286,147)	(302,194)	(226,402)
Administrative expenses	(5,924)	(5,529)	(6,015)
Other	(300)	(298)	(297)
Net change in plan fiduciary net position	1,657,757	1,003,745	551,469
Plan fiduciary net position - beginning	8,247,606	7,243,861	6,692,392
Plan fiduciary net position - ending (b)	\$ 9,905,363	\$ 8,247,606	\$ 7,243,861
Fund's net pension liability - ending (a) - (b)	\$ 2,937,942	\$ 3,714,114	\$ 3,818,466
 Plan fiduciary net position as a percentage of the total pension liability	 77.12%	 68.95%	 65.48%
Covered employee payroll	\$ 3,384,219	\$ 3,573,615	\$ 3,425,132
Fund's net position as a percentage of covered employee payroll	86.81%	103.93%	111.48%

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.

	<u>2014</u> ¹
\$	547,482
	624,317
	61,388
	-
	<u>(165,656)</u>
	1,067,531
\$	<u>8,727,896</u>
\$	<u>9,795,427</u>
\$	500,912
	225,479
	332,101
	(165,656)
	(3,466)
	(285)
	<u>889,085</u>
	5,803,307
\$	<u>6,692,392</u>
\$	<u>3,103,035</u>
	68.32%
\$	3,221,134
	96.33%

City of Shenandoah, Texas
SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN
TEXAS MUNICIPAL RETIREMENT SYSTEM

Years Ended:

	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>
Actuarially determined employer contributions	\$ 559,052	\$ 595,399	\$ 544,668	\$ 519,256
Contributions in relation to the actuarially determined contribution	\$ 559,052	\$ 595,399	\$ 544,668	\$ 519,256
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Annual covered employee payroll	\$ 3,213,745	\$ 3,593,850	\$ 3,430,770	\$ 3,329,643
Employer contributions as a percentage of covered employee payroll	17%	17%	16%	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	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
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.

City of Shenandoah, Texas

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY AND RELATED RATIOS

TEXAS MUNICIPAL RETIREMENT SYSTEM SUPPLEMENTAL DEATH BENEFITS PLAN

Years Ended December 31,

	2017	¹
Total pension liability		
Service cost	\$ 6,768	
Interest	3,859	
Changes of assumptions	11,391	
Benefit payments, including refunds of participant contributions	(339)	
Net change in total pension liability	21,679	
Total pension liability - beginning	\$ 98,873	
Total pension liability - ending (a)	\$ 120,552	²
Covered employee payroll	\$ 3,384,219	
Fund's net position as a percentage of covered employee payroll	3.56%	

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.

² No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.

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OTHER SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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.

MUNICIPAL COURT FUND

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

LAND TRUST FUND

This fund accounts for funds to be used for the purchase of land.

City of Shenandoah, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2018

	Equipment Replacement	LEOSE	Discretionary Court	Municipal Court
<u>Assets</u>				
Cash and cash equivalents	\$ 561,497	\$ 2,241	\$ 517	\$ 13,094
Due from other funds	-	2,192	-	-
Total Assets	\$ 561,497	\$ 4,433	\$ 517	\$ 13,094
<u>Liabilities</u>				
Due to other funds	\$ 10,473	\$ -	\$ 1,508	\$ -
Total Liabilities	10,473	-	1,508	-
<u>Fund Balances</u>				
Restricted for:				
Municipal court	-	-	-	13,094
Public safety	-	4,433	-	-
Committed for:				
Equipment replacement	551,024	-	-	-
Land	-	-	-	-
Unassigned	-	-	(991)	-
Total Fund Balances	551,024	4,433	(991)	13,094
Total Liabilities and Fund Balances	\$ 561,497	\$ 4,433	\$ 517	\$ 13,094

<u>Shenandoah Land Trust</u>	<u>Total Nonmajor Governmental</u>
\$ 3,494	\$ 580,843
-	2,192
<u>\$ 3,494</u>	<u>\$ 583,035</u>
-	11,981
<u>-</u>	<u>11,981</u>
-	13,094
-	4,433
-	551,024
3,494	3,494
-	(991)
<u>3,494</u>	<u>571,054</u>
<u>\$ 3,494</u>	<u>\$ 583,035</u>

City of Shenandoah, Texas
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2018

	<u>Equipment Replacement</u>	<u>LEOSE</u>	<u>Discretionary Court</u>	<u>Municipal Court</u>
<u>Revenues</u>				
Fines and forfeitures	\$ -	\$ 2,192	\$ 562	\$ 5,630
Total Revenues	-	2,192	562	5,630
<u>Expenditures</u>				
General government	-	-	400	475
Total Expenditures	-	-	400	475
Revenues Over (Under) Expenditures	-	2,192	162	5,155
<u>Other Financing Sources (Uses)</u>				
Transfers in	144,196	-	-	-
Transfers (out)	(67,425)	-	-	-
Total Other Financing Sources (Uses)	76,771	-	-	-
Net Change in Fund Balances	76,771	2,192	162	5,155
Beginning fund balances	474,253	2,241	(1,153)	7,939
Ending Fund Balances	\$ 551,024	\$ 4,433	\$ (991)	\$ 13,094

<u>Shenandoah Land Trust</u>	<u>Total Nonmajor Governmental</u>
\$ -	\$ 8,384
<u>-</u>	<u>8,384</u>
-	875
<u>-</u>	<u>875</u>
-	7,509
<u>-</u>	<u>144,196</u>
<u>-</u>	<u>(67,425)</u>
<u>-</u>	<u>76,771</u>
-	84,280
3,494	486,774
<u>\$ 3,494</u>	<u>\$ 571,054</u>

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City of Shenandoah, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN NET POSITION - BUDGET AND ACTUAL
SHENANDOAH MUNICIPAL DEVELOPMENT DISTRICT
For the Year Ended September 30, 2018

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 1,728,965	\$ 2,032,589	\$ 303,624
Investment income	10,000	19,799	9,799
Other revenue	561,875	-	(561,875)
Total Revenues	2,300,840	2,052,388	(248,452)
<u>Expenditures</u>			
Current:			
Economic development	2,720,140	1,105,345	1,614,795
Total Expenses	2,720,140	1,105,345	1,614,795
Revenues Over (Under)			
Expenses	(419,300)	947,043	1,366,343
Net Change in Net Position	\$ (419,300)	947,043	\$ 1,366,343
Beginning fund balance		5,410,589	
Ending Net Position		\$ 6,357,632	

Notes to Required Supplementary Information

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

See Notes to Financial Statements.