

CITY OF SHENANDOAH

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2010

City of Shenandoah
Annual Financial Report
For The Year Ended September 30, 2010

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Financial Section

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council of the
City of Shenandoah, Texas
29955 I-45
Shenandoah, Texas 77381

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Shenandoah, Texas (City), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Shenandoah, Texas, as of September 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of 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 us with sufficient evidence to express and opinion or provide any assurance.

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
March 1, 2011

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)**

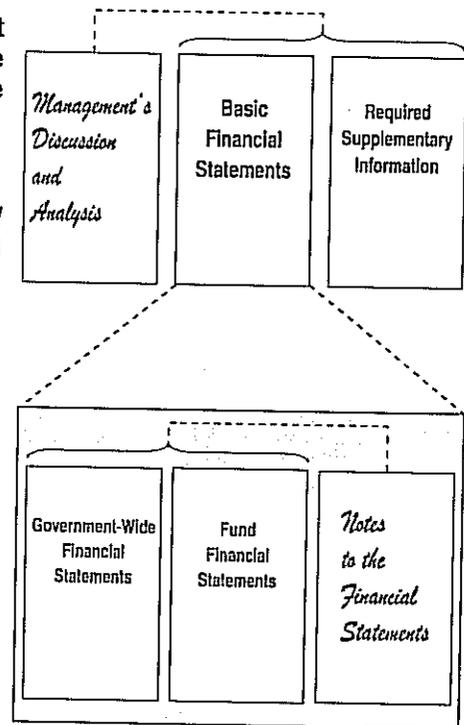
This section of the City of Shenandoah, Texas (the City) Annual Financial Report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2010. Please read it in conjunction with the City's financial statements, which follow this section.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to City of Shenandoah's basic financial statements. Beginning in fiscal year 2004, the City began presenting its basic financial statements under a reporting model established by the Governmental Accounting Standards Board's (GASB's) Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.

Figure A-1, Required Components of the City's Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Figure A-1 shows how the required parts of this annual report are arranged and related to one another.



Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements

Type of Statements	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City's government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities of the City operates similar to private businesses: self insurance	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	* Statement of net assets	* Balance sheet	* Statement of net assets	* Statement of fiduciary net assets
	* Statement of activities	* Statement of revenues, expenditures & changes in fund balances	* Statement of revenues, expenses and changes in fund net assets * Statement of cash flows	* Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

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, public works, community development, and interest on long-term debt. The business-type activities of the City include its Water & Sewer operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also two legally separate entities, the Shenandoah Industrial Development Corporation (SIDC) and the Shenandoah Municipal Development District (SMDD), for which the City is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

See the table of contents in the front of this report to find the government-wide financial statements.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- **Governmental funds**—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the page subsequent to the governmental funds statement that explains the relationship (or differences) between the governmental fund and government-wide statements. See the table of contents of this report to find the governmental fund financial statements.
- **Proprietary funds**—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. See the table of contents in the front of this report to find the proprietary fund financial statements.
- **Notes to Financial Statements**—The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. See the table of contents in the front of this report to find the notes to the financial statements.
- **Other Information**—In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB Statement No. 34 requires includes a budgetary comparison schedule for the General Fund. See the table of contents in the front of this report to find RSI.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$21,996,368 (net assets). As required by GASB Statement No. 34, net assets also reflect \$19,207,656 that is invested in capital assets, net of related debt.
- During the year, the City's expenses were \$754,431 less than the \$9,055,024 generated in taxes and other revenues for governmental activities.
- The General Fund reported a fund balance this year of \$2,245,132, all of which was unreserved and undesignated. This amount equals 35% of General Fund expenditures.
- The City issued no new bonded debt for the year ending September 30, 2010.

- The overall financial position of the City has improved as noted by the aggregate increase in fund balance of \$320,167.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's combined net assets were \$21,996,368 at September 30, 2010, which is an increase from the prior year. (See Table A-1).

Table A-1
Net Assets

	Governmental Activities 2010	Business- Type Activities 2010	Total 2010	Governmental Activities 2009	Business- Type Activities 2009	Total 2009
Current and						
Other Assets	\$ 12,257,925	\$ 318,995	\$ 12,576,920	\$ 17,707,453	\$ 911,924	\$ 18,619,377
Capital Assets, Net	25,952,360	12,271,391	38,223,751	22,055,404	10,707,594	32,762,998
Total Assets	38,210,285	12,590,386	50,800,671	39,762,857	11,619,518	51,382,375
Long-Term						
Liabilities						
Outstanding	26,561,564	38,279	26,599,843	27,747,825	24,676	27,772,501
Other Liabilities	2,104,424	100,036	2,204,460	1,773,570	160,103	1,933,673
Total Liabilities	28,665,988	138,315	28,804,303	29,521,395	184,779	29,706,174
Net Assets:						
Invested in						
Capital Assets, Net of Related Debt	6,936,265	12,271,391	19,207,656	8,701,500	10,707,594	19,409,094
Restricted	-	-	-	266,999	-	266,999
Unrestricted	2,608,032	180,680	2,788,712	1,272,963	727,145	2,000,108
Total Net Assets	\$ 9,544,297	\$ 12,452,071	\$ 21,996,368	\$ 10,241,462	\$ 11,434,739	\$ 21,676,201

The City's total assets of \$50,800,671 are largely comprised of capital assets net of accumulated depreciation of \$38,223,751, or 75%. Historically, infrastructure (roads, bridges, signs, etc.) has not been included in capital asset reporting of governmental activities; however, GASB Statement No. 34 requires that all capital assets, including infrastructure, be reported in the government-wide statements. Capital assets are non-liquid assets and cannot be utilized to satisfy City obligations.

Long-term liabilities of \$26,599,843 comprise the largest portion of the City's total liabilities of \$28,804,303 at 92%. Of total long-term liabilities, \$1,397,929 is due within one year, with the remainder \$25,201,914 being due over a period of time greater than one year. A more in-depth discussion of long-term debt can be found in the notes to the financial statements.

Changes in net assets. The City's combined changes in net assets were \$320,167 at September 30, 2010. (See Table A-2).

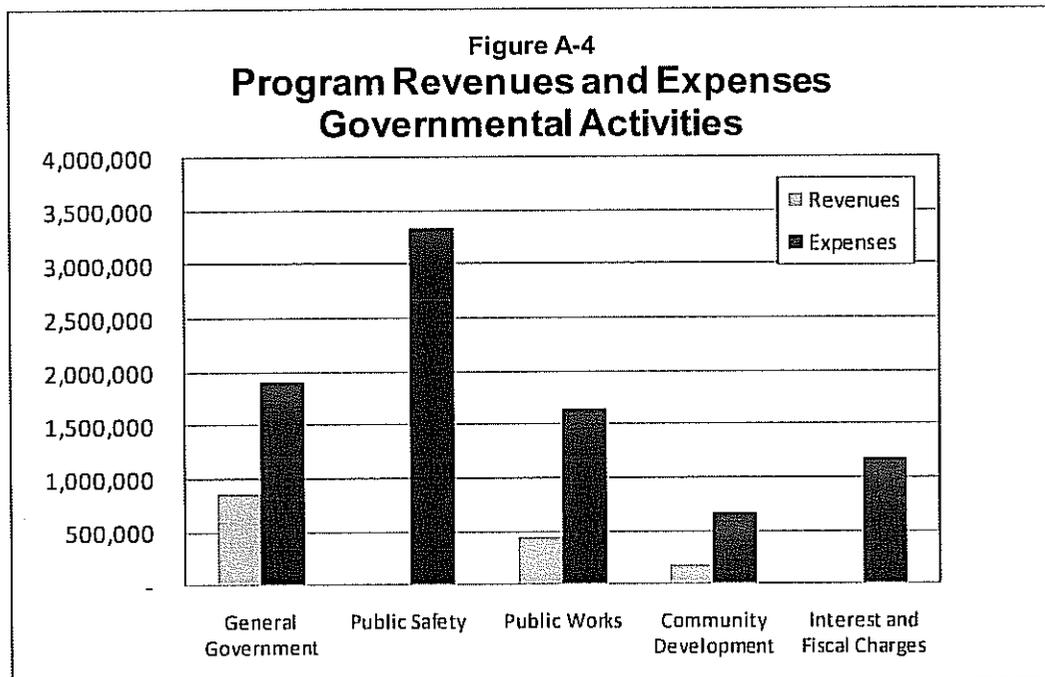
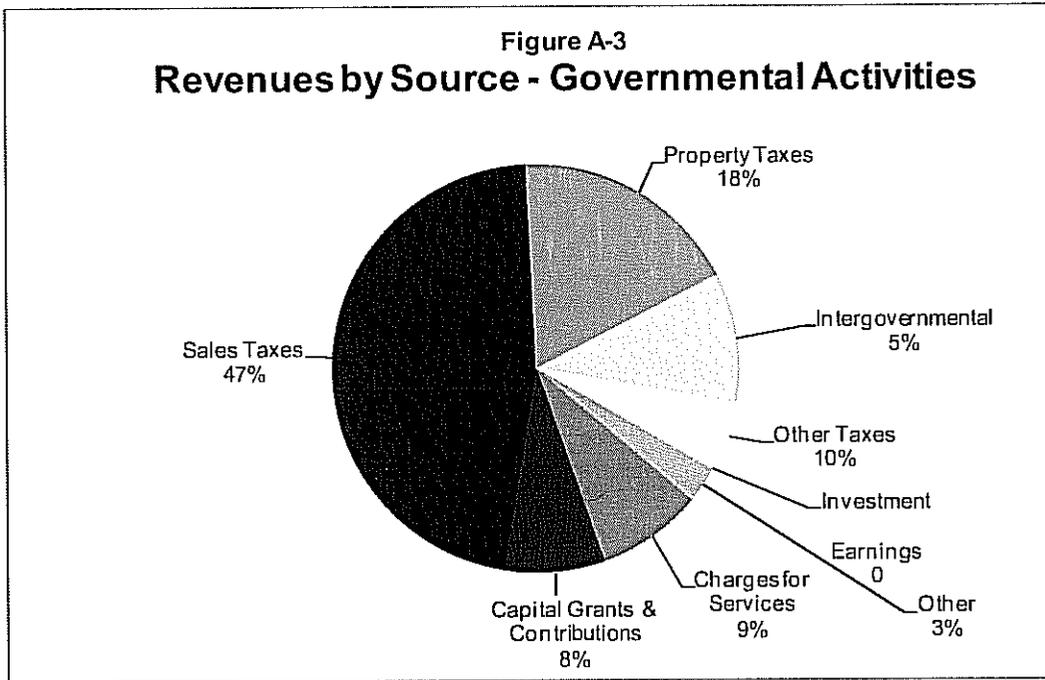
Table A-2
Change in Net Assets

	Govern- mental Activities 2010	Business- Type Activities 2010	Total 2010	Govern- mental Activities 2009	Business- Type Activities 2009	Total 2009
REVENUES						
Program Revenues:						
Charges for Services	\$ 773,643	\$ 981,510	\$ 1,755,153	\$ 723,366	\$ 1,162,752	\$ 1,886,118
Operating Grants and Contributions	-	-	-	318,737	-	318,737
Capital Grants and Contributions	720,033	166,768	886,801	-	-	-
General Revenues:						
Sales Taxes	4,217,352	-	4,217,352	4,331,944	-	4,331,944
Property Taxes	1,650,664	-	1,650,664	1,575,460	-	1,575,460
Franchise, Local, and Other Taxes	928,926	-	928,926	995,650	-	995,650
Intergovernmental	473,993	-	473,993	17,323	-	17,323
Investment Earnings	26,506	624	27,130	169,354	14,224	183,578
Other	255,273	368	255,641	429,562	(5,262)	424,300
Total Revenues	9,046,390	1,149,270	10,195,660	8,561,396	1,171,714	9,733,110
EXPENSES						
Governmental Activities:						
General Government	1,901,603	-	1,901,603	1,899,783	-	1,899,783
Public Safety	3,336,943	-	3,336,943	3,127,379	-	3,127,379
Public Works	1,641,233	-	1,641,233	1,946,894	-	1,946,894
Community Development	674,946	-	674,946	917,321	-	917,321
Interest and Fiscal Charges	1,173,095	-	1,173,095	1,000,883	-	1,000,883
Total Governmental Activities	8,727,820	-	8,727,820	8,892,260	-	8,892,260
Business Type Activities:						
Water and Sewer	-	1,583,534	1,583,534	-	1,760,639	1,760,639
Total Business- Type Activities	-	1,583,534	1,583,534	-	1,760,639	1,760,639
Total Expenses	8,727,820	1,583,534	10,311,354	8,892,260	1,760,639	10,652,899
Excess (Deficiency)						
Before Transfers and Special Items	754,431	(434,264)	320,167	(330,864)	(588,925)	(919,789)
Special Items	435,861	-	435,861	-	-	-
Transfers In (Out)	(1,451,596)	1,451,596	-	(884,509)	884,509	-
Change in Net Assets	(697,165)	1,017,332	320,167	(1,215,373)	295,584	(919,789)
Net Assets - Beginning	9,067,929	11,434,739	20,502,668	9,919,986	11,139,155	21,059,141
Prior Period Adjustment	1,173,533	-	1,173,533	363,316	-	363,316
Net Assets - Ending	\$ 9,544,297	\$ 12,452,071	\$ 21,996,368	\$ 9,067,929	\$ 11,434,739	\$ 20,502,668

Governmental Activities

The City's total revenues were \$9,046,390 from all governmental activities. A significant portion, \$4,217,352 or 47%, of the City's revenue comes from sales taxes. Property tax revenue accounts for \$1,650,664, or 18%; and charges for services include \$773,643, or 9% of total revenue for governmental activities. (See Figure A-3.)

The total cost of all governmental programs and services was \$8,727,820. The public safety function accounted for \$3,336,943, or 38% of this total. (See Figure A-4.)



Program revenues of \$1,493,676 are comprised in large part (56%) of general government revenues of \$861,073. The public safety function makes up 1% of program revenues at \$8,891; the public works function, 29% at \$435,780, and the Community Development function, 12% at \$187,932. As expected, general revenues provided the required support and coverage for additional expenses.

The governmental activities showed a decrease in net assets over the prior year which is attributable to an increase in general government, public safety, and interest and fiscal charge expenses.

Business-type Activities

Business-type activities are financed in whole or part by fees charged to external users for goods or services. They are reported in the enterprise fund. Business-type activities increased the City's net assets by \$1,017,332. Revenue can be reported as program revenue or general revenue; all revenues are general unless they are required to be reported as program revenues. There are two categories of revenues attributable to a specific program because they result from exchange-like transactions or other events, such as charges to customers. Charges for services reduce the net cost of the program financed from general revenues. The second is program-specific grants and contributions, which are not generated by the program, and generally the grantor is not the beneficiary of the goods, services, or privileges provided. Charges for service were \$981,510, capital grants and contributions were \$166,768, and program expenses were \$1,583,534.

At the end of the current year, the City is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its governmental and business-type activities separately.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

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

The general fund is the chief operating fund of the City. At the end of the current year, unreserved, undesignated fund balance of the general fund was \$2,245,132. The fund balance of the City's general fund increased by \$67,274 during the current fiscal year. Key factors in this increase are as follows:

- Shenandoah Industrial Development Corporation (SIDC) terminated during the year, and transferred all of its net assets to the City's General Fund.

Proprietary Funds

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

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$180,680. The total increase in net assets of \$1,017,332 was largely due to transfers of \$2,065,918 from the City's Capital Projects Fund.

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget multiple times. Actual expenditures are \$411,272 under the final budgeted amounts, largely due to the public works function of government. Resources available were \$151,370 above the final budgeted amount. This is due largely to the fact that license and permit revenues and intergovernmental revenues were greater than expected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the City had invested \$38,223,751 in a broad range of capital assets, including land, equipment, buildings, and infrastructure. (See Table A-3.)

Table A-3
Capital Assets

	Business-			Business-		
	Governmental Activities 2010	Type Activities 2010	Total 2010	Governmental Activities 2009	Type Activities 2009	Total 2009
Land	\$ 4,853,886	\$ 1,673,568	\$ 6,527,454	\$ 4,816,399	\$ 1,506,800	\$ 6,323,199
Const. in Progress	7,723,286	3,427,005	11,150,291	5,236,062	1,380,069	6,616,131
Infrastructure	15,383,986	-	15,383,986	13,940,831	-	13,940,831
Bldgs. & Imprvmnts.	3,587,119	-	3,587,119	3,253,237	-	3,253,237
Furn. & Equip.	1,697,310	457,556	2,154,866	1,797,072	436,829	2,233,901
Water and Sewer System	-	17,781,117	17,781,117	-	18,004,616	18,004,616
Totals	33,245,587	23,339,246	56,584,833	29,043,601	21,328,314	50,371,915
Accumulated Depreciation	(7,293,227)	(11,067,855)	(18,361,082)	(6,988,197)	(10,620,720)	(17,608,917)
Net Capital Assets	\$ 25,952,360	\$ 12,271,391	\$ 38,223,751	\$ 22,055,404	\$ 10,707,594	\$ 32,762,998

More detailed information about the City's capital assets is presented in Note E of the basic financial statements.

Long-Term Debt

At year-end the City had \$26,599,843 in long-term debt outstanding as shown in Table A-4. More detailed information about the City's debt is presented in Note G of the basic financial statements.

Table A-4
Long-Term Debt

	Business-			Business-		
	Governmental Activities 2010	Type Activities 2010	Total 2010	Governmental Activities 2009	Type Activities 2009	Total 2009
Bonds Payable	\$ 465,000	\$ -	\$ 465,000	\$ 685,000	\$ -	\$ 685,000
Certificates of Obligation	13,940,000	-	13,940,000	14,780,000	-	14,780,000
General Imprvmnt Bonds	11,945,000	-	11,945,000	12,055,000	-	12,055,000
Premiums	52,770	-	52,770	55,977	-	55,977
Discounts	(10,349)	-	(10,349)	(10,801)	-	(10,801)
Compensated Absences	115,196	30,662	145,858	149,934	20,344	170,278
Net Pension Obligation	53,947	7,617	61,564	32,715	4,332	37,047
Total Long-Term Debt	\$ 26,561,564	\$ 38,279	\$ 26,599,843	\$ 27,747,825	\$ 24,676	\$ 27,772,501

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Appraised value used for the 2011 budget preparation is \$498,472,411, a 2.1% decrease from 2010. The ad valorem tax rate remained the same at 0.3282 per \$100.
- Sales tax revenues are projected to be \$4,380,932 in 2011. Overall revenues are projected to decrease approximately 2%.
- General operating fund spending decreases in the 2011 budget from \$6,843,905 to \$5,864,657. This is a 14% decrease.

If these estimates are realized, the City's budgetary General Fund balance is not expected to change appreciably by the close of 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Department.

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Basic Financial Statements

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CITY OF SHENANDOAH

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2010

	Primary Government			Comp. Unit SMDD
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 492,674	\$ 7,034	\$ 499,708	\$ 359,402
Investments	9,822,461	374,703	10,197,164	700,611
Receivables, net	791,042	444,380	1,235,422	209,727
Internal balances	507,122	(507,122)	-	-
Deferred charges	644,626	-	644,626	-
Non-depreciable capital assets	12,577,172	5,100,573	17,677,745	-
Capital assets, net of accumulated depreciation	13,375,188	7,170,818	20,546,006	-
Total assets	<u>38,210,285</u>	<u>12,590,386</u>	<u>50,800,671</u>	<u>1,269,740</u>
LIABILITIES				
Unpresented checks	249,082	-	249,082	-
Accounts payable	884,207	34,228	918,435	5,096
Accrued liabilities	21,370	3,189	24,559	-
Accrued interest payable	387,512	-	387,512	-
Retainage payable	378,556	-	378,556	-
Customer deposits	183,697	62,619	246,316	-
Noncurrent liabilities				
Due within one year	1,382,598	15,331	1,397,929	-
Due in more than one year	25,178,966	22,948	25,201,914	-
Total liabilities	<u>28,665,988</u>	<u>138,315</u>	<u>28,804,303</u>	<u>5,096</u>
NET ASSETS				
Invested in capital assets, net of related debt	6,936,265	12,271,391	19,207,656	-
Unrestricted	2,608,032	180,680	2,788,712	1,264,644
Total net assets	<u>\$ 9,544,297</u>	<u>\$ 12,452,071</u>	<u>\$ 21,996,368</u>	<u>\$ 1,264,644</u>

The accompanying notes are an integral part of this statement.

CITY OF SHENANDOAH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental activities:			
General government	\$ 1,901,603	\$ 626,727	\$ 234,346
Public safety	3,336,943	8,891	-
Public works	1,641,233	110,845	324,935
Community development	674,946	27,180	160,752
Interest and fiscal charges	1,173,095	-	-
Total governmental activities	<u>8,727,820</u>	<u>773,643</u>	<u>720,033</u>
Business-type Activities:			
Water and Sewer	1,583,534	981,510	166,768
Total Primary Government	<u>\$ 10,311,354</u>	<u>\$ 1,755,153</u>	<u>\$ 886,801</u>
COMPONENT UNITS:			
Shenandoah Industrial Development Corporation	\$ 927,217	\$ -	\$ -
Shenandoah Municipal Development District	24,821	-	-
Total Component Units	<u>\$ 952,038</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:
Sales taxes
Property taxes
Franchise taxes
Other taxes
Intergovernmental
Investment revenue
Other revenues
Special Item:
Net assets conveyed from SIDC to the City
Transfers
Total general revenues,
special items, and transfers
Change in net assets
Net assets - beginning
Prior period adjustment
Net assets - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total	Component Units	
			SIDC	SMDD
\$ (1,040,530)		\$ (1,040,530)		
(3,328,052)		(3,328,052)		
(1,205,453)		(1,205,453)		
(487,014)		(487,014)		
(1,173,095)		(1,173,095)		
<u>(7,234,144)</u>		<u>(7,234,144)</u>		
-	\$ (435,256)	(435,256)		
<u>(7,234,144)</u>	<u>(435,256)</u>	<u>(7,669,400)</u>		
			\$ (927,217)	\$ -
			-	(24,821)
			<u>(927,217)</u>	<u>(24,821)</u>
4,217,352	-	4,217,352	-	1,288,854
1,650,664	-	1,650,664	-	-
351,320	-	351,320	-	-
577,606	-	577,606	-	-
473,993	-	473,993	-	-
26,506	624	27,130	1,727	611
255,273	368	255,641	-	-
435,861	-	435,861	(435,861)	-
(1,451,596)	1,451,596	-	-	-
<u>6,536,979</u>	<u>1,452,588</u>	<u>7,989,567</u>	<u>(434,134)</u>	<u>1,289,465</u>
(697,165)	1,017,332	320,167	(1,361,351)	1,264,644
9,067,929	11,434,739	20,502,668	1,361,351	-
1,173,533	-	1,173,533	-	-
<u>\$ 9,544,297</u>	<u>\$ 12,452,071</u>	<u>\$ 21,996,368</u>	<u>\$ -</u>	<u>\$ 1,264,644</u>

CITY OF SHENANDOAH**BALANCE SHEET - GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2010

	General Fund	Hotel/Motel Occupancy Tax Fund
ASSETS		
Cash and cash equivalents	\$ 285,392	\$ 207,282
Investments	911,188	229,374
Receivables, net	756,212	-
Due from other funds	733,941	1,204
Total assets	<u>\$ 2,686,733</u>	<u>\$ 437,860</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Unpresented checks	\$ -	\$ -
Accounts payable	185,611	6,501
Accrued liabilities	20,880	490
Retainage payable	-	-
Due to other funds	50,322	223,055
Customer deposits	183,697	-
Deferred revenue	1,091	-
Total liabilities	<u>441,601</u>	<u>230,046</u>
Fund balances:		
Reserved for:		
Debt service	-	-
Capital improvements	-	-
Unreserved	2,245,132	207,814
Total fund balances	<u>2,245,132</u>	<u>207,814</u>
Total liabilities and fund balances	<u>\$ 2,686,733</u>	<u>\$ 437,860</u>

The accompanying notes are an integral part of this statement.

Debt Service Fund	Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 492,674
34,348	8,647,551	-	9,822,461
34,830	-	-	791,042
1,814	48,508	-	785,467
<u>\$ 70,992</u>	<u>\$ 8,696,059</u>	<u>\$ -</u>	<u>\$ 11,891,644</u>
\$ -	\$ 249,082	\$ -	\$ 249,082
-	692,095	-	884,207
-	-	-	21,370
-	378,556	-	378,556
-	-	4,968	278,345
-	-	-	183,697
34,830	-	-	35,921
<u>34,830</u>	<u>1,319,733</u>	<u>4,968</u>	<u>2,031,178</u>
36,162	-	-	36,162
-	7,376,326	-	7,376,326
-	-	-	2,447,978
<u>36,162</u>	<u>7,376,326</u>	<u>(4,968)</u>	<u>9,860,466</u>
<u>\$ 70,992</u>	<u>\$ 8,696,059</u>	<u>\$ -</u>	<u>\$ 11,891,644</u>

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CITY OF SHENANDOAH

*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010*

Total fund balances - governmental funds balance sheet	\$ 9,860,466
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	25,952,360
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	35,921
Payables for bond principal which are not due in the current period are not reported in the funds.	(26,392,421)
Payables for bond interest which are not due in the current period are not reported in the funds.	(387,512)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(115,196)
Bond issuance costs that have been capitalized are not reported in the funds.	644,626
The net pension obligation is not reported in the funds.	<u>(53,947)</u>
Net assets of governmental activities - Statement of Net Assets	<u>\$ 9,544,297</u>

The accompanying notes are an integral part of this statement.

CITY OF SHENANDOAH

*STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010*

	General Fund	Hotel/Motel Occupancy Tax Fund
REVENUES		
Taxes:		
Sales taxes	\$ 4,217,352	\$ -
Property taxes	829,984	-
Franchise taxes	351,320	-
Other taxes	-	577,606
Licenses and permits	383,214	-
Intergovernmental	121,856	-
Charges for services	136,789	2,250
Donations from SIDC	234,346	-
Investment revenue	2,870	778
Fines and forfeitures	240,528	-
Other revenues	170,732	29,519
Total revenues	<u>6,688,991</u>	<u>610,153</u>
EXPENDITURES		
Current:		
General government	1,773,771	-
Public safety	3,039,102	-
Public works	1,237,735	-
Community development	107,300	549,858
Debt service:		
Principal	-	-
Interest and fiscal charges	-	-
Capital outlay	274,725	-
Total expenditures	<u>6,432,633</u>	<u>549,858</u>
Excess (deficiency) of revenues over (under) expenditures	<u>256,358</u>	<u>60,295</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	506,100	-
Transfers out	(1,261,045)	(199,000)
Proceeds from the sale of capital assets	130,000	-
Total other financing sources (uses)	<u>(624,945)</u>	<u>(199,000)</u>
SPECIAL ITEMS		
Net assets conveyed from SIDC to the City's General Fund	435,861	-
Total special items	<u>435,861</u>	<u>-</u>
Net change in fund balance	67,274	(138,705)
Fund balances - beginning	2,177,858	346,519
Fund balances - ending	<u>\$ 2,245,132</u>	<u>\$ 207,814</u>

The accompanying notes are an integral part of this statement.

Debt Service Fund	Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 4,217,352
825,148	-	-	1,655,132
-	-	-	351,320
-	-	-	577,606
-	-	-	383,214
-	350,000	2,137	473,993
-	-	-	139,039
-	485,687	-	720,033
1,027	21,831	-	26,506
-	-	10,862	251,390
-	55,022	-	255,273
<u>826,175</u>	<u>912,540</u>	<u>12,999</u>	<u>9,050,858</u>
1,846	142,593	12,049	1,930,259
-	-	5,947	3,045,049
-	-	-	1,237,735
-	-	-	657,158
1,170,000	-	-	1,170,000
1,033,870	-	-	1,033,870
-	4,450,261	-	4,724,986
<u>2,205,716</u>	<u>4,592,854</u>	<u>17,996</u>	<u>13,799,057</u>
<u>(1,379,541)</u>	<u>(3,680,314)</u>	<u>(4,997)</u>	<u>(4,748,199)</u>
904,932	663,335	-	2,074,367
-	(2,065,918)	-	(3,525,963)
-	-	-	130,000
<u>904,932</u>	<u>(1,402,583)</u>	<u>-</u>	<u>(1,321,596)</u>
-	-	-	435,861
-	-	-	435,861
(474,609)	(5,082,897)	(4,997)	(5,633,934)
510,771	12,459,223	29	15,494,400
<u>\$ 36,162</u>	<u>\$ 7,376,326</u>	<u>\$ (4,968)</u>	<u>\$ 9,860,466</u>

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CITY OF SHENANDOAH

*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, 2010*

Net change in fund balances - total governmental funds	\$ (5,633,934)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	4,724,986
The depreciation of capital assets used in governmental activities is not reported in the funds.	(698,030)
All proceeds from the sale of capital assets are reported in the funds but not in the SOA.	(130,000)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(4,468)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	1,170,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(34,783)
(Increase) decrease in accrued interest from beginning of period to end of period.	(104,442)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	34,738
(Increase) decrease in the net pension obligation from beginning of period to end of period.	<u>(21,232)</u>
Change in net assets of governmental activities - Statement of Activities	<u>\$ (697,165)</u>

The accompanying notes are an integral part of this statement.

CITY OF SHENANDOAH
STATEMENT OF NET ASSETS
ENTERPRISE FUND
SEPTEMBER 30, 2010

	Enterprise Fund Water and Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 7,034
Investments	374,703
Receivables, net	444,380
Total current assets	<u>826,117</u>
Noncurrent assets:	
Capital assets:	
Land	1,673,568
Construction in progress	3,427,005
Water and sewer system	17,781,117
Furniture and equipment	457,556
Less: accumulated depreciation	<u>(11,067,855)</u>
Total noncurrent assets	<u>12,271,391</u>
Total assets	<u>\$ 13,097,508</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 34,228
Accrued liabilities	3,189
Due to other funds	507,122
Customer deposits	62,619
Compensated absences payable, current	15,331
Total current liabilities	<u>622,489</u>
Noncurrent liabilities:	
Compensated absences payable, noncurrent	15,331
Net pension obligation	7,617
Total noncurrent liabilities	<u>22,948</u>
Total liabilities	<u>645,437</u>
NET ASSETS	
Invested in capital assets, net of related debt	12,271,391
Unrestricted net assets	180,680
Total net assets	<u>\$ 12,452,071</u>

The accompanying notes are an integral part of this statement.

CITY OF SHENANDOAH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - ENTERPRISE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Enterprise Fund <u>Water and Sewer Fund</u>
Operating revenues:	
Water charges	\$ 499,303
Sewer charges	448,828
Penalties and reconnect fees	33,379
Total operating revenues	<u>981,510</u>
Operating expenses:	
Personnel	628,074
Supplies and services	206,782
Maintenance	169,777
Depreciation expense	477,445
Total operating expenses	<u>1,482,078</u>
Operating income (loss)	<u>(500,568)</u>
Nonoperating revenues (expenses):	
Loss on asset disposals	(101,456)
Investment earnings	624
Other	368
Total nonoperating revenues (expenses)	<u>(100,464)</u>
Income (loss) before transfers and capital contributions	(434,264)
Capital contributions from SIDC	166,768
Transfers in	2,065,918
Transfers out	<u>(614,322)</u>
Change in net assets	1,017,332
Total net assets - beginning	11,434,739
Total net assets - ending	<u>\$ 12,452,071</u>

The accompanying notes are an integral part of this statement.

CITY OF SHENANDOAH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Enterprise Fund:</u> Water & Sewer
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 727,143
<i>Cash Payments to Employees for Services</i>	(614,586)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(416,135)
Net Cash Provided (Used) by Operating Activities	<u>(303,578)</u>
Cash Flows from Non-capital Financing Activities:	
<i>Increase (Decrease) in Customer Deposits</i>	(20,376)
<i>Transfers From (To) Other Funds</i>	1,923,854
Net Cash Provided (Used) by Non-capital Financing Activities	<u>1,903,478</u>
Cash Flows from Capital and Related Financing Activities:	
<i>Acquisition or Construction of Capital Assets</i>	(2,086,644)
<i>Proceeds from Sale of Capital Assets</i>	110,714
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(1,975,930)</u>
Cash Flows from Investing Activities:	
<i>Proceeds from Sale and Maturities of Securities</i>	221,674
<i>Interest and Dividends on Investments</i>	992
Net Cash Provided (Used) for Investing Activities	<u>222,666</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(153,364)
Cash and Cash Equivalents at Beginning of Year	160,398
Cash and Cash Equivalents at End of Year	<u>\$ 7,034</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income (Loss)	\$ (500,568)
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
<i>Depreciation</i>	477,445
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	(254,367)
<i>Increase (Decrease) in Accounts Payable</i>	(39,576)
<i>Increase (Decrease) in Accrued Liabilities</i>	(115)
<i>Increase (Decrease) in Compensated Absences Payable</i>	10,318
<i>Increase (Decrease) in Net Pension Obligation</i>	3,285
Total Adjustments	<u>196,990</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (303,578)</u>

The accompanying notes are an integral part of this statement.

CITY OF SHENANDOAH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies

The combined financial statements of the City of Shenandoah (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City of Shenandoah is a municipality governed by an elected mayor and a five-member council. The accompanying financial statements present the results of the government's operations and its resultant financial position, as well as the financial activities and positions of the City's component units. Component units are legally separate entities for which the government is considered to be financially accountable. Two such entities existed within the current fiscal year, each of which is described briefly below. In order to emphasize its legal separation from the primary government, each component unit's financial information has been discretely presented in a separate column in the government-wide financial statements.

Discretely Presented Component Units

Shenandoah Industrial Development Corporation

The Shenandoah Industrial Development Corporation (SIDC) was incorporated in 1998 under the Texas Development Corporation Act of 1979 after the citizens of Shenandoah approved a one-half percent sales tax to fund its operations. State law allows the City to collect a sales tax to assist in the promotion and development activities of the City, and tax receipts began in 2000. The SIDC was created for the purposes of promoting, assisting, and enhancing economic development activities on behalf of Shenandoah. The City is considered financially accountable for the SIDC because the corporation's board of directors is wholly appointed by and serves at the discretion of the City Council. City Council must also approve the SIDC's annual budget and any issuance of bonded debt by the corporation.

On May 9, 2009, the citizens of Shenandoah simultaneously approved the repeal of the one-half percent sales tax that funded the SIDC and the establishment of a one-half percent sales tax to fund the Shenandoah Municipal Development District (described below). On July 1, 2010, City Council resolved to terminate the SIDC, and the corporation's board of directors followed by adopting a plan of dissolution. Termination of the corporation was granted by the Secretary of State on September 16, 2010. The net assets of the SIDC were transferred to the City's General Fund at that time. Conveyance of net assets from the SIDC to the City's General Fund is presented as a special item in the financial statements. See Note K for additional information.

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 Local 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 of 2009. The District was created for the purposes of planning, acquiring, establishing, developing, constructing, or renovating one or more development projects, as defined by law. The City is considered financially accountable for the SMDD because the District's five member board of directors is wholly appointed by and serves at the discretion of the City Council.

Neither the SIDC nor the SMDD issues separate financial statements.

CITY OF SHENANDOAH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

Hotel/Motel Occupancy Tax Fund. This fund is a special revenue fund used to account for the revenues collected from taxes levied on the City's hotels and motels. Revenues are authorized to be spent on community development.

Debt Service Fund. This fund is used to account for the accumulation of resources for and the payment of general obligation bonds, contractual obligations, certificates of obligation, and other long-term debt. Generally accepted accounting principles do not mandate the use of a debt service fund to service debt unless the government is legally mandated to do so or unless resources are accumulated for payments maturing in future years. The principle source of revenue for the debt service fund is property taxes.

Capital Improvements Fund. This fund is a capital projects fund used to account for financial resources that are used for the acquisition or construction of major capital assets and infrastructure. This fund is financed principally from bond proceeds and certificates of obligation.

The City reports the following major enterprise funds:

Water/Sewer Fund. This fund is used to account for water, wastewater, and sanitation operations. These services are financed and operated in a manner similar to private business entities, and the costs of providing services are intended to be recovered primarily through charges to the general public for their use of such services.

CITY OF SHENANDOAH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen to apply future FASB standards.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash on hand and in bank depositories are considered to be cash equivalents.

b. Property Taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action. The interest continues to accumulate on the account at 1% per month, but the penalty remains at a maximum of 12% until paid.

A penalty of 6% and interest of 1% is added to delinquent taxes on February 1. The penalty amount increases to a maximum of 12% on July 1 of each year, with interest continuing to increase at 1% per month until the account is paid. An additional penalty of 15% is added in July for attorney costs. There are no discounts allowed on taxes.

CITY OF SHENANDOAH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

The combined current tax rate to finance general governmental services and payment of principal and interest on long-term debt for the year ended September 30, 2010 was \$0.3282 per \$100, allocated \$0.1689 for the General Fund and \$0.1593 for the Debt Service Fund.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Furniture and equipment	5 to 20 years
Buildings and improvements	20 to 50 years
Infrastructure	20 to 50 years
Water and sewer system	20 to 50 years

d. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers in and transfers out are netted and presented as a single "transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "internal balances" line of the government-wide statement of net assets.

e. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results may differ from those estimates.

4. Budgetary Data

Annual budgets are adopted on a basis consistent with generally accepted accounting principles except for the capital projects fund, which adopts a project length budget. The original budget is adopted by the City Council prior to the beginning of the fiscal year. The legal level of control is the object and purpose stated in the approved budget. Appropriations lapse at the end of the year, excluding capital projects budgets. Supplemental budget appropriations were made for the year ended.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

CITY OF SHENANDOAH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
LEOSE Fund	\$ (2,324)	The General Fund will transfer funds in 2011 to offset these negative fund balances.
Designated Court Fund	(2,644)	

3. Excess of Expenditures over Appropriations

For the year ended September 30, 2010, expenditures for capital outlays exceeded appropriations in the General Fund by \$126,417. These excess expenditures were offset by greater than anticipated revenues.

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At September 30, 2010, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$248,868 and the bank balance was \$835,999. The City's cash deposits at September 30, 2010 and during the year ended September 30, 2010, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investments at September 30, 2010 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Values</u>	
		<u>Primary Government</u>	<u>Component Unit</u>
TexPool	N/A	\$ 10,190,618	\$ 700,611
TexPool Prime	N/A	6,546	-
Total Investments		\$ 10,197,164	\$ 700,611

CITY OF SHENANDOAH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

State law and the City's investment policy limits investments to obligations of states, agencies, counties and other political subdivisions of any state related as to investment quality by nationally recognized investment rating firms to be not less than A or its equivalent. Further, commercial paper must be rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies. As of year end, the City's investment in TexPool was rated AAAM by Standard and Poor's.

b. Custodial Credit Risk

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. The City's investment policy requires funds on deposit at the depository bank to be collateralized. As of year end, market values of pledged securities and FDIC insurance exceeded bank balances.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

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 and Poor's rates TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard and Poor's, as well as to the office of the Comptroller of Public Accounts for review.

D. Receivables

The following comprise receivable balances at year end:

	Primary Government			Component Unit
	General Fund	Debt Service Fund	Water and Sewer Fund	
Property taxes	\$ 1,091	\$ 34,830	\$ -	\$ -
Franchise taxes	27,739	-	-	-
Sales taxes	681,005	-	-	209,727
Accounts	-	-	95,553	-
Other	46,377	-	351,827	-
Gross receivables	756,212	34,830	447,380	209,727
Less: allowance for uncollectibles	-	-	(3,000)	-
Net total receivables	\$ 756,212	\$ 34,830	\$ 444,380	\$ 209,727

CITY OF SHENANDOAH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

E. Capital Assets

Capital asset activity for the year ended September 30, 2010, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 4,816,399	\$ 37,487	\$ -	\$ 4,853,886
Construction in progress	5,236,062	3,627,033	(1,139,809)	7,723,286
Total capital assets not being depreciated	<u>10,052,461</u>	<u>3,664,520</u>	<u>(1,139,809)</u>	<u>12,577,172</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	13,940,831	1,443,155	-	15,383,986
Buildings and improvements	3,253,237	333,882	-	3,587,119
Furniture and equipment	1,797,072	378,837	(478,599)	1,697,310
Total capital assets being depreciated	<u>18,991,140</u>	<u>2,155,874</u>	<u>(478,599)</u>	<u>20,668,415</u>
Less accumulated depreciation for:				
Infrastructure	(5,120,723)	(379,413)	-	(5,500,136)
Buildings and improvements	(644,494)	(81,331)	-	(725,825)
Furniture and equipment	(1,222,980)	(245,920)	401,634	(1,067,266)
Total accumulated depreciation	<u>(6,988,197)</u>	<u>(706,664)</u>	<u>401,634</u>	<u>(7,293,227)</u>
Total capital assets being depreciated, net	<u>12,002,943</u>	<u>1,449,210</u>	<u>(76,965)</u>	<u>13,375,188</u>
Governmental activities capital assets, net	<u>\$ 22,055,404</u>	<u>\$ 5,113,730</u>	<u>\$ (1,216,774)</u>	<u>\$ 25,952,360</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,506,800	\$ 166,768	\$ -	\$ 1,673,568
Construction in progress	1,380,069	2,065,917	(18,981)	3,427,005
Total capital assets not being depreciated	<u>2,886,869</u>	<u>2,232,685</u>	<u>(18,981)</u>	<u>5,100,573</u>
<i>Capital assets being depreciated:</i>				
Furniture and equipment	436,829	20,727	-	457,556
Water and sewer system	18,004,616	18,981	(242,480)	17,781,117
Total capital assets being depreciated	<u>18,441,445</u>	<u>39,708</u>	<u>(242,480)</u>	<u>18,238,673</u>
Less accumulated depreciation for:				
Furniture and equipment	(238,845)	(27,330)	-	(266,175)
Water and sewer system	(10,381,875)	(450,115)	30,310	(10,801,680)
Total accumulated depreciation	<u>(10,620,720)</u>	<u>(477,445)</u>	<u>30,310</u>	<u>(11,067,855)</u>
Total capital assets being depreciated, net	<u>7,820,725</u>	<u>(437,737)</u>	<u>(212,170)</u>	<u>7,170,818</u>
Business-type activities capital assets, net	<u>\$ 10,707,594</u>	<u>\$ 1,794,948</u>	<u>\$ (231,151)</u>	<u>\$ 12,271,391</u>

Depreciation was charged to functions as follows:

Governmental Activities:

Public Safety	\$ 282,324
Public Works	405,697
Community Development	18,643
	<u>\$ 706,664</u>

Business-type Activities:

Water and Sewer	\$ 477,445
	<u>\$ 477,445</u>

CITY OF SHENANDOAH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

F. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2010, consisted of the following, and represent the current portion of lending/borrowing and interfund charges for goods and services arrangements outstanding at the fiscal year end:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>
General Fund	Water & Sewer Fund	\$ 505,918
	Hotel/Motel Fund	223,055
	Other Nonmajor Funds	4,968
Debt Service	General Fund	1,814
Capital Projects	General Fund	48,508
Hotel/Motel Fund	Water & Sewer Fund	1,204
	Total	<u>\$ 785,467</u>

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2010, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
General fund	Debt Service Fund	\$ 831,918
	Capital Projects Fund	429,127
Hotel/Motel Fund	General Fund	199,000
Capital Projects Fund	Water & Sewer Fund	2,065,918
Water & Sewer Fund	General Fund	307,100
	Debt Service Fund	73,014
	Capital Projects Fund	234,208
	Total	<u>\$ 4,140,285</u>

CITY OF SHENANDOAH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

G. Long-Term Obligations

1. Long-Term Obligation Activity

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 General and Debt Service Funds to liquidate governmental long-term debt liabilities.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
General obligation bonds	\$ 685,000	\$ -	\$ (220,000)	\$ 465,000	\$ 230,000
Certificates of obligation	14,780,000	-	(840,000)	13,940,000	880,000
General improvement bonds	12,055,000	-	(110,000)	11,945,000	215,000
Less: deferred amounts					
Issuance premium	55,977	-	(3,207)	52,770	-
Issuance discount	(10,801)	-	452	(10,349)	-
Compensated absences*	149,934	81,907	(116,645)	115,196	57,598
Net pension obligation	32,715	21,232	-	53,947	-
Total governmental activities	<u>\$ 27,747,825</u>	<u>\$ 103,139</u>	<u>\$ (1,289,400)</u>	<u>\$ 26,561,564</u>	<u>\$ 1,382,598</u>
<u>Business-type activities:</u>					
Compensated absences*	\$ 20,344	\$ 37,874	\$ (27,556)	\$ 30,662	\$ 15,331
Net pension obligation	4,332	3,285	-	7,617	-
Total business-type activities	<u>\$ 24,676</u>	<u>\$ 41,159</u>	<u>\$ (27,556)</u>	<u>\$ 38,279</u>	<u>\$ 15,331</u>

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General
Compensated absences	Business-type	Water & Sewer

2. Debt Service Requirements

Long-term debt balances at September 30, 2010 and activity for the year then ended are comprised of the debt issues displayed below. Information is displayed according to debt type and is followed by the debt service requirements for that type of debt. Total debt service requirements for the City at September 30, 2010 complete this section.

General Obligation Bonds

Series	Maturity Date	Interest Rate	Amount Originally Issued	Beginning Balance	Increases	Decreases	Ending Balance
2003	2012	3.5-3.625%	\$ 2,355,000	\$ 685,000	\$ -	\$ (220,000)	\$ 465,000
Total General Obligation Bonds				<u>\$ 685,000</u>	<u>\$ -</u>	<u>\$ (220,000)</u>	<u>\$ 465,000</u>

Debt Service Requirements for the
Year Ending September 30,

	General Obligation Bonds - Governmental		
	Principal	Interest	Total
2011	\$ 230,000	\$ 16,569	\$ 246,569
2012	235,000	8,518	243,518
2036-2040	<u>\$ 465,000</u>	<u>\$ 25,087</u>	<u>\$ 490,087</u>

CITY OF SHENANDOAH
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Certificates of Obligation

Series	Maturity Date	Interest Rate	Amount Originally Issued	Beginning Balance	Increases	Decreases	Ending Balance
2003	2012	3.5-3.625%	\$ 3,650,000	\$ 1,490,000	\$ -	\$ (480,000)	\$ 1,010,000
2007	2027	4.0-4.150%	9,045,000	8,770,000	-	(120,000)	8,650,000
2008	2016	3.5-4.0%	2,225,000	2,115,000	-	(120,000)	1,995,000
2009	2024	2.0-4.0%	2,405,000	2,405,000	-	(120,000)	2,285,000
Total General Obligation Bonds				\$ 14,780,000	\$ -	\$ (840,000)	\$ 13,940,000

Debt Service Requirements for the
Year Ending September 30,

	Certificates of Obligation		
	Principal	Interest	Total
2011	\$ 880,000	\$ 539,520	\$ 1,419,520
2012	910,000	510,120	1,420,120
2013	690,000	479,076	1,169,076
2014	715,000	454,926	1,169,926
2015	745,000	428,451	1,173,451
2016-2020	4,155,000	1,697,955	5,852,955
2021-2025	4,415,000	812,451	5,227,451
2026-2030	1,430,000	89,465	1,519,465
Totals	\$ 13,940,000	\$ 5,011,964	\$ 18,951,964

General Improvement Bonds

Series	Maturity Date	Interest Rate	Amount Originally Issued	Beginning Balance	Increases	Decreases	Ending Balance
2008	2033	4.0-4.5%	\$ 5,660,000	\$ 5,660,000	\$ -	\$ (110,000)	\$ 5,550,000
2009	2028	2.0-4.5%	6,395,000	6,395,000	-	-	6,395,000
Total General Obligation Bonds				\$ 12,055,000	\$ -	\$ (110,000)	\$ 11,945,000

Debt Service Requirements for the
Year Ending September 30,

	General Improvement Bonds		
	Principal	Interest	Total
2011	\$ 215,000	\$ 471,662	\$ 686,662
2012	225,000	465,062	690,062
2013	465,000	458,162	923,162
2014	480,000	445,562	925,562
2015	495,000	429,412	924,412
2016-2020	2,735,000	1,880,686	4,615,686
2021-2025	3,295,000	1,312,906	4,607,906
2026-2030	2,970,000	574,760	3,544,760
2031-2035	1,065,000	97,202	1,162,202
Totals	\$ 11,945,000	\$ 6,135,414	\$ 18,080,414

Debt Service Requirements for the
Year Ending September 30,

	Primary Government Total, All Debt Types		
	Principal	Interest	Total
2011	\$ 1,325,000	\$ 1,027,751	\$ 2,352,751
2012	1,370,000	983,700	2,353,700
2013	1,155,000	937,238	2,092,238
2014	1,195,000	900,488	2,095,488
2015	1,240,000	857,863	2,097,863
2016-2020	6,890,000	3,578,641	10,468,641
2021-2025	7,710,000	2,125,357	9,835,357
2026-2030	4,400,000	664,225	5,064,225
2031-2035	1,065,000	97,202	1,162,202
Totals	\$ 26,350,000	\$ 11,172,465	\$ 37,522,465

CITY OF SHENANDOAH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

3. Continuing Disclosure

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

H. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2010, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year, and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

The City recovered \$360,696 from TML during 2010, \$351,827 of which had not been received as of year-end. All insurance recoveries that were used to repair, instead of replace, any damaged capital assets were charged against the associated repair and maintenance expense. Recoveries that were used to replace an asset determined to be beyond repair were included in the calculation of the gain or loss associated with disposition of the irreparable asset.

Recoveries charged to gain/loss on asset disposal	\$	351,827
Recoveries charged against repair and maintenance expense		8,869
Total insurance recoveries	\$	<u>360,696</u>

All current year insurance recoveries related to the City's Water and Sewer Fund.

I. Pension Plan

1. Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing statutes of TMRS.

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

CITY OF SHENANDOAH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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:

	Plan Year (Calendar Year) 2009	Plan Year (Calendar Year) 2010
Employee deposit rate	7.0%	7.0%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

2. Funding Policy

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$ 467,108
Interest on Net Pension Obligation	2,779
Adjustments to the ARC	(2,262)
Annual Pension Cost (APC)	467,625
Contributions Made	(443,108)
Increase (Decrease) in Net Pension Obligation	24,517
Net Pension Obligation/(Asset), Beginning of Year	37,047
Net Pension Obligation/(Asset), End of Year	\$ 61,564

The increase in pension obligation was charged to the following functions:

Governmental Activities:

General Government	\$ 6,174
Public Safety	13,019
Public Works	2,758
Community Development	(719)
	\$ 21,232

Business-type Activities:

Water and Sewer	\$ 3,285
	\$ 3,285

CITY OF SHENANDOAH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

3. Trend information for the plan:

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
September 30, 2008	\$ 327,408	\$ 327,408	100%	\$ -
September 30, 2009	407,653	370,606	91%	37,047
September 30, 2010	467,625	443,108	95%	61,564

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Actuarial Valuation Date	12/31/2007	12/31/2008	12/31/2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization period	30 years; closed period	29 years; closed period	29 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	Amortized Cost	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.5%	7.5%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at Cost-of-Living Adjustments	3.00%	3.00%	3.00%
	2.1%	2.1%	2.1%

4. Funding Status and Funding Progress:

As of December 31, 2009, the most recent actuarial valuation date, the plan was 46.8% funded. The actuarial accrued liability for benefits was \$5,196,587, and the actuarial value of assets was \$2,434,300, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,762,287. The covered payroll (annual payroll of the active employees covered by the plan) was \$3,837,015, and the ratio of the UAAL to the covered payroll was 72.0%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

CITY OF SHENANDOAH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

J. Commitments and Contingencies

1. Commitments

The City has active construction projects as of September 30, 2010. The projects include repairs to Water Well No. 2 and street and drainage projects throughout Shenandoah. At year end the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Emergency Water Well No. 2	\$ 888,341	\$ 258,855
Priority Area I Reconstruction	4,931,316	246,331
Priority Area II Reconstruction	1,164,415	4,441,891
	<u>\$ 6,984,072</u>	<u>\$ 4,947,077</u>

2. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

3. Litigation

No reportable litigation was pending against the City at September 30, 2010.

K. Special Item

On September 16, 2010, the Secretary of State, at the request of the SIDC's board of directors, granted the Shenandoah Industrial Development Corporation termination under the laws of Texas. As outlined in its bylaws, any net assets held by the corporation at the time of its dissolution were conveyed to the City's General Fund. This increased the fund balance of the City's General Fund and the net assets of the primary government by \$435,861.

GASB Statement No. 34 defines a special item as a significant transaction within the control of management that is either unusual in nature or infrequent in occurrence. The conveyance of net assets from the SIDC to the City's General Fund meets this definition, and has therefore been reported as a special item within the City's financial statements. Classification as a special item separates this infrequent occurrence from the normal activities of the City and allows for a more meaningful comparison of its operations from one year to the next.

L. Prior Period Adjustment

The City's financial statements contain a prior period adjustment to account for assets donated to the City's governmental activities by the SIDC in prior years. The prior period adjustment had no effect on fund balance, but increased governmental activities' net assets by \$1,173,533.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

CITY OF SHENANDOAH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2010

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales taxes	\$ 4,511,342	\$ 4,207,309	\$ 4,217,352	\$ 10,043
Property taxes	853,430	853,430	829,984	(23,446)
Franchise taxes	353,520	343,238	351,320	8,082
Licenses and permits	270,000	270,000	383,214	113,214
Intergovernmental	108,250	-	121,856	121,856
Charges for services	141,140	119,640	136,789	17,149
Donations from SIDC	-	243,546	234,346	(9,200)
Investment revenue	49,000	29,000	2,870	(26,130)
Fines and forfeitures	317,000	242,208	240,528	(1,680)
Other revenues	154,250	229,250	170,732	(58,518)
Total revenues	<u>6,757,932</u>	<u>6,537,621</u>	<u>6,688,991</u>	<u>151,370</u>
EXPENDITURES				
Current:				
General government	1,946,430	1,825,748	1,773,771	51,977
Public safety	3,162,910	3,141,600	3,039,102	102,498
Public works	1,738,775	1,604,539	1,237,735	366,804
Community development	138,960	123,710	107,300	16,410
Capital outlay	71,520	148,308	274,725	(126,417)
Total expenditures	<u>7,058,595</u>	<u>6,843,905</u>	<u>6,432,633</u>	<u>411,272</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(300,663)</u>	<u>(306,284)</u>	<u>256,358</u>	<u>562,642</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	597,130	572,130	506,100	(66,030)
Transfers out	(853,440)	(1,532,847)	(1,261,045)	271,802
Proceeds from the sale of capital assets	-	-	130,000	130,000
Total other financing sources (uses)	<u>(256,310)</u>	<u>(960,717)</u>	<u>(624,945)</u>	<u>335,772</u>
SPECIAL ITEMS				
Net assets conveyed from SIDC to the City's General Fund	-	435,861	435,861	-
Total special items	<u>-</u>	<u>435,861</u>	<u>435,861</u>	<u>-</u>
Net change in fund balance	(556,973)	(831,140)	67,274	898,414
Fund balances - beginning	2,177,858	2,177,858	2,177,858	-
Fund balances - ending	<u>\$ 1,620,885</u>	<u>\$ 1,346,718</u>	<u>\$ 2,245,132</u>	<u>\$ 898,414</u>

CITY OF SHENANDOAH
HOTEL/MOTEL OCCUPANCY TAX FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2010

EXHIBIT B-2

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Other taxes	\$ 699,400	\$ 699,400	\$ 577,606	\$ (121,794)
Charges for services	2,000	2,000	2,250	250
Investment revenue	8,500	8,500	778	(7,722)
Other revenues	54,320	28,320	29,519	1,199
Total revenues	<u>764,220</u>	<u>738,220</u>	<u>610,153</u>	<u>(128,067)</u>
EXPENDITURES				
Current:				
Community development	836,580	738,220	549,858	188,362
Total expenditures	<u>836,580</u>	<u>738,220</u>	<u>549,858</u>	<u>188,362</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(72,360)</u>	<u>-</u>	<u>60,295</u>	<u>60,295</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(199,000)	(199,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(199,000)</u>	<u>(199,000)</u>
Net change in fund balance	(72,360)	-	(138,705)	(138,705)
Fund balances - beginning	346,519	346,519	346,519	-
Fund balances - ending	<u>\$ 274,159</u>	<u>\$ 346,519</u>	<u>\$ 207,814</u>	<u>\$ (138,705)</u>

CITY OF SHENANDOAH

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

YEAR ENDED SEPTEMBER 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/03	\$ 35,007	\$ 239,175	\$ 204,168	14.6%	\$ 1,661,304	12.3%
12/31/04	183,476	587,428	403,952	31.2%	1,863,871	21.7%
12/31/05	403,996	846,523	442,527	47.7%	2,117,741	20.9%
12/31/06	710,493	1,219,671	509,178	58.3%	2,779,627	18.3%
12/31/07	1,110,797	2,603,690	1,492,893	42.7%	3,417,194	43.7%
12/31/08	1,670,173	3,628,341	1,958,168	46.0%	3,355,196	58.4%
12/31/09	2,434,300	5,196,587	2,762,287	46.8%	3,837,015	72.0%

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

CITY OF SHENANDOAH
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2010

EXHIBIT B-3

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property taxes	\$ 804,930	\$ 804,930	\$ 825,148	\$ 20,218
Investment revenue	6,500	6,500	1,027	(5,473)
Total revenues	<u>811,430</u>	<u>811,430</u>	<u>826,175</u>	<u>14,745</u>
EXPENDITURES				
Current:				
General government	9,700	9,700	1,846	7,854
Debt service:				
Principal	1,175,000	1,175,000	1,170,000	5,000
Interest and fiscal charges	1,112,580	1,112,580	1,033,870	78,710
Total expenditures	<u>2,297,280</u>	<u>2,297,280</u>	<u>2,205,716</u>	<u>91,564</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,485,850)</u>	<u>(1,485,850)</u>	<u>(1,379,541)</u>	<u>106,309</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,268,080	1,268,080	904,932	(363,148)
Total other financing sources (uses)	<u>1,268,080</u>	<u>1,268,080</u>	<u>904,932</u>	<u>(363,148)</u>
Net change in fund balance	(217,770)	(217,770)	(474,609)	(256,839)
Fund balances - beginning	510,771	510,771	510,771	-
Fund balances - ending	<u>\$ 293,001</u>	<u>\$ 293,001</u>	<u>\$ 36,162</u>	<u>\$ (256,839)</u>