

**CITY OF SHENANDOAH, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED**

**SEPTEMBER 30, 2012**



**CITY OF SHENANDOAH, TEXAS**  
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**FINANCIAL SECTION**

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# HLSK

*Hereford, Lynch, Sellars & Kirkham*

Certified Public Accountants • A Professional Corporation

Conroe  
1406 Wilson Rd., Suite 100  
Conroe, Texas 77304  
Tel 936-756-8127  
Metro 936-441-1338  
Fax 936-756-8132

Members of the  
American Institute of Certified Public Accountants  
Texas Society of Certified Public Accountants  
Private Companies Practice Section  
of the AICPA Division for Firms

Cleveland  
111 East Boothe  
Cleveland, Texas 77327  
Tel 281-592-6443  
Fax 281-592-7706

## INDEPENDENT AUDITORS' 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 unit, 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, 2012, 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 our 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 unit, each major fund, and the aggregate remaining fund information of the City of Shenandoah, Texas, as of September 30, 2012, 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, budgetary comparison schedules, and the schedule of funding progress 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 the 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 response 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.

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

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

Conroe, Texas  
March 13, 2013

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

As management of the City of Shenandoah, Texas (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, 2012. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements (which immediately follow this discussion).

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$27,910,942 (net assets). As required by GASB Statement No. 34, net assets also reflect \$23,032,076 that is invested in capital assets, net of related debt.
- During the year, the City's expenses were \$617,253 less than the \$8,500,340 generated in taxes and other revenues for governmental activities.
- The General Fund reported a fund balances this year of \$3,736,900, all of which was unassigned. The amount equals 60% of General Fund expenditures.
- The overall financial position of the City has improved, as noted by the aggregate increase in net assets of \$4,899,943.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-Wide Financial Statements

The *government-wide financial 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 assets* presents all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cashflows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used vacation leave).

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, interest on long-term debt, and facilities repair and maintenance. The business-type activities of the City include is water and sewer operations. The City includes a discrete component unit in its report - Shenandoah Municipal Development District (SMDD).

The government-wide financial statements can be found as noted in the table of contents of this report.

#### 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. The funds of the City are classified as governmental funds or proprietary 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 how money flows into and out of those funds and the balances left at year-end that are available for spending. Such information may be useful in evaluating a government'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 maintains six governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, hotel/motel occupancy tax fund, debt service fund, and capital improvements fund, which are considered to be major funds.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found as noted in the table of contents of this report.

## **Proprietary Funds**

The City charges customers for the services it provides, whether to outside customers or to other departments within the City. These services are generally reported in an enterprise fund. Proprietary funds – enterprise funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities, only in more detail. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City's *enterprise* fund is used to account for its water services and sewer services. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The basic proprietary fund financial statements can be found as noted in the table of contents of this report.

## **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as noted in the table of contents of this report.

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

**Net Assets.** The City's combined net assets were \$27,910,942 at September 30, 2012, which is an increase from the prior year. (See Table A-1).

**Table A-1  
City of Shenandoah Texas's Net Assets**

	2012			2011		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>						
Current & Other	\$ 7,566,964	\$ 1,353,002	\$ 8,919,966	\$ 9,373,044	\$ 708,103	\$ 10,081,147
Capital Assets, Net	34,075,434	15,047,982	49,123,416	31,497,586	13,528,800	45,026,386
<b>Total Assets</b>	<b>41,642,398</b>	<b>16,400,984</b>	<b>58,043,382</b>	<b>40,870,630</b>	<b>14,236,903</b>	<b>55,107,533</b>
<b>Liabilities:</b>						
Long-Term	28,354,611	57,272	28,411,883	29,800,098	49,776	29,849,874
Other Liabilities	866,343	177,091	1,043,434	2,047,358	199,302	2,246,660
<b>Total Liabilities</b>	<b>29,220,954</b>	<b>234,363</b>	<b>29,455,317</b>	<b>31,847,456</b>	<b>249,078</b>	<b>32,096,534</b>
<b>Net Assets:</b>						
Invested in Capital Assets, Net of Related Debt	7,984,094	15,047,982	23,032,076	7,238,976	13,528,800	20,767,776
Unrestricted	3,760,227	1,118,639	4,878,866	1,784,198	459,025	2,243,223
<b>Total Net Assets</b>	<b>\$ 11,744,321</b>	<b>\$ 16,166,621</b>	<b>\$ 27,910,942</b>	<b>\$ 9,023,174</b>	<b>\$ 13,987,825</b>	<b>\$ 23,010,999</b>

The City's total assets of \$58,043,382 are largely comprised of capital assets net of accumulated depreciation of \$49,123,416, or 85%. Prior to 2004, infrastructure (roads, bridges, signs, etc.) was not 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 \$28,411,883 comprise the largest portion of the City's total liabilities of \$29,455,317 at 96%. Of total long-term liabilities, \$1,438,249 is due within one year, with the remaining \$26,973,634 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.

Approximately 83% of total net assets or \$23,032,076 represents investments in capital assets, net of related debt. The \$4,878,866 (17%) of unrestricted net assets represents resources available to fund the programs of the City next year.

Changes in net assets. The City's combined changes in net assets were \$4,741,989 at September 30, 2012. (See Table A-2).

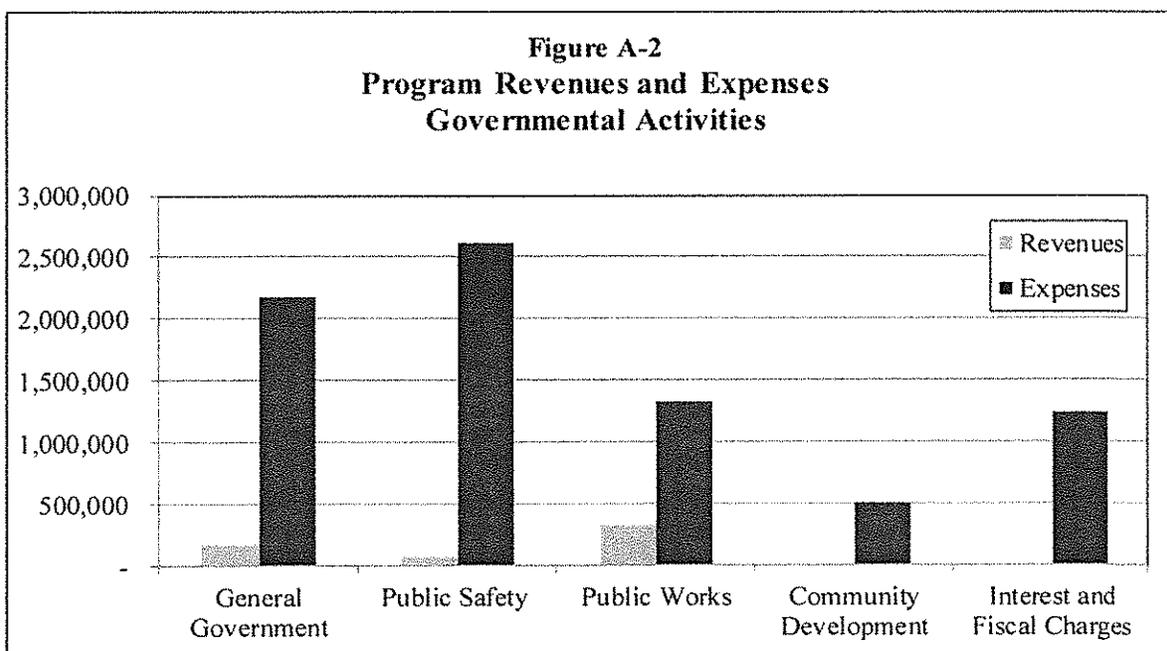
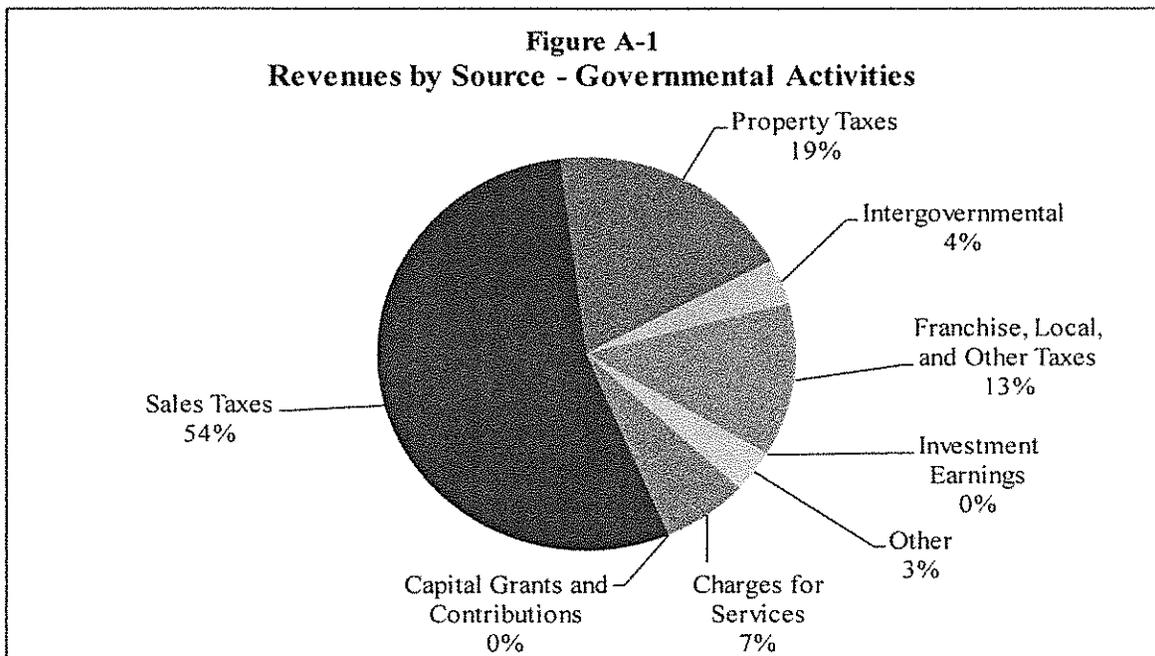
**Table A-2**  
**City of Shenandoah Texas's Change in Net Assets**

	<u>2012</u>			<u>2011</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>REVENUES</b>						
Program Revenues:						
Charges for Services	\$ 587,313	\$ 2,544,909	\$ 3,132,222	\$ 547,769	\$ 2,232,141	\$ 2,779,910
Capital Grants and Contributions	-	958,562	958,562	-	127,495	127,495
General Revenues:						
Sales Taxes	4,805,613	-	4,805,613	4,499,233	-	4,499,233
Property Taxes	1,695,116	-	1,695,116	1,651,087	-	1,651,087
Franchise, Local, and Other Taxes	1,112,990	-	1,112,990	1,010,147	-	1,010,147
Intergovernmental	325,288	-	325,288	96,984	-	96,984
Investment Earnings	5,811	2,641	8,452	12,362	806	13,168
Proceeds from Sale of Capital Assets	2,225,558	-	2,225,558	-	-	-
Other	302,028	144,063	446,091	109,365	-	109,365
<b>Total Revenues</b>	<b><u>11,059,717</u></b>	<b><u>3,650,175</u></b>	<b><u>14,709,892</u></b>	<b><u>7,926,947</u></b>	<b><u>2,360,442</u></b>	<b><u>10,287,389</u></b>
<b>EXPENSES</b>						
Governmental Activities:						
General Government	2,181,818	-	2,181,818	2,057,056	-	2,057,056
Public Safety	2,611,739	-	2,611,739	2,696,838	-	2,696,838
Public Works	1,327,671	-	1,327,671	1,531,923	-	1,531,923
Community Development	514,905	-	514,905	608,352	-	608,352
Interest and Fiscal Charges	1,246,954	-	1,246,954	784,707	-	784,707
Facilities Repair and Maintenance	-	-	-	11,905	-	11,905
<b>Total Governmental Activities</b>	<b><u>7,883,087</u></b>	<b><u>-</u></b>	<b><u>7,883,087</u></b>	<b><u>7,690,781</u></b>	<b><u>-</u></b>	<b><u>7,690,781</u></b>
Business Type Activities:						
Water and Sewer	-	1,725,439	1,725,439	-	1,581,977	1,581,977
<b>Total Business-Type Activities</b>	<b><u>-</u></b>	<b><u>1,725,439</u></b>	<b><u>1,725,439</u></b>	<b><u>-</u></b>	<b><u>1,581,977</u></b>	<b><u>1,581,977</u></b>
<b>Total Expenses</b>	<b><u>7,883,087</u></b>	<b><u>1,725,439</u></b>	<b><u>9,608,526</u></b>	<b><u>7,690,781</u></b>	<b><u>1,581,977</u></b>	<b><u>9,272,758</u></b>
Excess (Deficiency) Before Transfers and Special Items	3,176,630	1,924,736	5,101,366	236,166	778,465	1,014,631
Special Items	(677,123)	-	(677,123)	-	-	-
Transfers In (Out)	221,640	(221,640)	-	(757,289)	757,289	-
<b>Change in Net Assets</b>	<b>2,721,147</b>	<b>1,703,096</b>	<b>4,424,243</b>	<b>(521,123)</b>	<b>1,535,754</b>	<b>1,014,631</b>
Beginning Net Assets	9,023,174	13,987,825	23,010,999	9,544,297	12,452,071	21,996,368
Prior Period Adjustment	-	475,700	475,700	-	-	-
<b>Ending Net Assets</b>	<b><u>\$ 11,744,321</u></b>	<b><u>\$ 16,166,621</u></b>	<b><u>\$ 27,910,942</u></b>	<b><u>\$ 9,023,174</u></b>	<b><u>\$ 13,987,825</u></b>	<b><u>\$ 23,010,999</u></b>

**Governmental Activities**

The City's total revenues were \$11,059,717 from all governmental activities. A significant portion, \$4,805,613 or 56%, of the City's revenue comes from sales taxes. Property tax revenue accounts for \$1,695,116, or 20% and charges for services are \$253,494, or 3% of total revenue for governmental activities. (See Figure A-1).

The total cost of all governmental programs and services was \$7,883,087. The public safety function accounted for \$2,611,739, or 33% of this total. (See Figure A-2).



Program revenues of \$253,494 are comprised in large part (70.5%) of general government revenues of \$178,673. The public safety function makes up 29% of program revenues at \$73,572, and the community development function, .5% at \$1,249. As expected, general revenues provided the required support and coverage for additional expenses.

The governmental activities showed an increase in net assets over the prior year which is attributable to an increase in sales and other tax revenue, licenses and permits, and other revenues.

### **Business-type Activities**

Business-type activities are financed in whole or in part by fees charged to external users for goods or services. They are reported in an enterprise fund. Business-type activities increased the City's net assets by \$1,703,096. Revenue can be reported as program revenue or general revenues. There are two categories under which program revenues can be reported. The first is charges for services, which includes 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 capital 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 services were \$2,544,909, capital grants and contributions were \$958,562, and program expenses were \$1,725,439. The increase in net assets is due to an increase in charges for services, and contributed capital from the Shenandoah Municipal Development District (SMDD). The contributed capital is attributable to the Catahoula Water Well that is being drilled, as part of the GRP Participant agreement between the City of Shenandoah and the City of Panorama Village.

## **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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the City completed the year, its governmental funds, as presented in the balance sheet, reported *combined* ending fund balances of \$5,458,234, which is a decrease of \$1,239,910 from last year's total of \$6,698,144.

The General Fund is the operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$3,736,900, which represented 100% of total general fund balance. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 60% of total General Fund expenditures.

The hotel/motel occupancy tax fund ending fund balance of \$411,872, all of which is restricted for the payment of expenses related to community development. The hotel/motel occupancy tax fund balance increased \$181,660 during the year, primarily due to an increase in taxes collected.

The debt service fund has a total fund balance of \$3,116 all of which is restricted for the payment of debt service. The net decrease in fund balance of \$5,927 relates to the increase of scheduled debt payments of principal and interest to \$2,570,335.

The capital project fund has a total fund balance of \$1,309,245 all of which is restricted for capital expenditures. The net decrease in fund balance during the current year in the capital projects fund was \$3,188,024. The decrease was due to increased expenditures for capital projects.

### **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 \$16,166,621. The total increase in net assets of \$1,703,096 was largely due to an increase in charges for services.

## General Fund Budgetary Highlights

Over the course of the year, the City revised its budget multiple times. Difference between the originally-adopted budget and the final amended budget of the general fund were to decrease appropriations \$17,367. The most significant changes were to decrease general government. Actual expenditures are \$410,065 over the final budgeted amounts, largely due to the capital outlay function of government. Resources available were \$838,318 above the final budgeted amount. This is due largely to the fact that sales tax revenues and intergovernmental revenues were greater than expected.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2012, the City had invested \$49,123,416 in a broad range of capital assets, including land, equipment, buildings, and infrastructure. (See Table A-3).

**Table A-3**  
City of Shenandoah's Capital Assets

	2012			2011		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Land	\$ 5,296,854	\$ 1,673,568	\$ 6,970,422	\$ 4,853,886	\$ 1,673,568	\$ 6,527,454
Construction in Progress	6,308,700	3,288,853	9,597,553	9,545,878	2,348,816	11,894,694
Infrastructure	23,044,551	-	23,044,551	19,461,275	-	19,461,275
Buildings & Improvements	5,951,564	-	5,951,564	3,587,119	-	3,587,119
Furniture & Equipment	1,982,576	452,872	2,435,448	2,040,970	457,556	2,498,526
Water and Sewer System	-	21,654,685	21,654,685	-	20,588,573	20,588,573
<b>Totals</b>	<b>42,584,245</b>	<b>27,069,978</b>	<b>69,654,223</b>	<b>39,489,128</b>	<b>25,068,513</b>	<b>64,557,641</b>
Accumulated Depreciation	(8,508,811)	(12,021,996)	(20,530,807)	(7,991,542)	(11,539,713)	(19,531,255)
<b>Net Capital Assets</b>	<b>\$ 34,075,434</b>	<b>\$ 15,047,982</b>	<b>\$ 49,123,416</b>	<b>\$ 31,497,586</b>	<b>\$ 13,528,800</b>	<b>\$ 45,026,386</b>

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 \$28,411,883 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**  
City of Shenandoah Texas's Long-Term Debt

	2012			2011		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Bonds Payable	\$ -	\$ -	\$ -	\$ 235,000	\$ -	\$ 235,000
Certificates of Obligation	12,150,000	-	12,150,000	13,060,000	-	13,060,000
General Improvement Bonds	15,805,000	-	15,805,000	16,030,000	-	16,030,000
Premiums	143,752	-	143,752	152,073	-	152,073
Discounts	(9,445)	-	(9,445)	(9,897)	-	(9,897)
Compensated Absences	181,112	45,385	226,497	249,274	37,966	287,240
Net Pension Obligation	84,192	11,887	96,079	83,648	11,810	95,458
<b>Total Long-Term Debt</b>	<b>\$ 28,354,611</b>	<b>\$ 57,272</b>	<b>\$ 28,411,883</b>	<b>\$ 29,800,098</b>	<b>\$ 49,776</b>	<b>\$ 29,849,874</b>

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

- Appraised value used for the 2013 budget preparation is \$549,378,658, a 7.2% increase from 2012. The ad valorem tax rate decreased to 0.3137 per \$100.
- Sales tax revenues are projected to be \$4,631,195 in 2013. Overall revenues are projected to increase approximately 2%.
- General operating fund spending increases in the 2013 budget from \$5,869,434 to \$7,307,500. This is a 25% increase.

If these estimates are realized, the City's budgetary General Fund balance is not expected to change appreciably by the close of 2013.

## **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.

## **BASIC FINANCIAL STATEMENTS**

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**CITY OF SHENANDOAH, TEXAS**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2012**

**EXHIBIT A-1**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	SMDD
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 4,337,415	\$ 1,114,298	\$ 5,451,713	\$ 1,422,892
Investments	1,554,357	32,555	1,586,912	1,089,947
Receivables, Net	973,634	238,985	1,212,619	269,992
Internal Balances	32,836	(32,836)	-	-
Deferred Charges	668,722	-	668,722	-
Non-depreciable Capital Assets	11,605,554	4,962,421	16,567,975	-
Capital Assets, Net of Accumulated Depreciation	<u>22,469,880</u>	<u>10,085,561</u>	<u>32,555,441</u>	-
Total Assets	<u>41,642,398</u>	<u>16,400,984</u>	<u>58,043,382</u>	<u>2,782,831</u>
<b>LIABILITIES</b>				
Accounts Payable	359,206	56,097	415,303	141,264
Accrued Liabilities	149,341	7,797	157,138	-
Accrued Interest Payable	136,722	-	136,722	-
Retainage Payable	71,202	9,654	80,856	114,059
Customer Deposits	149,872	103,543	253,415	-
De-annexation Payable	677,123	-	677,123	-
Noncurrent liabilities:				
Due Within One Year	1,415,556	22,693	1,438,249	-
Due in More than One Year	<u>26,939,055</u>	<u>34,579</u>	<u>26,973,634</u>	-
Total Liabilities	<u>29,898,077</u>	<u>234,363</u>	<u>30,132,440</u>	<u>255,323</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	7,984,094	15,047,982	23,032,076	-
Unrestricted	<u>3,760,227</u>	<u>1,118,639</u>	<u>4,878,866</u>	<u>2,527,508</u>
Total Net Assets	<u>\$ 11,744,321</u>	<u>\$ 16,166,621</u>	<u>\$ 27,910,942</u>	<u>\$ 2,527,508</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF SHENANDOAH, TEXAS**  
*STATEMENT OF ACTIVITIES*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2012*

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>				
Governmental activities:				
General Government	\$ 2,181,818	\$ 178,673	\$ -	\$ -
Public Safety	2,611,739	73,572	-	-
Public Works	1,327,671	333,819	-	-
Community Development	514,905	1,249	-	-
Interest and Fiscal Charges	1,246,954	-	-	-
Total governmental activities	<u>7,883,087</u>	<u>587,313</u>	<u>-</u>	<u>-</u>
Business-type activities:				
Water and Sewer	1,725,439	2,544,909	-	958,562
Total Primary Government	<u>\$ 9,608,526</u>	<u>\$ 3,132,222</u>	<u>\$ -</u>	<u>\$ 958,562</u>
<b>COMPONENT UNITS:</b>				
Shenandoah Municipal Development District	\$ 1,309,850	\$ -	\$ -	\$ -
Total Component Units	<u>\$ 1,309,850</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:  
 Sales Taxes  
 Property Taxes  
 Franchise Taxes  
 Other Taxes  
 Grants and contributions not restricted to specific programs  
 Investment Revenue  
 Proceeds from the Sales of Capital Assets  
 Other Revenues  
 Transfers  
 Total general revenues, special items, and transfers

Special Items:  
 De-annexation Lawsuit Expense  
 Total special items

Change in Net Assets  
 Net Assets - Beginning  
 Prior Period Adjustment  
 Net Assets - Ending

The accompanying notes are an integral part of these financial statements.

<u>Net (Expense) Revenue and Changes in Net Assets</u>			<u>Component Unit</u>
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>SMDD</u>
\$ (2,003,145)	\$ -	\$ (2,003,145)	
(2,538,167)	-	(2,538,167)	
(993,852)	-	(993,852)	
(513,656)	-	(513,656)	
<u>(1,246,954)</u>	<u>-</u>	<u>(1,246,954)</u>	
<u>(7,295,774)</u>	<u>-</u>	<u>(7,295,774)</u>	
-	1,778,032	1,778,032	
<u>(7,295,774)</u>	<u>1,778,032</u>	<u>(5,517,742)</u>	
			\$ <u>(1,309,850)</u>
			<u>(1,309,850)</u>
4,805,613	-	4,805,613	1,544,070
1,695,116	-	1,695,116	-
399,178	-	399,178	-
713,812	-	713,812	-
325,288	-	325,288	-
5,811	2,641	8,452	1,238
2,225,558	-	2,225,558	-
302,028	144,063	446,091	299,905
221,640	<u>(221,640)</u>	<u>-</u>	<u>-</u>
<u>10,694,044</u>	<u>(74,936)</u>	<u>10,619,108</u>	<u>1,845,213</u>
(677,123)	-	(677,123)	-
<u>(677,123)</u>	<u>-</u>	<u>(677,123)</u>	<u>-</u>
2,721,147	1,703,096	4,424,243	535,363
9,023,174	13,987,825	23,010,999	1,992,145
-	475,700	475,700	-
\$ <u>11,744,321</u>	\$ <u>16,166,621</u>	\$ <u>27,910,942</u>	\$ <u>2,527,508</u>

**CITY OF SHENANDOAH, TEXAS**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2012**

	<u>General Fund</u>	<u>Hotel/Motel Occupancy Tax Fund</u>	<u>Debt Service Fund</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 4,003,784	\$ 211,414	\$ -
Investments	56,673	204,947	3,141
Receivables, Net	947,941	-	25,693
Due from Other Funds	45,767	-	-
Total Assets	<u>\$ 5,054,165</u>	<u>\$ 416,361</u>	<u>\$ 28,834</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$ 317,186	\$ 1,976	\$ -
Accrued Liabilities	147,181	2,160	-
Retainage Payable	18,332	-	-
Due to Other Funds	-	353	25
Customer Deposits	149,872	-	-
Deferred Revenue	7,571	-	25,693
De-annexation Payable	677,123	-	-
Total Liabilities	<u>1,317,265</u>	<u>4,489</u>	<u>25,718</u>
Fund balances:			
Restricted - Capital Acquisitions & Contractual Obligations	-	-	-
Restricted - Debt Service	-	-	3,116
Restricted Other	-	411,872	-
Unassigned	3,736,900	-	-
Total fund balances	<u>3,736,900</u>	<u>411,872</u>	<u>3,116</u>
Total liabilities and fund balances	<u>\$ 5,054,165</u>	<u>\$ 416,361</u>	<u>\$ 28,834</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT A-3

Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
\$ 122,217	\$ -	\$ 4,337,415
1,289,596	-	1,554,357
-	-	973,634
-	-	45,767
<u>\$ 1,411,813</u>	<u>\$ -</u>	<u>\$ 6,911,173</u>
\$ 40,044	\$ -	\$ 359,206
-	-	149,341
52,870	-	71,202
9,654	2,899	12,931
-	-	149,872
-	-	33,264
-	-	677,123
<u>102,568</u>	<u>2,899</u>	<u>1,452,939</u>
1,309,245	-	1,309,245
-	-	3,116
-	-	411,872
-	(2,899)	3,734,001
<u>1,309,245</u>	<u>(2,899)</u>	<u>5,458,234</u>
<u>\$ 1,411,813</u>	<u>\$ -</u>	<u>\$ 6,911,173</u>

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**CITY OF SHENANDOAH, TEXAS**  
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2012*

**EXHIBIT A-4**

**Total Fund Balances - Governmental Funds (Exhibit A-3)** \$ 5,458,234

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

Bond issuance costs are reported as expenditures in the governmental funds, but are capitalized and amortized over the lives of the associated bonds in the statement of net assets. This is the balance of bond issuance costs, net of accumulated amortization. 668,722

Capital assets used in governmental activities are not current financial resources, and therefore are not reported in the governmental funds. This is the balance of capital assets pertaining to governmental activities, net of accumulated depreciation. 34,075,434

Property taxes receivable that are unavailable to pay from current period expenditures are deferred in the funds. 33,264

Long-term liabilities of governmental activities are not payable from current financial resources, and therefore are not reported in the governmental funds. The balance of long-term liabilities pertaining to governmental activities consists of the following:

Bonds Payable, at Original Par	\$	(27,955,000)	
Premiums on Bonds Payable		(143,752)	
Discounts of Bonds Payable		9,445	
Accrued Interest on Debt		(136,722)	
Compensated Absences		(181,112)	
Net Pension Obligation		<u>(84,192)</u>	
			<u>(28,491,333)</u>

**Total Net Assets - Governmental Activities (Exhibit A-1)** \$ 11,744,321

The accompanying notes are an integral part of these financial statements.

**CITY OF SHENANDOAH, TEXAS**  
*STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES*  
*IN FUND BALANCES – GOVERNMENTAL FUNDS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2012*

	<u>General Fund</u>	<u>Hotel/Motel Occupancy Tax Fund</u>	<u>Debt Service Fund</u>
<b>REVENUES</b>			
Taxes:			
Sales Taxes	\$ 4,805,613	\$ -	\$ -
Property Taxes	783,335	-	917,724
Franchise Taxes	399,178	-	-
Other Taxes	-	713,812	-
Licenses and Permits	333,819	-	-
Intergovernmental	325,288	-	-
Charges for Services	178,673	1,249	-
Investment Revenues	2,529	589	157
Fines and Forfeitures	71,498	-	-
Other Revenues	301,812	216	-
Total Revenues	<u>7,201,745</u>	<u>715,866</u>	<u>917,881</u>
<b>EXPENDITURES</b>			
Current:			
General Government	2,189,616	-	1,847
Public Safety	2,313,989	-	-
Public Works	857,245	-	-
Community Development	92,101	412,176	-
Debt service:			
Principal	-	-	1,370,000
Interest and Fiscal Charges	-	-	1,198,488
Capital Outlays	826,548	-	-
Total Expenditures	<u>6,279,499</u>	<u>412,176</u>	<u>2,570,335</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>922,246</u>	<u>303,690</u>	<u>(1,652,454)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	567,956	-	1,646,527
Transfers Out	(1,268,330)	(122,030)	-
Proceeds from the Sale of Capital Assets	2,225,558	-	-
Total Other Financing Sources (Uses)	<u>1,525,184</u>	<u>(122,030)</u>	<u>1,646,527</u>
<b>SPECIAL ITEMS</b>			
De-annexation Settlement Expense	(677,123)	-	-
Total special items	<u>(677,123)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	1,770,307	181,660	(5,927)
Fund Balances - Beginning	1,966,593	230,212	9,043
Fund Balances - Ending	<u>\$ 3,736,900</u>	<u>\$ 411,872</u>	<u>\$ 3,116</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT A-5

Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 4,805,613
-	-	1,701,059
-	-	399,178
-	-	713,812
-	-	333,819
-	-	325,288
-	-	179,922
2,536	-	5,811
-	2,074	73,572
-	-	302,028
<u>2,536</u>	<u>2,074</u>	<u>8,840,102</u>
-	-	2,191,463
-	-	2,313,989
-	-	857,245
-	-	504,277
-	-	1,370,000
-	-	1,198,488
2,588,077	-	3,414,625
<u>2,588,077</u>	<u>-</u>	<u>11,850,087</u>
<u>(2,585,541)</u>	<u>2,074</u>	<u>(3,009,985)</u>
96,558	-	2,311,041
(699,041)	-	(2,089,401)
-	-	2,225,558
<u>(602,483)</u>	<u>-</u>	<u>2,447,198</u>
-	-	(677,123)
-	-	(677,123)
<u>(3,188,024)</u>	<u>2,074</u>	<u>(1,239,910)</u>
4,497,269	(4,973)	6,698,144
<u>\$ 1,309,245</u>	<u>\$ (2,899)</u>	<u>\$ 5,458,234</u>

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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, 2012***EXHIBIT A-6****Total Net Changes in Fund Balances - Governmental Funds (Exhibit A-5) \$ (1,239,910)**

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

Capital outlays are reported in governmental funds as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Asset Expenditures Capitalized	\$ 3,414,625	
Depreciation Expense	<u>(836,777)</u>	2,577,848

Because some property taxes will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year. (5,943)

The issuance of long-term debt (e.g., bonds, certificate of obligation notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Payment of Principal	\$ 1,370,000	
Amortization of Bond Issuance Costs	(42,575)	
Accrued Interest on Debt	(13,760)	
Amortization of Bond Premium and Discount	<u>7,869</u>	1,321,534

The (increase) decrease in the net pension obligation is reported in the statement of activities but does not require the use of current financial resources; therefore, it is not reported as an expenditure in the governmental funds. (544)

The (increase) decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds. 68,162

**Change in Net Assets for Governmental Activities (Exhibit A-2) \$ 2,721,147**

The accompanying notes are an integral part of these financial statements.

**CITY OF SHENANDOAH, TEXAS****STATEMENT OF NET ASSETS****ENTERPRISE FUND**

SEPTEMBER 30, 2012

EXHIBIT A-7

	<u>Water and Sewer Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash and Cash Equivalents	\$ 1,114,298
Investments	32,555
Receivables, Net	238,985
Total current assets	<u>1,385,838</u>
Noncurrent assets:	
Land	1,673,568
Construction in Progress	3,288,853
Water and Sewer System	21,654,687
Furniture and Equipment	452,868
Less: Accumulated Depreciation	<u>(12,021,994)</u>
Total noncurrent assets	<u>15,047,982</u>
Total assets	<u>16,433,820</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts Payable	56,097
Accrued Liabilities	7,797
Retainage Payable	9,654
Due to Other Funds	32,836
Customer Deposits	103,543
Compensated Absences Payable, Current	<u>22,693</u>
Total current liabilities	<u>232,620</u>
Noncurrent liabilities:	
Compensated Absences Payable, Noncurrent	22,692
Net Pension Obligation	<u>11,887</u>
Total noncurrent liabilities	<u>34,579</u>
Total liabilities	<u>267,199</u>
<b>NET ASSETS</b>	
Unrestricted	<u>16,166,621</u>
Total net assets	<u>\$ 16,166,621</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF SHENANDOAH, TEXAS**  
*STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
 IN FUND NET ASSETS - ENTERPRISE FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012*

**EXHIBIT A-8**

	<u>Water and Sewer Fund</u>
<b>OPERATING REVENUES</b>	
Water Charges	\$ 1,340,966
Sewer Charges	903,868
Penalties and Reconnect Fees	99,638
Groundwater Reduction Plan Fees	<u>200,437</u>
Total operating revenues	<u>2,544,909</u>
<b>OPERATING EXPENSES</b>	
Personnel	494,554
Supplies and Services	349,831
Maintenance	339,010
Depreciation Expense	<u>542,044</u>
Total operating expenses	<u>1,725,439</u>
Operating income (loss)	<u>819,470</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment Earnings	2,641
Other Revenues	<u>144,063</u>
Total nonoperating revenues (expenses)	<u>146,704</u>
Income (loss) before transfers and capital contributions	<u>966,174</u>
Capital Contributions	958,562
Transfers In	571,887
Transfers Out	<u>(793,527)</u>
Total transfers and capital contributions	<u>736,922</u>
Change in net assets	1,703,096
Total net assets - beginning	13,987,825
Prior period adjustment	<u>475,700</u>
Total net assets - ending	<u>\$ 16,166,621</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF SHENANDOAH, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**ENTERPRISE FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**EXHIBIT A-9**

	<u>Water and Sewer Fund</u>
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers	\$ 2,516,012
Cash payments to other suppliers for goods and services	<u>(1,478,268)</u>
Net Cash Provided by (Used for) Operating Activities	<u>1,037,744</u>
<b>Cash Flows from Non-capital Financing Activities:</b>	
Transfers (to) from other funds	<u>(221,640)</u>
Net Cash Provided by (Used for) Non-capital Financing Activities	<u>(221,640)</u>
<b>Cash Flows Used for Capital and Related Financing Activities:</b>	
Acquisition or construction of capital assets	(2,061,226)
Capital contributions	1,434,262
Local contributions	<u>144,063</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(482,901)</u>
<b>Cash Flows from Investing Activities:</b>	
Proceeds from sales and maturities of securities	64,338
Interest and dividends on investments	<u>2,641</u>
Net Cash Provided by (Used for) Investing Activities	<u>66,979</u>
Net Increase (Decrease) in Cash and Cash Equivalents	400,182
Cash and Cash Equivalents at Beginning of Year	714,116
Cash and Cash Equivalents at End of Year	<u>\$ 1,114,298</u>
<b>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</b>	
Operating Income (Loss)	\$ 819,470
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation	542,044
Change in assets and liabilities:	
Decrease (increase) in receivables	(42,994)
Increase (decrease) in accounts payable	(39,949)
Increase (decrease) in accrued liabilities	(862)
Increase (decrease) in retainage payable	4,503
Increase (decrease) in due to other funds	(266,061)
Increase (decrease) in compensated absences payable	7,419
Increase (decrease) in net pension obligation	77
Increase (decrease) in customer meter deposits	<u>14,097</u>
Total adjustments	<u>218,274</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 1,037,744</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF SHENANDOAH, TEXAS**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*SEPTEMBER 30, 2012*

**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 unit. Component units are legally separate entities for which the government is considered to be financially accountable. One such entity existed within the current fiscal year, which is described briefly below. In order to emphasize its legal separation from the primary government, the component unit's financial information has been discretely presented in a separate column in the government-wide financial statements.

**Discretely Presented Component Unit**

**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 purpose 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.

The SMDD does not issue separate financial statements.

**2. Basis of Presentation, Basis of Accounting**

- a. **Government-wide Statements:** The statement of net assets and the statement of activities include financial activities of the primary 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.

**CITY OF SHENANDOAH, TEXAS**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*SEPTEMBER 30, 2012*

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, 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 use of such services.

**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 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.

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When both restricted and unrestricted (committed, assigned, or unassigned) resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. The City considers that committed amounts would be reduced first, followed by the assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classification could be used.

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 to 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 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.

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, 2012 was \$0.3237 per \$100, allocated \$0.1500 for the General Fund and \$0.1737 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	3 to 20 years
Buildings and improvements	30 to 40 years
Infrastructure	30 to 40 years
Water and sewer system	40 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 on the government-wide statement of net assets.

**e. Long-term Obligations**

In the government-wide financial statements and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**f. Fund Equity**

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the 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 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 City Council established (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City Administrator or his designee through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

**CITY OF SHENANDOAH, TEXAS**  
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**g. 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. Deficit Fund Balance or Fund Net Assets of Individual Funds**

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

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
LEOSE Fund	\$ (2,752)	The General Fund will transfer funds in 2013 to offset these negative fund balances.
Discretionary Court Fund	(147)	
Total Other Governmental Funds	<u>\$ (2,899)</u>	

**2. Excess of Expenditures Over Appropriations**

For the year ended September 30, 2012, expenditures for capital outlays exceeded appropriations in the General Fund by \$559,087.

**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, 2012, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,451,713 and the bank balance was \$5,534,338. The City's cash deposits at September 30, 2012 and during the year then ended were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

SMDD maintains deposits at various financial institutions and credit unions. At September 30, 2012, the carrying amount of SMDD's deposits (cash, certificates of deposit and interest-bearing savings accounts) was \$1,422,892 and the bank balance was \$1,445,876. At September 30, 2012, all bank balances were covered by federal deposit insurance, or pledged collateral held by the financial institution in the City's name.

**CITY OF SHENANDOAH, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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 and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of 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, 2012 are shown below:

<u>Investment Type</u>	<u>Standard &amp; Poor's Rating</u>	<u>Fair Values</u>	
		<u>Primary Government</u>	<u>Component Unit</u>
Texpool	AAAm	\$ 1,581,471	\$ 1,089,947
TexPool Prime	AAAm	5,441	-
<b>Total Investments</b>		<b>\$ 1,586,912</b>	<b>\$ 1,089,947</b>

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 limit investments to obligations of states, agencies, counties, and other political subdivisions of any state rated not less than A or its equivalent by nationally recognized investment rating firms. 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. At year end, the City's investment in TexPool was rated AAAm by Standard and Poor's.
- b. Custodial Credit Risk. This is the risk that, in the event of bank failure, the City's deposits may not be returned. The City's investment policy requires funds on deposit to be collateralized. At 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 a 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.

**CITY OF SHENANDOAH, TEXAS**

*NOTES TO THE FINANCIAL STATEMENTS*

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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, including the ability to significantly influence operations, designation of management, and accountability for fiscal matters. The State Comptroller has also established an advisory board composed of both participants of TexPool and other persons who do not have a business relationship with TexPool which reviews the investment policy and management fee structure. 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.

**D. Receivables**

The following comprise receivable balances at year end:

	<u>Primary Government Fund</u>			<u>Component Unit</u>
	<u>General</u>	<u>Debt Service</u>	<u>Water and Sewer</u>	
Property Taxes	\$ 7,571	\$ 25,693	\$ -	\$ -
Franchise Taxes	33,541	-	-	-
Sales Taxes	827,241	-	-	269,992
Accounts and Other	79,588	-	241,985	-
Gross Receivables	<u>947,941</u>	<u>25,693</u>	<u>241,985</u>	<u>269,992</u>
Less: Allowance for Uncollectibles	-	-	(3,000)	-
<b>Net total receivables</b>	<b>\$ <u>947,941</u></b>	<b>\$ <u>25,693</u></b>	<b>\$ <u>238,985</u></b>	<b>\$ <u>269,992</u></b>

Revenues of the Water and Sewer Fund are reported net of estimated uncollectible amounts. Total uncollectible amounts related to revenues of the current period increased (decreased) revenues as follows:

Uncollectibles Related to Water and Sewer Fund Utilities	\$ -
<b><i>Total Uncollectibles of the Current Fiscal Year</i></b>	<b>\$ -</b>

*Governmental funds report deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Property Tax Receivable (General Fund)	\$ 7,571	\$ -
Delinquent Property Tax Receivable (Debt Service Fund)	25,693	-
<b><i>Total Deferred/Unearned Revenue for Governmental Funds</i></b>	<b>\$ <u>33,264</u></b>	<b>\$ -</b>

**CITY OF SHENANDOAH, TEXAS**  
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**E. Capital Assets**

Capital asset activity for the year ended September 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclass and Disposals</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 4,853,886	\$ 2,642,968	\$ (2,200,000)	\$ 5,296,854
Construction in Progress	9,545,878	2,710,543	(5,947,721)	6,308,700
Total Capital Assets Not Being Depreciated	<u>14,399,764</u>	<u>5,353,511</u>	<u>(8,147,721)</u>	<u>11,605,554</u>
Capital Assets Being Depreciated:				
Infrastructure	19,461,275	-	3,583,276	23,044,551
Buildings and Improvements	3,587,119	-	2,364,445	5,951,564
Furniture and Equipment	2,040,970	261,114	(319,508)	1,982,576
Total Capital Assets Being Depreciated	<u>25,089,364</u>	<u>261,114</u>	<u>5,628,213</u>	<u>30,978,691</u>
Less Accumulated Depreciation for:				
Infrastructure	(5,927,655)	(529,449)	-	(6,457,104)
Buildings and Improvements	(780,843)	(91,018)	-	(871,861)
Furniture and Equipment	(1,283,044)	(216,310)	319,508	(1,179,846)
Total Accumulated Depreciation	<u>(7,991,542)</u>	<u>(836,777)</u>	<u>319,508</u>	<u>(8,508,811)</u>
Total Capital Assets Being Depreciated, Net	<u>17,097,822</u>	<u>(575,663)</u>	<u>5,947,721</u>	<u>22,469,880</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 31,497,586</u>	<u>\$ 4,777,848</u>	<u>\$ (2,200,000)</u>	<u>\$ 34,075,434</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclass and Disposals</u>	<u>Ending Balance</u>
<b>Business-type Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,673,568	\$ -	\$ -	\$ 1,673,568
Construction in Progress	2,348,816	2,006,150	(1,066,113)	3,288,853
Total Capital Assets Not Being Depreciated	<u>4,022,384</u>	<u>2,006,150</u>	<u>(1,066,113)</u>	<u>4,962,421</u>
Capital Assets Being Depreciated:				
Furniture and Equipment	457,556	55,079	(59,763)	452,872
Water and Sewer System	20,588,572	-	1,066,113	21,654,685
Total Capital Assets Being Depreciated	<u>21,046,128</u>	<u>55,079</u>	<u>1,006,350</u>	<u>22,107,557</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	(293,506)	(27,330)	59,763	(261,073)
Water and Sewer System	(11,246,209)	(514,714)	-	(11,760,923)
Total Accumulated Depreciation	<u>(11,539,715)</u>	<u>(542,044)</u>	<u>59,763</u>	<u>(12,021,996)</u>
Total Capital Assets Being Depreciated, Net	<u>9,506,413</u>	<u>(486,965)</u>	<u>1,066,113</u>	<u>10,085,561</u>
<b>Business-type Activities Capital Assets, Net</b>	<u>\$ 13,528,797</u>	<u>\$ 1,519,185</u>	<u>\$ -</u>	<u>\$ 15,047,982</u>

The Catahoula Well is included in Construction in Progress for business-type activities in the table above. An agreement between the City of Shenandoah, the City of Panorama Village, and the City of Conroe stipulates that each of the three cities will have access to water produced by the well. The City of Shenandoah and the City of Panorama Village will own the well and all GRP (Groundwater Reduction Plan) credits generated by the well.

**CITY OF SHENANDOAH, TEXAS**  
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Depreciation was charged to the following functions:

<u>Governmental Activities</u>	
Public Safety	\$ 334,307
Public Works	480,395
Community Development	22,075
	<u>\$ 836,777</u>
<u>Business-type Activities</u>	
Water and Sewer	\$ 542,044
	<u>\$ 542,044</u>

**F. Interfund Balances and Activity**

**1. Due To and From Other Funds**

Balances due to and due from other funds at September 30, 2012, 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>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 45,767	\$ -
Hotel/Motel Occupancy Tax Fund	-	353
Debt Service Fund	-	25
Capital Improvements Fund	-	9,654
Water and Sewer Fund	-	32,836
Other Governmental Funds-Nonmajor	-	2,899
<b>Total</b>	<u>\$ 45,767</u>	<u>\$ 45,767</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, 2012 consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Hotel/Motel Occupancy Tax Fund	General Fund	\$ 122,030
Water and Sewer Fund	General Fund	318,772
Capital Projects Fund	General Fund	127,154
General Fund	Debt Service Fund	1,171,772
Water and Sewer Fund	Debt Service Fund	474,755
General Fund	Capital Projects Fund	96,558
Capital Projects Fund	Water and Sewer Fund	571,887
<b>Total</b>		<u>\$ 2,882,928</u>

The transfers were utilized to pay budgeted expenditures or to reimburse expenditures of the respective fund.

**CITY OF SHENANDOAH, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**G. Long-Term Obligations**

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended September 30, 2012. In general, the City uses the General and Debt Service Funds to liquidate long-term debt liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 235,000	\$ -	\$ (235,000)	\$ -	\$ -
Certificates of Obligation	13,060,000	-	(910,000)	12,150,000	690,000
General Improvement Bonds	16,030,000	-	(225,000)	15,805,000	635,000
Less: Deferred Amounts					
Issuance Premium	152,073	-	(8,321)	143,752	-
Issuance Discount	(9,897)	-	452	(9,445)	-
Compensated Absences*	249,274	139,351	(207,513)	181,112	90,556
Net Pension Obligation	83,648	544	-	84,192	-
<b>Total Governmental Activities</b>	<b>\$ 29,800,098</b>	<b>\$ 139,895</b>	<b>\$ (1,585,382)</b>	<b>\$ 28,354,611</b>	<b>\$ 1,415,556</b>
<b>Business-type Activities:</b>					
Compensated Absences*	\$ 37,966	\$ 36,452	\$ (29,033)	\$ 45,385	\$ 22,693
Net Pension Obligation	11,810	77	-	11,887	-
<b>Total Business-type Activities</b>	<b>\$ 49,776</b>	<b>\$ 36,529</b>	<b>\$ (29,033)</b>	<b>\$ 57,272</b>	<b>\$ 22,693</b>

\* Other long-term liabilities

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

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated Absences	Governmental	General
Compensated Absences	Business-type	Water and Sewer
Net Pension Obligation	Governmental	General
Net Pension Obligation	Business-type	Water and Sewer

Long-term debt balances at September 30, 2012 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, 2012 complete this section.

**General Obligation Bonds**

<u>Series</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2003	2012	3.5-3.625%	\$ 2,355,000	\$ 235,000	\$ -	\$ (235,000)	\$ -
<b>Totals</b>				<b>\$ 235,000</b>	<b>\$ -</b>	<b>\$ (235,000)</b>	<b>\$ -</b>

**CITY OF SHENANDOAH, TEXAS**  
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**Certificates of Obligation**

<u>Series</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2003	2012	3.5-3.625%	\$ 3,650,000	\$ 515,000	\$ -	\$ (515,000)	\$ -
2007	2027	4.0-4.150%	9,045,000	8,525,000	-	(130,000)	8,395,000
2008	2016	3.5-4.20%	2,225,000	1,870,000	-	(125,000)	1,745,000
2009	2024	2.0-4.0%	2,405,000	2,150,000	-	(140,000)	2,010,000
<b>Totals</b>				<b>\$ 13,060,000</b>	<b>\$ -</b>	<b>\$ (910,000)</b>	<b>\$ 12,150,000</b>

Debt Service Requirements  
for the Year Ending September 30,

2013

2014

2015

2016

2017-2021

2022-2026

2027-2031

**Totals**

<b>Certificates of Obligation</b>		
<u>Principal</u>	<u>Interest</u>	<u>Total</u>
\$ 690,000	\$ 479,076	\$ 1,169,076
715,000	454,926	1,169,926
745,000	428,451	1,173,451
770,000	400,850	1,170,850
4,315,000	1,536,500	5,851,500
4,185,000	632,218	4,817,218
730,000	30,296	760,296
<b>\$ 12,150,000</b>	<b>\$ 3,962,317</b>	<b>\$ 16,112,317</b>

**General Improvement Bonds**

<u>Series</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2008	2033	4.0-4.5%	\$ 5,660,000	\$ 5,435,000	\$ -	\$ (120,000)	\$ 5,315,000
2009	2028	2.0-4.5%	6,395,000	6,295,000	-	(105,000)	6,190,000
2011	2031	3.0-4.25%	4,300,000	4,300,000	-	-	4,300,000
<b>Totals</b>				<b>\$ 16,030,000</b>	<b>\$ -</b>	<b>\$ (225,000)</b>	<b>\$ 15,805,000</b>

Debt Service Requirements  
for the Year Ending September 30,

2013

2014

2015

2016

2017-2021

2022-2026

2027-2031

2032-2036

**Totals**

<b>General Improvement Bonds</b>		
<u>Principal</u>	<u>Interest</u>	<u>Total</u>
\$ 635,000	\$ 614,687	\$ 1,249,687
650,000	596,987	1,246,987
670,000	575,737	1,245,737
690,000	553,837	1,243,837
3,815,000	2,401,286	6,216,286
4,620,000	1,614,095	6,234,095
4,000,000	628,185	4,628,185
725,000	49,276	774,276
<b>\$ 15,805,000</b>	<b>\$ 7,034,090</b>	<b>\$ 22,839,090</b>

**CITY OF SHENANDOAH, TEXAS**  
*NOTES TO THE FINANCIAL STATEMENTS*  
 SEPTEMBER 30, 2012

Debt Service Requirements for the Year Ending September 30,	<b>Primary Government Total, All Debt Types</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 1,325,000	\$ 1,093,763	\$ 2,418,763
2014	1,365,000	1,051,913	2,416,913
2015	1,415,000	1,004,188	2,419,188
2016	1,460,000	954,687	2,414,687
2017-2021	8,130,000	3,937,786	12,067,786
2022-2026	8,805,000	2,246,313	11,051,313
2027-2031	4,730,000	658,481	5,388,481
2032-2036	725,000	49,276	774,276
<b>Totals</b>	<b>\$ 27,955,000</b>	<b>\$ 10,996,407</b>	<b>\$ 38,951,407</b>

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 2012, 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 the insurance coverage mentioned above. 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.

**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 state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at [www.tMrs.com](http://www.tMrs.com).

**CITY OF SHENANDOAH, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

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:

	<b>Plan Year (Calendar Year) 2011</b>	<b>Plan Year (Calendar Year) 2012</b>
Employee deposit rate	7.00%	7.00%
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. Contributions**

Under 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:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net Pension Obligation			
Annual Pension Cost:			
Annual Required Contribution (ARC)	\$ 394,262	\$ 461,955	\$ 467,108
Interest on Prior Year Net Pension Obligation (NPO)	6,682	4,617	2,779
Adjustment to the ARC	<u>(5,744)</u>	<u>(3,759)</u>	<u>(2,262)</u>
Annual Pension Cost	395,200	462,813	467,625
Contributions Made	<u>(394,580)</u>	<u>(428,919)</u>	<u>(443,108)</u>
Increase in NPO	620	33,894	24,517
Net Pension Obligation, October 1	95,458	61,564	37,047
Net Pension Obligation, September 30	<u>\$ 96,078</u>	<u>\$ 95,458</u>	<u>\$ 61,564</u>
Percentage of APC Contribution	99.8%	92.7%	94.8%

**CITY OF SHENANDOAH, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, is as follows:

Actuarial Valuation Date	12/31/2009	12/31/2010	12/31/2011
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	28.5 Years; Closed Period	27.3 Years; Closed Period	26.6 Years; Closed Period
Amortization Period for new Gains/Losses	30 Years	30 Years	30 Years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.0%	7.0%
Projected Salary Increases*	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

**3. Funded Status and Funding Progress:**

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b)	Unfunded AAL (UAAL) (b-a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c)
12/31/2011	\$ 4,018,682	\$ 7,198,193	55.8%	\$ 3,179,511	\$ 3,298,172	96.4%

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

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

**CITY OF SHENANDOAH, TEXAS**  
*NOTES TO THE FINANCIAL STATEMENTS*  
 SEPTEMBER 30, 2012

**J. Commitments and Contingencies**

**1. Commitments**

The City has active construction projects underway as of September 30, 2012. The projects include the reconstruction of water and sewer infrastructure, as well as 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>
Priority Area III Reconstruction	\$ 3,186,110	\$ 174,427
Water Plant No. 1	25,380	669,400
Catahoula Well	1,115,208	86,397
Vision Park Storm Sewer	183,320	343,510
2010 Sidewalks	56,618	36,397
<b>Totals</b>	<b>\$ 4,566,636</b>	<b>\$ 1,310,131</b>

**2. Litigation and Contingencies**

At year end, the City was involved in a lawsuit related to the de-annexation of taxable property belonging to ESD #4. A summary judgment was issued on August 27, 2012 requiring the City to remit \$677,123 to ESD #4. This amount represents the debt proration of the ad valorem tax that the City owes the District due to the de-annexation and is shown as both a liability and an expense in the related financial statements.

The City is a defendant in various other lawsuits arising principally in the normal course of operations. In the opinion of the City's management, the potential losses, after insurance coverage, on all allegations, claims, and lawsuits will not have a material effect on the City's financial position, results of operations or liquidity.

**K. Prior Period Adjustment**

During the year ended September 30, 2012, it was determined that Construction in Progress at the beginning of the year was understated by \$475,700. As a result, unrestricted net assets at September 30, 2011 were understated.

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### **REQUIRED SUPPLEMENTARY INFORMATION**

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

**CITY OF SHENANDOAH, TEXAS**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**EXHIBIT B-1**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Sales Taxes	\$ 4,505,107	\$ 4,493,107	\$ 4,805,613	\$ 312,506
Property Taxes	780,698	792,698	783,335	(9,363)
Franchise Taxes	371,242	371,242	399,178	27,936
Licenses and Permits	266,600	313,600	333,819	20,219
Intergovernmental	-	-	325,288	325,288
Charges for Services	115,660	167,860	178,673	10,813
Investment Revenues	2,000	2,000	2,529	529
Fines and Forfeitures	30,000	46,000	71,498	25,498
Other Revenues	191,920	176,920	301,812	124,892
Total Revenues	<u>6,263,227</u>	<u>6,363,427</u>	<u>7,201,745</u>	<u>838,318</u>
<b>EXPENDITURES</b>				
Current:				
General Government	2,299,173	2,226,600	2,189,616	36,984
Public Safety	2,343,464	2,362,564	2,313,989	48,575
Public Works	864,445	894,551	857,245	37,306
Community Development	112,258	118,258	92,101	26,157
Capital Outlays	267,461	267,461	826,548	(559,087)
Total Expenditures	<u>5,886,801</u>	<u>5,869,434</u>	<u>6,279,499</u>	<u>(410,065)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>376,426</u>	<u>493,993</u>	<u>922,246</u>	<u>428,253</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	848,064	837,064	567,956	(269,108)
Transfers Out	(1,193,211)	(1,278,211)	(1,268,330)	9,881
Proceeds from the Sale of Capital Assets	28,500	2,180,602	2,225,558	44,956
Total Other Financing Sources (Uses)	<u>(316,647)</u>	<u>1,739,455</u>	<u>1,525,184</u>	<u>(214,271)</u>
<b>SPECIAL ITEMS</b>				
De-annexation Settlement Expense	-	-	(677,123)	(677,123)
Total special items	<u>-</u>	<u>-</u>	<u>(677,123)</u>	<u>(677,123)</u>
Net Change in Fund Balance	59,779	2,233,448	1,770,307	(463,141)
Fund Balances - Beginning	1,966,593	1,966,593	1,966,593	-
Fund Balances - Ending	<u>\$ 2,026,372</u>	<u>\$ 4,200,041</u>	<u>\$ 3,736,900</u>	<u>\$ (463,141)</u>

**CITY OF SHENANDOAH, TEXAS**  
HOTEL/MOTEL OCCUPANCY TAX FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

**EXHIBIT B-2**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Other Taxes	\$ 652,646	\$ 652,646	\$ 713,812	\$ 61,166
Charges for Services	-	1,250	1,249	(1)
Investment Revenues	700	700	589	(111)
Other Revenues	-	-	216	216
Total Revenues	<u>653,346</u>	<u>654,596</u>	<u>715,866</u>	<u>61,270</u>
<b>EXPENDITURES</b>				
Current:				
Community Development	<u>643,816</u>	<u>596,916</u>	<u>412,176</u>	<u>184,740</u>
Total Expenditures	<u>643,816</u>	<u>596,916</u>	<u>412,176</u>	<u>184,740</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>9,530</u>	<u>57,680</u>	<u>303,690</u>	<u>246,010</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	-	-	(122,030)	(122,030)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(122,030)</u>	<u>(122,030)</u>
Net Change in Fund Balance	9,530	57,680	181,660	123,980
Fund Balances - Beginning	<u>230,212</u>	<u>230,212</u>	<u>230,212</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 239,742</u>	<u>\$ 287,892</u>	<u>\$ 411,872</u>	<u>\$ 123,980</u>

**CITY OF SHENANDOAH, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**YEAR ENDED SEPTEMBER 30, 2012**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Funded Ratio (a/b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll (b-a)/c)</b>
12/31/2003	\$ 35,007	\$ 239,175	14.6%	\$ 204,168	\$ 1,661,304	12.3%
12/31/2004	183,476	587,428	31.2%	403,952	1,863,871	21.7%
12/31/2005	403,996	846,523	47.7%	442,527	2,117,741	20.9%
12/31/2006	710,493	1,219,671	58.3%	509,178	2,779,627	18.3%
12/31/2007	1,110,797	2,603,690	42.7%	1,492,893	3,417,194	43.7%
12/31/2008	1,670,173	3,628,341	46.0%	1,958,168	3,355,196	58.4%
12/31/2009	2,434,300	5,196,587	46.8%	2,762,287	3,837,015	72.0%
12/31/2010 <sup>1</sup>	3,027,673	5,648,898	53.6%	2,621,225	3,589,815	73.0%
12/31/2010 <sup>2</sup>	3,225,935	6,182,564	52.2%	2,956,629	3,589,815	82.4%
12/31/2011	4,018,682	7,198,193	55.8%	3,179,511	3,298,172	96.4%

(1) Actuarial valuation performed under the original fund structure.

(2) Actuarial valuation performed under the new fund structure

#### **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 include information that is required by other entities.

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**CITY OF SHENANDOAH, TEXAS**  
**DEBT SERVICE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**EXHIBIT B-3**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property Taxes	\$ 904,048	\$ 904,048	\$ 917,724	\$ 13,676
Investment Revenues	500	500	157	(343)
Total Revenues	<u>904,548</u>	<u>904,548</u>	<u>917,881</u>	<u>13,333</u>
<b>EXPENDITURES</b>				
Current:				
General Government	3,525	3,525	1,847	1,678
Debt service:				
Principal	1,370,000	1,370,000	1,370,000	-
Interest and Fiscal Charges	<u>1,198,489</u>	<u>1,198,489</u>	<u>1,198,488</u>	<u>1</u>
Total Expenditures	<u>2,572,014</u>	<u>2,572,014</u>	<u>2,570,335</u>	<u>1,679</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,667,466)</u>	<u>(1,667,466)</u>	<u>(1,652,454)</u>	<u>15,012</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	<u>1,667,966</u>	<u>1,667,966</u>	<u>1,646,527</u>	<u>(21,439)</u>
Total Other Financing Sources (Uses)	<u>1,667,966</u>	<u>1,667,966</u>	<u>1,646,527</u>	<u>(21,439)</u>
Net Change in Fund Balance	500	500	(5,927)	(6,427)
Fund Balances - Beginning	<u>9,043</u>	<u>9,043</u>	<u>9,043</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 9,543</u>	<u>\$ 9,543</u>	<u>\$ 3,116</u>	<u>\$ (6,427)</u>