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CITY OF SHAVANO PARK, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2010



CITY OF SHAVANO PARK, TEXAS
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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the City Council
City of Shavano Park, Texas

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Shavano Park, Texas, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Shavano Park, Texas management. My responsibility is to express opinions on these financial statements based on my audit.

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages two through seven and thirty-one through thirty-three be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.



R. D. Harrison
Certified Public Accountant

December 9, 2010

CITY OF SHAVANO PARK



MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Shavano Park's financial performance provides an overview of the City's financial activities for the year ended September 30, 2010.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages eight and nine) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page ten. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page three. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including the police, fire, general administration, court, public works and development services. Ad valorem and sales taxes, franchise fees, fines, and building permit fees finance most of these activities.

- Business-type activities – The City charges a fee to customers to cover all of the cost of certain services it provides. The City’s water system is reported here.

In our opinion, the City is better off as a result of this year’s activities.

REPORTING THE CITY’S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the City’s major funds begins on page four. The fund financial statements begin on page ten and provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council may establish other funds to help it control and manage money for particular purposes (like the Capital Projects Fund). The City’s two kinds of funds – governmental and proprietary – use different accounting approaches.

- Governmental funds – Most of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.
- Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City’s enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

THE CITY AS A WHOLE

For the year ended September 30, 2010, total and net assets changed as follows:

	Governmental Activities	Business-type Activities	Total
Beginning total assets	\$ 7,801,352.	\$ 6,549,080.	\$ 14,350,432.
Increase in total assets	<u>471,789.</u>	<u>86,024.</u>	<u>557,813.</u>
Ending total assets	<u>\$ 8,273,141.</u>	<u>\$ 6,635,104.</u>	<u>\$ 14,908,245.</u>
Beginning net assets	\$ 4,496,489.	\$ 3,558,930.	\$ 8,055,419.
Increase in net assets	<u>614,120.</u>	<u>18,417.</u>	<u>632,537.</u>
Ending net assets	<u>\$ 5,110,609.</u>	<u>\$ 3,577,347.</u>	<u>\$ 8,687,956.</u>

The increase in total assets and net assets for the year is a result of the excess of revenues over expenditures by both governmental and business-type activities for the year. These surpluses of \$614,120 and \$18,417 respectively are principally reflected in the Statement of Net Assets as Net Fixed Assets which has increased by \$2,267,232 to a total of \$9,744,438 due mainly to the expansion of the Fire Station and work in progress on the new Trinity Water well.

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

Development Services	Building permits, development fees, occupational licenses, and plumbing/electric inspections.
Court	Court costs allocation from fines.
Police	Fines and arrest fees. Grants are classified as operating grants.
Fire	EMS fees. Grants are classified as operating grants.

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

Expenses for government activities (as presented on page 9) decreased by \$681 to \$3,239,066 in 2010 from 2009. The City's General Revenues increased 8% (or \$231,219) principally due to increased tax revenues of \$218,127. The City's Net Revenue for 2010 was \$614,120, compared to \$365,999 in 2009.

Business-type Activities

Water revenues (as presented on page 9) decreased by 26.7% (or \$274,950) to \$754,671 due to a wet year and reduced usage in 2010 from 2009. Total operating expenses of the Water Department increased by 13.47% (or \$88,777) to \$747,569 due to increase in interest expense due to the issuance of Revenue Bonds for the Trinity Water Well Project. Net income decreased by \$367,834 to \$18,417 in 2010 due to decrease in revenues.

THE CITY'S FUNDS

The City's government funds – total assets (as presented on page 10) decreased 8.5% (or \$272,415) in 2010. The City's net government funds balances decreased by 8.9% (or \$270,061). This decrease was primarily due to the expansion of the fire facility.

The following schedule presents a summary of general, capital project, and debt service fund revenues and expenditures (as presented on page 11) for the fiscal year ended September 30, 2010, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues:	FYE 2010 Amount	Percent of Total	Increase (Decrease) from FYE 2009	Percent Increase (Decrease)
Taxes	\$ 2,761,584.	72 %	\$ 226,843.	9 %
Franchise fees	283,292.	7 %	18,422.	7 %
Building permits and fees	255,579.	7 %	(51,137).	(17) %
Fines and forfeitures	300,151.	8 %	(13,798).	(4) %
EMS fees	53,847.	1 %	(6,376).	(11) %
Other	163,209.	4 %	98,834.	154 %
Interest	<u>6,865.</u>	<u>1 %</u>	<u>(15,690).</u>	<u>(70) %</u>
Total Revenues	<u>\$ 3,824,527.</u>	<u>100 %</u>	<u>\$ 257,098.</u>	<u>7 %</u>

Expenditures:	FYE 2010 Amount	Percent of Total	Increase (Decrease) from FYE 2009	Percent Increase (Decrease)
City Council	\$ 11,189.	1 %	\$ (928).	(8)%
Administration	482,838.	12 %	(98,679).	(17)%
Municipal Court	58,784.	1 %	2,770.	5 %
Police	876,204.	21 %	4,446.	1 %
Fire	943,259.	23 %	(5,655).	(1) %
Public Works	290,498.	7 %	20,567.	8 %
Development Services	99,190.	2 %	99,190.	- %
Capital Outlay	1,068,712.	26 %	736,011.	221 %
Debt Service	<u>288,509.</u>	<u>7 %</u>	<u>(24,942).</u>	<u>(8)%</u>
Total Expenditures	<u>\$ 4,119,183.</u>	<u>100 %</u>	<u>\$ 732,780.</u>	<u>22 %</u>

BUDGETARY HIGHLIGHTS

Budgetary comparisons are included on pages 31 through 33 of this annual financial report. There were minor budget amendments during the year.

General Fund actual revenues exceeded the budget by 4.57% (or \$152,940) principally due to a grant received from the Texas Forest Service. Actual expenditures were less than budgeted amounts in every department principally due to personnel services and capital expenditures. Total expenditures were less than the budget by 6.67% (or \$259,602).

Water Fund revenues were less than budget by 23% (or \$241,279). Total expenditures were under budget by 33% (or \$1,191,048), principally due to the Trinity Water Well Project progressing at a slower pace than anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of September 30, 2010, the City had \$14,589,517 invested in capital assets including police and fire equipment, buildings, and vehicles. (See table below.) This represents a net increase of 22.5% (or \$2,681,262) over last year.

	Governmental Activities		Business-type Activities		Totals	
	2009	2010	2009	2010	2009	2010
Land and Rights	\$ 36,385.	\$ 36,385.	\$ 333,127.	\$ 333,127.	\$ 369,512.	\$ 369,512.
Buildings	2,614,626.	3,497,921.	-	-	2,614,626.	3,497,921.
Vehicles	995,572.	1,079,285.	109,862.	109,862.	1,105,434.	1,189,147.
Furniture & Equip.	867,683.	908,417.	283,450.	249,955.	1,106,133.	1,158,372.
Infrastructure	<u>2,683,302.</u>	<u>2,683,302.</u>	<u>4,029,248.</u>	<u>5,691,263.</u>	<u>6,712,550.</u>	<u>8,374,565.</u>
TOTALS	<u>\$ 7,197,568.</u>	<u>\$ 8,205,310.</u>	<u>\$ 4,710,687.</u>	<u>\$ 6,384,207.</u>	<u>\$11,908,255.</u>	<u>\$ 14,589,517.</u>

This year's major additions included:

Trinity Water Well	\$ 1,662,015.
Fire Facility Improvements	883,295.
Vehicles	<u>144,683.</u>
Total	<u>\$ 2,689,993.</u>

Debt

At September 30, 2010, the City had \$5,967,665 in outstanding notes compared to \$6,194,999 last year. That is a decrease of 3.7% (or \$227,334) as shown in the following table.

	Governmental Activities		Business-type Activities		Totals	
	2009	2010	2009	2010	2009	2010
Bonds	<u>\$ 3,247,666.</u>	<u>\$ 3,080,409.</u>	<u>\$2,947,333.</u>	<u>\$ 2,887,256.</u>	<u>\$ 6,194,999.</u>	<u>\$ 5,967,665.</u>

Other obligations of the City include accrued compensated absences.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

General Fund revenues for fiscal 2011 are budgeted at \$3,407,813 a 4.6% decrease over 2010 actual amounts. With the passage of the 65+ tax freeze on ad valorem tax rates and the susceptibility of building permits and fees to economic conditions, and the finite supply of undeveloped property, the City does not expect to realize significant revenue growth. Although ad valorem taxes will not decrease, building permits and deposits could fall short of budget and even begin to decline from prior years. General Fund expenditures for fiscal 2011 are budgeted at \$3,403,857, a 12% increase over 2010.

Personnel costs are budgeted to increase by 2.8% (or \$172,428) due to salary increases and incentives. In addition, \$347,052 is budgeted as Transfer to Capital Replacement fund to establish

a reserve fund in anticipation of future projects such as drainage, streets, dispatching services and vehicle replacement.

Water Fund revenues for fiscal 2011 are budgeted at \$881,000, a 11% increase from 2010 actual revenues. Water expenditures are budgeted at \$1,408,197, which is 59% of 2010 actual expenditures due to nearing completion of construction of the Trinity Water Well Project.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director at 900 Saddletree Court, Shavano Park, Texas.

A handwritten signature in blue ink that reads "Manuel Longoria". The signature is written in a cursive style and is positioned above a horizontal line.

City Manager

A handwritten signature in black ink that reads "Clara L. Santos". The signature is written in a cursive style.

Finance Director

CITY OF SHAVANO PARK, TEXAS
Statement of Net Assets
September 30, 2010

	<u>Government Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 2,539,475.	\$ 1,520,267.	\$ 4,059,742.
Accounts receivable	71,387.	73,471.	144,858.
Internal balances	16,685.	(16,685)	-
Inventory	-	3,000.	3,000.
Prepaid expenses	<u>-</u>	<u>600.</u>	<u>600.</u>
Total current assets	2,627,547.	1,580,653.	4,208,200.
Restricted cash	298,373.	657,234.	955,607.
Fixed assets	8,205,310.	6,384,207.	14,589,517.
Accumulated depreciation	<u>(2,858,089)</u>	<u>(1,986,990)</u>	<u>(4,845,079)</u>
Net fixed assets	<u>5,347,221.</u>	<u>4,397,217.</u>	<u>9,744,438.</u>
Total Assets	8,273,141.	6,635,104.	14,908,245.
LIABILITIES			
Accounts payable	149,794.	189,178.	338,972.
Customer deposits	-	19,250.	19,250.
Accrued interest payable	14,546.	-	14,546.
Current portion of bonds payable	<u>180,201.</u>	<u>45,192.</u>	<u>225,393.</u>
Total current liabilities	344,541.	253,620.	598,161.
Compensated absences payable	77,824.	3,470.	81,294.
Bonds payable	<u>2,740,167.</u>	<u>2,800,667.</u>	<u>5,540,834.</u>
Total liabilities	3,162,532.	3,057,757.	6,220,289.
NET ASSETS			
Invested in capital assets – net of debt	2,426,853.	2,189,342.	4,616,195.
Reserved for capital improvement	29,937.	-	29,937.
Reserved for court	58,283.	-	58,283.
Reserved for debt service	164,622.	-	164,622.
Reserved for crime control	7,026.	-	7,026.
Reserved for oak-wilt	38,505.	-	38,505.
Unreserved	<u>2,385,383.</u>	<u>1,388,005.</u>	<u>3,773,388.</u>
Total net assets	<u>\$ 5,110,609.</u>	<u>\$ 3,577,347.</u>	<u>\$ 8,687,956.</u>

See notes to financial statements

CITY OF SHAVANO PARK, TEXAS
Statement of Activities
Year Ended September 30, 2010

<u>Program Activities</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Government Activities</u>	<u>Business-type Activities</u>	
Government activities:						
City Council	\$ 11,189.	\$ -	\$ -	\$ (11,189)		\$ (11,189)
Administration	634,838.	19,209.	-	(615,629)		(615,629)
Municipal Court	68,784.	33,300.	-	(35,484)		(35,484)
Police	926,204.	269,951.	5,876.	(650,377)		(650,377)
Fire	1,059,259.	63,777.	83,256.	(912,226)		(912,226)
Public Works	308,952.	-	-	(308,952)		(308,952)
Development Services	99,190.	255,579	-	156,389.		156,389.
Interest	<u>130,650.</u>	<u>-</u>	<u>-</u>	<u>(130,650)</u>		<u>(130,650)</u>
Total Government Activities:	3,239,066.	641,816.	89,132.	(2,508,118)		(2,508,118)
Business-type Activities:						
Water	<u>747,569.</u>	<u>754,671.</u>	<u>-</u>		\$ 7,102.	<u>7,102.</u>
Total:	<u>\$3,986,635.</u>	<u>\$1,396,487.</u>	<u>\$ 89,132.</u>			<u>(2,501,016)</u>
General Revenues:						
Taxes				2,765,648.	-	2,765,648.
Franchise Fees				283,292.	-	283,292.
Interest				6,865.	6,324.	13,189.
Other				41,838.	29,586.	71,424.
Transfers				<u>24,595.</u>	<u>(24,595)</u>	<u>-</u>
Total General Revenue and Transfers				<u>3,122,238.</u>	<u>11,315.</u>	<u>3,133,553.</u>
Change in Net Assets				614,120.	18,417.	632,537.
Net Assets at Beginning of Year as adjusted				<u>4,496,489.</u>	<u>3,558,930.</u>	<u>8,055,419.</u>
Net Assets and End of Year				<u>\$ 5,110,609.</u>	<u>\$ 3,577,347.</u>	<u>\$ 8,687,956.</u>

See notes to financial statements

CITY OF SHAVANO PARK, TEXAS

Balance Sheet
Government Funds
September 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Crime Control District</u>	<u>Capital Projects</u>	<u>Total</u>
ASSETS					
Cash and investments	\$ 2,663,138.	\$ 167,684.	\$ 7,026.	\$ -	\$ 2,837,848.
Receivable:					
Delinquent ad valorem taxes	26,394.	3,869.	-	-	30,263.
Franchise fees and other	41,124.	-	-	-	41,124.
Due from other funds	19,747.	-	-	-	19,747.
Total assets	<u>\$ 2,750,403.</u>	<u>\$ 171,553.</u>	<u>\$ 7,026.</u>	<u>\$ -</u>	<u>\$ 2,928,982.</u>
LIABILITIES					
Accounts payable	\$ 149,794.	\$ -	\$ -	\$ -	\$ 149,794.
Deferred revenue – ad valorem taxes	26,394.	3,869.	-	-	30,263.
Due to other funds	-	3,062.	-	-	3,062.
Total liabilities	176,188.	6,931.	-	-	183,119.
FUND BALANCES					
Reserved for capital replacements	29,937.	-	-	-	29,937.
Reserved for court	58,283.	-	-	-	58,283.
Reserved for debt service	-	164,622.	-	-	164,622.
Reserved for crime control	-	-	7,026.	-	7,026.
Reserved for oak wilt	38,505.	-	-	-	38,505.
Unreserved	2,447,490.	-	-	-	2,447,490.
Total fund balances	<u>2,574,215.</u>	<u>164,622.</u>	<u>7,026.</u>	<u>-</u>	<u>2,745,863.</u>
Total liabilities and fund balances	<u>\$ 2,750,403.</u>	<u>\$ 171,553.</u>	<u>\$ 7,026.</u>	<u>\$ -</u>	

Amounts reported for government activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds; net of accumulated depreciation of \$ 2,858,089.	5,347,221.
Delinquent ad valorem taxes are not available to pay for current period expenditures and therefore are deferred in the funds.	30,263.
Accrued interest payable on Bonds payable does not require current financial resources and therefore are not reported in the funds.	(14,546)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	(77,824)
Bonds payable	<u>(2,920,368)</u>
Net assets of governmental activities	<u>\$ 5,110,609.</u>

See notes to financial statements

CITY OF SHAVANO PARK, TEXAS
Statement of Revenues, Expenditures
and Changes in Fund Balances
Government Funds
Year Ended September 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Crime Control District</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues:					
Taxes	\$ 2,413,186.	\$ 265,475.	\$ 82,923.	\$ -	\$ 2,761,584.
Franchise fees	283,292.	-	-	-	283,292.
Building permits and fees	255,579.	-	-	-	255,579.
Fines and forfeits	300,151.	-	-	-	300,151.
EMS fees	53,847.	-	-	-	53,847.
Other	163,209.	-	-	-	163,209.
Interest	<u>6,587.</u>	<u>153.</u>	<u>1.</u>	<u>124.</u>	<u>6,865.</u>
Total revenues	3,475,851.	265,628.	82,924.	124.	3,824,527.
Expenditures:					
City Council	11,189.	-	-	-	11,189.
General Administration	482,838.	-	-	-	482,838.
Municipal Court	58,784.	-	-	-	58,784.
Police	810,204.	-	66,000.	-	876,204.
Fire	943,259.	-	-	-	943,259.
Public Works	290,498.	-	-	-	290,498.
Development Services	99,190.	-	-	-	99,190.
Capital outlay	938,908.	-	15,000.	114,804.	1,068,712.
Principal retirement	-	167,257.	-	-	167,257.
Interest and fees	<u>-</u>	<u>121,252.</u>	<u>-</u>	<u>-</u>	<u>121,252.</u>
Total expenditures	<u>3,634,870.</u>	<u>288,509.</u>	<u>81,000.</u>	<u>114,804.</u>	<u>4,119,183.</u>
Excess of revenues over expenditures	(159,019)	(22,881)	1,924.	(114,680)	(294,656)
Other financing sources:					
Transfers from Proprietary Fund	<u>24,595.</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,595.</u>
Excess of revenue and other financing sources over expenditures	(134,424)	(22,881)	1,924.	(114,680)	(270,061)
Fund balances – beginning of year	<u>2,708,639.</u>	<u>187,503.</u>	<u>5,102.</u>	<u>114,680.</u>	<u>3,015,924.</u>
Fund balances – end of year	<u>\$ 2,574,215.</u>	<u>\$ 164,622.</u>	<u>\$ 7,026.</u>	<u>\$ -</u>	<u>\$ 2,745,863.</u>

See notes to financial statements

CITY OF SHAVANO PARK, TEXAS
Statement of Revenues, Expenditures
and Changes in Fund Balances, continued
Government Funds
Year Ended September 30, 2010

The following is a reconciliation of the excess of revenue and other financing sources over expenditures in the Statement of Revenue, Expenditures and Changes in Fund Balance – Government Funds to the Changes in Net Assets from Governmental Activities reported in the Statement of Activities.

Excess of revenue and other financing sources over expenditures.	\$ (270,061)
--	--------------

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

Governmental Funds report capital outlays as expenditures. However, in the government-wide Statement of Activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	1,068,712.
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Depreciation expense on capital assets is reported in the government-wide Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in government funds.	(337,000)
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The repayment of long-term debt (Bonds and Capital Lease Obligations) consumes the current financial resources of government funds. Neither of these transactions, however, has any effect on net assets. The net effect of these differences in the treatment of long-term debt is as follows:

Bond principal payments (net of defeasement amortization)	156,848.
--	----------

The decrease in accrued interest expenses does not create a current financial resource and is, therefore, not reported as an expenditure in the government funds.	1,011.
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The increase in the liability for compensated absences does not consume a current financial recourse and is therefore not reported as an expenditure in the government funds.	(9,454)
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The increase in delinquent ad-valorem taxes for the year does not create a current financial resource and therefore is deferred in the government funds.	<u>4,064.</u>
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Change in Net Assets of Governmental Activities	<u>\$ 614,120.</u>
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See notes to financial statements

CITY OF SHAVANO PARK, TEXAS
Statement of Net Assets
Proprietary Fund
September 30, 2010

ENTERPRISE FUND

ASSETS

Cash and investments	\$ 2,177,501.
Receivable from water customers	73,471.
Inventory	3,000.
Prepaid expenses	600.
Fixed assets	6,384,207.
Accumulated depreciation	<u>(1,986,990)</u>
Total Assets	6,651,789.

LIABILITIES

Accounts payable and accrued expenses	189,178.
Water customer deposits	19,250.
Compensated absences payable	3,470.
Due to other funds	16,685.
Bonds payable	<u>2,845,859.</u>
Total Liabilities	3,074,442.

NET ASSETS

Invested in capital assets, net of debt	2,189,342.
Unrestricted	<u>1,388,005.</u>
Total Net Assets	<u>\$ 3,577,347.</u>

See notes to financial statements

CITY OF SHAVANO PARK, TEXAS
Statement of Revenues, Expenditures
and Changes in Net Assets
Proprietary Fund
Year Ended September 30, 2010

ENTERPRISE FUND

Revenue:	
Water service	\$ 754,671.
Interest and other	<u>35,910.</u>
Total revenue	790,581.
Operating expenses:	
Personnel	191,072.
Supplies	18,460.
Services	97,319.
Water lease	79,416.
Maintenance	98,949.
Interest and fees	124,353.
Transfers to General Fund	<u>24,595.</u>
Total operating expenses	<u>634,164.</u>
Net income before depreciation	156,417.
Depreciation	<u>138,000.</u>
Net income	18,417.
Fund net assets – beginning of year	<u>3,558,930.</u>
Fund net assets – end of year	<u><u>\$ 3,577,347.</u></u>

See notes to financial statements.

CITY OF SHAVANO PARK, TEXAS
Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2010

ENTERPRISE FUND

OPERATING ACTIVITIES:

Net income/loss	\$ 18,417.
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	138,000.
Change in operating assets and liabilities:	
Increase in accounts receivable	(47,337)
Increase in accounts payable and accrued expenses	125,952.
Decrease in due to other funds	(16,287)
Decrease in customer deposits	<u>(961)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 217,784.

INVESTING ACTIVITIES

Additions to water plant and improvements	<u>(1,673,520)</u>
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NET CASH USED BY INVESTING ACTIVITIES (1,673,520)

FINANCING ACTIVITIES

Repayment of debt	<u>(57,384)</u>
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NET CASH USED BY FINANCING ACTIVITIES (57,384)

DECREASE IN CASH (1,513,120)

Cash and cash equivalents at beginning of year 3,690,621.

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 2,177,501.

See notes to financial statements

CITY OF SHAVANO PARK, TEXAS
Statement of Net Assets
Fiduciary Funds
Year Ended September 30, 2010

	Pet Documentation and Rescue Fund
Cash	\$ <u>2,292.</u>
Fund Balance	\$ <u>2,292.</u>

See notes to financial statements

CITY OF SHAVANO PARK, TEXAS

Notes to Financial Statements

September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Shavano Park, Texas (The City) complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Reporting Entity: The financial statements include all the government funds and the proprietary fund of the City. There are no component units applicable to the City. Therefore, the primary government (City of Shavano Park, Texas) is the same as the reporting entity. The City is not a component unit of any other entity.

Government-wide Financial Statements: The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements: The government uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types". Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds) and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in another fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

CITY OF SHAVANO PARK, TEXAS

Notes to Financial Statements

September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fiduciary funds are used to account for assets held by the City as an agent for individuals and/or other funds.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Governmental Fund type operating statements present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus and using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are property taxes, franchise fees, special assessments, interest revenue and charges for services. Licenses, fines and permits are not susceptible to accrual because generally, they are not measurable until received in cash.

CITY OF SHAVANO PARK, TEXAS

Notes to Financial Statements

September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The government reports deferred revenue on its balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Delinquent taxes are reported as deferred revenue as they are not available for current use.

Cash and Investments: Cash and investments include amounts in demand deposits, savings accounts and TexSTAR investment accounts.

Short-Term Interfund Receivables/Payables: During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet. Short-term interfund loans are classified as “interfund receivables/payables.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

Receivables: In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include ad valorem taxes, franchise fees and other fees. Business-type activities report water earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as ad valorem tax, franchise fees, and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories: Inventories are valued at cost, which approximates market, using the first-in, first-out (FIFO) method.

Prepaid Items: Payments made to vendors for services that will benefit periods beyond September 30, 2010.

CITY OF SHAVANO PARK, TEXAS

Notes to Financial Statements

September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fixed Assets: The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40 years
Vehicles	3 – 10 years
Furniture and Equipment	3 – 10 years
Infrastructure	10 – 80 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Compensated Absences: The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it incurred.

Long-Term Debt: The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or the fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable, accrued compensated absences, and Capital lease obligations.

CITY OF SHAVANO PARK, TEXAS

Notes to Financial Statements

September 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Long-term debt for governmental funds is no reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Equity Classifications:

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

Date of Management Review: Subsequent events have been evaluated through December 9, 2010, which is the date the financial statements were available to be issued.

NOTE B – PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS

Pension Plan Description: The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement Systems (TMRS), administered by TMRS, an agent multiple employer public employee retirement system.

Benefits depend upon the sum of the employee’s contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (200%) of the employee’s accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the

CITY OF SHAVANO PARK, TEXAS

Notes to Financial Statements

September 30, 2010

NOTE B – PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS,
continued

employee's accumulated contribution and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with five or more years of service or with 20 or more years of service regardless of age. A member is vested after five years, but he must leave his accumulated contribution in the plan. If a member withdraws his own money, he is not entitled to the employer financed monetary credits, even if he was vested. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Pension Contributions: The contribution rate for the employees is 7%, and the City matching percent is currently 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the City contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee retirement date, not at the time the employee contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year "closed" amortization period. The projected unit credit actuarial cost method is used for determining the City contribution rate. The assumed investment rate of return is 7.5%. There was no change in the valuation method or actuarial assumptions from the prior year. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. The City's current contribution rate based on the actuarial valuation is 9.38%.

The City's total payroll in fiscal year 2010 was \$1,917,391 and the City's contributions were based on a covered payroll of \$1,880,559 for the period ended December 31, 2009. Both the City and the covered employees made the required contributions during the past three years, amounting to \$174,843 and \$134,370, respectively for the year ended September 30, 2010.

CITY OF SHAVANO PARK, TEXAS

Notes to Financial Statements

September 30, 2010

NOTE B – PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS, continued

Pension Funding Status and Progress: The historical trend information below demonstrates the City's progress in meeting its pension funding obligations:

Dec. 31	Actuarial Values of Assets	Actuarial Accrued Liability	Percentage Funded	Over/(under) -funded Amount	Covered Payroll	Unfunded Obligation as a % of Payroll
2007	1,280,176.	1,922,178.	66.6%	(642,002)	1,477,034.	43.5%
2008	1,592,084.	2,393,220.	66.5%	(801,136)	1,792,195.	44.7%
2009	1,963,051.	2,872,640.	68.3%	(909,589)	1,880,559.	48.4%

Each of the municipalities administered by TMRS has an annual individual actuarial valuation performed. All assumptions for the December 31, 2009 valuations are contained in the 2009 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153 or by visiting the TMRS website at www.TMRS.com.

Other Post-Employment Benefits: The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS), known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). Retired employees are insured for \$7,500; this coverage is an "other post-employment benefit," or OPEB.

The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. The city contributed the required amount to the TMRS SDBF for the last three years; the amount for the year ended September 30, 2010 was \$575.

NOTE C – PROPERTY TAXES

Taxes were levied on and payable as of January 1. For fiscal year 2010, the assessed tax rate for the City was \$.3248 per \$100 on an assessed valuation of \$784,049,881. This is broken out as \$.290868 per \$100 for general operations and \$.033932 per \$100 for debt retirement. Total tax levy for 2010 was \$2,478,800. As of September 30, 2010, the current year uncollected taxes were \$17,900 with total delinquent taxes of \$30,263.

CITY OF SHAVANO PARK, TEXAS

Notes to Financial Statements

September 30, 2010

NOTE D – DEPOSITS AND INVESTMENTS

The City is allowed to invest monies in any federally backed securities. Excess cash is currently invested in pooled investment accounts with TexSTAR and Bank Certificates of Deposit. The City's primary bank depository has pledged securities with the Federal Reserve Bank in an amount sufficient to collateralize all deposits in excess of \$250,000.

Investments owned by various City funds are summarized as follows:

	General Fund	Debt Service Fund	Proprietary Fund	Total
TexSTAR	\$ 1,490,822.	\$ 73,364.	\$ 1,731,626.	\$ 3,295,812.
C. D.'s	<u>722,827.</u>	<u>-</u>	<u>241,729.</u>	<u>964,556.</u>
	<u>\$ 2,213,649.</u>	<u>\$ 73,364.</u>	<u>\$ 1,973,355.</u>	<u>\$ 4,260,368.</u>

NOTE E – LONG-TERM DEBT

At September 30, 2010, the City's long-term debt consisted of the following combination tax and limited pledge revenue certificates of obligation bonds, issued in 2000, 2004 and 2009: "\$3,650,000 City of Shavano Park Combination Tax and Limited Revenue Pledge Certificates of Obligation Bonds, Series 2000"; "\$1,000,000 City of Shavano Park, Combination Tax and Limited Pledge Revenue Certificate of Obligation, Series 2004"; "2,795,000 City of Shavano Park General Obligation Refunding Bond, Series 2009" and "\$2,299,999 City of Shavano Park Combination Tax and Limited Revenue Pledge Certificate of Obligation, Series 2009".

	Range of Interest Rates on Unpaid Principal	Unpaid Principal	Current Maturities	Long-term Maturities
General Obligation: Series 2000 Bonds	5.0% - 5.75%	<u>\$ 190,679.</u>	<u>\$ 95,338.</u>	<u>\$ 95,341.</u>
Self-Supporting Obligation: Series 2000 Bonds	5.0% - 5.75%	<u>\$ 49,321.</u>	<u>\$ 24,662.</u>	<u>\$ 24,659.</u>
General Obligation: Series 2004 Bonds	3.6% - 4.1%	<u>\$ 685,000.</u>	<u>\$ 65,000.</u>	<u>\$ 620,000.</u>
General Obligation Refunding: Series 2009 Bonds	2.5% - 4.375%	<u>\$ 2,204,730.</u>	<u>\$ 19,863.</u>	<u>\$ 2,184,867.</u>
Self Supporting Obligation Refunding: Series 2009 Bonds	2.5% - 4.375%	<u>\$ 570,270.</u>	<u>\$ 5,137.</u>	<u>\$ 565,133.</u>
Self Supporting Obligation: Series 2009 Bonds	2.5% - 5%	<u>\$ 2,267,665.</u>	<u>\$ 15,393.</u>	<u>\$ 2,252,272.</u>

CITY OF SHAVANO PARK, TEXAS

Notes to Financial Statements

September 30, 2010

NOTE E – LONG-TERM DEBT, continued

The changes in long-term debt during the year are summarized as follows:

	<u>Original Amount</u>	<u>Balance Outstanding 10/1/2009</u>	<u>Issued During Year</u>	<u>Retired During Year</u>	<u>Balance Outstanding 9/30/2010</u>
General Obligation: Series 2000	<u>\$ 2,900,000.</u>	<u>\$ 282,046.</u>	<u>\$ 0.</u>	<u>\$ (91,367)</u>	<u>\$ 190,679.</u>
Self-Supporting Obligations: Series 2000	<u>\$ 750,000.</u>	<u>\$ 72,954.</u>	<u>\$ 0.</u>	<u>\$ (23,633)</u>	<u>\$ 49,321.</u>
General Obligation: Series 2004	<u>\$ 1,000,000.</u>	<u>\$ 745,000.</u>	<u>\$ 0.</u>	<u>\$ (60,000)</u>	<u>\$ 685,000.</u>
General Obligation Refunding: Series 2009	<u>\$ 2,220,620.</u>	<u>\$ 2,220,620.</u>	<u>\$ 0.</u>	<u>\$ (15,890)</u>	<u>\$ 2,204,730.</u>
Self Supporting Obligation Refunding: Series 2009	<u>\$ 574,380.</u>	<u>\$ 574,380.</u>	<u>\$ 0.</u>	<u>\$ (4,110)</u>	<u>\$ 570,270.</u>
Self Supporting Obligation: Series 2009	<u>\$ 2,299,999.</u>	<u>\$ 2,299,999.</u>	<u>\$ 0.</u>	<u>\$ (32,334)</u>	<u>\$ 2,267,665.</u>

During the year ended September 30, 2009 the City issued \$2,795,000 of General Obligation Refunding Bonds, Series 2009, to defease certain bonds outstanding (\$2,575,000) from the \$3,650,000 Combination Tax and Limited Pledge Certificates of Obligation Bonds, Series 2000 - to achieve debt service savings. The defeasement loss (or difference in the \$2,795,000 refunding bonds and the \$2,575,000 bonds defeased) of \$220,000 has been deferred and is recorded as a reduction in bonds payable in these financial statements: \$45,213 related to the self-supporting obligations has been recorded in the Enterprise Fund and \$174,787 relates to the general obligation bonds. This amount will be amortized as an increase in interest expense over the remaining 16 ½ years of the bond obligation. Amortization in the current year was \$2,693 for the self-supporting bonds and \$10,409 for the general obligation bonds.

The City will realize \$488,000 of savings from the reduced interest cost of the refunding bonds over the defeased bonds. When offset by the \$220,000 defeasement loss on issue which will be amortized to interest expense, the City's net savings will be \$268,000 over the remaining bond term.

The City placed the \$2,795,000 of proceeds from the refunding bonds in irrevocable escrow accounts with a trust agent to ensure payment of the debt service on the \$2,575,000 of refunded bonds. Accordingly, the trust account assets and liabilities for

CITY OF SHAVANO PARK, TEXAS

Notes to Financial Statements

September 30, 2010

NOTE E – LONG-TERM DEBT, continued

the defeased bonds are not included in the City's financial statements. Although defeased, the refunded debt from these earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues. On September 30, 2010, \$2,575,000 of bonds outstanding are considered defeased.

The following table presents the annual debt service requirement of the City:

Year Ending September 30	Self-Supporting Obligations			General Obligations		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 45,192	\$ 155,471	\$ 200,663	\$ 180,201	\$ 117,984	\$ 298,185
2012	37,071	162,231	199,302	180,201	110,120	290,321
2013	76,853	122,163	199,016	193,147	100,560	293,707
2014	83,908	119,864	203,772	206,092	93,846	299,938
2015	83,908	117,222	201,130	206,092	87,063	293,155
2016	85,963	114,548	200,511	219,037	80,182	299,219
2017	90,963	111,805	202,768	219,037	72,643	291,680
2018	91,990	108,741	200,731	228,010	64,467	292,477
2019	95,073	105,367	200,440	244,927	55,321	300,248
2020	100,073	101,632	201,705	154,927	47,278	202,205
2021	102,128	97,647	199,775	162,872	40,923	203,795
2022	109,183	93,451	202,634	170,817	34,249	205,066
2023	111,238	88,985	200,223	178,762	27,034	205,796
2024	118,293	84,189	202,482	186,707	19,267	205,974
2025	120,348	79,086	199,434	194,652	11,042	205,694
2026	115,073	73,747	188,820	154,927	3,394	158,321
2027	80,000	69,000	149,000	-	-	-
2028	85,000	64,875	149,875	-	-	-
2029	90,000	60,500	150,500	-	-	-
2030	90,000	56,000	146,000	-	-	-
2031	95,000	51,375	146,375	-	-	-
2032	100,000	46,500	146,500	-	-	-
2033	105,000	41,375	146,375	-	-	-
2034	115,000	35,875	150,875	-	-	-
2035	120,000	30,000	150,000	-	-	-
2036	125,000	23,875	148,875	-	-	-
2037	130,000	17,500	147,500	-	-	-
2038	140,000	10,750	150,750	-	-	-
2039	<u>145,000</u>	<u>3,625</u>	<u>148,625</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$2,887,257</u>	<u>\$2,247,399</u>	<u>\$5,134,656</u>	<u>\$ 3,080,408</u>	<u>\$ 965,373</u>	<u>\$4,045,781</u>
Defeasement loss	<u>\$ (41,398)</u>			<u>\$ (160,040)</u>		
Net Bonds outstanding	<u>\$2,845,859.</u>			<u>\$2,920,368.</u>		

CITY OF SHAVANO PARK, TEXAS

Notes to Financial Statements

September 30, 2010

NOTE E – LONG-TERM DEBT, continued

The bonds are \$5,000 in denomination and are dated August 15, 2000; February 15, 2004; May 1, 2009; and August 1, 2009. The bonds were issued for the purpose for securing funds to improve the City's water system, construct and renovate a new city hall, and for drainage and street improvements. The Self-Supporting Limited Revenue Pledge Bonds are repayable from the net revenue of the City's Proprietary Fund. The General Obligation Bonds are payable out of the City's ad valorem tax revenues, the City Council having been authorized to levy and cause to be assessed and collected an amount of ad valorem taxes sufficient to pay the annual as provided in the Bond Ordinance, solely for the benefit of said bonds. The Bond Ordinance stipulates that "Said Interest and Sinking Fund shall be kept separate and apart from all other funds and accounts of said City, and shall be used only for paying the interest on and principal of said bonds." All ad valorem taxes levied and collected for and on account of said bonds shall be deposited, as collected, to the credit of said Interest and Sinking Fund. During each year while any of said bonds or interest coupons appertaining thereto are outstanding and unpaid, the governing body of said City shall compute and ascertain a rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to pay the interest of said bonds as such interest comes due, and to provide and maintain a sinking fund adequate to pay the principal of such bonds as such principal matures and said tax shall be assessed and collected each such year and deposited to the credit of the aforesaid Interest and Sinking Fund. Said ad valorem taxes sufficient to provide for the payment of the interest on and principal of said bonds, as such interest comes due and such principal matures, are hereby pledged irrevocably for such payment, within the limit prescribed by law.

NOTE F – GENERAL FIXED ASSETS

The following is a summary of changes in general fixed assets:

	9/30/2009	Additions	Disposals	9/30/2010
Land	\$ 36,385.	\$ -	\$ -	\$ 36,385.
Buildings	2,614,626.	883,295.	-	3,497,921.
Street Improvements	2,683,302.	-	-	2,683,302.
Vehicles and equipment:				
Admin. and Court	337,074.	17,415.	-	354,489.
Police	419,867.	49,118.	50,093.	418,892.
Fire	927,146.	117,295.	10,877.	1,033,564.
Public Works	160,944.	1,589.	-	162,533.
Development Services	18,224.	-	-	18,224.
	<u>\$ 7,197,568.</u>	<u>\$ 1,068,712.</u>	<u>\$ 60,970.</u>	<u>\$ 8,205,310.</u>
Accumulated Depreciation	<u>\$ 2,582,059.</u>	<u>\$ 337,000.</u>	<u>\$ 60,970.</u>	<u>\$ 2,858,089.</u>

CITY OF SHAVANO PARK, TEXAS

Notes to Financial Statements

September 30, 2010

NOTE F – GENERAL FIXED ASSETS, continued

The following is a summary of the property, plant, and equipment of the Proprietary Fund at September 30, 2010. There were no disposals during the year ended September 30, 2010. Total additions to property, plant and equipment were \$1,673,520 during the year ended September 30, 2010.

Water plant and improvements	\$ 5,691,263.
Machinery and equipment	<u>359,817.</u>
	6,051,080.
Accumulated Depreciation	<u>(1,986,990)</u>
	4,064,090.
Land	30,146.
Water Rights	<u>302,981.</u>
	<u>\$ 4,397,217.</u>

At September 30, 2010 work on the new water well into the Trinity Aquifer was in progress. Remaining completion costs are expected to be \$650,000.

NOTE G – CHANGES IN FUND EQUITY

The following changes occurred in the General Governmental Fund individual fund balances during the year ended September 30, 2010:

	Fund Balances				
	<u>Unreserved</u>	Reserved for <u>Court</u>	Reserved for Capital <u>Replacements</u>	Reserved for <u>Oak-Wilt</u>	<u>Total</u>
Balance October 1, 2009	\$ 1,926,592.	\$ 48,159.	\$ 697,103.	\$ 36,785.	\$ 2,708,639.
Revenue	3,482,496.	16,201.	29.	1,720.	3,500,446.
Expenditures	<u>(2,961,598)</u>	<u>(6,077)</u>	<u>(667,195)</u>	<u>-</u>	<u>(3,634,870)</u>
Balance September 30, 2010	<u>\$2,447,490.</u>	<u>\$ 58,283.</u>	<u>\$ 29,937.</u>	<u>\$ 38,505.</u>	<u>\$ 2,574,215.</u>

CITY OF SHAVANO PARK, TEXAS
Notes to Financial Statements
September 30, 2010

NOTE G – CHANGES IN FUND EQUITY, continued

The following changes occurred in the proprietary fund individual retained earnings equity accounts during the year ended September 30, 2010:

	Retained Earnings		
	Unreserved	Invested in Capital Assets -	Total
		Net	
Balance October 1, 2009	\$1,300,477.	\$ 2,258,453.	\$ 3,558,930.
Net Income before Depreciation	156,417.	-	156,417.
Depreciation and Amortization	-	(138,000)	(138,000)
Capital Improvements	(11,505)	11,505.	-
Debt Payments	<u>(57,384)</u>	<u>57,384.</u>	<u>-</u>
Balance September 30, 2010	<u>\$1,388,005.</u>	<u>\$ 2,189,342.</u>	<u>\$ 3,577,347.</u>

NOTE H – DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The \$165,950 in the plan at September 30, 2010 was held by ICMA Retirement Corporation as the plan administrator for the City.

NOTE I – CONTINGENT LIABILITIES

The City is contingently liable in respect of lawsuits and other claims in the ordinary course of its operations. Should such contingencies become a real liability, funds would have to be appropriated in future budgets for settlement. The City does not feel that there are any matters pending at September 30, 2010 that would have a material effect on the financial condition of the City.

In addition, the City participates in federally funded grant programs from the U.S. Justice Department and Department of Homeland Security, which are subject to federal

CITY OF SHAVANO PARK, TEXAS

Notes to Financial Statements

September 30, 2010

NOTE I – CONTINGENT LIABILITIES, continued

regulations and guidelines. Should any of the grant program expenditures be disallowed by the respective grantor agency, funds would have to be appropriated in future City budgets for settlement. However, the City feels that such future amounts, if any, would be immaterial.

NOTE J – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic and social factors. The liability for claims and judgements would be reported in the general long-term debt account group because they would not be liquidated with expendable available financial resources. The City did not have any such liability at September 30, 2010. There were no reductions in insurance coverage from the prior year. Also, the amount of settlements did not exceed insurance coverage for each of the past three years.

CITY OF SHAVANO PARK, TEXAS
Statement of Revenue and Expenditures – Budget and Actual
(Non-GAAP Budgetary Basis)
Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variations to</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
General Fund:				
Revenues:				
Taxes – Ad valorem	\$ 2,202,423.	\$ 2,202,423.	\$ 2,218,293.	\$ 15,870.
Taxes – Sales	180,503.	180,503.	194,893.	14,390.
Franchise Fees	208,000.	208,000.	283,292.	75,292.
Permits and Licenses	282,200.	282,200.	255,579.	(26,621)
Court Fines	325,950.	325,950.	300,151.	(25,799)
Grants	11,000.	11,000.	89,132.	78,132.
Rentals	22,000.	22,000.	35,548.	13,548.
EMS Fees	65,000.	65,000.	53,847.	(11,153)
Other	12,150.	12,150.	38,529.	26,379.
Interest	17,280.	17,280.	6,587.	(10,693)
Transfer from Water	21,000.	21,000.	24,595.	3,595.
Total Revenues	<u>3,347,506.</u>	<u>3,347,506.</u>	<u>3,500,446.</u>	<u>152,940.</u>
Expenditures:				
City Council:				
Personnel	300.	300.	32.	268.
Supplies	900.	900.	518.	382.
Services	<u>26,300.</u>	<u>26,300.</u>	<u>10,639.</u>	<u>15,661.</u>
	27,500.	27,500.	11,189.	16,311.
Administration:				
Personnel	311,503.	315,603.	316,188.	(585)
Benefits Citywide	42,432.	38,332.	824.	37,508.
Supplies	13,700.	13,700.	13,799.	(99)
Services	137,100.	137,100.	139,939.	(2,839)
Capital Expenditures	-	-	14,824.	(14,824)
Maintenance	<u>15,000.</u>	<u>15,000.</u>	<u>12,088.</u>	<u>2,912.</u>
	519,735.	519,735.	497,662.	22,073.
Development Services:				
Personnel	52,760.	39,760.	37,887.	1,873.
Supplies	450.	1,750.	2,127.	(377)
Services	45,100.	56,100.	56,855.	(755)
Capital Expenditures	-	-	-	-
Maintenance	<u>1,500.</u>	<u>2,200.</u>	<u>2,321.</u>	<u>(121)</u>
	99,810.	99,810.	99,190.	620.
Municipal Court:				
Personnel	35,807.	35,807.	35,155.	652.
Supplies	4,500.	5,800.	5,508.	292.
Services	14,675.	14,175.	12,713.	1,462.
Capital Expenditures	20,000.	16,500.	2,591.	13,909.
Maintenance	<u>3,000.</u>	<u>5,700.</u>	<u>5,408.</u>	<u>292.</u>
	77,982.	77,982.	61,375.	16,607.

CITY OF SHAVANO PARK, TEXAS
Statement of Revenue and Expenditures – Budget and Actual
(Non-GAAP Budgetary Basis), continued
Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variations to <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Police Department:				
Personnel	768,100.	768,100.	696,099.	72,001.
Supplies	14,000.	14,000.	11,071.	2,929.
Services	48,400.	48,400.	44,414.	3,986.
Capital Expenditures	44,200.	44,200.	34,118.	10,082.
Maintenance	<u>67,150.</u>	<u>67,150.</u>	<u>58,620.</u>	<u>8,530.</u>
	941,850.	941,850.	844,322.	97,528.
Fire Department:				
Personnel	856,735.	855,735.	844,960.	10,775.
Supplies	17,000.	17,000.	16,551.	449.
Services	57,570.	55,570.	38,419.	17,151.
Capital Expenditures	966,500.	959,500.	885,786.	73,714.
Maintenance	<u>35,730.</u>	<u>45,730.</u>	<u>43,329.</u>	<u>2,401.</u>
	1,933,535.	1,933,535.	1,829,045.	104,490.
Public Works:				
Personnel	159,510.	159,510.	158,307.	1,203.
Supplies	5,250.	5,250.	4,638.	612.
Services	15,550.	10,550.	5,202.	5,348.
Capital Expenditures	2,000.	2,000.	1,589.	411.
Maintenance	<u>111,750.</u>	<u>116,750.</u>	<u>122,351.</u>	<u>(5,601)</u>
	<u>294,060.</u>	<u>294,060.</u>	<u>292,087.</u>	<u>1,973.</u>
Total Expenditures	<u>3,894,472.</u>	<u>3,894,472.</u>	<u>3,634,870.</u>	<u>259,602.</u>
Surplus (Deficit)	<u>\$ (546,966)</u>	<u>\$ (546,966)</u>	<u>\$ (134,424)</u>	<u>\$ 412,542.</u>
Debt Fund:				
Revenues:				
Taxes – Ad valorem	\$ 256,930.	\$ 256,930.	\$ 265,475.	\$ 8,545.
Interest	<u>1,200.</u>	<u>1,200.</u>	<u>153.</u>	<u>(1,047)</u>
Total Revenue	258,130.	258,130.	265,628.	7,498.
Expenditures:				
Bond Principle	167,258.	167,258.	167,257.	1.
Bond Interest	126,181.	126,181.	119,252.	6,929.
Bond Agent Fees	<u>2,000.</u>	<u>2,000.</u>	<u>2,000.</u>	<u>-</u>
Total Expenditures	<u>295,439.</u>	<u>295,439.</u>	<u>288,509.</u>	<u>6,930.</u>
Surplus (Deficit)	<u>\$ (37,309)</u>	<u>\$ (37,309)</u>	<u>\$ (22,881)</u>	<u>\$ 14,428.</u>

CITY OF SHAVANO PARK, TEXAS
Statement of Revenue and Expenditures – Budget and Actual
(Non-GAAP Budgetary Basis), continued
Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variations to</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Crime Control District Fund:				
Revenues:				
Taxes – Sales	\$ 76,125.	\$ 76,125.	\$ 82,923.	\$ 6,798.
Interest	<u>200.</u>	<u>200.</u>	<u>1.</u>	<u>(199)</u>
Total Revenue	76,325.	76,325.	82,924.	6,599.
Expenditures:				
Personnel	66,000.	66,000.	66,000.	-
Capital Expenditures	<u>15,000.</u>	<u>15,000.</u>	<u>15,000.</u>	<u>-</u>
Total Expenditures	<u>81,000.</u>	<u>81,000.</u>	<u>81,000.</u>	<u>-</u>
Surplus (Deficit)	<u>\$ (4,675)</u>	<u>\$ (4,675)</u>	<u>\$ 1,924.</u>	<u>\$ 6,599</u>
Water Fund:				
Revenues:				
Water Service	\$ 867,725.	\$ 867,725.	\$ 694,285.	\$ (173,440)
Debt Service	55,680.	55,680.	60,386.	4,706.
Interest and Other	<u>108,455.</u>	<u>108,455.</u>	<u>35,910.</u>	<u>(72,545)</u>
Total Revenue	1,031,860.	1,031,860.	790,581.	(241,279)
Expenditures:				
Personnel	189,531.	190,531.	191,072.	(541)
Supplies	20,300.	19,300.	18,460.	840.
Services	184,100.	184,100.	97,319.	86,781.
Capital Expenditures	2,620,000.	2,620,000.	1,673,520.	946,480.
Water Lease	80,000.	80,000.	79,416.	584.
Maintenance	238,200.	238,200.	98,949.	139,251.
Debt Service	205,678.	205,678.	184,430.	21,248.
Transfers to General Fund	<u>21,000.</u>	<u>21,000.</u>	<u>24,595.</u>	<u>(3,595)</u>
Total Expenditures	<u>3,558,809.</u>	<u>3,558,809.</u>	<u>2,367,761.</u>	<u>1,191,048.</u>
Surplus (Deficit)	<u>\$ (2,526,949)</u>	<u>\$ (2,526,949)</u>	<u>\$ (1,577,180)</u>	<u>\$ 949,769.</u>
Capital Improvement Fund:				
Revenues:				
Interest	\$ 500.	\$ 500.	\$ 124.	\$ (376)
Expenditures:				
Capital Expenditures	<u>-</u>	<u>15,000.</u>	<u>114,804.</u>	<u>(99,804)</u>
Surplus / (Deficit)	<u>\$ 500.</u>	<u>\$ (14,500)</u>	<u>\$ (114,680)</u>	<u>\$ (100,180)</u>