



CITY OF SHOREACRES, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2013**

CITY OF SHOREACRES, TEXAS

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FINANCIAL SECTION

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PATILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Shoreacres, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Shoreacres, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Shoreacres, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 and each major fund of the City of Shoreacres, Texas, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 4 through 9 and the budgetary comparison information and the Schedule of Funding Progress – Texas Municipal Retirement System on pages 32 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shoreacres, Texas' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2014, on our consideration of the City of Shoreacres, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Shoreacres, Texas' internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
June 12, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

As management of the City of Shoreacres, 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, 2013.

FINANCIAL HIGHLIGHTS

- The assets of the City of Shoreacres exceeded its liabilities as of September 30, 2013, by \$6,416,306 (net position). Unrestricted net position of the City, however, was \$1,316,084 as of September 30, 2013. Unrestricted net position represents those assets that may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net positions increased by \$356,541 from 2012.
- As of the close of the current fiscal year, the City of Shoreacres' governmental fund reported an ending fund balance of \$1,048,201. The unassigned portion of the fund was \$1,048,201.

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.

Government-wide financial statements – The government-wide financial statements, which begin on page 10 of this report, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from 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, Municipal Court, Public Safety, Public Works, Highways and Streets and Culture and Recreation. The business-type activities of the City include Water, Sewer and Solid Waste activities.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City can be divided into two categories – governmental funds and 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 current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. 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 funds' balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary funds – The City maintains one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an Enterprise Fund to account for Water, Sewer and Solid Waste operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements, which begin on page 16 of this report, provide information for the Water, Sewer and Solid Waste Enterprise Fund, since this is considered to be a major fund of the City.

Notes to the 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 on pages 19-31 of this report.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Shoreacres, assets exceeded liabilities by \$6,416,306 as of September 30, 2013.

A large portion of the City's net position \$1,376,114 reflects its cash and investment balances.

CITY OF SHOREACRES' NET POSITIONS

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 1,333,871	\$ 2,064,203	\$ 369,265	\$ 473,425	\$ 1,703,136	\$ 2,537,628
Capital assets	<u>3,039,474</u>	<u>1,623,328</u>	<u>2,060,748</u>	<u>244,446</u>	<u>5,100,222</u>	<u>1,867,774</u>
Total assets	<u>4,373,345</u>	<u>3,687,531</u>	<u>2,430,013</u>	<u>717,871</u>	<u>6,803,358</u>	<u>4,405,402</u>
Long-term liabilities	82,195	69,940	5,531	5,324	87,726	75,264
Other liabilities	<u>205,926</u>	<u>401,052</u>	<u>93,400</u>	<u>72,800</u>	<u>299,326</u>	<u>473,852</u>
Total liabilities	<u>288,121</u>	<u>470,992</u>	<u>98,931</u>	<u>78,124</u>	<u>387,052</u>	<u>549,116</u>
Net position:						
Net investment in capital assets	3,039,474	1,623,328	2,060,748	244,446	5,100,222	1,867,774
Unrestricted	<u>1,045,750</u>	<u>1,593,211</u>	<u>270,334</u>	<u>395,301</u>	<u>1,316,084</u>	<u>1,988,512</u>
Total net position	<u>\$ 4,085,224</u>	<u>\$ 3,216,539</u>	<u>\$ 2,331,082</u>	<u>\$ 639,747</u>	<u>\$ 6,416,306</u>	<u>\$ 3,856,286</u>

The balance \$1,316,084 of unrestricted net positions may be used to meet the City's ongoing obligation to citizens and creditors in accordance with the City's fund designation and fiscal policies.

Analysis of the City's operations – The following table provides a summary of the City's operations for the year ended September 30, 2013.

CITY OF SHOREACRES' CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 219,826	\$ 321,113	\$ 497,669	\$ 496,896	\$ 717,495	\$ 818,009
Operating grants and contributions	49,506	92,140	-	-	49,506	92,140
Capital grants and contributions	766,108	3,350,082	-	44,200	766,108	3,394,282
General revenues:						
Property taxes	822,305	823,680	-	-	822,305	823,680
Sales taxes	85,183	67,741	-	-	85,183	67,741
Franchise taxes	97,285	81,172	-	-	97,285	81,172
Other taxes	2,672	3,009	-	-	2,672	3,009
Investment earnings	2,946	4,369	573	772	3,519	5,141
Miscellaneous	14,809	15,053	54,848	44,778	69,657	59,831
Transfers	(810,076)	127,000	810,076	(127,000)	-	-
Total revenues and transfers	<u>1,250,564</u>	<u>4,885,359</u>	<u>1,363,166</u>	<u>459,646</u>	<u>2,613,730</u>	<u>5,345,005</u>
Expenses:						
General government	651,907	666,572	-	-	651,907	666,572
Public safety	644,981	531,836	-	-	644,981	531,836
Public works	225,546	2,544,732	-	-	225,546	2,544,732
Judicial	82,405	75,029	-	-	82,405	75,029
Highways and streets	35,204	84,212	-	-	35,204	84,212
Culture and recreation	62,353	66,841	-	-	62,353	66,841
Water and sewer	-	-	554,793	648,167	554,793	648,167
Total expenses	<u>1,702,396</u>	<u>3,969,222</u>	<u>554,793</u>	<u>648,167</u>	<u>2,257,189</u>	<u>4,617,389</u>
Change in net position	(451,832)	916,137	808,373	(188,521)	356,541	727,616
Net position - beginning	<u>3,216,539</u>	<u>2,300,402</u>	<u>639,747</u>	<u>828,268</u>	<u>3,856,286</u>	<u>3,128,670</u>
Prior period adjustment	<u>1,320,517</u>	-	<u>882,962</u>	-	<u>2,203,479</u>	-
Net position - beginning, restated	<u>4,537,056</u>	-	<u>1,522,709</u>	-	<u>6,059,765</u>	-
Net position - ending	<u>\$ 4,085,224</u>	<u>\$ 3,216,539</u>	<u>\$ 2,331,082</u>	<u>\$ 639,747</u>	<u>\$ 6,416,306</u>	<u>\$ 3,856,286</u>

Governmental activities decreased net position during the fiscal year by \$451,832 . Capital grants and contributions and public works expenditures were much smaller during the year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds – The focus of the City of Shoreacres' 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, unfunded balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Shoreacres' governmental fund reported an ending fund balance of \$1,048,201 of which \$1,048,201 constitutes unassigned fund balance.

General fund budgetary highlights – The City made no revisions to the original appropriations approved by the City Council.

Refer to the General Fund Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual on page 32 of this report for a detailed presentation of the actual General Fund operations compared to both the original and final budget for fiscal year 2013.

Proprietary funds – The City's proprietary fund statements beginning on page 16 of this report provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net positions of the major proprietary fund, the Water and Sewer Fund, were \$270,334. This fund experienced an increase in total net positions during 2013 of \$808,373.

CAPITAL ASSETS

The City of Shoreacres' investment in capital assets for its governmental and business-type activities as of September 30, 2013, amounts to \$5,100,222 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, water system, and sewer system. The significant change in Buildings and improvements is due to the renovations to the new sewer facility being completed. The increase in CIP is a result of the ongoing street improvements, flood and drainage work and water facilities.

CITY OF SHOREACRES' CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$ 175,164	\$ 175,164	\$ 7,839	\$ 7,839	\$ 183,003	\$ 183,003
Land improvements	-	-	19,940	19,940	19,940	19,940
Leasehold improvements	175,596	175,596	-	-	175,596	175,596
Buildings and improvements	863,179	816,946	847,896	5,000	1,711,075	821,946
Vehicles and Equipment	437,175	383,002	61,416	21,642	498,591	404,644
Infrastructure	255,082	255,082	24,104	24,104	279,186	279,186
Construction in progress	1,536,731	107,532	1,087,077	136,935	2,623,808	244,467
Water and wastewater distribution	-	-	300,059	300,059	300,059	300,059
Less: accumulated depreciation	(403,453)	(289,994)	(287,583)	(271,073)	(691,036)	(561,067)
Total capital assets, net	\$ 3,039,474	\$ 1,623,328	\$ 2,060,748	\$ 244,446	\$ 5,100,222	\$ 1,867,774

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Shoreacres did not have any bonded debt or notes payable.

ECONOMIC FACTS

Hurricane Ike, the third costliest hurricane ever to hit the United States, made landfall just over 30 miles from the City of Shoreacres in Galveston, Texas on September 13, 2008. Right after the hurricane, the City estimated that 575 of its 650 homes had been flooded and were uninhabitable.

Although the City suffered significant public and private damage from Hurricane Ike, it occurred after the 2009 property tax rate was established for application to values rendered in January 2008 (prior to storm damage). Accordingly, the adverse financial impact of diminished property values due to storm damage fell outside the current fiscal year. Property tax collection, which is the City's primary governmental fund revenue source, was not significantly affected.

Extraordinary expenses incurred as a direct result of Hurricane Ike were offset by federal grants and emergency assistance funds. Several of these projects are either in progress or have been completed. In FY 2013, the City completed the upgrades to the Public Works building and a new police station.

Despite catastrophic public and private property damage the city has maintained all services and governmental functions in support of recovery. An accelerated building permit program has allowed rapid repair and reconstruction of damaged residential structures and commercial facilities.

REQUESTS FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact David Stall, City Administrator, at 601 Shoreacres Blvd, Shoreacres, TX 77571 or call (281) 471-2244.

BASIC FINANCIAL STATEMENTS

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CITY OF SHOREACRES, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 312,355	\$ 109,056	\$ 421,411
Investments	954,703	-	954,703
Receivables (net of allowances for uncollectibles):			
Taxes	84,354	-	84,354
Accounts	73,354	89,457	162,811
Internal balances	(170,752)	170,752	-
Receivables from other governments	79,857	-	79,857
Capital assets:			
Land	175,164	7,839	183,003
Land improvements	-	19,940	19,940
Leasehold improvements	175,596	-	175,596
Buildings and improvements	863,179	847,896	1,711,075
Vehicles and equipment	437,175	61,416	498,591
Infrastructure	255,082	24,104	279,186
Construction in progress	1,536,731	1,087,077	2,623,808
Water and wastewater distribution	-	300,059	300,059
Less: accumulated depreciation	(403,453)	(287,583)	(691,036)
Total capital assets	<u>3,039,474</u>	<u>2,060,748</u>	<u>5,100,222</u>
Total assets	<u>4,373,345</u>	<u>2,430,013</u>	<u>6,803,358</u>
LIABILITIES			
Accounts payable	128,019	35,590	163,609
Accrued liabilities	26,518	3,365	29,883
Due to other governments	16,162	-	16,162
Customer deposits	-	52,075	52,075
Noncurrent liabilities:			
Due within one year	35,227	2,370	37,597
Due in more than one year	<u>82,195</u>	<u>5,531</u>	<u>87,726</u>
Total liabilities	<u>288,121</u>	<u>98,931</u>	<u>387,052</u>
NET POSITION			
Net investment in capital assets	3,039,474	2,060,748	5,100,222
Unrestricted	<u>1,045,750</u>	<u>270,334</u>	<u>1,316,084</u>
Total net position	<u>\$ 4,085,224</u>	<u>\$ 2,331,082</u>	<u>\$ 6,416,306</u>

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

CITY OF SHOREACRES, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 651,907	\$ 46,815	\$ -	\$ -
Public safety	644,981	1,737	49,506	-
Public works	225,546	-	-	766,108
Judicial	82,405	171,274	-	-
Highways and streets	35,204	-	-	-
Culture and recreation	62,353	-	-	-
Total governmental activities	<u>1,702,396</u>	<u>219,826</u>	<u>49,506</u>	<u>766,108</u>
Business-type activities:				
Water/sewer services	<u>554,793</u>	<u>497,669</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>554,793</u>	<u>497,669</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,257,189</u>	<u>\$ 717,495</u>	<u>\$ 49,506</u>	<u>\$ 766,108</u>

General revenues:

Taxes:

- Property taxes, levied for general purposes
- Sales taxes
- Franchise taxes
- Other taxes
- Investment earnings
- Miscellaneous

Transfers

 Total general revenues

 Change in net position

Net position - beginning

Prior period adjustment

Net position - beginning, restated

Net position - ending

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

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (605,092)	\$ -	\$ (605,092)
(593,738)	-	(593,738)
540,562	-	540,562
88,869	-	88,869
(35,204)	-	(35,204)
(62,353)	-	(62,353)
<u>(666,956)</u>	<u>-</u>	<u>(666,956)</u>
 <u>-</u>	 (57,124)	 (57,124)
 <u>-</u>	 (57,124)	 (57,124)
 <u>\$ (666,956)</u>	 <u>\$ (57,124)</u>	 <u>\$ (724,080)</u>
 \$ 822,305	 \$ -	 \$ 822,305
85,183	-	85,183
97,285	-	97,285
2,672	-	2,672
2,946	573	3,519
14,809	54,848	69,657
(810,076)	810,076	-
<u>215,124</u>	<u>865,497</u>	<u>1,080,621</u>
 (451,832)	 808,373	 356,541
<u>3,216,539</u>	<u>639,747</u>	<u>3,856,286</u>
<u>1,320,517</u>	<u>882,962</u>	<u>2,203,479</u>
<u>4,537,056</u>	<u>1,522,709</u>	<u>6,059,765</u>
 <u>\$ 4,085,224</u>	 <u>\$ 2,331,082</u>	 <u>\$ 6,416,306</u>

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CITY OF SHOREACRES, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2013

	<u>General</u>
ASSETS	
Cash	\$ 312,355
Investments	954,703
Taxes receivable, net	84,354
Receivable from other governments	79,857
Fines receivables	71,529
Other receivables	<u>1,825</u>
Total assets	<u>\$ 1,504,623</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 128,019
Due to other funds	170,752
Payable to other governments	16,162
Accrued liabilities	26,518
Deferred revenue	<u>114,971</u>
Total liabilities	<u>456,422</u>
Fund balances:	
Unassigned	<u>1,048,201</u>
Total fund balances	<u>1,048,201</u>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,039,474
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	114,971
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(117,422)</u>
Net position of governmental activities	<u>\$ 4,085,224</u>

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

CITY OF SHOREACRES, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>General</u>
REVENUES	
Taxes:	
Property	\$ 820,979
Sales	85,183
Franchise	97,285
Other	2,672
Fines and fees	159,957
Intergovernmental	785,263
Lease and rental	20,265
Licenses and permits	26,550
Investment earnings	2,946
Miscellaneous	<u>14,809</u>
Total revenues	<u>2,015,909</u>
EXPENDITURES	
Current:	
General government	522,259
Judicial	81,734
Public safety	539,390
Public works	146,115
Highways and streets	33,634
Culture and recreation	57,951
Capital outlay	<u>399,435</u>
Total expenditures	<u>1,780,518</u>
EXCESS (DEFICIENCY) OF REVENUES	
 OVER (UNDER) EXPENDITURES	<u>235,391</u>
OTHER FINANCING SOURCES AND USES	
Transfer in	100,000
Transfer Out	<u>(910,076)</u>
Total other financing sources and uses	<u>(810,076)</u>
NET CHANGE IN FUND BALANCES	(574,685)
FUND BALANCES, BEGINNING	<u>1,622,886</u>
FUND BALANCES, ENDING	<u><u>\$ 1,048,201</u></u>

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

CITY OF SHOREACRES, 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, 2013

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

Net change in fund balances - total governmental funds	\$(574,685)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	95,629
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	44,731
Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.	<u>(17,507)</u>
Change in net position of governmental activities	<u><u>\$(451,832)</u></u>

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

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CITY OF SHOREACRES, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

SEPTEMBER 30, 2013

	Business-type Activities Enterprise Fund <u>Water and Sewer</u>
ASSETS	
Current assets:	
Cash	\$ 109,056
Accounts receivable, net	89,457
Due from other funds	<u>170,752</u>
Total current assets	<u>369,265</u>
Non-current assets:	
Capital assets:	
Buildings and improvements	847,896
Vehicles and equipment	61,416
Water and wastewater distribution	300,059
Land improvements	19,940
Land	7,839
Infrastructure	24,104
Construction in progress	1,087,077
Less accumulated depreciation	<u>(287,583)</u>
Total non-current assets	<u>2,060,748</u>
Total assets	<u>2,430,013</u>
LIABILITIES	
Current liabilities:	
Accounts payable	35,590
Accrued liabilities	3,365
Customer deposits	52,075
Compensated absences	<u>2,370</u>
Total current liabilities	<u>93,400</u>
Non-current liabilities:	
Compensated absences	<u>5,531</u>
Total liabilities	<u>98,931</u>
NET POSITION	
Net investment in capital assets	2,060,748
Unrestricted	<u>270,334</u>
Total net position	<u>\$ 2,331,082</u>

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

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CITY OF SHOREACRES, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-type Activities Enterprise Fund <u>Water and Sewer</u>
OPERATING REVENUES	
Charges for sales and services:	
Water	\$ 267,643
Sewer	133,912
Sanitation	<u>96,114</u>
Total operating revenues	<u>497,669</u>
OPERATING EXPENSES	
Personnel services	183,563
Water services	120,126
Solid waste disposal	100,153
Recycling services	30,186
Materials and supplies	54,495
Maintenance	5,559
Professional Services	
Fuel	2,749
Utilities	26,872
Depreciation	16,510
Other	<u>14,580</u>
Total operating expenses	<u>554,793</u>
OPERATING LOSS	<u>(57,124)</u>
NON-OPERATING REVENUES (EXPENSES)	
Investment income	573
Miscellaneous revenues	<u>54,848</u>
Total non-operating revenues (expenses)	<u>55,421</u>
TRANSFERS	
Transfers In	910,076
Transfers Out	<u>(100,000)</u>
Total transfers	<u>810,076</u>
CHANGE IN NET POSITION	808,373
TOTAL NET POSITION, BEGINNING	<u>639,747</u>
PRIOR PERIOD ADJUSTMENT	<u>882,962</u>
TOTAL NET POSITION, BEGINNING, AS RESTATED	<u>1,522,709</u>
TOTAL NET POSITION, ENDING	<u><u>\$ 2,331,082</u></u>

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

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CITY OF SHOREACRES, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-type Activities Enterprise Fund Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 508,284
Cash payments to employees for services	(180,565)
Cash payments to suppliers for goods and services	(283,551)
Cash used by operating activities	<u>44,168</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Miscellaneous revenues	54,848
Transfers from other funds	<u>810,076</u>
Cash used by noncapital financing activities	<u>864,924</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>573</u>
Cash provided by investing activities	<u>573</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(40,185)
CASH, BEGINNING	<u>149,241</u>
CASH, ENDING	<u>\$ 109,056</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$(57,124)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	16,510
Change in assets and liabilities:	
Decrease (increase) in accounts receivable	10,565
Increase (decrease) in accounts payable	17,759
Increase (decrease) in customer deposits	50
Increase (decrease) in due to other funds	(65,211)
Increase (decrease) in accrued liabilities	421
Increase (decrease) in compensated absences	<u>2,577</u>
Total adjustments	<u>101,292</u>
Net cash used by operating activities	<u>\$ 44,168</u>

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

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CITY OF SHOREACRES, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Shoreacres, Texas (the “City”) was incorporated as a City in 1949 and is a General Law City with a Mayor and five Council members elected to two-year terms. City Hall acts as a courthouse, council chambers, meeting room, police station, and administrative building.

A. Reporting Entity

Generally accepted accounting principles require financial statements to present the government and its component units, entities for which the government is considered financially accountable. Examination of potential component units determined that none met the criteria necessary for inclusion in these financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and, (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for Governmental Funds and Proprietary Funds. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue is considered to be measurable and available only when cash is received by the City.

The City reports the following major Governmental Fund:

General Fund – The General Fund is the City’s primary operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

The City reports the following major Proprietary Fund:

Water/Sewer Fund – The Water/Sewer Fund accounts for the operations of providing water, sewer, and waste management services to the residents of the City.

Private-sector standards of accounting and financial reporting issued prior to December 31, 1989, generally are followed in both the government-wide and Proprietary Fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Fund, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions and, (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, all general revenues include all taxes.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund’s principal ongoing operations. The principal operating revenues of the Water/Sewer Fund are charges to customers for sales and services. The Water/Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system.

Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted 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 only uses restricted resources for their intended purpose.

D. Assets, Liabilities, and Net Position or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand and savings accounts, and certificates of deposits.

The short-term investments consist of deposits in the Texas Local Government Investment Pool (TexPool). In accordance with GASB Statement No. 31, the City reports all investments at fair value except for money market investments and "2a7-like pools." The City had no money market investments at year-end. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, Logic, and TexStar, are reported using the pools' share price.

The City has adopted a policy whereby investments are limited to the instruments listed below and as further described by the Public Funds Investment Act.

- a. Obligations of the United States Government, its agencies and instrumentalities, and government sponsoring enterprises, not to exceed two years to stated maturity, excluding collateralized mortgage obligations (CMOs).
- b. Full insured or collateralized certificates of deposit from a bank doing business in the State of Texas and under the terms of a written depository agreement with that bank, not to exceed two years to stated maturity.
- c. No-load, SEC registered money market funds, each approved specifically before use by the City.
- d. Constant dollar Texas Local Government Investment Pools as defined by Public Funds Investment Act.

Receivables and Payables

Activity between funds is reported as due to/from other funds. The outstanding balances between funds result mainly from (1) the arrangement whereby one cash account is used for payroll processing for all funds and, (2) in other cases the General Fund will pay an expenditure of the Water/Sewer Fund or vice versa. The balance in the due to/from other funds accounts is not expected to be paid back within one year.

All accounts receivable are shown net of an allowance for uncollectibles.

Capital Assets

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

The City chose not to report general infrastructure assets retroactively, as permitted by GASB Statement No. 34 for smaller governments. The City will prospectively report general infrastructure assets acquired or constructed after October 1, 2003, in the statement of net position in the period they acquire or construct those assets.

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

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10-30
Machinery and equipment	3-20
Water facilities	20-40
Vehicles	5
Infrastructure	20-30

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by board resolution of the city Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or City Administrator.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Prior to the beginning of each fiscal year, the City Administrator submits to the City Council a proposed budget for the General Fund. The City Council uses this as a basis to formulate the operating budget for the upcoming year, which includes proposed expenditures and the means of financing those expenditures.

Public hearings are conducted at which all interested persons' comments concerning the budget are heard.

The budget is legally enacted by the City Council. Budgetary control is maintained at the fund level. All annual appropriations lapse at fiscal year-end.

3. DETAILED NOTES ON ALL FUNDS

Cash and Investments

As of September 30, 2013, the City had the following cash and investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Investments - TexPool	\$ <u>954,703</u>	60
Total fair value	\$ <u>954,703</u>	

During the year ended September 30, 2013, the City invested in the Texas Local Government Pool (TexPool), which is investment funds authorized by the Texas Legislature. TexPool is administered by the Texas State Treasury and holds investments which are subject to the same investment policies maintained by the State Treasury for all state funds. The Texas Treasury Safekeeping Trust Company is the trustee and is a limited purpose trust company authorized pursuant to Texas Government Code. The purpose of investment pool funds is to allow for the pooling of public funds to provide a higher yield on the pooled investment than would be possible with the investment of the individual public entity's funds. The legislature has authorized only certain investment instruments for public funds, including repurchase agreements, U. S. Treasury bills and bonds, securities of other U. S. government agencies, commercial paper, and other safe instruments. The investments held in TexPool, plus any accrued interest may be redeemed at the City's discretion. TexPool is rated AAAM by Standard & Poor's. As a requirement to maintain the weekly rating portfolio, information must be submitted to Standard & Poor's, as well as the office of the Comptroller of Public accounts, for review. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The funds use amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

Interest Rate Risk: To limit the City's exposure to interest rate risk and ensure liquidity, the City's investment policy requires that the City's investments be structured so that the maximum weighted average maturity of the overall portfolio may not exceed six months. Furthermore, the investment policy states the investment portfolio should be designed with the objective of attaining a market rate of return taking into account the City's risk constraints within State Statutes and the cash flow needs of the portfolio. "Market rate of return" may be defined as the average yield of the current six-month U. S. Treasury bill. Furthermore, the City has a diversification policy which includes diversification standards by security type and issuer.

Credit Risk: At year-end, balances in TexPool, a privately managed public funds investment pool, was rated AAAM by Standard & Poor's.

Custodial Credit Risk: The City of Shoreacres' financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents. The City deposits its cash with high credit quality institutions. However, at times, such instruments may be in excess of FDIC insurance limits. As of September 30, 2013, the City's \$456,669 deposit balance was covered by FDIC insurance.

Property Taxes

The appraisal of property within the City is the responsibility of the Harris County Appraisal District (the "District"). The District is required under the Property Tax Code to assess all property within the District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of property within the District must be reviewed every four years.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. The net position value upon which the fiscal 2013 levy was based was \$96,512,409.

Taxes are due by January 31 following the October 1 levy date. Current tax collections for the year ended September 30, 2013, were 98% of the tax levy.

Receivables

Receivables as of year-end for the City's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Utility</u>	<u>Total</u>
Receivables:			
Taxes	\$ 85,478	\$ -	\$ 85,478
Water/sewer usage	-	92,224	92,224
Intergovernmental	79,857	-	79,857
Fines	286,119	-	286,119
Lease and rentals	<u>1,825</u>	<u>-</u>	<u>1,825</u>
Gross receivables	453,279	92,224	545,503
Less: allowance for uncollectibles	<u>(215,714)</u>	<u>(2,767)</u>	<u>(218,481)</u>
Net total receivables	<u>\$ 237,565</u>	<u>\$ 89,457</u>	<u>\$ 327,022</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition 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 and unearned revenue reported in the governmental fund were as follows:

	<u>Unavailable</u>	<u>Total</u>
Governmental funds:		
Property taxes	\$ 36,353	\$ 36,353
Municipal court	48,267	48,267
Grants	<u>30,351</u>	<u>30,351</u>
Total	<u>\$ 114,971</u>	<u>\$ 114,971</u>

Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 175,164	\$ -	\$ -	\$ -	\$ 175,164
Construction in progress	107,532	123,735	-	1,305,464	1,536,731
Total assets not being depreciated	<u>282,696</u>	<u>123,735</u>	<u>-</u>	<u>1,305,464</u>	<u>1,711,895</u>
Capital assets, being depreciated:					
Buildings and improvements	816,946	31,180	-	15,053	863,179
Leasehold improvements	175,596	-	-	-	175,596
Vehicles and equipment	383,002	54,173	-	-	437,175
Infrastructure	<u>255,082</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>255,082</u>
Total capital assets being depreciated	<u>1,630,626</u>	<u>85,353</u>	<u>-</u>	<u>15,053</u>	<u>1,731,032</u>
Less accumulated depreciation:					
Buildings and improvements	(21,187)	(21,131)	-	-	(42,318)
Leasehold improvements	(40,668)	(10,164)	-	-	(50,832)
Vehicles and equipment	(160,811)	(65,159)	-	-	(225,970)
Infrastructure	<u>(67,328)</u>	<u>(17,005)</u>	<u>-</u>	<u>-</u>	<u>(84,333)</u>
Total accumulated depreciation	<u>(289,994)</u>	<u>(113,459)</u>	<u>-</u>	<u>-</u>	<u>(403,453)</u>
Total capital assets being depreciated, net	<u>1,340,632</u>	<u>(28,106)</u>	<u>-</u>	<u>15,053</u>	<u>1,327,579</u>
Governmental activities capital assets, net	<u>\$ 1,623,328</u>	<u>\$ 95,629</u>	<u>\$ -</u>	<u>\$ 1,320,517</u>	<u>\$ 3,039,474</u>

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 7,839	\$ -	\$ -	\$ -	\$ 7,839
Construction in progress	136,935	869,606	-	80,536	1,087,077
Total assets not being depreciated	144,774	869,606	-	80,536	1,094,916
Capital assets, being depreciated:					
Buildings and improvements	5,000	40,470	-	802,426	847,896
Infrastructure	24,104	-	-	-	24,104
Land improvements	19,940	-	-	-	19,940
Water facilities	300,059	-	-	-	300,059
Vehicles and equipment	21,642	39,774	-	-	61,416
Total capital assets being depreciated	370,745	80,244	-	802,426	1,253,415
Less accumulated depreciation:					
Buildings and improvements	(5,000)	-	-	-	(5,000)
Infrastructure	(1,305)	(1,205)	-	-	(2,510)
Land improvements	(6,951)	(1,329)	-	-	(8,280)
Water facilities	(244,020)	(5,382)	-	-	(249,402)
Vehicles and equipment	(13,797)	(8,594)	-	-	(22,391)
Total accumulated depreciation	(271,073)	(16,510)	-	-	(287,583)
Total capital assets being depreciated, net	99,672	63,734	-	802,426	965,832
Business-type activities capital assets, net	\$ 244,446	\$ 933,340	\$ -	\$ 882,962	\$ 2,060,748

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:	
Public works	\$ 47,091
General government administration	19,387
Public safety	41,161
Highways and streets	1,570
Culture and recreation	4,250
Total depreciation expense - governmental activities	\$ 113,459

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2013, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
Water and sewer	General	\$ 170,752

The interfund balance resulted from the time lag between the dates that 1) interfund goods and services are provided on reimbursable expenditures occur, and 2) transactions are recorded in the accounting system, and 3) payments between fund are made.

The composition of interfund transfers as of September 30, 2013, is as follows:

<u>Transfer Out Fund</u>	<u>Transfer In Fund</u>	<u>Amount</u>
General	Water and sewer	\$ 810,076

Interfund transfers are approved in the original budget. Transfers are made to provide additional resources for specific programs as the need arises.

Long-term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 2013:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Amounts Due in One Year</u>
Governmental activities					
Compensated absences	\$ 99,916	\$ 44,573	\$ 27,067	\$ 117,422	\$ 35,227
Total governmental activities	<u>\$ 99,916</u>	<u>\$ 44,573</u>	<u>\$ 27,067</u>	<u>\$ 117,422</u>	<u>\$ 35,227</u>
Business-type activities					
Compensated absences	\$ 5,324	\$ 11,341	\$ 8,764	\$ 7,901	\$ 2,370
Total governmental activities	<u>\$ 5,324</u>	<u>\$ 11,341</u>	<u>\$ 8,764</u>	<u>\$ 7,901</u>	<u>\$ 2,370</u>

Employee Benefit Plan

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 statewide 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 by writing to TMRS, P. O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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

	<u>Plan Year 2012</u>	<u>Plan Year 2013</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	1.5 to 1	1.5 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

Contributions

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

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

<u>Accounting Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
09/30/11	\$ 41,067	100%	\$ -
09/30/12	37,131	100%	-
09/30/13	31,382	100%	-

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Actuarial Valuation Date	12/31/10	12/31/11	12/31/12
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	25.7 years - closed	16.9 years - closed	24.8 years - closed
Amortization Period for new Gains/Losses	22 years	22 years	25 years
Asset valuation method	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial Assumptions:			
Investment rate of return	7.0%	7.0%	7.0%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress

In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2012 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2012, under the two separate actuarial valuations, is presented as follows:

Actual Valuation Date	12/31/12
Actuarial value of assets	\$ 1,285,164
Actuarial accrued liability	1,245,754
Percent funded	103.2%
Unfunded (overfunded) actuarial accrued liability (UAAL)	(39,410)
Annual covered payroll	685,399
UAAL as a percentage of covered payroll	(5.7%)

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; injuries to employees; and natural disasters. The City has joined together with other governments in Texas to form the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program for liability, property, and workers' compensation coverage. The City pays a quarterly contribution to the pool for its insurance coverage. The agreement for formation of the Texas Municipal League Intergovernmental Risk Pool provides that the Pool will be self-sustaining through member contributions and will reinsure through commercial companies for claims in excess of specific limits.

The Texas Municipal League Intergovernmental Risk Pool has published its own financial report, which can be obtained by writing the Texas Municipal League Intergovernmental Risk Pool, 1821 Rutherford Lane, Austin, Texas 78754.

Other Postemployment Benefits

Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance to provide group term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

Schedule of Contribution Rates			
Accounting Year Ending	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
09/30/11	.02%	.02%	100%
09/30/12	.02%	.02%	100%
09/30/13	.03%	.03%	100%

Prior Period Adjustment

During the current year management determined that certain capital assets were expensed and not capitalized in prior years. Therefore, beginning governmental and business-type activities net position was restated by \$1,320,517 and \$882,962.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

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CITY OF SHOREACRES, TEXAS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Taxes:				
Property	\$ 800,228	\$ 800,228	\$ 820,979	\$ 20,751
Sales	65,000	65,000	85,183	20,183
Franchise	82,900	82,900	97,285	14,385
Other	3,150	3,150	2,672	(478)
Fines and fees	315,100	315,100	159,957	(155,143)
Intergovernmental	-	-	785,263	785,263
Lease and rental	21,900	21,900	20,265	(1,635)
Licenses and permits	30,000	30,000	26,550	(3,450)
Investment earnings	3,910	3,910	2,946	(964)
Miscellaneous	25,000	25,000	14,809	(10,191)
Total revenues	<u>1,347,188</u>	<u>1,347,188</u>	<u>2,015,909</u>	<u>668,721</u>
EXPENDITURES				
Current:				
General government	608,610	608,610	522,259	86,351
Judicial	190,746	190,746	81,734	109,012
Public safety	532,178	532,178	539,390	(7,212)
Public works	211,671	211,671	146,115	65,556
Highways and streets	49,060	49,060	33,634	15,426
Culture and recreation	114,392	114,392	57,951	56,441
Capital outlay	53,000	53,000	399,435	(346,435)
Total expenditures	<u>1,759,657</u>	<u>1,759,657</u>	<u>1,780,518</u>	<u>(20,861)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(412,469)</u>	<u>(412,469)</u>	<u>235,391</u>	<u>647,860</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	412,279	412,279	100,000	(312,279)
Transfers out	-	-	(910,076)	(910,076)
Total other financing sources (uses)	<u>412,279</u>	<u>412,279</u>	<u>(810,076)</u>	<u>(1,222,355)</u>
NET CHANGE IN FUND BALANCE	(190)	(190)	(574,685)	(574,495)
FUND BALANCE, BEGINNING	<u>1,622,886</u>	<u>1,622,886</u>	<u>1,622,886</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,622,696</u>	<u>\$ 1,622,696</u>	<u>\$ 1,048,201</u>	<u>\$(574,495)</u>

CITY OF SHOREACRES, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

TEXAS MUNICIPAL RETIREMENT SYSTEM

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>(Overfunded) Actuarial Accrued Liability</u>	<u>Annual Covered Payroll</u>	<u>Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll</u>
12/31/2010	\$ 1,057,752	\$ 1,146,532	92.3%	\$ 88,780	\$ 574,870	15.4%
12/31/2011	1,167,434	1,174,744	99.4%	7,310	626,290	1.2%
12/31/2012	1,285,164	1,245,754	103.2%	(39,410)	685,399	(5.7%)

Note: Fiscal years 2010 and 2011 include the impact of Senate Bill 350 enacted by the Texas Legislature in June of 2011. This legislation provided a restructuring of the Texas Municipal Retirement System funds effective December 31, 2010.

CITY OF SHOREACRES, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2013

SUMMARY OF BUDGET AND BUDGETARY BASIS OF ACCOUNTING

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to the beginning of each fiscal year, the City Council prepares a proposed budget for the fiscal year beginning on the following October 1. The proposed budget includes estimated revenue and proposed expenditures for the General and Water and Sewer Funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally adopted by the City Council.
4. The City Council can adjust the budget during formal City Council meetings.
5. Actual expenditures cannot exceed the legally adopted budget without an approved resolution by the City Council.
6. Appropriations lapse at year-end.
7. Budgets are adopted on a basis consistent with generally accepted accounting principles.

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COMPLIANCE SECTION

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PATILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Shoreacres, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Shoreacres, Texas (the "City"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Shoreacres, Texas' basic financial statements, and have issued our report thereon dated June 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. That finding is identified as 2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
June 12, 2014



PATILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Mayor and
Members of the City Council
City of Shoreacres, Texas

Report on Compliance for Each Major Federal Program

We have audited City of Shoreacres, Texas's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Shoreacres, Texas' major federal programs for the year ended September 30, 2013. The City of Shoreacres, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Shoreacres, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Shoreacres, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Shoreacres, Texas' compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Shoreacres, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of the City of Shoreacres, Texas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Shoreacres, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Shoreacres, Texas' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
June 12, 2014

CITY OF SHOREACRES, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
FEDERAL AWARDS			
<u>U. S. Department of Housing and Urban Development</u>			
Passed through the General Land Office			
CDBG Disaster Recovery Non-Entitlement Grant Program	14.228	DRS010227	\$ 735,757
Total Passed through the General Land Office			<u>735,757</u>
Total U. S. Department of Housing and Urban Development			<u>735,757</u>
<u>U. S. Department of Homeland Security</u>			
Passed through the Texas Department of Public Safety			
State Homeland Security Program (SHSP)	97.073	EMW-2012-SS-00018-S01	23,144
State Homeland Security Program (SHSP LETPA)	97.073	EMW-2012-SS-00018-S01	<u>26,362</u>
Total Passed through the Texas Department of Public Safety			<u>49,506</u>
Total U. S. Department of Homeland Security			<u>49,506</u>
Total Expenditures of Federal Awards			<u>\$ 785,263</u>

CITY OF SHOREACRES, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? 2013-1

Noncompliance material to financial statements noted?

None

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Type of auditors' report issued on compliance for major programs

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

None

Identification of major programs:

CFDA Number(s)

#14.228

Name of Federal Program or Cluster:

CDBG Disaster Recovery Non-Entitlement Grant Program

Dollar threshold used to distinguish between type A and type B programs

\$300,000

Auditee qualified as low-risk auditee?

No

Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards

None

Findings and Questioned Costs for Federal Awards

None

CITY OF SHOREACRES, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Item 2013-1

<u>Condition:</u>	During the audit, we noted that no accruals were made at year end for receivables or liabilities nor were general ledger balances reconciled to subsidiary ledgers (accounts payable, accounts receivable, capital assets, etc.).
<u>Effect:</u>	Without the proper accrual of receivables and liabilities and reconciliations to the subsidiary ledgers, revenues and expenditures may be incorrectly posted or posted to the wrong period.
<u>Cause:</u>	The City was operating on a modified cash basis prior to the need for an audit and therefore did not post accruals for receivables or liabilities other than standard accounts payable at year end. This was operationally sufficient for many years but due to compliance requirements the City must now report on a full accrual basis.
<u>Recommendation:</u>	The City should create procedures to properly accrue receivables and payables in order to ensure reporting of items in the proper fiscal period. Furthermore, the City should implement procedures to reconcile subsidiary ledgers to the general ledger on a monthly basis and correct any variances in a timely manner.
<u>Management's Response:</u>	The City has had no prior audit or financial reporting requirement to bring forward the issue of year-end accruals and, therefore, has never made them. In addition, the City operated on a modified cash basis, and therefore did not have significant subsidiary ledgers with which to reconcile. Given the present compliance situation, the City will put in place procedures to assure the booking of receivables and payables each year end and monthly reconciliations.
<u>Contact Person Responsible for Corrective Action:</u>	David Stall, City Administrator
<u>Anticipated Completion Date:</u>	Procedures to enter year-end receivables and payables will be created on or before October 1, 2013.
<u>Current Status:</u>	There has been significant improvement in this area. Although we had to adjust some receivables at year-end, it was less than in past years. The City should continue towards the goal of adjusting all receivables at year-end.

CITY OF SHOREACRES, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

Item 2012-1

<u>Condition:</u>	During the audit, we noted that no accruals were made at year end for receivables or liabilities nor were general ledger balances reconciled to subsidiary ledgers (accounts payable, accounts receivable, capital assets, etc.).
<u>Effect:</u>	Without the proper accrual of receivables and liabilities and reconciliations to the subsidiary ledgers, revenues and expenditures may be incorrectly posted or posted to the wrong period.
<u>Cause:</u>	The City was operating on a modified cash basis prior to the need for an audit and therefore did not post accruals for receivables or liabilities other than standard accounts payable at year end. This was operationally sufficient for many years but due to compliance requirements the City must now report on a full accrual basis.
<u>Recommendation:</u>	The City should create procedures to properly accrue receivables and payables in order to ensure reporting of items in the proper fiscal period. Furthermore, the City should implement procedures to reconcile subsidiary ledgers to the general ledger on a monthly basis and correct any variances in a timely manner.
<u>Management's Response:</u>	The City has had no prior audit or financial reporting requirement to bring forward the issue of year-end accruals and, therefore, has never made them. In addition, the City operated on a modified cash basis, and therefore did not have significant subsidiary ledgers with which to reconcile. Given the present compliance situation, the City will put in place procedures to assure the booking of receivables and payables each year end and monthly reconciliations.
<u>Contact Person Responsible for Corrective Action:</u>	David Stall, City Administrator
<u>Anticipated Completion Date:</u>	Procedures to enter year-end receivables and payables will be created on or before October 1, 2012.
<u>Current Status:</u>	See Finding 2013-1

CITY OF SHOREACRES, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2013

Item 2012-2

<u>Condition:</u>	While testing cash PBH noted the cash was not properly reconciled from the bank balance to the general ledger balance. Also, some deposits were deposited into the wrong bank accounts causing the outstanding items per each account to not clear in the proper statements. Also, there were outstanding deposits on the bank reconciliation that had not cleared for over a year.
<u>Effect:</u>	The City's cash did not properly reconcile to the general ledger.
<u>Cause:</u>	The City does not trace each outstanding check and deposit at the end of each month to ensure that the bank reconciliation is correct.
<u>Recommendation:</u>	The City should trace each outstanding check and deposit to the following month's financial statements to ensure that the outstanding amounts are correct. The City should also ensure that the general ledger balance matches the ending bank reconciliation balance.
<u>Management's Response:</u>	Currently, the cash balance reconciles to the general ledger. The staff will ensure that the balances of the bank properly reconcile to the general ledger on a monthly basis. The staff will also trace each outstanding check and deposit on a monthly basis to make sure the amounts clear the bank statement on the following month.
<u>Contact Person Responsible for Corrective Action:</u>	David Stall, City Administrator
<u>Anticipated Completion Date:</u>	The City will conduct a review of its procedures on or before October 1, 2013.
<u>Current Status:</u>	The cash was reconciled to the general ledger for the year ended September 30, 2013.

CITY OF SHOREACRES, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2013

Item 2012-3

<u>Condition:</u>	While reviewing the water deposit liability PBH noted the general ledger balance did not tie to the water deposit listing.
<u>Effect:</u>	The City's water deposit liability was overstated.
<u>Cause:</u>	The City does not reconcile the water deposit liability listing to the general ledger on a regular basis.
<u>Recommendation:</u>	The City should compare the balance of the water deposit liability on listing to the general ledger balance on a monthly basis.
<u>Management's Response:</u>	As of the end of field work the City will reconcile the deposit liability to the deposit listing as part of the month end procedures.
<u>Contact Person Responsible for Corrective Action:</u>	David Stall, City Administrator
<u>Anticipated Completion Date:</u>	The City will conduct a review of its procedures on or before October 1, 2013.
<u>Current Status:</u>	We consider this issue resolved.