



# **CITY OF SHOREACRES, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2014**



# CITY OF SHOREACRES, TEXAS

## TABLE OF CONTENTS

SEPTEMBER 30, 2014

### **Page Number**

#### **FINANCIAL SECTION**

Independent Auditors' Report.....	1 – 3
Management's Discussion and Analysis .....	4 – 9
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position .....	10
Statement of Activities.....	11 – 12
Fund Financial Statements	
Balance Sheet – Governmental Funds .....	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Statement of Net Position – Proprietary Fund .....	16
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund .....	17
Statement of Cash Flows – Proprietary Fund .....	18
Notes to Financial Statements.....	19 – 31

# CITY OF SHOREACRES, TEXAS

## TABLE OF CONTENTS (Continued) SEPTEMBER 30, 2014

### **Page Number**

#### Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	32
Schedule of Funding Progress – Texas Municipal Retirement System .....	33
Notes to Required Supplemental Information .....	34

#### **COMPLIANCE SECTION**

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 <i>Government Auditing Standards</i> .....	35 – 36
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 .....	37 – 38
Schedule of Expenditures of Federal Awards.....	39
Schedule of Findings and Questioned Costs.....	40
Summary Schedule of Prior Audit Findings.....	41

## **FINANCIAL SECTION**

**THIS PAGE LEFT BLANK INTENTIONALLY**



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, 2014, 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, 2014, 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.

### ***Change in Accounting Principle***

As discussed in Note 1 to the financial statements, in 2014 the City adopted new accounting guidance, GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 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 May 21, 2015, 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  
May 21, 2015

**THIS PAGE LEFT BLANK INTENTIONALLY**

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**THIS PAGE LEFT BLANK INTENTIONALLY**

## 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, 2014.

### *FINANCIAL HIGHLIGHTS*

- The assets of the City of Shoreacres exceeded its liabilities as of September 30, 2014, by \$10,071,763 (net position). Unrestricted net position of the City was \$1,122,078 as of September 30, 2014. 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 \$3,655,457 from 2013.
- As of the close of the current fiscal year, the City of Shoreacres' governmental fund reported an ending fund balance of \$893,994. The unassigned portion of the fund was \$893,994.

### *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 \$10,071,763 as of September 30, 2014.

A large portion of the City's net position \$1,246,845 reflects its cash and investment balances.

### ***CITY OF SHOREACRES' NET POSITIONS***

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 1,398,412	\$ 1,333,871	\$ 230,512	\$ 369,265	\$ 1,628,924	\$ 1,703,136
Capital assets	<u>6,632,445</u>	<u>3,039,474</u>	<u>2,317,240</u>	<u>2,060,748</u>	<u>8,949,685</u>	<u>5,100,222</u>
Total assets	<u>8,030,857</u>	<u>4,373,345</u>	<u>2,547,752</u>	<u>2,430,013</u>	<u>10,578,609</u>	<u>6,803,358</u>
Long-term liabilities	61,937	82,195	3,416	5,531	65,353	87,726
Other liabilities	<u>301,594</u>	<u>205,926</u>	<u>139,899</u>	<u>93,400</u>	<u>441,493</u>	<u>299,326</u>
Total liabilities	<u>363,531</u>	<u>288,121</u>	<u>143,315</u>	<u>98,931</u>	<u>506,846</u>	<u>387,052</u>
Net position:						
Net investment in capital assets	6,632,445	3,039,474	2,317,240	2,060,748	8,949,685	5,100,222
Unrestricted	<u>1,034,881</u>	<u>1,045,750</u>	<u>87,197</u>	<u>270,334</u>	<u>1,122,078</u>	<u>1,316,084</u>
Total net position	<u>\$ 7,667,326</u>	<u>\$ 4,085,224</u>	<u>\$ 2,404,437</u>	<u>\$ 2,331,082</u>	<u>\$ 10,071,763</u>	<u>\$ 6,416,306</u>

The balance \$1,122,078 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, 2014.

***CITY OF SHOREACRES' CHANGES IN NET POSITION***

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 136,855	\$ 219,826	\$ 492,667	\$ 497,669	\$ 629,522	\$ 717,495
Operating grants and contributions	69,284	49,506	-	-	69,284	49,506
Capital grants and contributions	4,092,516	766,108	-	-	4,092,516	766,108
General revenues:						
Property taxes	811,626	822,305	-	-	811,626	822,305
Sales taxes	89,682	85,183	-	-	89,682	85,183
Franchise taxes	86,157	97,285	-	-	86,157	97,285
Other taxes	3,716	2,672	-	-	3,716	2,672
Investment earnings	1,816	2,946	634	573	2,450	3,519
Miscellaneous	4,385	14,809	56,407	54,848	60,792	69,657
Transfers	( 30,713)	( 810,076)	30,713	810,076	-	-
Total revenues and transfers	<u>5,265,324</u>	<u>1,250,564</u>	<u>580,421</u>	<u>1,363,166</u>	<u>5,845,745</u>	<u>2,613,730</u>
Expenses:						
General government	602,976	651,907	-	-	602,976	651,907
Public safety	543,879	644,981	-	-	543,879	644,981
Public works	188,580	225,546	-	-	188,580	225,546
Judicial	69,508	82,405	-	-	69,508	82,405
Highways and streets	221,460	35,204	-	-	221,460	35,204
Culture and recreation	56,819	62,353	-	-	56,819	62,353
Water and sewer	-	-	507,066	554,793	507,066	554,793
Total expenses	<u>1,683,222</u>	<u>1,702,396</u>	<u>507,066</u>	<u>554,793</u>	<u>2,190,288</u>	<u>2,257,189</u>
Change in net position	3,582,102	( 451,832)	73,355	808,373	3,655,457	356,541
Net position - beginning	<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>
Prior period adjustment	-	1,320,517	-	882,962	-	2,203,479
Net position - beginning, restated	<u>4,085,224</u>	<u>4,537,056</u>	<u>2,331,082</u>	<u>1,522,709</u>	<u>6,416,306</u>	<u>6,059,765</u>
Net position - ending	<u>\$ 7,667,326</u>	<u>\$ 4,085,224</u>	<u>\$ 2,404,437</u>	<u>\$ 2,331,082</u>	<u>\$ 10,071,763</u>	<u>\$ 6,416,306</u>

Governmental activities increased net position during the fiscal year by \$3,582,102, a large portion of this increase was the streets donated by the County in the amount of \$3,551,235.



## ***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 \$893,994 of which \$893,994 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 2014.

**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 \$87,197. This fund experienced an increase in total net positions during 2014 of \$73,355.

## ***CAPITAL ASSETS***

The City of Shoreacres' investment in capital assets for its governmental and business-type activities as of September 30, 2014, amounts to \$8,949,685 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, water system, and sewer system. The significant change in Infrastructure is due to the roads constructed using grant funds obtained by the County. 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	
	2014	2013	2014	2013	2014	2013
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	863,179	847,896	847,896	1,711,075	1,711,075
Vehicles and Equipment	423,040	437,175	61,416	61,416	484,456	498,591
Infrastructure	3,806,317	255,082	164,680	24,104	3,970,997	279,186
Construction in progress	1,913,725	1,536,731	1,246,395	1,087,077	3,160,120	2,623,808
Water and wastewater distribution	-	-	300,059	300,059	300,059	300,059
Less: accumulated depreciation	( 724,576)	( 403,453)	( 330,985)	( 287,583)	( 1,055,561)	( 691,036)
Total capital assets, net	\$ 6,632,445	\$ 3,039,474	\$ 2,317,240	\$ 2,060,748	\$ 8,949,685	\$ 5,100,222

## ***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.

Extraordinary expenses incurred as a direct result of Hurricane Ike were offset by federal grants and emergency assistance funds. These projects have been completed. In FY 2014, 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.

## ***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 Shore Acres Blvd, Shoreacres, TX 77571 or call (281) 471-2244.

# **BASIC FINANCIAL STATEMENTS**

**THIS PAGE LEFT BLANK INTENTIONALLY**

**CITY OF SHOREACRES, TEXAS**  
**STATEMENT OF NET POSITION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash	\$ 361,425	\$ 89,838	\$ 451,263
Investments	795,582	-	795,582
Receivables (net of allowances for uncollectibles):			
Taxes	73,267	-	73,267
Accounts	62,934	89,457	152,391
Internal balances	( 51,217)	51,217	-
Receivables from other governments	156,421	-	156,421
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	423,040	61,416	484,456
Infrastructure	3,806,317	164,680	3,970,997
Construction in progress	1,913,725	1,246,395	3,160,120
Water and wastewater distribution	-	300,059	300,059
Less: accumulated depreciation	( 724,576)	( 330,985)	( 1,055,561)
Total capital assets	<u>6,632,445</u>	<u>2,317,240</u>	<u>8,949,685</u>
Total assets	<u>8,030,857</u>	<u>2,547,752</u>	<u>10,578,609</u>
<b>LIABILITIES</b>			
Accounts payable	241,619	81,957	323,576
Accrued liabilities	23,826	4,075	27,901
Due to other governments	9,605	-	9,605
Customer deposits	-	52,403	52,403
Noncurrent liabilities:			
Due within one year	26,544	1,464	28,008
Due in more than one year	<u>61,937</u>	<u>3,416</u>	<u>65,353</u>
Total liabilities	<u>363,531</u>	<u>143,315</u>	<u>506,846</u>
<b>NET POSITION</b>			
Net investment in capital assets	6,632,445	2,317,240	8,949,685
Unrestricted	<u>1,034,881</u>	<u>87,197</u>	<u>1,122,078</u>
Total net position	<u>\$ 7,667,326</u>	<u>\$ 2,404,437</u>	<u>\$ 10,071,763</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, 2014**

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 602,976	\$ 52,500	\$ 68,055	\$ -
Public safety	543,879	1,772	1,229	-
Public works	188,580	-	-	541,281
Judicial	69,508	82,583	-	-
Highways and streets	221,460	-	-	3,551,235
Culture and recreation	56,819	-	-	-
Total governmental activities	<u>1,683,222</u>	<u>136,855</u>	<u>69,284</u>	<u>4,092,516</u>
Business-type activities:				
Water/sewer services	<u>507,066</u>	<u>492,667</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>507,066</u>	<u>492,667</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,190,288</u>	<u>\$ 629,522</u>	<u>\$ 69,284</u>	<u>\$ 4,092,516</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

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>
\$( 482,421)	\$ -	\$( 482,421)
( 540,878)	-	( 540,878)
352,701	-	352,701
13,075	-	13,075
3,329,775	-	3,329,775
( 56,819)	-	( 56,819)
<u>2,615,433</u>	<u>-</u>	<u>2,615,433</u>
 <u>-</u>	 ( 14,399)	 ( 14,399)
 <u>-</u>	 ( 14,399)	 ( 14,399)
 <u>\$ 2,615,433</u>	 <u>\$( 14,399)</u>	 <u>\$ 2,601,034</u>
  \$ 811,626	  \$ -	  \$ 811,626
89,682	-	89,682
86,157	-	86,157
3,716	-	3,716
1,816	634	2,450
4,385	56,407	60,792
( 30,713)	30,713	-
<u>966,669</u>	<u>87,754</u>	<u>1,054,423</u>
3,582,102	73,355	3,655,457
<u>4,085,224</u>	<u>2,331,082</u>	<u>6,416,306</u>
 <u>\$ 7,667,326</u>	 <u>\$ 2,404,437</u>	 <u>\$ 10,071,763</u>

**THIS PAGE LEFT BLANK INTENTIONALLY**



**CITY OF SHOREACRES, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>General</u>
<b>ASSETS</b>	
Cash	\$ 361,425
Investments	795,582
Taxes receivable, net	73,267
Receivable from other governments	156,421
Fines receivables	<u>62,934</u>
Total assets	<u>1,449,629</u>
<b>LIABILITIES</b>	
Accounts payable	241,619
Due to other funds	51,217
Payable to other governments	9,605
Accrued liabilities	<u>23,826</u>
Total liabilities	<u>326,267</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue - property taxes	31,219
Unavailable revenue - municipal court	41,728
Unavailable revenue - grants	<u>156,421</u>
Total deferred inflows of resources	<u>229,368</u>
<b>FUND BALANCES</b>	
Unassigned	<u>893,994</u>
Total fund balances	<u>893,994</u>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,632,445
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	229,368
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	( <u>88,481</u> )
Net position of governmental activities	<u>\$ 7,667,326</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, 2014**

	<u>General</u>
<b>REVENUES</b>	
Taxes:	
Property	\$ 816,760
Sales	89,682
Franchise	86,157
Other	3,716
Fines and fees	90,894
Intergovernmental	484,495
Lease and rental	21,936
Licenses and permits	30,564
Investment earnings	1,816
Miscellaneous	<u>4,385</u>
Total revenues	<u>1,630,405</u>
<b>EXPENDITURES</b>	
Current:	
General government	500,344
Judicial	70,849
Public safety	509,808
Public works	145,441
Highways and streets	1,575
Culture and recreation	52,906
Capital outlay	<u>472,976</u>
Total expenditures	<u>1,753,899</u>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>	
<b>  OVER (UNDER) EXPENDITURES</b>	<u>( 123,494)</u>
<b>OTHER FINANCING SOURCES AND USES</b>	
Transfer Out	<u>( 30,713)</u>
Total other financing sources and uses	<u>( 30,713)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>( 154,207)</u>
<b>FUND BALANCES, BEGINNING</b>	<u>1,048,201</u>
<b>FUND BALANCES, ENDING</b>	<u><u>\$ 893,994</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, 2014**

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

Net change in fund balances - total governmental funds	\$( 154,207)
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.	3,592,971
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	114,397
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>28,941</u>
Change in net position of governmental activities	<u><u>\$ 3,582,102</u></u>

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

**THIS PAGE LEFT BLANK INTENTIONALLY**

**CITY OF SHOREACRES, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Business-type Activities Enterprise Fund <u>Water and Sewer</u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 89,838
Accounts receivable, net	89,457
Due from other funds	<u>51,217</u>
Total current assets	<u>230,512</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	164,680
Construction in progress	1,246,395
Less accumulated depreciation	( 330,985)
Total non-current assets	<u>2,317,240</u>
Total assets	<u>2,547,752</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	81,957
Accrued liabilities	4,075
Customer deposits	52,403
Compensated absences	<u>1,464</u>
Total current liabilities	<u>139,899</u>
Non-current liabilities:	
Compensated absences	<u>3,416</u>
Total liabilities	<u>143,315</u>
<b>NET POSITION</b>	
Net investment in capital assets	2,317,240
Unrestricted	<u>87,197</u>
Total net position	<u>\$ 2,404,437</u>

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

**THIS PAGE LEFT BLANK INTENTIONALLY**

**CITY OF SHOREACRES, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Business-type Activities Enterprise Fund <u>Water and Sewer</u>
<b>OPERATING REVENUES</b>	
Charges for sales and services:	
Water	\$ 251,475
Sewer	144,677
Sanitation	<u>96,515</u>
Total operating revenues	<u>492,667</u>
<b>OPERATING EXPENSES</b>	
Personnel services	135,636
Water services	117,767
Solid waste disposal	89,574
Recycling services	31,968
Materials and supplies	35,113
Maintenance	22,473
Fuel	2,980
Utilities	24,659
Depreciation	43,402
Other	<u>3,494</u>
Total operating expenses	<u>507,066</u>
<b>OPERATING LOSS</b>	<u>( 14,399)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Investment income	634
Miscellaneous revenues	<u>56,407</u>
Total non-operating revenues (expenses)	<u>57,041</u>
<b>TRANSFERS</b>	
Transfers In	<u>30,713</u>
Total transfers	<u>30,713</u>
<b>CHANGE IN NET POSITION</b>	73,355
<b>TOTAL NET POSITION, BEGINNING</b>	<u>2,331,082</u>
<b>TOTAL NET POSITION, ENDING</b>	<u><u>\$ 2,404,437</u></u>

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

**THIS PAGE LEFT BLANK INTENTIONALLY**



**CITY OF SHOREACRES, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Business-type Activities <u>Enterprise Fund</u> Water and Sewer
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 492,995
Cash payments to employees for services	( 137,947)
Cash payments to suppliers for goods and services	( 162,126)
Cash used by operating activities	<u>192,922</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Miscellaneous revenues	56,407
Transfers from other funds	<u>30,713</u>
Cash used by noncapital financing activities	<u>87,120</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	( 299,894)
Cash used by capital and related financing activities	<u>( 299,894)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>634</u>
Cash provided by investing activities	<u>634</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	( 19,218)
<b>CASH, BEGINNING</b>	<u>109,056</u>
<b>CASH, ENDING</b>	<u>89,838</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating loss	( 14,399)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	43,402
Change in assets and liabilities:	
Decrease (increase) in due from other funds	119,535
Increase (decrease) in accounts payable	46,367
Increase (decrease) in customer deposits	328
Increase (decrease) in accrued liabilities	710
Increase (decrease) in compensated absences	( 3,021)
Total adjustments	<u>207,321</u>
Net cash used by operating activities	<u>\$ 192,922</u>

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

**THIS PAGE LEFT BLANK INTENTIONALLY**

# **CITY OF SHOREACRES, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2014**

### **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, 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.

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

## Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statements element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows or resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one type of item that qualifies for reporting in this category which arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, municipal court fines and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

## **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, deferred outflows (inflows) of resources 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, 2014, the City had the following cash and investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Investments - TexPool	\$ <u>795,582</u>	51
Total fair value	\$ <u>795,582</u>	

During the year ended September 30, 2014, the City invested in the Texas Local Government Pool (TexPool), which is an investment fund 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, 2014, the City's \$487,036 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 2014 levy was based was \$93,053,293.

Taxes are due by January 31 following the October 1 levy date. Current tax collections for the year ended September 30, 2014, 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	\$ 74,233	\$ -	\$ 74,233
Water/sewer usage	-	92,224	92,224
Intergovernmental	156,421	-	156,421
Fines	<u>251,736</u>	<u>-</u>	<u>251,736</u>
Gross receivables	482,390	92,224	574,614
Less: allowance for uncollectibles	<u>( 189,768)</u>	<u>( 2,767)</u>	<u>( 192,535)</u>
Net total receivables	<u>\$ 292,622</u>	<u>\$ 89,457</u>	<u>\$ 382,079</u>

## **Capital Assets**

Capital asset activity for the year ended September 30, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 175,164	\$ -	\$ -	\$ 175,164
Construction in progress	<u>1,536,731</u>	<u>376,994</u>	<u>-</u>	<u>1,913,725</u>
Total assets not being depreciated	<u>1,711,895</u>	<u>376,994</u>	<u>-</u>	<u>2,088,889</u>
Capital assets, being depreciated:				
Buildings and improvements	863,179	-	-	863,179
Leasehold improvements	175,596	-	-	175,596
Vehicles and equipment	437,175	-	14,135	423,040
Infrastructure	<u>255,082</u>	<u>3,551,235</u>	<u>-</u>	<u>3,806,317</u>
Total capital assets being depreciated	<u>1,731,032</u>	<u>3,551,235</u>	<u>14,135</u>	<u>5,268,132</u>
Less accumulated depreciation:				
Buildings and improvements	( 42,318)	( 21,825)	-	( 64,143)
Leasehold improvements	( 50,832)	( 9,973)	-	( 60,805)
Vehicles and equipment	( 225,970)	( 68,140)	14,135	( 279,975)
Infrastructure	<u>( 84,333)</u>	<u>( 235,320)</u>	<u>-</u>	<u>( 319,653)</u>
Total accumulated depreciation	<u>( 403,453)</u>	<u>( 335,258)</u>	<u>14,135</u>	<u>( 724,576)</u>
Total capital assets being depreciated, net	<u>1,327,579</u>	<u>3,215,977</u>	<u>-</u>	<u>4,543,556</u>
Governmental activities capital assets, net	<u>\$ 3,039,474</u>	<u>\$ 3,592,971</u>	<u>\$ -</u>	<u>\$ 6,632,445</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 7,839	\$ -	\$ -	\$ 7,839
Construction in progress	1,087,077	159,318	-	1,246,395
Total assets not being depreciated	1,094,916	159,318	-	1,254,234
Capital assets, being depreciated:				
Buildings and improvements	847,896	-	-	847,896
Infrastructure	24,104	140,576	-	164,680
Land improvements	19,940	-	-	19,940
Water facilities	300,059	-	-	300,059
Vehicles and equipment	61,416	-	-	61,416
Total capital assets being depreciated	1,253,415	140,576	-	1,393,991
Less accumulated depreciation:				
Buildings and improvements	( 5,000)	( 21,613)	-	( 26,613)
Infrastructure	( 2,510)	( 5,680)	-	( 8,190)
Land improvements	( 8,280)	( 1,329)	-	( 9,609)
Water facilities	( 249,402)	( 5,382)	-	( 254,784)
Vehicles and equipment	( 22,391)	( 9,398)	-	( 31,789)
Total accumulated depreciation	( 287,583)	( 43,402)	-	( 330,985)
Total capital assets being depreciated, net	965,832	97,174	-	1,063,006
Business-type activities capital assets, net	\$ 2,060,748	\$ 256,492	\$ -	\$ 2,317,240

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

Governmental activities:	
Public works	\$ 46,157
General government administration	19,387
Public safety	45,769
Highways and streets	219,885
Culture and recreation	4,060
Total depreciation expense - governmental activities	\$ 335,258

### **Interfund Receivables, Payables and Transfers**

The composition of interfund balances as of September 30, 2014, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
Water and sewer	General	\$ 51,217

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, 2014, is as follows:

<u>Transfer Out Fund</u>	<u>Transfer In Fund</u>	<u>Amount</u>
General	Water and sewer	\$ 30,713

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, 2014:

	<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	\$ 117,422	\$ 10,108	\$ 39,049	\$ 88,481	\$ 26,544
Total governmental activities	\$ 117,422	\$ 10,108	\$ 39,049	\$ 88,481	\$ 26,544
Business-type activities					
Compensated absences	\$ 7,901	\$ 14,285	\$ 17,306	\$ 4,880	\$ 1,464
Total governmental activities	\$ 7,901	\$ 14,285	\$ 17,306	\$ 4,880	\$ 1,464

### **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 from TMRS' website at [www.TMRS.com](http://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 2013</u>	<u>Plan Year 2014</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 Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). 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 for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. 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>
09/30/12	\$ 37,131	100%	\$ -
09/30/13	31,382	100%	-
09/30/14	29,494	100%	-

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Actuarial Valuation Date	12/31/11	12/31/12	12/31/13
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization period	16.9 years - closed	24.8 years - closed	25.0 years - closed
Amortization Period for new Gains/Losses	22 years	25 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 October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2013, under the two separate actuarial valuations, is presented as follows:

Actual Valuation Date	12/31/13
Actuarial value of assets	\$ 1,409,127
Actuarial accrued liability	1,387,187
Percent funded	101.6%
Unfunded (overfunded) actuarial accrued liability (UAAL)	( 21,940)
Annual covered payroll	731,452
UAAL as a percentage of covered payroll	( 3.0%)

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

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

## **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
09/30/12	.02%	.02%	100%
09/30/13	.03%	.03%	100%
09/30/14	.02%	.02%	100%

**THIS PAGE LEFT BLANK INTENTIONALLY**



**REQUIRED  
SUPPLEMENTARY INFORMATION**

**THIS PAGE LEFT BLANK INTENTIONALLY**

# CITY OF SHOREACRES, TEXAS

## GENERAL FUND

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>				
Taxes:				
Property	\$ 769,498	\$ 769,498	\$ 816,760	\$ 47,262
Sales	73,125	73,125	89,682	16,557
Franchise	81,500	81,500	86,157	4,657
Other	3,150	3,150	3,716	566
Fines and fees	266,900	266,900	90,894	( 176,006)
Intergovernmental	-	-	484,495	484,495
Lease and rental	21,900	21,900	21,936	36
Licenses and permits	20,000	20,000	30,564	10,564
Investment earnings	4,060	4,060	1,816	( 2,244)
Miscellaneous	500	500	4,385	3,885
Total revenues	<u>1,240,633</u>	<u>1,240,633</u>	<u>1,630,405</u>	<u>389,772</u>
<b>EXPENDITURES</b>				
Current:				
General government	509,807	509,807	500,344	9,463
Judicial	177,114	177,114	70,849	106,265
Public safety	535,539	535,539	509,808	25,731
Public works	204,907	204,907	145,441	59,466
Highways and streets	-	-	1,575	( 1,575)
Culture and recreation	119,449	119,449	52,906	66,543
Capital outlay	5,100	5,100	472,976	( 467,876)
Total expenditures	<u>1,551,916</u>	<u>1,551,916</u>	<u>1,753,899</u>	<u>( 201,983)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 311,283)</u>	<u>( 311,283)</u>	<u>( 123,494)</u>	<u>187,789</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	316,284	316,284	-	( 316,284)
Transfers out	-	-	( 30,713)	( 30,713)
Total other financing sources (uses)	<u>316,284</u>	<u>316,284</u>	<u>( 30,713)</u>	<u>( 346,997)</u>
<b>NET CHANGE IN FUND BALANCE</b>	5,001	5,001	( 154,207)	( 159,208)
<b>FUND BALANCE, BEGINNING</b>	<u>1,048,201</u>	<u>1,048,201</u>	<u>1,048,201</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 1,053,202</u>	<u>\$ 1,053,202</u>	<u>\$ 893,994</u>	<u>\$ ( 159,208)</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>
12/31/2011	\$ 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%)
12/31/2013	1,409,127	1,387,187	101.6%	( 21,940)	731,452	( 3.0%)

## **CITY OF SHOREACRES, TEXAS**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2014**

#### **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.

**THIS PAGE LEFT BLANK INTENTIONALLY**

## **COMPLIANCE SECTION**

**THIS PAGE LEFT BLANK INTENTIONALLY**





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, 2014, 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 May 21, 2015.

**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.

### **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  
May 21, 2015



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, 2014. 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, 2014.

### **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  
May 21, 2015

# CITY OF SHOREACRES, TEXAS

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
<b>FEDERAL AWARDS</b>			
<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	\$ 514,604
Total Passed through the General Land Office			<u>514,604</u>
Total U. S. Department of Housing and Urban Development			<u>514,604</u>
<u>U. S. Department of the Interior</u>			
Passed through Harris County:			
Coastal Impact Assistance Program (CIAP)	15.668	F13AF00131	<u>94,732</u>
Total Passed through Harris County			<u>94,732</u>
Total U. S. Department of the Interior			<u>94,732</u>
Total Expenditures of Federal Awards			<u>\$ 609,336</u>

## CITY OF SHOREACRES, TEXAS

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

#### **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?	None reported
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)	Name of Federal Program or Cluster:
#14.228	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**

### **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

#### **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>	We consider this matter to be resolved.

**THIS PAGE LEFT BLANK INTENTIONALLY**