



CITY OF SHOREACRES, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2015**

CITY OF SHOREACRES, TEXAS

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CITY OF SHOREACRES, TEXAS

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FINANCIAL SECTION

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P A T T I L L O , B R O W N & H I L L , 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, 2015, 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, 2015, 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 2015 the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. 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, General Fund budgetary comparison information, Schedule of Funding Progress for Participation in Texas Municipal Retirement System, Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Contributions on pages 4-9 and 35-38 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2016, 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 24, 2016

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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, 2015.

FINANCIAL HIGHLIGHTS

- The assets of the City of Shoreacres exceeded its liabilities as of September 30, 2015, by \$10,059,915 (net position). Unrestricted net position of the City was \$1,169,740 as of September 30, 2015. 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 decreased by \$138,711 from 2014.
- As of the close of the current fiscal year, the City of Shoreacres' governmental fund reported an ending fund balance of \$943,994. The unassigned portion of the fund was \$943,994.

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 19-34 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 \$10,059,915 as of September 30, 2015.

A large portion of the City's net position \$1,143,980 reflects its cash and investment balances.

CITY OF SHOREACRES' NET POSITIONS

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 1,207,942	\$ 1,398,412	\$ 259,888	\$ 230,512	\$ 1,467,830	\$ 1,628,924
Capital assets	<u>6,363,433</u>	<u>6,632,445</u>	<u>2,526,742</u>	<u>2,317,240</u>	<u>8,890,175</u>	<u>8,949,685</u>
Total assets	<u>7,571,375</u>	<u>8,030,857</u>	<u>2,786,630</u>	<u>2,547,752</u>	<u>10,358,005</u>	<u>10,578,609</u>
Deferred outflow of resources	<u>34,613</u>	<u>-</u>	<u>7,598</u>	<u>-</u>	<u>42,211</u>	<u>-</u>
Total deferred outflow of resource	<u>34,613</u>	<u>-</u>	<u>7,598</u>	<u>-</u>	<u>42,211</u>	<u>-</u>
Long-term liabilities	62,260	61,937	9,718	3,416	71,978	65,353
Other liabilities	<u>168,780</u>	<u>301,594</u>	<u>94,306</u>	<u>139,899</u>	<u>263,086</u>	<u>441,493</u>
Total liabilities	<u>231,040</u>	<u>363,531</u>	<u>104,024</u>	<u>143,315</u>	<u>335,064</u>	<u>506,846</u>
Deferred inflow of resources	<u>4,294</u>	<u>-</u>	<u>943</u>	<u>-</u>	<u>5,237</u>	<u>-</u>
Total deferred inflow of resources	<u>4,294</u>	<u>-</u>	<u>943</u>	<u>-</u>	<u>5,237</u>	<u>-</u>
Net position:						
Net investment in capital assets	6,363,433	6,632,445	2,526,742	2,317,240	8,890,175	8,949,685
Unrestricted	<u>1,007,221</u>	<u>1,034,881</u>	<u>162,519</u>	<u>87,197</u>	<u>1,169,740</u>	<u>1,122,078</u>
Total net position	<u>\$ 7,370,654</u>	<u>\$ 7,667,326</u>	<u>\$ 2,689,261</u>	<u>\$ 2,404,437</u>	<u>\$ 10,059,915</u>	<u>\$ 10,071,763</u>

The balance \$1,169,740 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, 2015.

CITY OF SHOREACRES' CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 206,447	\$ 136,855	\$ 495,416	\$ 492,667	\$ 701,863	\$ 629,522
Operating grants and contributions	125,543	69,284	-	-	125,543	69,284
Capital grants and contributions	91,777	4,092,516	-	-	91,777	4,092,516
General revenues:						
Property taxes	879,033	811,626	-	-	879,033	811,626
Sales taxes	84,813	89,682	-	-	84,813	89,682
Franchise taxes	91,488	86,157	-	-	91,488	86,157
Other taxes	3,650	3,716	-	-	3,650	3,716
Investment earnings	3,187	1,816	381	634	3,568	2,450
Gain on sale of capital assets	15,601	-	7,082	-	22,683	-
Miscellaneous	10,243	4,385	61,374	56,407	71,617	60,792
Transfers	(259,466)	(30,713)	259,466	30,713	-	-
Total revenues and transfers	<u>1,252,316</u>	<u>5,265,324</u>	<u>823,719</u>	<u>580,421</u>	<u>2,076,035</u>	<u>5,845,745</u>
Expenses:						
General government	468,777	602,976	-	-	468,777	602,976
Public safety	605,873	543,879	-	-	605,873	543,879
Public works	173,153	188,580	-	-	173,153	188,580
Judicial	78,407	69,508	-	-	78,407	69,508
Highways and streets	241,462	221,460	-	-	241,462	221,460
Culture and recreation	85,344	56,819	-	-	85,344	56,819
Water and sewer	-	-	561,730	507,066	561,730	507,066
Total expenses	<u>1,653,016</u>	<u>1,683,222</u>	<u>561,730</u>	<u>507,066</u>	<u>2,214,746</u>	<u>2,190,288</u>
Change in net position	(400,700)	3,582,102	261,989	73,355	(138,711)	3,655,457
Net position - beginning	<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>
Prior period adjustment	<u>104,028</u>	<u>-</u>	<u>22,835</u>	<u>-</u>	<u>126,863</u>	<u>-</u>
Net position - beginning, restated	<u>7,771,354</u>	<u>4,085,224</u>	<u>2,427,272</u>	<u>2,331,082</u>	<u>10,198,626</u>	<u>6,416,306</u>
Net position - ending	<u>\$ 7,370,654</u>	<u>\$ 7,667,326</u>	<u>\$ 2,689,261</u>	<u>\$ 2,404,437</u>	<u>\$ 10,059,915</u>	<u>\$ 10,071,763</u>

Governmental activities decreased net position during the fiscal year by \$296,672.

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 \$943,994 of which \$943,994 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 35 of this report for a detailed presentation of the actual General Fund operations compared to both the original and final budget for fiscal year 2015.

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 \$162,519. This fund experienced an increase in total net positions during 2015 of \$284,824.

CAPITAL ASSETS

The City of Shoreacres’ investment in capital assets for its governmental and business-type activities as of September 30, 2015, amounts to \$8,890,175 (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 decrease in CIP is a result of the completion of street improvements, flood and drainage work and water facilities.

CITY OF SHOREACRES’ CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2015	2014	2015	2014	2015	2014
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	869,253	847,896	1,732,432	1,711,075
Vehicles and Equipment	388,779	423,040	38,970	61,416	427,749	484,456
Infrastructure	5,776,608	3,806,317	164,680	164,680	5,941,288	3,970,997
Construction in progress	-	1,913,725	-	1,246,395	-	3,160,120
Water and wastewater distribution	-	-	1,818,914	300,059	1,818,914	300,059
Less: accumulated depreciation	(1,015,893)	(724,576)	(392,854)	(330,985)	(1,408,747)	(1,055,561)
Total capital assets, net	\$ 6,363,433	\$ 6,632,445	\$ 2,526,742	\$ 2,317,240	\$ 8,890,175	\$ 8,949,685

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

On September 13, 2008, the City of Shoreacres suffered significant damage from Hurricane Ike, the third costliest hurricane ever to hit the United States. Since then the City has made a full recovery. Using local funds together with numerous federal grants the City has made substantial infrastructure improvements. Today the City enjoys new and renovated water and wastewater facilities, a new police station, refurbished city hall and public works building.

Property values have passed the 2008 pre-Ike level and continue to increase. San Jacinto College District has built a new maritime campus adjacent to the City bringing more traffic and interest to the community at large. The City is also enjoying wave of new residential construction adding to the City's tax base.

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**

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CITY OF SHOREACRES, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 328,958	\$ 130,952	\$ 459,910
Investments	684,070	-	684,070
Receivables (net of allowances for uncollectibles):			
Taxes	71,504	-	71,504
Accounts	65,103	89,457	154,560
Internal balances	(21,878)	21,878	-
Net pension asset	80,185	17,601	97,786
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	869,253	1,732,432
Vehicles and equipment	388,779	38,970	427,749
Infrastructure	5,776,608	164,680	5,941,288
Water and wastewater distribution	-	1,818,914	1,818,914
Less: accumulated depreciation	(1,015,893)	(392,854)	(1,408,747)
Total capital assets	6,363,433	2,526,742	8,890,175
Total assets	7,571,375	2,786,630	10,358,005
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflows related to pension	34,613	7,598	42,211
Total deferred outflow of resources	34,613	7,598	42,211
LIABILITIES			
Accounts payable	51,742	25,067	76,809
Accrued liabilities	57,623	10,653	68,276
Due to other governments	32,732	-	32,732
Customer deposits	-	54,421	54,421
Noncurrent liabilities:			
Due within one year	26,683	4,165	30,848
Due in more than one year	62,260	9,718	71,978
Total liabilities	231,040	104,024	335,064
DEFERRED INFLOW OF RESOURCES			
Deferred inflows related to pension	4,294	943	5,237
Total deferred inflow of resources	4,294	943	5,237
NET POSITION			
Net investment in capital assets	6,363,433	2,526,742	8,890,175
Unrestricted	1,007,221	162,519	1,169,740
Total net position	\$ 7,370,654	\$ 2,689,261	\$ 10,059,915

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

CITY OF SHOREACRES, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 468,777	\$ 48,114	\$ 122,961	\$ -
Public safety	605,873	1,789	1,037	-
Public works	173,153	-	-	91,777
Judicial	78,407	156,544	-	-
Highways and streets	241,462	-	-	-
Culture and recreation	85,344	-	1,545	-
Total governmental activities	<u>1,653,016</u>	<u>206,447</u>	<u>125,543</u>	<u>91,777</u>
Business-type activities:				
Water/sewer services	<u>561,730</u>	<u>495,416</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>561,730</u>	<u>495,416</u>	<u>-</u>	<u>-</u>
Total	\$ <u>2,214,746</u>	\$ <u>701,863</u>	\$ <u>125,543</u>	\$ <u>91,777</u>

General revenues:

- Taxes:
 - Property taxes, levied for general purposes
 - Sales taxes
 - Franchise taxes
 - Other taxes
- Investment earnings
- Gain on sale of capital assets
- Miscellaneous
- Transfers
- Total general revenues
- Change in net position
- Net position - beginning
- Prior period adjustment
- Net position - beginning, restated
- Net position - ending

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-type Activities	Total
\$(297,702)	\$ -	\$(297,702)
(603,047)	-	(603,047)
(81,376)	-	(81,376)
78,137	-	78,137
(241,462)	-	(241,462)
(83,799)	-	(83,799)
<u>(1,229,249)</u>	<u>-</u>	<u>(1,229,249)</u>
<u>-</u>	(66,314)	(66,314)
<u>-</u>	(66,314)	(66,314)
<u>(1,229,249)</u>	<u>(66,314)</u>	<u>(1,295,563)</u>
879,033	-	879,033
84,813	-	84,813
91,488	-	91,488
3,650	-	3,650
3,187	381	3,568
15,601	7,082	22,683
10,243	61,374	71,617
(259,466)	259,466	-
<u>828,549</u>	<u>328,303</u>	<u>1,156,852</u>
(400,700)	261,989	(138,711)
<u>7,667,326</u>	<u>2,404,437</u>	<u>10,071,763</u>
<u>104,028</u>	<u>22,835</u>	<u>126,863</u>
<u>7,771,354</u>	<u>2,427,272</u>	<u>10,198,626</u>
<u>\$ 7,370,654</u>	<u>\$ 2,689,261</u>	<u>\$ 10,059,915</u>

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CITY OF SHOREACRES, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2015

	<u>General</u>
ASSETS	
Cash	\$ 328,958
Investments	684,070
Taxes receivable, net	71,504
Fines receivables, net	<u>65,103</u>
Total assets	<u>1,149,635</u>
LIABILITIES	
Accounts payable	51,742
Due to other funds	21,878
Payable to other governments	32,732
Accrued liabilities	<u>57,623</u>
Total liabilities	<u>163,975</u>
DEFERRED INFLOW OF RESOURCES	
Unavailable revenue - property taxes	27,704
Unavailable revenue - municipal court	<u>13,962</u>
Total deferred inflows of resources	<u>41,666</u>
FUND BALANCES	
Unassigned	<u>943,994</u>
Total fund balances	<u>943,994</u>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,363,433
Net pension asset	80,185
Pension related deferred outflow of resources	34,613
Pension related deferred inflow of resources	(4,294)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	41,666
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(88,943)
Net position of governmental activities	<u>\$ 7,370,654</u>

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

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CITY OF SHOREACRES, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>General</u>
REVENUES	
Taxes:	
Property	\$ 882,548
Sales	84,813
Franchise	91,488
Other	3,650
Fines and fees	186,099
Intergovernmental	372,196
Lease and rental	23,378
Licenses and permits	24,736
Investment earnings	3,187
Miscellaneous	11,788
Total revenues	1,683,883
EXPENDITURES	
Current:	
General government	453,209
Judicial	78,383
Public safety	524,347
Public works	126,996
Culture and recreation	81,284
Capital outlay	130,471
Total expenditures	1,394,690
EXCESS (DEFICIENCY) OF REVENUES	
OVER (UNDER) EXPENDITURES	289,193
OTHER FINANCING SOURCES AND USES	
Transfer Out	(259,466)
Proceeds from insurance	3,928
Proceeds from the sale of capital assets	16,345
Total other financing sources and uses	(239,193)
NET CHANGE IN FUND BALANCES	50,000
FUND BALANCES, BEGINNING	893,994
FUND BALANCES, ENDING	\$ 943,994

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

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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, 2015

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

Net change in fund balances - total governmental funds	\$ 50,000
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.	(269,012)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(187,702)
Certain pension expenditures are not expended in the government-wide financial statements and recorded as deferred resource outflows or inflow. This item relates to contributions made after the measurement date.	6,476
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.	(462)
Change in net position of governmental activities	<u>\$(400,700)</u>

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CITY OF SHOREACRES, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2015

	Business-type Activities Enterprise Fund <u>Water and Sewer</u>
ASSETS	
Current assets:	
Cash	\$ 130,952
Accounts receivable, net	89,457
Due from other funds	21,878
Net Pension Asset	<u>17,601</u>
Total current assets	<u>259,888</u>
Non-current assets:	
Capital assets:	
Buildings and improvements	869,253
Vehicles and equipment	38,970
Water and wastewater distribution	1,818,914
Land improvements	19,940
Land	7,839
Infrastructure	164,680
Less accumulated depreciation	<u>(392,854)</u>
Total non-current assets	<u>2,526,742</u>
Total assets	<u>2,786,630</u>
DEFERRED OUTFLOW OF RESOURCES	
Deferred outflow related to pensions	<u>7,598</u>
Total deferred outflows of resources	<u>7,598</u>
LIABILITIES	
Current liabilities:	
Accounts payable	25,067
Accrued liabilities	10,653
Customer deposits	54,421
Compensated absences	<u>4,165</u>
Total current liabilities	<u>94,306</u>
Non-current liabilities:	
Compensated absences	<u>9,718</u>
Total liabilities	<u>104,024</u>
DEFERRED INFLOW OF RESOURCES	
Deferred Inflow related to pensions	<u>943</u>
Total deferred inflows of resources	<u>943</u>
NET POSITION	
Net investment in capital assets	2,526,742
Unrestricted	<u>162,519</u>
Total net position	<u>\$ 2,689,261</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 NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business-type Activities Enterprise Fund <hr/> Water and Sewer <hr/>
OPERATING REVENUES	
Charges for sales and services:	
Water	\$ 250,067
Sewer	147,853
Sanitation	97,496
Total operating revenues	<hr/> 495,416
OPERATING EXPENSES	
Personnel services	164,506
Water services	104,471
Solid waste disposal	106,917
Recycling services	32,340
Materials and supplies	24,829
Maintenance	10,838
Fuel	3,649
Utilities	29,738
Depreciation	70,848
Other	13,594
Total operating expenses	<hr/> 561,730
OPERATING LOSS	<hr/> (66,314)
NON-OPERATING REVENUES (EXPENSES)	
Gain on sale of capital assets	7,082
Investment income	381
Miscellaneous revenues	61,374
Total non-operating revenues (expenses)	<hr/> 68,837
TRANSFERS	
Transfers In	259,466
Total transfers	<hr/> 259,466
CHANGE IN NET POSITION	261,989
TOTAL NET POSITION, BEGINNING	<hr/> 2,404,437
PRIOR PERIOD ADJUSTMENT	22,835
TOTAL NET POSITION, BEGINNING, AS RESTATED	<hr/> 2,427,272
TOTAL NET POSITION, ENDING	<hr/> <u>\$ 2,689,261</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, 2015

	Business-type Activities <u>Enterprise Fund</u> Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 497,434
Cash payments to employees for services	(150,346)
Cash payments to suppliers for goods and services	(353,927)
Cash used by operating activities	<u>(6,839)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Miscellaneous revenues	61,374
Transfers from other funds	259,466
Cash used by noncapital financing activities	<u>320,840</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Gain on disposal of capital assets	20,549
Acquisition and construction of capital assets	(293,817)
Cash used by capital and related financing activities	<u>(273,268)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	381
Cash provided by investing activities	<u>381</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	41,114
CASH, BEGINNING	<u>89,838</u>
CASH, ENDING	<u>130,952</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	(66,314)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	70,848
Change in assets, deferred outflow of resources and liabilities:	
Decrease (increase) in due from other funds	29,339
Decrease (increase) in net pension asset	5,234
Decrease (increase) in deferred outflows related to pensions	(7,598)
Increase (decrease) in accounts payable	(56,890)
Increase (decrease) in customer deposits	2,018
Increase (decrease) in accrued liabilities	6,578
Increase (decrease) in compensated absences	9,003
Increase (decrease) in deferred inflows related to pensions	943
Total adjustments	<u>59,475</u>
Net cash used by operating activities	<u>\$(6,839)</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, 2015

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, Deferred Outflows/ Inflows of Resources and Net Position/ Fund Balance

Cash 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

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement 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 has the following items that qualify for reporting in this category.

- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position 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 two types of items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and municipal court fines. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other type of items, deferred inflows related to pension, is only presented in the government-wide financial statement of net position.

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.

Prior Period Adjustment

As the result of implementing GASB Statement 68, the City increased beginning net position as of October 1, 2014 by \$104,028 and \$22,835 for the governmental activities and business-type activities respectively. This increase results from recognition of the City's net pension asset.

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 and Water & Sewer 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, 2015, the City had the following cash and investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Investments - TexPool	\$ 684,070	41
Total fair value	<u>\$ 684,070</u>	

During the year ended September 30, 2015, 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, 2015, the City's \$513,045 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 2015 levy was based was \$102,364,888.

Taxes are due by January 31 following the October 1 levy date. Current tax collections for the year ended September 30, 2015, were 99% 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	\$ 72,361	\$ -	\$ 72,361
Water/sewer usage	-	92,224	92,224
Intergovernmental	-	-	-
Fines	<u>260,411</u>	<u>-</u>	<u>260,411</u>
Gross receivables	332,772	92,224	424,996
Less: allowance for uncollectibles	<u>(196,165)</u>	<u>(2,767)</u>	<u>(198,932)</u>
Net total receivables	<u>\$ 136,607</u>	<u>\$ 89,457</u>	<u>\$ 226,064</u>

Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases / Reclasses	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 175,164	\$ -	\$ -	\$ 175,164
Construction in progress	<u>1,913,725</u>	<u>-</u>	<u>(1,913,725)</u>	<u>-</u>
Total assets not being depreciated	<u>2,088,889</u>	<u>-</u>	<u>(1,913,725)</u>	<u>175,164</u>
Capital assets, being depreciated:				
Buildings and improvements	863,179	-	-	863,179
Leasehold improvements	175,596	-	-	175,596
Vehicles and equipment	423,040	35,714	(69,975)	388,779
Infrastructure	<u>3,806,317</u>	<u>1,970,291</u>	<u>-</u>	<u>5,776,608</u>
Total capital assets being depreciated	<u>5,268,132</u>	<u>2,006,005</u>	<u>(69,975)</u>	<u>7,204,162</u>
Less accumulated depreciation:				
Buildings and improvements	(64,143)	(21,825)	-	(85,968)
Leasehold improvements	(60,805)	(9,973)	-	(70,778)
Vehicles and equipment	(279,975)	(67,925)	65,303	(282,597)
Infrastructure	<u>(319,653)</u>	<u>(256,897)</u>	<u>-</u>	<u>(576,550)</u>
Total accumulated depreciation	<u>(724,576)</u>	<u>(356,620)</u>	<u>65,303</u>	<u>(1,015,893)</u>
Total capital assets being depreciated, net	<u>4,543,556</u>	<u>1,649,385</u>	<u>(135,278)</u>	<u>6,188,269</u>
Governmental activities capital assets, net	<u>\$ 6,632,445</u>	<u>\$ 1,649,385</u>	<u>\$(2,049,003)</u>	<u>\$ 6,363,433</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 7,839	\$ -	\$ -	\$ 7,839
Construction in progress	<u>1,246,395</u>	<u>-</u>	<u>(1,246,395)</u>	<u>-</u>
Total assets not being depreciated	<u>1,254,234</u>	<u>-</u>	<u>(1,246,395)</u>	<u>7,839</u>
Capital assets, being depreciated:				
Buildings and improvements	847,896	21,357	-	869,253
Infrastructure	164,680	-	-	164,680
Land improvements	19,940	-	-	19,940
Water facilities	300,059	1,518,855	-	1,818,914
Vehicles and equipment	<u>61,416</u>	<u>-</u>	<u>(22,446)</u>	<u>38,970</u>
Total capital assets being depreciated	<u>1,393,991</u>	<u>1,540,212</u>	<u>(22,446)</u>	<u>2,911,757</u>
Less accumulated depreciation:				
Buildings and improvements	(26,613)	(22,160)	-	(48,773)
Infrastructure	(8,190)	(8,401)	-	(16,591)
Land improvements	(9,609)	(1,329)	-	(10,938)
Water facilities	(254,784)	(32,484)	-	(287,268)
Vehicles and equipment	<u>(31,789)</u>	<u>(6,474)</u>	<u>8,979</u>	<u>(29,284)</u>
Total accumulated depreciation	<u>(330,985)</u>	<u>(70,848)</u>	<u>8,979</u>	<u>(392,854)</u>
Total capital assets being depreciated, net	<u>1,063,006</u>	<u>1,469,364</u>	<u>(31,425)</u>	<u>2,518,903</u>
Business-type activities capital assets, net	<u>\$ 2,317,240</u>	<u>\$ 1,469,364</u>	<u>\$(1,277,820)</u>	<u>\$ 2,526,742</u>

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	45,554
Highways and streets	241,462
Culture and recreation	<u>4,060</u>
Total depreciation expense - governmental activities	<u>\$ 356,620</u>

Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2015, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water and sewer	General	\$ 21,878

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, 2015, is as follows:

<u>Transfer Out Fund</u>	<u>Transfer In Fund</u>	<u>Amount</u>
General	Water and sewer	\$ 259,466

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, 2015:

	<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	\$ 88,481	\$ 20,616	\$ 20,154	\$ 88,943	\$ 26,683
Total governmental activities	<u>\$ 88,481</u>	<u>\$ 20,616</u>	<u>\$ 20,154</u>	<u>\$ 88,943</u>	<u>\$ 26,683</u>
Business-type activities					
Compensated absences	\$ 4,880	\$ 10,906	\$ 1,903	\$ 13,883	\$ 4,165
Total governmental activities	<u>\$ 4,880</u>	<u>\$ 10,906</u>	<u>\$ 1,903</u>	<u>\$ 13,883</u>	<u>\$ 4,165</u>

Defined Benefit Pension Policies

Plan Description. The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.org.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided. TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The City has approved an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, City provides on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate	5
Matching ratio (city to employee)	1.5 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating

Employees covered by benefit terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	17
Active employees	<u>14</u>
	<u>35</u>

Contributions. The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are with 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contributions rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.55% and 5.61% in calendar years 2014 and 2015, respectively. The city's contributions to TMRS for the year ended September 30, 2015, were \$35,989, and were equal to the required contributions.

Net Pension Liability. The city's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by a factor of 98.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering the 2009 through 2011, and the dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$ 1,387,187	\$ 1,493,039	\$(105,852)
Changes for the year:			
Service cost	64,456	-	64,456
Interest	97,657	-	97,657
Difference between expected and actual experience	(7,625)	-	(7,625)
Contributions - employer	-	28,959	(28,959)
Contributions - employee	-	33,009	(33,009)
Net investment income	-	85,419	(85,419)
Benefit payments, including refunds of employee contributions	(48,621)	(48,621)	-
Administrative expense	-	(892)	892
Other changes	-	(73)	73
Net changes	<u>105,867</u>	<u>97,801</u>	<u>8,066</u>
Balance at 12/31/2014	<u>\$ 1,493,054</u>	<u>\$ 1,590,840</u>	<u>\$(97,786)</u>

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) of 1-percentage-higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's net pension liability	\$ 136,885	\$(97,786)	\$(285,640)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. The report may be obtained on the Internet at www.tmrs.org.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended September 30, 2015, the City recognized pension expense of \$26,987.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 5,237
Difference between projected and actual investment earnings	15,275	-
Contributions subsequent to the measurement date	<u>26,936</u>	<u>-</u>
Total	<u>\$ 42,211</u>	<u>\$ 5,237</u>

\$26,936 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

<u>Year Ended September 30,</u>	
2016	\$ 1,431
2017	1,431
2018	3,358
2019	<u>3,818</u>
	<u>\$ 10,038</u>

Subsequent event:

Pursuant to TMRS policy of conducting experience studies every four years, the TMRS Board at their July 31, 2015 meeting determined that they would be changing certain actuarial assumptions including reducing the long term expected rate of return from the current 7% to 6.75% and changing the inflation assumption from 3% to 2.5%. Reduction of expected investment return and related discount rate will increase projected pension liabilities. Reducing the inflation assumption reduces liabilities as future annuity levels and future cost of living adjustments are not projected to be as large as originally projected. While the actual impact on the City's valuation for December 31, 2015 is not known the City does expect some downward pressure on its funded status and upward pressure on its 2017 actuarially determined contribution (ADC) due to this change.

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.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

Schedule of Contribution Rates

<u>Accounting Year Ending</u>	<u>Annual Required Contribution (Rate)</u>	<u>Actual Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>
09/30/13	.02%	.02%	100%
09/30/14	.02%	.02%	100%
09/30/15	.03%	.03%	100%

**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, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 850,619	\$ 850,619	\$ 882,548	\$ 31,929
Sales	83,750	83,750	84,813	1,063
Franchise	90,000	90,000	91,488	1,488
Other	3,200	3,200	3,650	450
Fines and fees	128,000	128,000	186,099	58,099
Intergovernmental	1,000	1,000	372,196	371,196
Lease and rental	22,363	22,363	23,378	1,015
Licenses and permits	25,000	25,000	24,736	(264)
Investment earnings	2,250	2,250	3,187	937
Miscellaneous	7,500	7,500	11,788	4,288
Total revenues	<u>1,213,682</u>	<u>1,213,682</u>	<u>1,683,883</u>	<u>470,201</u>
EXPENDITURES				
Current:				
General government	496,572	496,572	453,209	43,363
Judicial	144,327	144,327	78,383	65,944
Public safety	548,446	548,446	524,347	24,099
Public works	181,489	181,489	126,996	54,493
Culture and recreation	102,793	102,793	81,284	21,509
Capital outlay	36,000	36,000	130,471	(94,471)
Total expenditures	<u>1,509,627</u>	<u>1,509,627</u>	<u>1,394,690</u>	<u>114,937</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(295,945)</u>	<u>(295,945)</u>	<u>289,193</u>	<u>585,138</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(259,466)	(259,466)
Proceeds from insurance	3,928	-	3,928	3,928
Proceeds from the sale of capital assets	16,345	-	16,345	16,345
Transfers in	318,754	318,754	-	(318,754)
Total other financing sources (uses)	<u>339,027</u>	<u>318,754</u>	<u>(239,193)</u>	<u>(557,947)</u>
NET CHANGE IN FUND BALANCE	43,082	22,809	50,000	27,191
FUND BALANCE, BEGINNING	<u>893,994</u>	<u>893,994</u>	<u>893,994</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 937,076</u>	<u>\$ 937,076</u>	<u>\$ 943,994</u>	<u>\$ 27,191</u>

CITY OF SHOREACRES, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2015

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.

CITY OF SHOREACRES, TEXAS

SCHEDULE OF CHANGES IN TMRS NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Plan Year	<u>2014</u>
A. Total pension liability	
Service Cost	\$ 64,456
Interest (on the Total Pension Liability)	97,657
Difference between expected and actual experience	(7,625)
Benefit payments, including refunds of employee contributions	<u>(48,621)</u>
Net change in total pension liability	105,867
Total pension liability - beginning	<u>1,387,187</u>
Total pension liability - ending (a)	<u>\$ 1,493,054</u>
B. Plan fiduciary net position	
Contributions - employer	\$ 28,959
Contributions - employee	33,009
Net investment income	85,419
Benefit payments, including refunds of employee contributions	(48,621)
Administrative expenses	(892)
Other	<u>(73)</u>
Net change in plan fiduciary net position	97,801
Plan fiduciary net position - beginning	<u>1,493,039</u>
Plan fiduciary net position - ending (b)	<u>\$ 1,590,840</u>
C. Net pension liability - ending (a) - (b)	<u>\$ (97,786)</u>
D. Plan fiduciary net position as a percentage of total pension liability	106.55%
E. Covered employee payroll	\$ 660,180
F. Net position liability as a percentage of covered employee payroll	-14.81%

CITY OF SHOREACRES, TEXAS
SCHEDULE OF TMRS CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Fiscal Year	<u>2014</u>	<u>2015</u>
Actuarial determined contribution	\$ 28,643	\$ 34,840
Contributions in relation to the actuarially determined contribution	<u>28,643</u>	<u>34,840</u>
Contribution deficiency (excess)	-	-
Covered employee payroll	658,853	675,614
Contributions as a percentage of covered employee payroll	4.35%	5.16%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3.00%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis of with BB.

Other Information There were no benefit changes during the year.

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, 2015, 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 24, 2016.

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
June 24, 2016