



# **CITY OF SHOREACRES, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2008**

# CITY OF SHOREACRES, TEXAS

## TABLE OF CONTENTS

SEPTEMBER 30, 2008

### **Page Number**

#### **FINANCIAL SECTION**

Independent Auditors' Report.....	1 – 2
Management's Discussion and Analysis .....	3 – 8
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets .....	9
Statement of Activities.....	10 – 11
Fund Financial Statements	
Balance Sheet – Governmental Funds .....	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	14
Statement of Net Assets – Proprietary Fund.....	15
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund .....	16
Statement of Cash Flows – Proprietary Fund .....	17
Notes to Financial Statements.....	18 – 28

(continued)

# CITY OF SHOREACRES, TEXAS

## TABLE OF CONTENTS (Continued) SEPTEMBER 30, 2008

### **Page Number**

#### **FINANCIAL SECTION (Continued)**

##### Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.....	29
Notes to Required Supplemental Information .....	30

#### **COMPLIANCE SECTION**

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> .....	31 – 32
Schedule of Findings and Questioned Costs.....	33 – 37

## **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

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

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, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Shoreacres, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Shoreacres, Texas, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 29 through 30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Patillo, Brown & Hill, LLP*

August 2, 2010

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **CITY OF SHOREACRES TEXAS**

### **Management's Discussion and Analysis For the Year Ended September 30, 2008**

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, 2008.

As this is the first year for the City of Shoreacres to be audited, comparative numbers are not presented but will be presented in future years.

### ***FINANCIAL HIGHLIGHTS***

- The assets of the City of Shoreacres exceeded its liabilities as of September 30, 2008, by \$2,976,000 (net assets). Unrestricted net assets of the City, however, were \$2,451,319 as of September 30, 2008. Unrestricted net assets represent 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 assets increased by \$229,250 in 2008.
- As of the close of the current fiscal year, the City of Shoreacres' governmental fund reported an ending fund balance of \$1,703,542. The unreserved portion of the fund was \$1,694,520.

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

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets 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).



## CITY OF SHOREACRES TEXAS

### Management's Discussion and Analysis For the Year Ended September 30, 2008

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 15 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 18 – 28 of this report.

## CITY OF SHOREACRES TEXAS

### Management's Discussion and Analysis For the Year Ended September 30, 2008

#### ***GOVERNMENTAL-WIDE FINANCIAL ANALYSIS***

As noted earlier, net assets 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 \$2,976,000 as of September 30, 2008.

The largest portion of the City's net assets (\$1,749,018) reflects its governmental activities cash and investment balances.

#### ***CITY OF SHOREACRES' NET ASSETS***

	Governmental Activities	Business-type Activities	Totals
	2008	2008	2008
Current and other assets	\$ 2,024,033	\$ 847,915	\$ 2,871,948
Capital assets	406,754	108,905	515,659
Total assets	2,430,787	956,820	3,387,607
Long-term liabilities	34,062	-	34,062
Other liabilities	264,915	112,630	377,545
Total liabilities	298,977	112,630	411,607
Net assets:			
Invested in capital assets, net of related debt	406,754	108,905	515,659
Restricted	9,022	-	9,022
Unrestricted	1,716,034	735,285	2,451,319
Total net assets	\$ 2,131,810	\$ 844,190	\$ 2,976,000

A portion of the City's net assets (\$9,022) represents resources that are subject to restriction on how they may be used. The remaining balance (\$2,451,319) of unrestricted net assets 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.

# CITY OF SHOREACRES TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2008

**Analysis of the City's operations** – The following table provides a summary of the City's operations for the year ended September 30, 2008.

## *CITY OF SHOREACRES' CHANGES IN NET ASSETS*

	Governmental Activities	Business-type Activities	Totals
	2008	2008	2008
Revenues:			
Program revenues:			
Charges for services	\$ 432,455	\$ 538,768	\$ 971,223
Operating grants and contributions	65,173	-	65,173
Capital grants and contributions	-	-	-
General revenues:			
Property taxes	778,990	-	778,990
Sales taxes	68,789	-	68,789
Franchise taxes	75,599	-	75,599
Other taxes	3,363	-	3,363
Investment earnings	58,916	6,058	64,974
Miscellaneous	38,101	25,377	63,478
Transfers	( 75,551)	75,551	-
Total revenues and transfers	<u>1,445,835</u>	<u>645,754</u>	<u>2,091,589</u>
Expenses:			
General government	474,525	-	474,525
Public safety	487,036	-	487,036
Public works	103,647	-	103,647
Judicial	186,467	-	186,467
Highways and streets	111,218	-	111,218
Culture and recreation	53,155	-	53,155
Water and sewer	-	446,291	446,291
Total expenses	<u>1,416,048</u>	<u>446,291</u>	<u>1,862,339</u>
Change in net assets	29,787	199,463	229,250
Net assets - beginning	2,102,023	644,727	2,746,750
Net assets - ending	<u>\$ 2,131,810</u>	<u>\$ 844,190</u>	<u>\$ 2,976,000</u>

Governmental activities increased net assets during the fiscal year by \$29,787. This was primarily due to unexpected grant revenue. Grant revenue and general government expenditures were larger than expected due to initial Hurricane IKE relief receipts and efforts in September 2008.

## **CITY OF SHOREACRES TEXAS**

Management's Discussion and Analysis  
For the Year Ended September 30, 2008

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

At the end of the current fiscal year, the City of Shoreacres' governmental fund reported an ending fund balance of \$1,703,542 of which \$1,694,520 constitutes unreserved 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 29 of this report for a detailed presentation of the actual General Fund operations compared to both the original and final budget for fiscal year 2008.

**Proprietary funds** – The City's proprietary fund statements beginning on page 15 of this report provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the major proprietary fund, the Water and Sewer Fund, were \$735,285. This fund experienced an increase in total net assets during 2008 of \$199,463. A large portion of this increase was a result of the fact that some payroll expenses for the Water and Sewer Fund are paid out of the General Fund checking account and had yet to be repaid to the General Fund at fiscal year end.

### ***CAPITAL ASSETS***

The City of Shoreacres' investment in capital assets for its governmental and business-type activities as of September 30, 2008, amounts to \$515,659 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, water system, and sewer system.

Major capital asset event during the current fiscal year included the following:

- Engineering and construction related to the Bayou & Westview Project for \$171,478
- Well rehabilitation work completed by the Water and Sewer Fund for \$53,273
- Appropriation of the Fairfield Easement by the Water and Sewer fund for \$11,010

## CITY OF SHOREACRES TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2008

### *CITY OF SHOREACRES' CAPITAL ASSETS AT YEAR-END*

	Governmental Activities	Business-type Activities	Totals
	2008	2008	2008
Land	\$ 99,934	\$ 7,839	\$ 107,773
Land improvements	-	19,940	19,940
Leasehold improvements	56,297	-	56,297
Buildings and improvements	12,000	5,000	17,000
Vehicles and Equipment	214,168	5,840	220,008
Infrastructure	189,980	-	189,980
Water and wastewater distribution	-	300,059	300,059
Less: accumulated depreciation	( 165,625)	( 229,773)	( 395,398)
Total capital assets, net	\$ 406,754	\$ 108,905	\$ 515,659

### *DEBT ADMINISTRATION*

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

### *ECONOMIC FACTS*

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

Although the city suffered significant public and private damage from Hurricane Ike it occurred at the end of the fiscal year and the financial effects fell outside the current fiscal year. Notwithstanding Hurricane Ike, the city has maintained a stable tax base, population, and business climate.

### *REQUESTS FOR INFORMATION*

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

# **BASIC FINANCIAL STATEMENTS**

# CITY OF SHOREACRES, TEXAS

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2008

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash	\$ 377,693	\$ 771,963	\$ 1,149,656
Investments	1,371,325	-	1,371,325
Receivables (net of allowances for uncollectibles):			
Taxes	85,706	-	85,706
Accounts	99,106	102,085	201,191
Internal balances	26,133	( 26,133)	-
Receivable from other governments	64,070	-	64,070
Capital assets:			
Land	99,934	7,839	107,773
Land improvements	-	19,940	19,940
Leasehold improvements	56,297	-	56,297
Buildings and improvements	12,000	5,000	17,000
Vehicles and equipment	214,168	5,840	220,008
Infrastructure	189,980	-	189,980
Water and wastewater distribution	-	300,059	300,059
Less: accumulated depreciation	( 165,625)	( 229,773)	( 395,398)
Total capital assets	<u>406,754</u>	<u>108,905</u>	<u>515,659</u>
 Total assets	 <u>2,430,787</u>	 <u>956,820</u>	 <u>3,387,607</u>
 <b>LIABILITIES</b>			
Accounts payable	169,627	35,014	204,641
Accrued liabilities	80,690	12,616	93,306
Customer deposits	-	65,000	65,000
Noncurrent liabilities:			
Due within one year	14,598	-	14,598
Due in more than one year	<u>34,062</u>	<u>-</u>	<u>34,062</u>
Total liabilities	<u>298,977</u>	<u>112,630</u>	<u>411,607</u>
 <b>NET ASSETS</b>			
Invested in capital assets, net of related debt	406,754	108,905	515,659
Restricted for:			
Other projects	9,022	-	9,022
Unrestricted	<u>1,716,034</u>	<u>735,285</u>	<u>2,451,319</u>
 Total net assets	 <u>\$ 2,131,810</u>	 <u>\$ 844,190</u>	 <u>\$ 2,976,000</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, 2008**

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government	\$ 474,526	\$ 14,022	\$ 64,071
Public safety	487,036	-	1,102
Public works	103,647	-	-
Judicial	186,467	418,433	-
Highways and streets	111,218	-	-
Culture and recreation	53,155	-	-
Total governmental activities	<u>1,416,049</u>	<u>432,455</u>	<u>65,173</u>
Business-type activities:			
Water/sewer services	<u>446,291</u>	<u>538,768</u>	<u>-</u>
Total business-type activities	<u>446,291</u>	<u>538,768</u>	<u>-</u>
Total	<u>\$ 1,862,340</u>	<u>\$ 971,223</u>	<u>\$ 65,173</u>

**General revenues:**

Taxes:  
     Property taxes, levied for general purposes  
     Sales taxes  
     Franchise taxes  
     Other taxes  
     Investment earnings  
     Miscellaneous  
 Transfers  
     Total general revenues and transfers  
     Change in net assets  
 Net assets - beginning  
 Net assets - ending

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



Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$( 396,433)	\$ -	\$( 396,433)
( 485,934)	-	( 485,934)
( 103,647)	-	( 103,647)
231,966	-	231,966
( 111,218)	-	( 111,218)
( 53,155)	-	( 53,155)
<u>( 918,421)</u>	<u>-</u>	<u>( 918,421)</u>
 -	 92,477	 92,477
 -	 92,477	 92,477
 <u>\$( 918,421)</u>	 <u>\$ 92,477</u>	 <u>\$( 825,944)</u>
  \$ 778,990	  \$ -	  \$ 778,990
68,789	-	68,789
75,599	-	75,599
3,363	-	3,363
58,916	6,058	64,974
38,102	25,377	63,479
<u>( 75,551)</u>	<u>75,551</u>	<u>-</u>
<u>948,208</u>	<u>106,986</u>	<u>1,055,194</u>
29,787	199,463	229,250
<u>2,102,023</u>	<u>644,727</u>	<u>2,746,750</u>
 <u>\$ 2,131,810</u>	 <u>\$ 844,190</u>	 <u>\$ 2,976,000</u>

# CITY OF SHOREACRES, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

SEPTEMBER 30, 2008

	<u>General</u>
<b>ASSETS</b>	
Cash	\$ 377,693
Investments	1,371,325
Taxes receivable, net	85,706
Due from other funds	26,133
Receivable from other governments	64,070
Fines receivables	<u>99,106</u>
 Total assets	 <u>\$ 2,024,033</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	169,627
Accrued liabilities	80,690
Deferred revenue	<u>70,174</u>
Total liabilities	<u>320,491</u>
 Fund balances:	
Reserved for:	
Other purposes	9,022
Unreserved	<u>1,694,520</u>
Total fund balances	<u>1,703,542</u>
 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	 406,754
 Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	 70,174
 Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	 <u>( 48,660)</u>
 Net assets of governmental activities	 <u>\$ 2,131,810</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, 2008**

	<u>General</u>
<b>REVENUES</b>	
Taxes:	
Property	\$ 766,608
Sales	68,789
Franchise	75,599
Other	3,363
Fines and fees	391,611
Intergovernmental	65,003
Lease and rental	9,510
Licenses and permits	10,010
Investment earnings	58,916
Miscellaneous	565
Total revenues	<u>1,449,974</u>
<b>EXPENDITURES</b>	
Current:	
General government	466,232
Judicial	183,677
Public safety	441,387
Public works	86,485
Highways and streets	106,548
Culture and recreation	46,125
Capital outlay	243,979
Total expenditures	<u>1,574,433</u>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>	
<b>  OVER (UNDER) EXPENDITURES</b>	( 124,459)
<b>OTHER FINANCING SOURCES AND USES</b>	
Proceeds from sale of capital assets	28,515
Proceeds from insurance	9,022
Transfers out	( 75,551)
Total other financing sources and uses	<u>( 38,014)</u>
<b>NET CHANGE IN FUND BALANCES</b>	( 162,473)
<b>FUND BALANCES, BEGINNING</b>	<u>1,866,015</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 1,703,542</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, 2008**

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

Net change in fund balances - total governmental funds	\$( 162,473)
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.	201,716
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	39,204
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>48,660</u> )
Change in net assets of governmental activities	\$ <u><u>29,787</u></u>

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

**CITY OF SHOREACRES, TEXAS**

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUND**

**SEPTEMBER 30, 2008**

	Business-type Activities Enterprise Fund <u>Water and Sewer</u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 771,963
Accounts receivable, net	<u>102,085</u>
Total current assets	<u>874,048</u>
Non-current assets:	
Capital assets:	
Buildings and improvements	5,000
Equipment and furniture	5,840
Water and wastewater distribution	300,059
Land improvements	19,940
Land	7,839
Less accumulated depreciation	<u>( 229,773)</u>
Total non-current assets	<u>108,905</u>
Total assets	<u>982,953</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	35,014
Accrued liabilities	12,616
Due to other funds	26,133
Customer deposits	<u>65,000</u>
Total current liabilities	<u>138,763</u>
Total liabilities	<u>138,763</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	108,905
Unrestricted	<u>735,285</u>
Total net assets	<u>\$ 844,190</u>

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

**CITY OF SHOREACRES, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Business-type Activities Enterprise Fund <u>Water and Sewer</u>
<b>OPERATING REVENUES</b>	
Charges for sales and services:	
Water	\$ 268,222
Sewer	159,698
Sanitation	<u>110,848</u>
Total operating revenues	<u>538,768</u>
<b>OPERATING EXPENSES</b>	
Personnel services	120,235
Recycling services	23,269
Water services	98,549
Solid waste disposal	114,386
Materials and supplies	26,260
Maintenance	15,334
Fuel	7,905
Utilities	28,908
Depreciation	4,244
Other	<u>7,201</u>
Total operating expenses	<u>446,291</u>
<b>OPERATING INCOME</b>	<u>92,477</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Investment income	6,058
Miscellaneous revenues	<u>25,377</u>
Total non-operating revenues (expenses)	<u>31,435</u>
<b>TRANSFERS IN</b>	<u>75,551</u>
<b>CHANGE IN NET ASSETS</b>	199,463
<b>TOTAL NET ASSETS, BEGINNING</b>	<u>644,727</u>
<b>TOTAL NET ASSETS, ENDING</b>	<u>\$ 844,190</u>

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

**CITY OF SHOREACRES, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Business-type Activities Enterprise Fund Water and Sewer
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 500,017
Cash payments to employees for services	( 109,052)
Cash payments to suppliers for goods and services	( 287,691)
Cash provided by operating activities	<u>103,274</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from other funds	75,551
Borrowings from other funds	26,133
Miscellaneous revenues	<u>25,377</u>
Cash provided by noncapital financing activities	<u>127,061</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	( 64,284)
Cash used by capital and related financing activities	<u>( 64,284)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>6,058</u>
Cash provided by investing activities	<u>6,058</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	172,109
<b>CASH, BEGINNING</b>	<u>599,854</u>
<b>CASH, ENDING</b>	<u>\$ 771,963</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 92,477
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	4,244
Change in assets and liabilities:	
Decrease (increase) in accounts receivable	( 38,751)
Increase (decrease) in accounts payable	34,121
Increase (decrease) in accrued liabilities	<u>11,183</u>
Total adjustments	<u>10,797</u>
Net cash provided by operating activities	<u>\$ 103,274</u>

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

# **CITY OF SHOREACRES, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2008**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **A. Reporting Entity**

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

#### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets 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.

**(continued)**



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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

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

The City reports the following major Governmental Fund:

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

The City reports the following major Proprietary Fund:

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

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

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

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

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

(continued)

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

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 and Sewer Fund are charges to customers for sales and services. The Water and 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 Assets 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.

**(continued)**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Assets, Liabilities, and Net Assets or Equity (Continued)

#### 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 assets in the period they acquire or construct those assets.

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

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

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

#### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Net assets restricted for other projects consist of insurance proceeds received but not expended.

## 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

### Deposits

As of September 30, 2008, the City had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Investments - TexPool	\$ <u>1,371,325</u>	42
Total fair value	\$ <u>1,371,325</u>	

*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.

### Cash, Cash Equivalents, and Investments

*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, 2008, \$960,369 of the City's \$1,210,369 deposit balance was collateralized with securities held by the pledging financial institution. The remaining \$250,000 was covered by FDIC insurance.

(continued)

### 3. DETAILED NOTES ON ALL FUNDS (Continued)

#### 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 assessed value upon which the fiscal 2008 levy was based was \$102,351,569.

Taxes are due by January 31 following the October 1 levy date. Current tax collections for the year ended September 30, 2008, were 97% 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>Water and Sewer</u>	<u>Total</u>
Receivables:			
Taxes	\$ 87,381	\$ -	\$ 87,381
Water/sewer usage	-	105,242	105,242
Other governments	64,070	-	64,070
Fines	<u>396,422</u>	<u>-</u>	<u>396,422</u>
Gross receivables	547,873	105,242	653,115
Less: allowance for uncollectibles	<u>( 298,991)</u>	<u>( 3,157)</u>	<u>( 302,148)</u>
Net total receivables	<u>\$ 248,882</u>	<u>\$ 102,085</u>	<u>\$ 350,967</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, deferred revenue not considered available and reported in the governmental funds of \$41,790 is related to property taxes receivable and \$28,384 is related to municipal court receivables.

(continued)

### 3. DETAILED NOTES ON ALL FUNDS (Continued)

#### Capital Assets

Capital asset activity for the year ended September 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 99,934	\$ -	\$ -	\$ 99,934
Total assets not being depreciated	99,934	-	-	99,934
Capital assets, being depreciated:				
Buildings and improvements	12,000	-	-	12,000
Parks	53,447	2,850	-	56,297
Vehicles and equipment	210,779	64,554	( 61,165)	214,168
Infrastructure	13,405	176,575	-	189,980
Total capital assets being depreciated	289,631	243,979	( 61,165)	472,445
Less accumulated depreciation:				
Buildings and improvements	( 12,000)	-	-	( 12,000)
Parks	( 6,750)	( 7,029)	-	( 13,779)
Machinery and equipment	( 164,880)	( 27,154)	55,836	( 136,198)
Infrastructure	( 897)	( 2,751)	-	( 3,648)
Total accumulated depreciation	( 184,527)	( 36,934)	55,836	( 165,625)
Total capital assets being depreciated, net	105,104	207,045	( 5,329)	306,820
Governmental activities capital assets, net	\$ 205,038	\$ 207,045	\$ ( 5,329)	\$ 406,754
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 7,839	\$ -	\$ -	\$ 7,839
Total assets not being depreciated	7,839	-	-	7,839
Capital assets, being depreciated:				
Buildings and improvements	5,000	-	-	5,000
Land Improvements	8,930	11,010	-	19,940
Water facilities	246,785	53,274	-	300,059
Machinery and equipment	5,840	-	-	5,840
Total capital assets being depreciated	266,555	64,284	-	330,839
Less accumulated depreciation:				
Buildings and improvements	( 5,000)	-	-	( 5,000)
Land Improvements	( 794)	( 839)	-	( 1,633)
Water facilities	( 219,476)	( 3,014)	-	( 222,490)
Machinery and equipment	( 260)	( 390)	-	( 650)
Total accumulated depreciation	( 225,530)	( 4,243)	-	( 229,773)
Total capital assets being depreciated, net	41,025	60,041	-	101,066
Business-type activities capital assets, net	\$ 48,864	\$ 60,041	\$ -	\$ 108,905

(continued)

### 3. DETAILED NOTES ON ALL FUNDS (Continued)

#### Capital Assets (Continued)

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

Governmental activities:	
Public works	\$ 11,603
Public safety	13,631
Highways and streets	4,670
Culture and recreation	<u>7,030</u>
 Total depreciation expense - governmental activities	 \$ <u>36,934</u>

#### Employee Benefit Plan

The City provides pension benefits for all of its fulltime 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. The report may be obtained by writing to TMRS, P. O. Box 149153, Austin, Texas, 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150% or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

(continued)

### 3. DETAILED NOTES ON ALL FUNDS (Continued)

#### Employee Benefit Plan (Continued)

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

Deposit Rate:	5%
Matching Ratio (City to Employee):	1.5 to 1
A member is vested after:	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: **5 yrs/age 60, 20 yrs/any age.**

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect, (i.e., December 31, 2008, valuation is effective for rates beginning January 2010).

#### **Schedule of Actuarial Liabilities and Funding Progress**

Actual valuation date	12/31/2007	12/31/2006	12/31/2005
Actuarial value of assets	\$ 645,468	\$ 581,412	\$ 511,019
Actuarial accrued liability	771,037	567,887	479,762
Percent funded	83.7%	102.4%	106.5%
Unfunded (overfunded) actuarial accrued liability (UAAL)	125,569	( 13,525)	( 31,257)
Annual covered payroll	519,207	544,937	468,089
UAAL as a percentage of covered payroll	24.2%	( 2.5%)	( 6.7%)
Net pension obligation (NPO) at the beginning of period	-	-	-
Annual pension cost:			
Annual required contribution (ARC)	22,350	24,401	27,814
Contributions made	22,350	24,401	27,814
Increase in NPO	-	-	-
NPO at the end of the period	\$ -	\$ -	\$ -

(continued)



### 3. DETAILED NOTES ON ALL FUNDS (Continued)

#### Employee Benefit Plan (Continued)

##### Actuarial Assumptions

Actuarial Cost Method	-	Projected Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Period	-	29 years - closed period
Asset Valuation Method	-	Amortized Cost (to accurately reflect the requirements of GASB Statement No. 25, paragraphs 36e and 138)
Investment Rate of Return	-	7.5%
Projected Salary Increases	-	Varies by age and service
Includes Inflation at	-	3.00%
Cost-of-living Adjustments	-	2.1%

#### 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.

#### Pronouncements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates in the future that may impact future financial presentations.

Management has not currently determined what, if any, effect implementation of the following statements may have on the financial statements of the City:

(continued)

### **3. DETAILED NOTES ON ALL FUNDS (Continued)**

#### **Pronouncements Issued, Not Yet Effective (Continued)**

GASB Statement No. 51, “Accounting and Financial Reporting for Intangible Assets,” issued June, 2007. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in GASB Statement No. 34, “Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments.” This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. An absence of sufficiently specific authoritative guidance that addresses these questions has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

### **4. SUBSEQUENT EVENT**

On September 13, 2008, the City was severely damaged by Hurricane Ike. Ike was a category 4 hurricane that made landfall in Galveston, Texas, 30 miles from the City of Shoreacres. Storm surges measured as high as 15 – 20 feet. Overall U. S. damage estimates are placed at \$18 billion, making Ike the 4<sup>th</sup> costliest hurricane to hit the U. S. As a result of the disaster, the City incurred considerable costs for debris removal and disposal, emergency efforts and infrastructure repairs. Shoreacres has applied for grants from the Federal Emergency Management Agency (FEMA) and has collected on several applications to date.

**REQUIRED  
SUPPLEMENTARY INFORMATION**

# CITY OF SHOREACRES, TEXAS

## GENERAL FUND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes:				
Property	\$ 688,818	\$ 688,818	\$ 766,608	\$ 77,790
Sales	60,000	60,000	68,789	8,789
Franchise	75,500	75,500	75,599	99
Other	3,000	3,000	3,363	363
Fines and fees	461,600	461,600	391,611	( 69,989)
Intergovernmental	24,669	24,669	65,003	40,334
Licenses and permits	30,000	30,000	10,010	( 19,990)
Investment earnings	72,400	72,400	58,916	( 13,484)
Miscellaneous	27,000	27,000	10,075	( 16,925)
Total revenues	<u>1,442,987</u>	<u>1,442,987</u>	<u>1,449,974</u>	<u>6,987</u>
<b>EXPENDITURES</b>				
Current:				
General government	430,202	430,202	466,232	( 36,030)
Judicial	215,134	215,134	183,677	31,457
Public safety	439,225	439,225	441,387	( 2,162)
Public works	84,320	84,320	86,485	( 2,165)
Highways and streets	100,817	100,817	106,548	( 5,731)
Culture and recreation	53,303	53,303	46,125	7,178
Capital outlay	435,000	435,000	243,979	191,021
Total expenditures	<u>1,758,001</u>	<u>1,758,001</u>	<u>1,574,433</u>	<u>183,568</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 315,014)</u>	<u>( 315,014)</u>	<u>( 124,459)</u>	<u>190,555</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets	-	-	28,515	28,515
Proceeds from insurance	-	-	9,022	9,022
Transfers out	-	-	( 75,551)	( 75,551)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>( 38,014)</u>	<u>( 38,014)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>( 315,014)</u>	<u>( 315,014)</u>	<u>( 162,473)</u>	<u>152,541</u>
<b>FUND BALANCE, BEGINNING</b>	<u>1,866,015</u>	<u>1,866,015</u>	<u>1,866,015</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 1,551,001</u>	<u>\$ 1,551,001</u>	<u>\$ 1,703,542</u>	<u>\$ 152,541</u>

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED SEPTEMBER 30, 2008**

**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.

## **COMPLIANCE SECTION**

**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 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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 2, 2010. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Shoreacres, Texas' internal control over financial reporting as a basis for designing our auditing procedures 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 of Shoreacres, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Shoreacres, Texas' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Shoreacres, Texas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Shoreacres, Texas' financial statements that is more than inconsequential will not be prevented or detected by the City of Shoreacres, Texas' internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting, Items 2008-1 through 2008-5.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Shoreacres, Texas' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs (Items 2008-1 through 2008-5). Furthermore, we consider items 2008-4 and 2008-5 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

The City of Shoreacres' responses to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the City, and appropriate federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Patullo, Brown & Hill, LLP*

August 2, 2010



# CITY OF SHOREACRES

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2008

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

#### Item 2008-1:

<u>Condition:</u>	We noted that invoices are posted as of the invoice billing date rather than the service date. In many instances, the invoice date corresponds to the month the service was performed. However, in some cases, the invoice date differs from the billing date which may cause a timing difference with regards to when expenditures are recorded versus when the work was performed. This is most relevant at year end when expenditures may be charged to the wrong fiscal year.
<u>Effect:</u>	Invoices posted as of the invoice date rather than the date of service may cause a timing difference as to when expenditures are reported.
<u>Cause:</u>	The City procedures do not include a review of invoices for the service date versus the billing date to ensure recording of expenditures in the proper period.
<u>Recommendation:</u>	The City should incorporate procedures whereby the date of service is used for posting transactions rather than the invoice billing date.
<u>Management's Response:</u>	The City agrees this recommendation should be in place for full accrual accounting and therefore plans to implement appropriate procedures.
<u>Contact Person Responsible For Corrective Action:</u>	David Stall, City Administrator
<u>Anticipated Completion Date:</u>	As of July 1, 2010, the City had implemented procedures to enter invoices as of the date work is completed rather than the billing date.

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# CITY OF SHOREACRES

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2008

### Findings Relating to the Financial Statements Which Are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards (Continued)

#### Item 2008-2

<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, 2010.

(continued)

## CITY OF SHOREACRES

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2008

#### Findings Relating to the Financial Statements Which Are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards (Continued)

##### Item 2008-3

<u>Compliance Requirement:</u>	Properly maintain a list of capital assets and related depreciation.
<u>Criteria:</u>	GASBS No. 34 requires retroactive reporting of general infrastructure assets by phase 1 and phase 2 governments, and prospective reporting upon implementation of GASBS No. 34.
<u>Condition:</u>	No comprehensive list is maintained for capital assets purchased or disposed of by the City, and donated infrastructure is not tracked. Depreciation is not calculated for any asset.
<u>Effect:</u>	The City did not have an updated listing of capital assets and corresponding depreciation.
<u>Cause:</u>	Until the audit began, the City had never created a specific listing of capital assets and/or donated infrastructure. The City operated on a modified cash basis and while some assets such as vehicles were tracked, a listing of all capital assets was not maintained.
<u>Recommendation:</u>	The City compiled a complete listing of all purchased and donated capital assets utilized by the City during the audit. The City should update the list accordingly as assets are purchased and disposed of, and depreciation should be calculated on applicable assets.
<u>Management's Response:</u>	The City of Shoreacres changed Administrators in 2005. No infrastructure or capital asset records were kept or left when David Stall, the current City Administrator was brought on. As the majority of roads, bridges, streets, etc. were donated to Shoreacres by Harris County, there was never any cash impact to the City who has operated/ reported on a modified cash basis heretofore. The City compiled a listing of capital assets through FY 2008 during the audit and plans to maintain it going forward.
<u>Contact Person Responsible For Corrective Action:</u>	David Stall, City Administrator
<u>Anticipated Completion Date:</u>	As of July 1, 2010, the City had compiled a list of all assets.

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## CITY OF SHOREACRES

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2008

#### Findings Relating to the Financial Statements Which Are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards (Continued)

##### Item 2008-4

<u>Condition:</u>	The City has limited staff and therefore in some instances does not have proper segregation of duties. This is especially relevant with respect to the City secretary who receives and posts municipal court receipts and the City administrator who has recording abilities, authorization abilities and custody over cash.
<u>Effect:</u>	Without proper segregation of duties, the City is increasing its exposure to fraud risk.
<u>Cause:</u>	The City lacks proper segregation of duties to mitigate fraud risk.
<u>Recommendation:</u>	The City should implement controls in order to circumvent fraud through not only the proper segregation of duties but through the use of other detection and prevention mechanisms such as reconciliations and checks and balances by unrelated staff.
<u>Management's Response:</u>	Currently, there are only 4 office staff so, if one is sick or on vacation, the others must have the ability to perform sensitive tasks such as enter payroll and/or handle cash. There are mitigating factors present such as control/batch totals and comparisons. The City's procedures will be reviewed to determine what improvements can be considered in segregating custodial, recording and authorizing activities.
<u>Contact Person Responsible For Corrective Action:</u>	David Stall, City Administrator
<u>Anticipated Completion Date:</u>	The City will conduct a review of its procedures on or before October 1, 2010.

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## CITY OF SHOREACRES

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2008

#### Findings Relating to the Financial Statements Which Are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards (Continued)

##### Item 2008-5:

Condition: Bank reconciliations were not prepared by the City as of year-end 2008 but were completed prior to the start of the audit. Based on this issue, it was noted that controls leading to accurate and timely financial information were not in place and functioning properly.

Effect: Without reconciliations being performed on City bank accounts and financial systems, the risk of material errors greatly increases. A weak system of internal controls over financial reporting increases the risk that inaccurate financial statements and information is being used by the City.

Cause: The City was previously unable to account for payroll in its general ledger system because it was kept in a separate software file. City staff did not have the technical knowledge to combine the software files and therefore to reconcile the general ledger bank accounts without the payroll data as all paychecks and related taxes are paid out of the General Fund checking account.

Recommendation: The City should have a set of procedures that dictates deadlines and processes over the reconciliation process and interim financial information. These procedures should create an environment for timely completion of various City processes.

Management's Response: The City retained the services of a CPA to consolidate general ledger and payroll software so that monthly bank reconciliations could be performed. Previously, payroll and the general ledger were kept separately making the reconciliation of the bank account which handles the flow of payroll difficult. Now that the files are consolidated, the City will create procedures to include monthly bank reconciliations.

Contact Person Responsible  
For Corrective Action:

David Stall, City Administrator

Anticipated Completion  
Date:

The City anticipates being current with all 2009-2010 bank reconciliations on or before October 1, 2010.