



# **CITY OF SHOREACRES, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2009**

# CITY OF SHOREACRES, TEXAS

## TABLE OF CONTENTS

SEPTEMBER 30, 2009

### **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, 2009

### **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
Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.....	33 – 34
Schedule of Expenditures of Federal Awards.....	35
Notes to Schedule of Expenditures of Federal Awards .....	36
Schedule of Findings and Questioned Costs.....	37 – 42

## **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, 2009, 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, 2009, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shoreacres, Texas' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements of the City of Shoreacres, Texas. The Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Patullo, 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, 2009**

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, 2009.

### ***FINANCIAL HIGHLIGHTS***

- The assets of the City of Shoreacres exceeded its liabilities as of September 30, 2009, by \$3,223,139 (net assets). Unrestricted net assets of the City, however, were \$2,629,589 as of September 30, 2009. 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 \$247,138 from 2008.
- As of the close of the current fiscal year, the City of Shoreacres' governmental fund reported an ending fund balance of \$1,880,389. The unreserved portion of the fund was \$1,858,900.

### ***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).

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.

## CITY OF SHOREACRES TEXAS

### Management's Discussion and Analysis For the Year Ended September 30, 2009

**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, 2009

#### **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 \$3,223,139 as of September 30, 2009.

The largest portion of the City's net assets (\$2,290,060) reflects its cash and investment balances.

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

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 2,082,841	\$ 2,024,033	\$ 821,709	\$ 847,915	\$ 2,904,550	\$ 2,871,948
Capital assets	<u>456,562</u>	<u>406,754</u>	<u>115,499</u>	<u>108,905</u>	<u>572,061</u>	<u>515,659</u>
Total assets	<u>2,539,403</u>	<u>2,430,787</u>	<u>937,208</u>	<u>956,820</u>	<u>3,476,611</u>	<u>3,387,607</u>
Long-term liabilities	36,844	34,062	-	-	36,844	34,062
Other liabilities	<u>134,651</u>	<u>264,915</u>	<u>81,977</u>	<u>112,630</u>	<u>216,628</u>	<u>377,545</u>
Total liabilities	<u>171,495</u>	<u>298,977</u>	<u>81,977</u>	<u>112,630</u>	<u>253,472</u>	<u>411,607</u>
Net assets:						
Invested in capital assets, net of related debt	456,562	406,754	115,499	108,905	572,061	515,659
Restricted	21,489	9,022	-	-	21,489	9,022
Unrestricted	<u>1,889,857</u>	<u>1,716,034</u>	<u>739,732</u>	<u>735,285</u>	<u>2,629,589</u>	<u>2,451,319</u>
Total net assets	<u>\$ 2,367,908</u>	<u>\$ 2,131,810</u>	<u>\$ 855,231</u>	<u>\$ 844,190</u>	<u>\$ 3,223,139</u>	<u>\$ 2,976,000</u>

A portion of the City's net assets (\$21,489) represents resources that are subject to restriction on how they may be used. The remaining balance (\$2,629,589) 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, 2009

**Analysis of the City's operations** – The following table provides a summary of the City's operations for the year ended September 30, 2009.

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

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 542,841	\$ 432,455	\$ 448,161	\$ 538,768	\$ 991,002	\$ 971,223
Operating grants and contributions	2,244,329	65,173	-	-	2,244,329	65,173
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	822,230	778,990	-	-	822,230	778,990
Sales taxes	47,072	68,789	-	-	47,072	68,789
Franchise taxes	57,323	75,599	-	-	57,323	75,599
Other taxes	2,650	3,363	-	-	2,650	3,363
Investment earnings	20,130	58,916	6,272	6,058	26,402	64,974
Miscellaneous	31,126	38,102	39,891	25,377	71,017	63,479
Transfers	63,229	(75,551)	(63,229)	75,551	-	-
Total revenues and transfers	<u>3,830,930</u>	<u>1,445,836</u>	<u>431,095</u>	<u>645,754</u>	<u>4,262,025</u>	<u>2,091,590</u>
Expenses:						
General government	2,661,280	474,525	-	-	2,661,280	474,525
Public safety	435,929	487,036	-	-	435,929	487,036
Public works	193,271	103,647	-	-	193,271	103,647
Judicial	166,374	186,467	-	-	166,374	186,467
Highways and streets	102,542	111,218	-	-	102,542	111,218
Culture and recreation	35,437	53,155	-	-	35,437	53,155
Water and sewer	-	-	420,054	446,291	420,054	446,291
Total expenses	<u>3,594,833</u>	<u>1,416,048</u>	<u>420,054</u>	<u>446,291</u>	<u>4,014,887</u>	<u>1,862,339</u>
Change in net assets	236,097	29,788	11,041	199,463	247,138	229,251
Net assets - beginning	2,131,811	2,102,023	844,190	644,727	2,976,001	2,746,750
Net assets - ending	<u>\$ 2,367,908</u>	<u>\$ 2,131,811</u>	<u>\$ 855,231</u>	<u>\$ 844,190</u>	<u>\$ 3,223,139</u>	<u>\$ 2,976,001</u>

Governmental activities increased net assets during the fiscal year by \$236,097. Grant revenue and general government expenditures were much larger than expected due to Hurricane IKE relief receipts and efforts.

## CITY OF SHOREACRES TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2009

### *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 \$1,880,389 of which \$1,858,900 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 2009.

**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 \$739,732. This fund experienced an increase in total net assets during 2009 of \$11,041.

### *CAPITAL ASSETS*

The City of Shoreacres' investment in capital assets for its governmental and business-type activities as of September 30, 2009, amounts to \$572,061 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, water system, and sewer system. The significant change in Land value is due to the General Fund's purchase of Taylor Bayou Park at the beginning of fiscal year 2009.

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

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Land	\$ 175,164	\$ 99,934	\$ 7,839	\$ 7,839	\$ 183,003	\$ 107,773
Land improvements	-	-	19,940	19,940	19,940	19,940
Leasehold improvements	56,297	56,297	-	-	56,297	56,297
Buildings and improvements	12,000	12,000	5,000	5,000	17,000	17,000
Vehicles and Equipment	199,160	214,168	21,642	5,840	220,802	220,008
Infrastructure	195,034	189,980	-	-	195,034	189,980
Water and wastewater distribution	-	-	300,059	300,059	300,059	300,059
Less: accumulated depreciation	( 181,093)	( 165,625)	( 238,981)	( 229,773)	( 420,074)	( 395,398)
Total capital assets, net	\$ 456,562	\$ 406,754	\$ 115,499	\$ 108,905	\$ 572,061	\$ 515,659

## **CITY OF SHOREACRES TEXAS**

Management's Discussion and Analysis  
For the Year Ended September 30, 2009

### ***DEBT ADMINISTRATION***

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

### ***ECONOMIC FACTS***

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

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

Extraordinary expenses incurred as a direct result of Hurricane Ike were offset by federal grants and emergency assistance funds. Additionally, large capital improvement projects budgeted for the current fiscal year were deferred reducing expenditures.

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

### ***REQUESTS FOR INFORMATION***

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

# **BASIC FINANCIAL STATEMENTS**

# CITY OF SHOREACRES, TEXAS

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash	\$ 347,325	\$ 761,801	\$ 1,109,126
Investments	1,180,934	-	1,180,934
Receivables (net of allowances for uncollectibles):			
Taxes	183,857	-	183,857
Accounts	111,426	86,041	197,467
Internal balances	26,133	( 26,133)	-
Receivables from other governments	233,166	-	233,166
Capital assets:			
Land	175,164	7,839	183,003
Land improvements	-	19,940	19,940
Leasehold improvements	56,297	-	56,297
Buildings and improvements	12,000	5,000	17,000
Vehicles and equipment	199,160	21,642	220,802
Infrastructure	195,034	-	195,034
Water and wastewater distribution	-	300,059	300,059
Less: accumulated depreciation	( 181,093)	( 238,981)	( 420,074)
Total capital assets	<u>456,562</u>	<u>115,499</u>	<u>572,061</u>
 Total assets	 <u>2,539,403</u>	 <u>937,208</u>	 <u>3,476,611</u>
 <b>LIABILITIES</b>			
Accounts payable	50,513	15,291	65,804
Accrued liabilities	68,348	1,686	70,034
Customer deposits	-	65,000	65,000
Noncurrent liabilities:			
Due within one year	15,790	-	15,790
Due in more than one year	<u>36,844</u>	<u>-</u>	<u>36,844</u>
Total liabilities	<u>171,495</u>	<u>81,977</u>	<u>253,472</u>
 <b>NET ASSETS</b>			
Invested in capital assets, net of related debt	456,562	115,499	572,061
Restricted for:			
Other projects	21,489	-	21,489
Unrestricted	<u>1,889,857</u>	<u>739,732</u>	<u>2,629,589</u>
 Total net assets	 <u>\$ 2,367,908</u>	 <u>\$ 855,231</u>	 <u>\$ 3,223,139</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, 2009**

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government	\$ 2,661,280	\$ 158,966	\$ 2,243,249
Public safety	435,929	-	1,080
Public works	193,271	-	-
Judicial	166,374	383,875	-
Highways and streets	102,542	-	-
Culture and recreation	35,437	-	-
Total governmental activities	<u>3,594,833</u>	<u>542,841</u>	<u>2,244,329</u>
Business-type activities:			
Water/sewer services	<u>420,054</u>	<u>448,161</u>	<u>-</u>
Total business-type activities	<u>420,054</u>	<u>448,161</u>	<u>-</u>
Total	<u>\$ 4,014,887</u>	<u>\$ 991,002</u>	<u>\$ 2,244,329</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>
\$ ( 259,065)	\$ -	\$ ( 259,065)
( 434,849)	-	( 434,849)
( 193,271)	-	( 193,271)
217,501	-	217,501
( 102,542)	-	( 102,542)
( 35,437)	-	( 35,437)
<u>( 807,663)</u>	<u>-</u>	<u>( 807,663)</u>
<u>-</u>	<u>28,107</u>	<u>28,107</u>
<u>-</u>	<u>28,107</u>	<u>28,107</u>
<u><u>\$ ( 807,663)</u></u>	<u><u>\$ 28,107</u></u>	<u><u>\$ ( 779,556)</u></u>
\$ 822,230	\$ -	\$ 822,230
47,072	-	47,072
57,323	-	57,323
2,650	-	2,650
20,130	6,272	26,402
31,126	39,891	71,017
63,229	( 63,229)	-
<u>1,043,760</u>	<u>( 17,066)</u>	<u>1,026,694</u>
236,097	11,041	247,138
<u>2,131,811</u>	<u>844,190</u>	<u>2,976,001</u>
<u><u>\$ 2,367,908</u></u>	<u><u>\$ 855,231</u></u>	<u><u>\$ 3,223,139</u></u>

# CITY OF SHOREACRES, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

SEPTEMBER 30, 2009

	<u>General</u>
<b>ASSETS</b>	
Cash	\$ 347,325
Investments	1,180,934
Taxes receivable, net	183,857
Due from other funds	26,133
Receivable from other governments	233,166
Fines receivables	<u>111,426</u>
Total assets	<u>2,082,841</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	50,513
Accrued liabilities	68,348
Deferred revenue	<u>83,591</u>
Total liabilities	<u>202,452</u>
Fund balances:	
Reserved for:	
Other purposes	21,489
Unreserved	<u>1,858,900</u>
Total fund balances	<u>1,880,389</u>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	456,562
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	83,591
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	( 52,634)
Net assets of governmental activities	<u>\$ 2,367,908</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, 2009**

	<u>General</u>
<b>REVENUES</b>	
Taxes:	
Property	\$ 815,794
Sales	47,072
Franchise	57,323
Other	2,650
Fines and fees	376,894
Intergovernmental	2,292,319
Lease and rental	7,619
Licenses and permits	105,395
Investment earnings	20,130
Miscellaneous	<u>18,659</u>
Total revenues	<u>3,743,855</u>
<b>EXPENDITURES</b>	
Current:	
General government	2,659,251
Judicial	166,252
Public safety	422,141
Public works	165,306
Highways and streets	99,094
Culture and recreation	28,217
Capital outlay	<u>102,443</u>
Total expenditures	<u>3,642,704</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>101,151</u>
<b>OTHER FINANCING SOURCES AND USES</b>	
Proceeds from insurance	12,467
Transfers in	281,380
Transfers out	<u>( 218,151)</u>
Total other financing sources and uses	<u>75,696</u>
<b>NET CHANGE IN FUND BALANCES</b>	176,847
<b>FUND BALANCES, BEGINNING</b>	<u>1,703,542</u>
<b>FUND BALANCES, ENDING</b>	<u><u>\$ 1,880,389</u></u>

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

# **CITY OF SHOREACRES, TEXAS**

## **RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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

Net change in fund balances - total governmental funds	\$ 176,847
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.	49,808
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	13,417
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.	( 3,975)
Change in net assets of governmental activities	\$ <u>236,097</u>

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

**CITY OF SHOREACRES, TEXAS**

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUND**

**SEPTEMBER 30, 2009**

Business-type  
Activities  
Enterprise  
Fund  
Water  
and Sewer

**ASSETS**

Current assets:

Cash

\$ 761,801

Accounts receivable, net

86,041

Total current assets

847,842

Non-current assets:

Capital assets:

Buildings and improvements

5,000

Vehicles and equipment

21,642

Water and wastewater distribution

300,059

Land improvements

19,940

Land

7,839

Less accumulated depreciation

( 238,981)

Total non-current assets

115,499

Total assets

963,341

**LIABILITIES**

Current liabilities:

Accounts payable

15,291

Accrued liabilities

1,686

Due to other funds

26,133

Customer deposits

65,000

Total current liabilities

108,110

Total liabilities

108,110

**NET ASSETS**

Invested in capital assets

115,499

Unrestricted

739,732

Total net assets

\$ 855,231

**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, 2009**

	Business-type Activities Enterprise Fund <u>Water and Sewer</u>
<b>OPERATING REVENUES</b>	
Charges for sales and services:	
Water	\$ 211,781
Sewer	138,316
Sanitation	<u>98,064</u>
Total operating revenues	<u>448,161</u>
<b>OPERATING EXPENSES</b>	
Personnel services	144,580
Water services	95,873
Solid waste disposal	86,490
Recycling services	6,679
Materials and supplies	30,721
Maintenance	6,631
Fuel	4,366
Utilities	29,610
Depreciation	9,208
Other	<u>5,896</u>
Total operating expenses	<u>420,054</u>
<b>OPERATING INCOME</b>	<u>28,107</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Investment income	6,272
Miscellaneous revenues	<u>39,891</u>
Total non-operating revenues (expenses)	<u>46,163</u>
<b>TRANSFERS IN</b>	218,151
<b>TRANSFERS OUT</b>	<u>( 281,380)</u>
<b>CHANGE IN NET ASSETS</b>	11,041
<b>TOTAL NET ASSETS, BEGINNING</b>	<u>844,190</u>
<b>TOTAL NET ASSETS, ENDING</b>	<u>\$ 855,231</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, 2009**

	Business-type Activities Enterprise Fund Water and Sewer
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 464,205
Cash payments to employees for services	( 155,510)
Cash payments to suppliers for goods and services	( 285,989)
Cash provided by operating activities	<u>22,706</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Miscellaneous revenues	39,891
Transfers from other funds	218,151
Transfers to other funds	( 281,380)
Cash used by noncapital financing activities	<u>( 23,338)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	( 15,802)
Cash used by capital and related financing activities	<u>( 15,802)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>6,272</u>
Cash provided by investing activities	<u>6,272</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	( 10,162)
<b>CASH, BEGINNING</b>	<u>771,963</u>
<b>CASH, ENDING</b>	<u><u>\$ 761,801</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 28,107
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	9,208
Change in assets and liabilities:	
Decrease (increase) in accounts receivable	16,044
Increase (decrease) in accounts payable	( 19,723)
Increase (decrease) in accrued liabilities	( 10,930)
Total adjustments	<u>( 5,401)</u>
Net cash provided by operating activities	<u><u>\$ 22,706</u></u>

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

# **CITY OF SHOREACRES, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2009**

### **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 Fund, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

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

(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/Sewer Fund are charges to customers for sales and services. The Water/Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. The City only uses restricted resources for their intended purpose.

**D. Assets, Liabilities, and Net 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, 2009, the city had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Investments - TexPool	<u>1,180,934</u>	42
Total fair value	<u>\$ 1,180,934</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, 2009, \$883,882 of the City's \$1,133,882 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 2009 levy was based was \$108,631,660.

Taxes are due by January 31 following the October 1 levy date. Current tax collections for the year ended September 30, 2009, were 94% 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	\$ 188,394	\$ -	\$ 188,394
Water/Sewer usage	-	88,702	88,702
Fines	<u>445,704</u>	<u>-</u>	<u>445,704</u>
Gross receivables	634,098	88,702	722,800
Less: allowance for uncollectibles	<u>( 338,815)</u>	<u>( 2,661)</u>	<u>( 341,476)</u>
Net total receivables	<u>\$ 295,283</u>	<u>\$ 86,041</u>	<u>\$ 381,324</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, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 99,934	\$ 75,230	\$ -	\$ 175,164
Total assets not being depreciated	<u>99,934</u>	<u>75,230</u>	<u>-</u>	<u>175,164</u>
Capital assets, being depreciated:				
Buildings and improvements	12,000	-	-	12,000
Parks	56,297	-	-	56,297
Vehicles and equipment	214,168	22,159	( 37,167)	199,160
Infrastructure	189,980	5,054	-	195,034
Total capital assets being depreciated	<u>472,445</u>	<u>27,213</u>	<u>( 37,167)</u>	<u>536,825</u>
Less accumulated depreciation:				
Buildings and improvements	( 12,000)	-	-	( 12,000)
Parks	( 13,779)	( 7,220)	-	( 20,999)
Vehicles and equipment	( 136,198)	( 30,714)	35,131	( 131,781)
Infrastructure	( 3,648)	( 12,665)	-	( 16,313)
Total accumulated depreciation	<u>( 165,625)</u>	<u>( 50,599)</u>	<u>35,131</u>	<u>( 181,093)</u>
Total capital assets being depreciated, net	<u>306,820</u>	<u>( 23,386)</u>	<u>( 2,036)</u>	<u>285,470</u>
Governmental activities capital assets, net	<u>\$ 406,754</u>	<u>\$ 51,844</u>	<u>\$ ( 2,036)</u>	<u>\$ 456,562</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 7,839	\$ -	\$ -	\$ 7,839
Total assets not being depreciated	<u>7,839</u>	<u>-</u>	<u>-</u>	<u>7,839</u>
Capital assets, being depreciated:				
Buildings and improvements	5,000	-	-	5,000
Land Improvements	19,940	-	-	19,940
Water facilities	300,059	-	-	300,059
Vehicles and equipment	5,840	15,802	-	21,642
Total capital assets being depreciated	<u>330,839</u>	<u>15,802</u>	<u>-</u>	<u>346,641</u>
Less accumulated depreciation:				
Buildings and improvements	( 5,000)	-	-	( 5,000)
Land Improvements	( 1,633)	( 1,329)	-	( 2,962)
Water facilities	( 222,490)	( 5,383)	-	( 227,873)
Vehicles and equipment	( 650)	( 2,496)	-	( 3,146)
Total accumulated depreciation	<u>( 229,773)</u>	<u>( 9,208)</u>	<u>-</u>	<u>( 238,981)</u>
Total capital assets being depreciated, net	<u>101,066</u>	<u>6,594</u>	<u>-</u>	<u>107,660</u>
Business-type activities capital assets, net	<u>\$ 108,905</u>	<u>\$ 6,594</u>	<u>\$ -</u>	<u>\$ 115,499</u>

(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	\$ 23,958
Public safety	13,926
Highways and streets	5,493
Culture and recreation	<u>7,220</u>
 Total depreciation expense - governmental activities	 \$ <u>50,597</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:	<b>5%</b>
Matching Ratio (City to Employee):	<b>1.5 to 1</b>
A member is vested after:	<b>5 years</b>

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	12/31/2008	12/31/2007	12/31/2006
Actuarial value of assets	\$ 719,621	\$ 645,468	\$ 581,412
Actuarial accrued liability	890,121	771,037	567,887
Percent funded	80.8%	83.7%	102.4%
Unfunded (overfunded) actuarial accrued liability (UAAL)	170,500	125,569	( 13,525)
Annual covered payroll	576,144	519,207	544,937
UAAL as a percentage of covered payroll	29.6%	24.2%	( 2.5%)
Net pension obligation (NPO) at the beginning of period	-	-	-
Annual pension cost:			
Annual required contribution (ARC)	29,288	22,350	24,401
Contributions made	29,288	22,350	24,401
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.

**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, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes:				
Property	\$ 730,790	\$ 730,790	\$ 815,794	\$ 85,004
Sales	62,000	62,000	47,072	( 14,928)
Franchise	74,000	74,000	57,323	( 16,677)
Other	3,300	3,300	2,650	( 650)
Fines and fees	461,600	461,600	376,894	( 84,706)
Intergovernmental	1,100	1,100	2,292,319	2,291,219
Licenses and permits	10,000	10,000	105,395	95,395
Investment earnings	58,000	58,000	20,130	( 37,870)
Miscellaneous	7,500	7,500	26,278	18,778
Total revenues	<u>1,408,290</u>	<u>1,408,290</u>	<u>3,743,855</u>	<u>2,335,565</u>
<b>EXPENDITURES</b>				
Current:				
General government	420,135	420,135	2,659,251	( 2,239,116)
Judicial	219,897	219,897	166,252	53,645
Public safety	453,700	453,700	422,141	31,559
Public works	128,591	128,591	165,306	( 36,715)
Highways and streets	104,116	104,116	99,094	5,022
Culture and recreation	65,009	65,009	28,217	36,792
Capital outlay	109,500	109,500	102,443	7,057
Total expenditures	<u>1,500,948</u>	<u>1,500,948</u>	<u>3,642,704</u>	<u>( 2,141,756)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 92,658)</u>	<u>( 92,658)</u>	<u>101,151</u>	<u>193,809</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from insurance	-	-	12,467	12,467
Transfers in	34,474	34,474	281,380	246,906
Transfers out	-	-	( 218,151)	( 218,151)
Total other financing sources (uses)	<u>34,474</u>	<u>34,474</u>	<u>75,696</u>	<u>41,222</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>( 58,184)</u>	<u>( 58,184)</u>	<u>176,847</u>	<u>235,031</u>
<b>FUND BALANCE, BEGINNING</b>	<u>1,703,542</u>	<u>1,703,542</u>	<u>1,703,542</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 1,645,358</u>	<u>\$ 1,645,358</u>	<u>\$ 1,880,389</u>	<u>\$ 235,031</u>

**CITY OF SHOREACRES, TEXAS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED SEPTEMBER 30, 2009**

**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 of Council  
City of Shoreacres, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shoreacres, Texas, as of and for the year ended September 30, 2009, which collectively comprise the City of Shoreacres, Texas' basic financial statements and have issued our report thereon 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 2009-1 through 2009-5.

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 2009-1 through 2009-5). Furthermore, we consider items 2009-4 and 2009-5 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Shoreacres, Texas' 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 management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Patillo, Brown & Hill, LLP*

August 2, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Compliance**

We have audited the compliance of the City of Shoreacres, Texas, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The City of Shoreacres, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Shoreacres, Texas' management. Our responsibility is to express an opinion on the City of Shoreacres, Texas' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Shoreacres, Texas' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Shoreacres, Texas' compliance with those requirements.

In our opinion, the City of Shoreacres, Texas, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

**Internal Control Over Compliance**

The management of the City of Shoreacres, Texas, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Shoreacres, Texas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Shoreacres, Texas' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, and federal 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 TEXAS

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b><u>U. S. Department of Homeland Security</u></b>			
Passed through Office of the Governor's Division of Emergency Management:			
Disaster Grants - Public Assistance	97.036	FEMA-1791-DR-TX	\$ <u>2,175,778</u>
Total Passed through Office of the Governor's Division of Emergency Management			<u>2,175,778</u>
Total U. S. Department of Homeland Security			<u>2,175,778</u>
Total Expenditures of Federal Awards			\$ <u>2,175,778</u>

## **CITY OF SHOREACRES, TEXAS**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**SEPTEMBER 30, 2009**

#### **1. BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards (the "Schedule") is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

#### **2. REPORTING ENTITY**

The City of Shoreacres, Texas (the City), for purposes of the Schedule of Expenditures of Federal Awards, includes all the funds of the primary government.

#### **3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

The information included in the Schedule may not fully agree with other federal award reports that the City submits to granting agencies because, among other reasons, the award reports may be prepared for a different fiscal period and may include cumulative (from prior years) data rather than data for the current year only.

**CITY OF SHOREACRES, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

**Summary of Auditors' Results**

Type of report on financial statements	Unqualified
Internal control over financial reporting: Material weakness(es) identified?	Yes
Significant deficiencies identified that are not considered to be material weakness(es)?	Yes
Internal control over major programs: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Noncompliance which is material to the basic financial statements	None
Type of report on compliance with major programs	Unqualified
Findings and questioned costs for federal awards as defined in Section 501(a), OMB Circular A-133 disclosed	No
Dollar threshold considered between Type A and Type B federal programs	\$300,000
Low risk auditee statement	The City was not classified as a low-risk auditee in the context of OMB Circular A-133
Major federal programs	Public Assistance Grants, CFDA #97.036

**Findings and Questioned Costs for Federal Awards**

None

# CITY OF SHOREACRES

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2009

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

#### Item 2009-1:

<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.

(continued)

## CITY OF SHOREACRES

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2009

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

##### Item 2009-2

<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, 2009

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

##### Item 2009-3

<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.

(continued)

## CITY OF SHOREACRES

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2009

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

##### Item 2009-4

<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.

(continued)

## CITY OF SHOREACRES

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2009

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

##### Item 2009-5:

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.