

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF CLEAR LAKE SHORES,  
TEXAS**

For the Year Ended  
September 30, 2014

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# CITY OF CLEAR LAKE SHORES, TEXAS

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September 30, 2014

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## **INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and  
City Council Members of the  
City of Clear Lake Shores, Texas:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Clear Lake Shores, Texas (the "City"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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GOVERNMENTAL AUDITS SEALED WITH EXCELLENCE

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2014, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and schedule of funding progress, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements and schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

*BELT HARRIS PECHACEK, LLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
March 4, 2015

***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***

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# CITY OF CLEAR LAKE SHORES, TEXAS

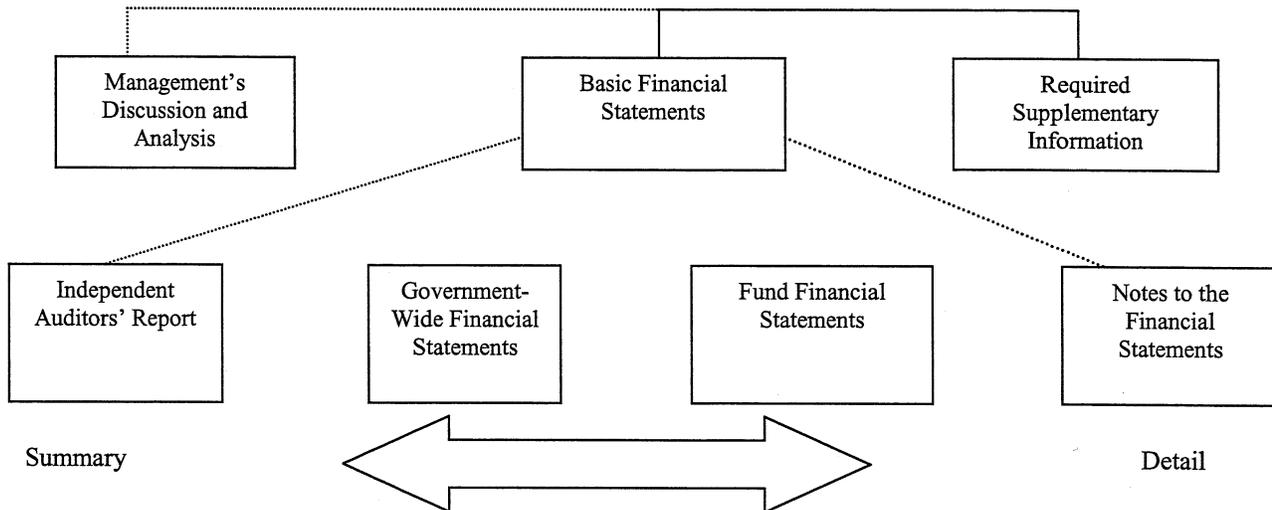
## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2014

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Clear Lake Shores, Texas (the "City") for the year ending September 30, 2014. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

### THE STRUCTURE OF OUR ANNUAL REPORT

#### Components of the Financial Section



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

#### Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

# CITY OF CLEAR LAKE SHORES, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2014

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than the modified accrual method that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities present one class of activities, as well as a component unit for the City:

1. *Governmental Activities* – The City's basic services are reported here, including public safety (police and EMS), public works (streets and maintenance), parks and maintenance, municipal court, and general government. Sales tax, franchise taxes, municipal court fines and permit fees finance most of these activities.
2. *Component Unit* – The City itself is the primary government. The Clear Lake Shores Economic Development Corporation (EDC) is established as a separate legal entity. The City maintains financial accountability; thus, the EDC is reported as a *discrete component unit*, separate from the financial transactions of the City.

The government-wide financial statements can be found after the MD&A.

### FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The City uses only one category of funds, which is governmental.

#### 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 *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the City'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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains five individual governmental funds, including a blended component unit. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, roads and drainage fund, and the GLO grant fund, which are considered to be major funds; data from the other two governmental funds is combined into a single aggregated presentation.

# **CITY OF CLEAR LAKE SHORES, TEXAS**

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)***

**For the Year Ended September 30, 2014**

The City adopts an annual appropriated budget for its general fund and each of the special revenue funds, except for the GLO grant fund. A budgetary comparison schedule has been provided for each of these funds to demonstrate compliance with their respective budgets.

### **Notes to Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

### **Other Information**

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes budgetary comparison schedules for the general fund and roads and drainage fund, as well as a schedule of funding progress for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$10,770,823 as of year end in the primary government.

The largest portion of the City's net position (63%) reflects its investments in capital assets (e.g., land, City Hall, streets, and equipment), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt, if applicable, must be provided from other sources since the assets themselves cannot be used to liquidate these liabilities.

# CITY OF CLEAR LAKE SHORES, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2014

### Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	2014		2013	
	Governmental Activities	Component Unit	Governmental Activities	Component Unit
Current and other assets	\$ 4,252,995	\$ 287,478	\$ 3,776,415	\$ 663,725
Capital assets, net	6,769,456	727,100	6,565,043	170,909
<b>Total Assets</b>	<b>11,022,451</b>	<b>1,014,578</b>	<b>10,341,458</b>	<b>834,634</b>
Long-term liabilities	31,583	-	34,135	-
Other liabilities	220,045	13,261	474,069	2,931
<b>Total Liabilities</b>	<b>251,628</b>	<b>13,261</b>	<b>508,204</b>	<b>2,931</b>
<b>Net Position:</b>				
Net investment in capital assets	6,769,456	727,100	6,565,043	170,909
Restricted	1,319,840	-	965,931	-
Unrestricted	2,681,527	274,217	2,302,280	660,794
<b>Total Net Position</b>	<b>\$ 10,770,823</b>	<b>\$ 1,001,317</b>	<b>\$ 9,833,254</b>	<b>\$ 831,703</b>

A portion of the City's net position, 12 percent, represents resources that are subject to external restrictions on how they may be used. Unrestricted net position of \$2,681,527 may be used to meet the City's ongoing obligation to citizens and creditors.

# CITY OF CLEAR LAKE SHORES, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended September 30, 2014

### Statement of Activities

The following table provides a summary of the City's changes in net position:

#### CONDENSED STATEMENT OF ACTIVITIES

	Governmental Activities		Component Unit	
	2014	2013	2014	2013
<b>Revenues</b>				
Program revenues:				
Charges for services	\$ 573,945	\$ 364,896	\$ -	\$ -
Capital grants and contributions	226,301	232,459	-	-
General revenues:				
Property taxes	-	339	-	-
Sales taxes	1,667,277	1,539,397	234,193	217,535
Franchise and local taxes	163,348	160,367	-	-
Investment earnings	1,685	2,539	145	512
Gain on sale of asset	5,443	-	-	512
Other revenues	48,350	90,370	-	-
<b>Total Revenues</b>	<u>2,686,349</u>	<u>2,390,367</u>	<u>234,338</u>	<u>218,559</u>
<b>Expenses</b>				
General government	450,078	503,415	64,724	31,606
Police department	565,826	493,180	-	-
Municipal court	156,638	89,929	-	-
Public safety	43,106	43,401	-	-
Public works	483,852	483,769	-	-
Roads and drainage	49,280	66,221	-	-
<b>Total Expenses</b>	<u>1,748,780</u>	<u>1,679,915</u>	<u>64,724</u>	<u>31,606</u>
<b>Change in Net Position</b>	937,569	710,452	169,614	186,953
Beginning net position	<u>9,833,254</u>	<u>9,122,802</u>	<u>831,703</u>	<u>645,262</u>
<b>Ending Net Position</b>	<u>\$ 10,770,823</u>	<u>\$ 9,833,254</u>	<u>\$ 1,001,317</u>	<u>\$ 832,215</u>

For the year ended September 30, 2014, revenues from governmental activities totaled \$2,686,349, an increase of \$295,982 or 12 percent compared to the prior year. The majority of this change is due to an increase in sales taxes and charges for services. Sales tax increased as a result of improved economic conditions. Charges for services increased as a result of a significant increase in the number of citations issued by the police department.

As of the end of the fiscal year, expenses for governmental activities totaled \$1,748,780, which represents an increase from 2013 of four percent. Expenses were higher than the prior year primarily due to increased salary and benefit expenses.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

# **CITY OF CLEAR LAKE SHORES, TEXAS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**For the Year Ended September 30, 2014**

**Governmental Funds** – The focus of the City's 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, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$4,029,476. Of this, \$16,376 is nonspendable for prepaids, \$1,189,784 is restricted for roads and drainage expenditures, \$37,859 is restricted for Plaza Ten 06 expenditures, \$86,775 is restricted by enabling legislation, \$5,422 is restricted for PEG fees, and \$69,129 is assigned for vehicle replacement.

There was an increase in the combined fund balance of \$731,044 in comparison to the prior year, which was primarily the result of an increase in sales tax, fines and forfeitures and license and permit revenues, offset by smaller increases in expenditures.

At the end of the fiscal year, unassigned fund balance in the general fund was \$2,624,131. The general fund had revenues which exceeded expenses by \$748,312 and, after transfers, the net increase in fund balance was \$398,312, primarily due to conservative spending across all functions and increased revenues from sales tax and fines and forfeitures.

The road and drainage fund fund balance totaled \$1,189,784 as of year end, a positive net change of \$313,744, primarily as a result of an increase in sales tax revenue offset by an increase in expenditures due to improvements to multiple streets planned for the fiscal year.

The GLO grant fund showed no change in fund balance due to expenditures matching grant revenues and transfers for the fiscal year.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual general fund revenues were more than amended budgeted revenues by \$444,251 during the year. This net variance is primarily attributable to an increase in fines and forfeiture revenues, along with more than expected sales tax revenue. General fund expenditures came in under the amended budget by \$117,778. The greatest positive variance was from general government expenditures being lower than budgeted.

### **CAPITAL ASSETS**

At the end of the year, the City's governmental activities had invested \$6,769,456, net of depreciation, in a variety of capital assets and infrastructure.

More detailed information about the City's capital assets is presented in note III.C. to the financial statements.

### **LONG-TERM DEBT**

At the end of the current year, the City had total long-term liabilities of \$31,583 for a net pension obligation and compensated absences.

More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

# **CITY OF CLEAR LAKE SHORES, TEXAS**

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)***

**For the Year Ended September 30, 2014**

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City's elected and appointed officials considered many factors when setting the fiscal year 2014/2015 budget and tax rate. As in past years, the general fund's largest revenue source is sales tax receipts. Ad valorem tax revenue is determined by two major factors: the total assessed value established by Galveston County Appraisal District and the tax rate, which is approved by the City's Mayor and Council. The assessed property values have increased annually since 1999. In 2007, the City voted to increase the sales tax rate in a continued effort to reduce property taxes and, as a result, the City has been able to reduce the tax rate to zero in every year beginning with the 2008 tax year.

Other than operating expenditures, the City's major budgeted expenditures for fiscal year 2014/2015 are in the area of infrastructure (street paving and drainage).

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to George K. Jones, City Administrator, City Hall, 1006 South Shore Drive, Clear Lake Shores, Texas, 77565; telephone 281.334.2799, ext. 200.

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***BASIC FINANCIAL STATEMENTS***

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# CITY OF CLEAR LAKE SHORES, TEXAS

## STATEMENT OF NET POSITION

September 30, 2014

	Primary Government	
	Governmental Activities	Component Unit
<b><u>Assets</u></b>		
Cash and cash equivalents	\$ 3,906,384	\$ 246,965
Receivables, net	330,235	-
Prepays	16,376	2,750
Due from primary government	-	37,763
	4,252,995	287,478
Capital assets:		
Non-depreciable	1,967,053	2,375
Net depreciable capital assets	4,802,403	724,725
	6,769,456	727,100
<b>Total Assets</b>	11,022,451	1,014,578
<b><u>Liabilities</u></b>		
Accounts payable and accrued liabilities	182,282	13,261
Due to component unit	37,763	-
	220,045	13,261
Noncurrent liabilities:		
Long-term liabilities due within one year	17,456	-
Long-term liabilities due in more than one year	14,127	-
	31,583	-
<b>Total Liabilities</b>	251,628	13,261
<b><u>Net Position</u></b>		
Net investment in capital assets	6,769,456	727,100
Restricted:		
Enabling legislation	86,775	-
Roads and drainage	1,189,784	-
Plaza Ten 06	37,859	-
PEG fees	5,422	-
Unrestricted	2,681,527	274,217
<b>Total Net Position</b>	\$ 10,770,823	\$ 1,001,317

See Notes to Financial Statements.

# CITY OF CLEAR LAKE SHORES, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities</b>			
General government	\$ 450,078	\$ -	\$ -
Police department	565,826	428,541	-
Municipal court	156,638	-	-
Public safety	43,106	-	-
Public works	483,852	145,404	226,301
Roads and drainage	49,280	-	-
<b>Total Governmental Activities</b>	<b>1,748,780</b>	<b>573,945</b>	<b>226,301</b>
<b>Total Primary Government</b>	<b>\$ 1,748,780</b>	<b>\$ 573,945</b>	<b>\$ 226,301</b>
 <b>Component Unit</b>			
Clear Lake Shores Economic			
Development Corporation	\$ 64,724	\$ -	\$ -
<b>Total Component Unit</b>	<b>\$ 64,724</b>	<b>\$ -</b>	<b>\$ -</b>

**General Revenues:**

- Taxes
- Sales taxes
- Franchise fees and local taxes
- Investment earnings
- Gain on sale of capital assets
- Other revenues

**Total General Revenues**

**Change in Net Position**

Beginning net position

**Ending Net Position**

See Notes to Financial Statements.

**Net (Expense) Revenue and  
Changes in Net Position**

<b>Primary Government</b>	
<b>Governmental Activities</b>	<b>Component Unit</b>
\$ (450,078)	\$ -
(137,285)	-
(156,638)	-
(43,106)	-
(112,147)	-
(49,280)	-
<u>(948,534)</u>	<u>-</u>
<u>(948,534)</u>	<u>-</u>
-	(64,724)
<u>-</u>	<u>(64,724)</u>
1,667,277	234,193
163,348	-
1,685	145
5,443	-
48,350	-
<u>1,886,103</u>	<u>234,338</u>
937,569	169,614
9,833,254	831,703
<u>\$ 10,770,823</u>	<u>\$ 1,001,317</u>

# CITY OF CLEAR LAKE SHORES, TEXAS

## BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2014

	General	Roads and Drainage	GLO Grant	Nonmajor Governmental
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 2,585,961	\$ 1,214,126	\$ -	\$ 106,297
Receivables	329,435	-	-	800
Prepays and other assets	16,376	-	-	-
Due from other funds	-	37,763	-	-
<b>Total Assets</b>	<b>\$ 2,931,772</b>	<b>\$ 1,251,889</b>	<b>\$ -</b>	<b>\$ 107,097</b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 120,068	\$ 62,105	\$ -	\$ 109
Due to other funds	37,763	-	-	-
Due to component unit	37,763	-	-	-
<b>Total Liabilities</b>	<b>195,594</b>	<b>62,105</b>	<b>-</b>	<b>109</b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue - property taxes	3,474	-	-	-
<b><u>Fund Balances</u></b>				
Nonspendable	16,376	-	-	-
Restricted:				
Enabling legislation	86,775	-	-	-
Roads and drainage	-	1,189,784	-	-
Plaza Ten 06	-	-	-	37,859
PEG fees	5,422	-	-	-
Assigned:				
Vehicle replacement	-	-	-	69,129
Unassigned	2,624,131	-	-	-
<b>Total Fund Balances</b>	<b>2,732,704</b>	<b>1,189,784</b>	<b>-</b>	<b>106,988</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 2,931,772</b>	<b>\$ 1,251,889</b>	<b>\$ -</b>	<b>\$ 107,097</b>

Adjustments for the Statement of Net Position:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.

Capital assets - non-depreciable

Capital assets - net depreciable

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

Some liabilities, including notes payable, are not reported as liabilities in the governmental funds.

Non-current liabilities due within one year

Non-current liabilities due in more than one year

**Net Position of Governmental Activities**

See Notes to Financial Statements.

**Total  
Governmental  
Funds**

\$ 3,906,384  
330,235  
16,376  
37,763  
\$ 4,290,758

\$ 182,282  
37,763  
37,763  
257,808

3,474

16,376  
86,775  
1,189,784  
37,859  
5,422  
69,129  
2,624,131  
4,029,476

1,967,053  
4,802,403

3,474

(17,456)  
(14,127)  
\$ 10,770,823

# CITY OF CLEAR LAKE SHORES, TEXAS

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2014

	General	Roads and Drainage	GLO Grant	Nonmajor Governmental
<b>Revenues</b>				
Sales taxes	\$ 1,433,084	\$ 234,193	\$ -	\$ -
Franchise fees and local taxes	163,348	-	-	-
Licenses and permits	106,233	-	-	-
Fines and forfeitures	428,541	-	-	-
Intergovernmental	-	-	226,301	-
Charges for services	39,171	-	-	-
Investment earnings	1,309	344	-	32
Other revenue	31,265	-	-	17,525
<b>Total Revenues</b>	2,202,951	234,537	226,301	17,557
<b>Expenditures</b>				
<b>Current:</b>				
General government	447,261	-	1,524	7,011
Police department	540,480	-	-	-
Municipal court	157,033	-	-	-
Public safety	43,106	-	-	-
Public works	266,759	-	-	-
Roads and drainage	-	159,513	-	-
Capital outlay	-	-	236,057	106,496
<b>Total Expenditures</b>	1,454,639	159,513	237,581	113,507
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	748,312	75,024	(11,280)	(95,950)
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	250,000	11,280	100,000
Transfers out	(350,000)	(11,280)	-	-
Sale of capital assets	-	-	-	14,938
<b>Total Other Financing Sources (Uses)</b>	(350,000)	238,720	11,280	114,938
<b>Net Change in Fund Balances</b>	398,312	313,744	-	18,988
Beginning fund balances	2,334,392	876,040	-	88,000
<b>Ending Fund Balances</b>	\$ 2,732,704	\$ 1,189,784	\$ -	\$ 106,988

See Notes to Financial Statements.

**Total  
Governmental  
Funds**

\$	1,667,277
	163,348
	106,233
	428,541
	226,301
	39,171
	1,685
	48,790
	<u>2,681,346</u>
	455,796
	540,480
	157,033
	43,106
	266,759
	159,513
	342,553
	<u>1,965,240</u>
	716,106
	361,280
	(361,280)
	14,938
	<u>14,938</u>
	731,044
	3,298,432
\$	<u><u>4,029,476</u></u>

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**CITY OF CLEAR LAKE SHORES, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2014**

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

Net changes in fund balances - total governmental funds	\$	731,044
<p>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.</p>		
Capital purchases		517,426
Depreciation expense		(303,518)
Net effect of disposals		(9,495)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		(440)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net pension obligation		(85)
Compensated absences		2,637
		2,552
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>937,569</b>

See Notes to Financial Statements.

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# CITY OF CLEAR LAKE SHORES, TEXAS

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2014

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The City of Clear Lake Shores, Texas (the "City") was incorporated November 13, 1962. The City Council is the principal legislative body of the City.

The City provides the following services: public safety to include police, fire, and emergency medical services; as well as parks, recreation, public improvements, and general administration.

The City is an independent political subdivision of the State of Texas, governed by an elected council and a mayor, and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Clear Lake Shores Economic Development Corporation and Plaza Ten 06 Corporation, although legally separate, are considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

#### **Discretely Presented Component Unit**

##### **Clear Lake Shores Economic Development Corporation**

Clear Lake Shores Economic Development Corporation (EDC) has been included in the reporting entity as a discretely presented component unit. The City formed the EDC, which was created by voters approving an additional sales tax. State law allows the City to collect sales tax to assist in the promotion and development activities of the City. The EDC was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City. The Board of Directors is appointed by, and serves at the discretion of, the City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net position of the EDC shall be conveyed to the City. Separate financial statements of the EDC may be obtained from the City.

# CITY OF CLEAR LAKE SHORES, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

### Blended Component Unit

#### Plaza Ten 06 Local Government Corporation

Plaza Ten 06 Corporation (the "Corporation") has been included in the reporting entity as a blended component unit. The Corporation is a nonprofit corporation and is a local government corporation organized by the City pursuant to Subchapter D of Chapter 431 of the Texas Transportation Code for the purpose of acquiring land and/or buildings within the City limits or extraterritorial jurisdiction of the City and the subsequent planning for and redevelopment of such properties. The Corporation is funded primarily by rental income and income from booth rentals at the farmer's market. The Board of Directors consists of five members appointed by, and who serve at the discretion of, the City Council. City Council approval is required for annual budgets and bonded debt issuance. The City Council may dissolve the Corporation at any time with a majority vote and, in the event of dissolution, net position of the Corporation shall be conveyed to the City. The operations of the Corporation are presented as a governmental fund type. Separate financial statements of the Corporation may be obtained from the City.

### B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the primary government and its component units. Governmental activities are normally supported by taxes and intergovernmental revenues. The *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

### C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds, including its blended component unit. Separate statements for each fund category, governmental, are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, police department, municipal court, public safety, and public works.

# CITY OF CLEAR LAKE SHORES, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

The *special revenue funds* are used to account for proceeds of specific revenue sources that are legally restricted or assigned by City Council to expenditures for specified purposes. The special revenue funds include roads and drainage fund, vehicle acquisition fund, the GLO grant fund and the blended component unit, the Plaza Ten 06 Corporation. The roads and drainage and GLO grant special revenue funds are considered major funds for reporting purposes.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

### E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The 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 compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability

# CITY OF CLEAR LAKE SHORES, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due, if applicable.

### F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

#### 1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

#### 2. Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term, highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. 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, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government and State of Texas or their agencies or instrumentalities
- Fully collateralized certificates of deposit
- Mutual funds of a specific type
- Investment pools

#### 3. Receivables

All trade receivables are shown net of an allowance for uncollectibles.

#### 4. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

#### 5. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. 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 four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital

# CITY OF CLEAR LAKE SHORES, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. The City does not capitalize net interest cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives of assets are not capitalized.

Property, infrastructure, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Furniture and equipment	4 to 10 years
Infrastructure	20 to 50 years
Buildings and improvements	10 to 50 years

### 6. Deferred Outflows/Inflows of Resources

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

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

### 7. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick, and compensatory time. Employees may elect to receive payments for accrued vacation time in advance with approval. Unpaid amounts accumulated may be paid to employees upon termination of employment. All eligible time is accrued when incurred in the government-wide financial statements.

### 8. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. The long-term debt consists primarily of accrued compensated absences.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

# **CITY OF CLEAR LAKE SHORES, TEXAS**

## **NOTES TO FINANCIAL STATEMENTS (Continued)**

**For the Year Ended September 30, 2014**

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund or vehicle acquisition fund upon payment, with an appropriate reduction of principal recorded in the government-wide financial statements.

### **9. Net Position Flow Assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

### **10. Fund Balance Flow Assumptions**

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

### **11. Fund Balance Policies**

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

# CITY OF CLEAR LAKE SHORES, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

### 12. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### G. Revenues and Expenditures/Expenses

#### 1. Program Revenues

Amounts reported as *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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

#### 2. Property Taxes

Effective October 1, 2007, a new sales tax rate took effect allowing the City to adopt a property tax rate of zero.

## II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general fund and all special revenue funds, except for the GLO grant fund. The GLO grant fund does not have an appropriated budget since other means control the use of these resources (e.g. grant awards) and sometimes span more than one fiscal year. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the municipal code of general law is the object and purpose stated in the approved budget. City Council may amend the budget throughout the year. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year.

# CITY OF CLEAR LAKE SHORES, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and Investments

As of September 30, 2014, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
External investment pools	\$ 3,683,115	0.00
<b>Total Fair Value</b>	<b>\$ 3,683,115</b>	
Portfolio weighted average maturity		0.00

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities. At year end, market values of the City’s pledged securities and FDIC insurance exceeded bank balances.

*Custodial credit risk – investments.* For an investment, this is the risk that the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party in the event of the failure of the counterparty. The City’s investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, shall be conducted on a delivery versus payment basis or commercial book entry system as utilized by the Federal Reserve and shall be protected through the use of a third party custody/safekeeping agent.

#### TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool.

The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rate TexPool “AAA”. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as to the office of the Comptroller of Public Accounts for review.

TexPool and operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than fair value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool are the same as the values of TexPool and TexSTAR shares.

# CITY OF CLEAR LAKE SHORES, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

### B. Receivables

The following comprise receivable balances at year end:

	General	Nonmajor
Property taxes	\$ 3,474	\$ -
Sales taxes	302,101	-
Other taxes	23,860	800
	\$ 329,435	\$ 800

### C. Capital Assets

A summary of changes in capital assets at year end is as follows:

	Primary Government			
	Beginning Balance	Increases	(Decreases)	
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,866,346	\$ -	\$ -	\$ 1,866,346
Construction in progress	232,459	100,707	(232,459)	100,707
Total capital assets not being depreciated	2,098,805	100,707	(232,459)	1,967,053
Other capital assets:				
Infrastructure	6,001,328	468,516	-	6,469,844
Buildings and improvements	1,094,401	15,046	-	1,109,447
Furniture and equipment	522,279	165,616	(81,385)	606,510
Total other capital assets	7,618,008	649,178	(81,385)	8,185,801
Less accumulated depreciation for:				
Infrastructure	(2,360,532)	(217,477)	-	(2,578,009)
Buildings and improvements	(468,504)	(42,012)	-	(510,516)
Furniture and equipment	(322,734)	(44,029)	71,890	(294,873)
Total accumulated depreciation	(3,151,770)	(303,518)	71,890	(3,383,398)
Other capital assets, net	4,466,238	345,660	(9,495)	4,802,403
<b>Governmental activities capital assets, net</b>	<b>\$ 6,565,043</b>	<b>\$ 446,367</b>	<b>\$ (241,954)</b>	<b>\$ 6,769,456</b>

Depreciation was charged to governmental functions as follows:

General government	\$ 59,318
Police department	26,724
Public works	217,476
<b>Total Governmental Activities Depreciation Expense</b>	<b>\$ 303,518</b>

# CITY OF CLEAR LAKE SHORES, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

A summary of changes in capital assets for the EDC at year end is as follows:

Component Unit	EDC - Component Unit			Ending Balance
	Beginning Balance	Increases	(Decreases)	
<b>Capital assets not being depreciated:</b>				
Construction in progress	\$ 170,909	\$ 2,375	\$ 170,909	\$ 2,375
Total capital assets not being depreciated	170,909	2,375	170,909	2,375
<b>Other capital assets:</b>				
Infrastructure	-	724,725	-	724,725
Total other capital assets	-	724,725	-	724,725
<b>Less accumulated depreciation for:</b>				
Infrastructure	-	-	-	-
Total accumulated depreciation	-	-	-	-
Other capital assets, net	-	724,725	-	724,725
<b>Governmental activities capital assets, net</b>	\$ 170,909	\$ 727,100	\$ 170,909	\$ 727,100

### D. Long-Term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended September 30, 2014. In general, the City uses the general fund to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Net pension obligation	\$ 12,102	\$ 85	\$ -	\$ 12,187	\$ -
Compensated absences	22,033	17,193	19,830	19,396	17,456
<b>Total Governmental Activities</b>	\$ 34,135	\$ 17,278	\$ 19,830	\$ 31,583	\$ 17,456
<b>Due in More Than One Year</b>					\$ 14,127

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds.

The City is not obligated in any manner for special assessment debt.

# CITY OF CLEAR LAKE SHORES, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

### E. Interfund Transactions

Transfers between the primary government funds during the year were as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amounts</u>
General fund	Nonmajor governmental	\$ 100,000
General fund	Roads and drainage fund	250,000
Roads and drainage fund	GLO grant fund	11,280
		<u>\$ 361,280</u>

Transfers were made between the general fund and vehicle acquisition fund during the year to fund capital outlay expenditures.

The composition of interfund balances as of year end was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
Roads and drainage fund	General fund	\$ 37,763

The outstanding balance in the general fund represent sales tax due to the roads and drainage fund.

## IV. OTHER INFORMATION

### A. 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; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

### B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

# CITY OF CLEAR LAKE SHORES, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

### C. Pension Plans

#### 1. Texas Municipal Retirement System

##### Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide 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 RSI for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the system. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

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

	<u>2014</u>	<u>2013</u>
Employee deposit rate	6.00%	6.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

##### Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percentage of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to TMRS 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.

# CITY OF CLEAR LAKE SHORES, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

The annual pension cost and the net pension obligation (NPO) are as follows:

Annual required contribution (ARC)	\$	57,051
Interest on net pension obligation (NPO)		847
Adjustment to the ARC		(762)
Annual Pension Cost (APC)		57,136
Contributions made		(57,051)
Increase in NPO		85
NPO-beginning of year		12,102
NPO-end of year	\$	12,187

Three-year trend information for the annual pension cost (APC) is as follows:

Fiscal Year	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 60,885	\$ 60,449	99.28%	\$ 12,000
2013	\$ 50,591	\$ 50,489	99.80%	\$ 12,102
2014	\$ 57,136	\$ 57,051	99.85%	\$ 12,187

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

	2014	2013	2012
Actuarial Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial Cost Method	Entry Age Normal	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	30.0 Years - Closed period	25.5 Years - Closed period	26.6 Years - Closed period
Amortization Period for New Gains/Losses	23 years	24 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at Cost of Living Adjustments	3.00% 2.1%	3.00% 2.1%	3.00% 2.1%

### Funded Status and Funding Progress

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report.

# CITY OF CLEAR LAKE SHORES, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2014

The funded status as of December 31, 2013, the most recent actuarial valuation date, is presented as follows:

	<u>2014</u>
Actuarial Valuation Date	12/31/2013
Actuarial Value of Assets	\$ 934,265
Actuarial Accrued Liability	\$ 1,151,834
Percentage Funded	81.1%
Unfunded Actuarial	
Accrued Liability (UAAL)	\$ 217,569
Annual Covered Payroll	\$ 600,558
UAAL as a Percentage of Covered Payroll	36.2%

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

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

## 2. Deferred Compensation Plan

The City offers its employees a deferred compensation plan (the "Plan") created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Plan's trust arrangements are established to protect deferred compensation amounts of employees under the Plan from any other use than intended under the Plan (eventual payment to employees deferring the compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under Plan provisions are disbursed monthly by the City to a third party administrator. The third party administrator handles all funds in the Plan and makes investment decisions and disburses funds to employees in accordance with Plan provisions.

## D. Other Post Employment Benefits

### TMRS - Supplemental Death Benefit Fund

#### Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the

# **CITY OF CLEAR LAKE SHORES, TEXAS**

## ***NOTES TO FINANCIAL STATEMENTS (Continued)***

**For the Year Ended September 30, 2014**

SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2014, the City offered the supplemental death benefit to both active and retired employees.

### Contributions

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

### **E. Operating Lease**

Plaza Ten 06 Local Government Corporation leases a property located at 1060 South Shore, Clear Lake Shores, Texas to Bay Area Glass on a month-to-month basis at a rate of \$600 per month through December 2013 and increasing to \$800 per month in January 2014. In addition to rent, Bay Area Glass is responsible for all maintenance expenses on the building and insurance on contents. For the year ended September 30, 2014, rental income on the property was \$9,000.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**CITY OF CLEAR LAKE SHORES, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**

For the Year Ended September 30, 2014  
 With Comparative Totals for the Year Ended September 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>	<u>2013 Actual</u>
	<u>Original Budget</u>	<u>Final Budget as Amended</u>			
<b>Revenues</b>					
Taxes:					
Property	\$ 50	\$ 50	\$ -	\$ (50)	\$ 60
Sales	1,695,000	1,275,000	1,433,084	158,084	1,321,862
Franchise and local	159,000	159,000	163,348	4,348	160,367
Licenses and permits	39,500	39,500	106,233	66,733	62,071
Fines and forfeitures	210,000	210,000	428,541	218,541	302,825
Charges for services	36,875	36,875	39,171	2,296	302,825
Investment earnings	7,250	7,250	884	(6,366)	1,882
Other revenue	30,600	30,600	31,265	665	74,785
<b>Total Revenues</b>	<u>2,178,275</u>	<u>1,758,275</u>	<u>2,202,526</u>	<u>444,251</u>	<u>2,529,502</u>
<b>Expenditures</b>					
Current:					
General government	381,391	501,389	447,261	54,128	434,431
Police department	567,898	567,897	540,480	27,417	451,677
Municipal court	164,383	163,883	157,033	6,850	90,535
Public safety	43,345	43,345	43,106	239	43,401
Public works	295,904	295,903	266,759	29,144	266,935
Capital outlay	-	-	-	-	5,162
<b>Total Expenditures</b>	<u>1,452,921</u>	<u>1,572,417</u>	<u>1,454,639</u>	<u>117,778</u>	<u>1,292,141</u>
<b>Excess of Revenues Over Expenditures</b>	<u>725,354</u>	<u>185,858</u>	<u>747,887</u>	<u>562,029</u>	<u>1,237,361</u>
<b>Other Financing Sources (Uses)</b>					
Transfers (out)	(475,000)	(650,000)	(650,000)	-	(31,000)
<b>Total Other Financing (Uses)</b>	<u>(475,000)</u>	<u>(650,000)</u>	<u>(650,000)</u>	<u>-</u>	<u>(31,000)</u>
<b>Net Change in Fund Balance</b>	<u>\$ 250,354</u>	<u>\$ (464,142)</u>	<u>97,887</u>	<u>\$ 562,029</u>	<u>\$ 1,206,361</u>

Notes to Required Supplementary Information:

- Annual budgets are adopted on a basis consistent with generally accepted accounting principals (GAAP).
- The schedule above only includes activity for the general fund. Reconciliation to net change in fund balance on page 20:

Interest income	425
Transfer in	300,000
<b>Net change in fund balance</b>	<u><u>\$ 398,312</u></u>

**CITY OF CLEAR LAKE SHORES, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**SPECIAL REVENUE FUNDS - ROADS AND DRAINAGE FUND**  
For the Year Ended September 30, 2014

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original Budget</u>	<u>Final Budget as Amended</u>	<u>Actual</u>	
<b><u>Revenues</u></b>				
Sales taxes	\$ 210,000	\$ 210,000	\$ 234,193	\$ 24,193
Investment earnings	700	700	344	(356)
<b>Total Revenues</b>	<u>210,700</u>	<u>210,700</u>	<u>234,537</u>	<u>23,837</u>
<b><u>Expenditures</u></b>				
Roads and drainage	683,760	683,760	159,513	524,247
<b>Total Expenditures</b>	<u>683,760</u>	<u>683,760</u>	<u>159,513</u>	<u>524,247</u>
<b>Excess (Deficiency) of Revenues Over/(Under) Expenditures</b>	<u>(473,060)</u>	<u>(473,060)</u>	<u>75,024</u>	<u>548,084</u>
<b><u>Other Financing Sources</u></b>				
Transfers in	-	-	250,000	250,000
Transfers (out)	-	(11,280)	(11,280)	-
<b>Total Other Financing Sources</b>	<u>-</u>	<u>(11,280)</u>	<u>238,720</u>	<u>250,000</u>
<b>Net Change in Fund Balance</b>	<u>\$ (473,060)</u>	<u>\$ (484,340)</u>	<u>313,744</u>	<u>\$ 798,084</u>
Beginning fund balance			<u>876,040</u>	
<b>Ending Fund Balance</b>			<u>\$ 1,189,784</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

# CITY OF CLEAR LAKE SHORES, TEXAS

## SCHEDULE OF FUNDING PROGRESS

### TEXAS MUNICIPAL RETIREMENT SYSTEM

September 30, 2014

Fiscal Year	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarial Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial Value of Assets	\$ 934,265	\$ 896,525	\$ 772,773
Actuarial Accrued Liability	\$ 1,151,834	\$ 1,071,596	\$ 981,731
Percentage Funded	81.1%	83.7%	78.7%
Unfunded Actuarial			
Accrued Liability (UAAL)	\$ 217,569	\$ 175,071	\$ 208,958
Annual Covered Payroll	\$ 600,558	\$ 626,945	\$ 628,115
UAAL % of Covered Payroll	36.2%	27.9%	33.3%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ 12,102	\$ 12,000	\$ 11,564
Annual Pension Cost (APC)	57,136	50,591	60,885
Contributions Made	57,051	50,489	60,449
<b>NPO at the End of Period</b>	<u><u>\$ 12,187</u></u>	<u><u>\$ 12,102</u></u>	<u><u>\$ 12,000</u></u>

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***COMBINING STATEMENTS  
AND SCHEDULES***

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# ***NONMAJOR GOVERNMENTAL FUNDS***

## **Special Revenue Funds**

Special revenue funds account for the proceeds of specific revenue sources that are legally restricted or assigned to expenditures for specific purposes.

Plaza Ten 06 Corporation is a nonprofit corporation and local government corporation organized by the City for the purpose of acquiring land and/or buildings within the extraterritorial jurisdiction of the City and the subsequent planning for, and redevelopment of, such properties.

The vehicle acquisition fund is used to account for funds intended to be used for purchase and/or replacement of City vehicles.

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# CITY OF CLEAR LAKE SHORES, TEXAS

## COMBINING BALANCE SHEET

### NONMAJOR GOVERNMENTAL FUNDS

September 30, 2014

	Plaza Ten 06 Corporation	Vehicle Acquisition	Total Nonmajor Governmental Funds
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 37,168	\$ 69,129	\$ 106,297
Receivables	800	-	800
<b>Total Assets</b>	<b>\$ 37,968</b>	<b>\$ 69,129</b>	<b>\$ 107,097</b>
<b><u>Liabilities</u></b>			
Accounts payable and accrued liabilities	\$ 109	\$ -	\$ 109
<b>Total Liabilities</b>	<b>109</b>	<b>-</b>	<b>109</b>
<b><u>Fund Balances</u></b>			
Restricted	37,859	-	37,859
Assigned	-	69,129	69,129
<b>Total Fund Balances</b>	<b>37,859</b>	<b>69,129</b>	<b>106,988</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 37,968</b>	<b>\$ 69,129</b>	<b>\$ 107,097</b>

See Notes to Financial Statements.

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**CITY OF CLEAR LAKE SHORES, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2014

	<u>Plaza Ten 06 Corporation</u>	<u>Vehicle Acquisition</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Investment earnings	\$ 8	\$ 24	\$ 32
Other revenue	17,525	-	17,525
<b>Total Revenues</b>	<u>17,533</u>	<u>24</u>	<u>17,557</u>
<b>Expenditures</b>			
<b>Current:</b>			
General government	7,011	-	7,011
Capital outlay	-	106,496	106,496
<b>Total Expenditures</b>	<u>7,011</u>	<u>106,496</u>	<u>113,507</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>10,522</u>	<u>(106,472)</u>	<u>(95,950)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	100,000	100,000
Sale of capital assets	-	14,938	14,938
<b>Total Other Financing Sources</b>	<u>-</u>	<u>114,938</u>	<u>114,938</u>
<b>Net Change in Fund Balances</b>	10,522	8,466	18,988
Beginning fund balances	27,337	60,663	88,000
<b>Ending Fund Balances</b>	<u>\$ 37,859</u>	<u>\$ 69,129</u>	<u>\$ 106,988</u>

See Notes to Financial Statements.

**CITY OF CLEAR LAKE SHORES, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**SPECIAL REVENUE FUNDS - VEHICLE ACQUISITION FUND**  
For the Year Ended September 30, 2014

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget As Amended</u>	<u>Actual</u>	
<b><u>Revenues</u></b>				
Investment earnings	\$ 20	\$ 20	\$ 24	\$ 4
<b>Total Revenues</b>	<u>20</u>	<u>20</u>	<u>24</u>	<u>4</u>
<b><u>Expenditures</u></b>				
Capital outlay	75,000	110,000	106,496	3,504
<b>Total Expenditures</b>	<u>75,000</u>	<u>110,000</u>	<u>106,496</u>	<u>3,504</u>
<b>(Deficiency) of Revenues (Under) Expenditures</b>	<u>(74,980)</u>	<u>(109,980)</u>	<u>(106,472)</u>	<u>3,508</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers in	65,000	100,000	100,000	-
Sale of capital assets	-	-	14,938	14,938
<b>Total Other Financing Sources</b>	<u>65,000</u>	<u>100,000</u>	<u>114,938</u>	<u>14,938</u>
<b>Net Change in Fund Balance</b>	<u>\$ (9,980)</u>	<u>\$ (9,980)</u>	8,466	<u>\$ 18,446</u>
Beginning fund balance			<u>60,663</u>	
<b>Ending Fund Balance</b>			<u>\$ 69,129</u>	

**CITY OF CLEAR LAKE SHORES, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**SPECIAL REVENUE FUNDS - PLAZA TEN 06 CORPORATION**  
For the Year Ended September 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original Budget</u>	<u>Final Budget as Amended</u>		
<b><u>Revenues</u></b>				
Property rentals	\$ 30,600	\$ 30,600	\$ 17,525	\$ (13,075)
Investment earnings	-	-	8	8
<b>Total Revenues</b>	<u>30,600</u>	<u>30,600</u>	<u>17,533</u>	<u>(13,067)</u>
<b><u>Expenditures</u></b>				
Operating expenses	\$ 20,080	20,080	7,011	13,069
<b>Total Expenditures</b>	<u>20,080</u>	<u>20,080</u>	<u>7,011</u>	<u>13,069</u>
<b>Net Change in Fund Balance</b>	<u>\$ 10,520</u>	<u>\$ 10,520</u>	10,522	<u>\$ 2</u>
Beginning fund balance			<u>27,337</u>	
<b>Ending Fund Balance</b>			<u>\$ 37,859</u>	

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