

TOWN OF SHADY SHORES, TEXAS

FINANCIAL STATEMENTS
AND
ACCOUNTANTS' OPINION

SEPTEMBER 30, 2011

TOWN OF SHADY SHORES, TEXAS

TABLE OF CONTENTS

	<u>Page No.</u>
Principal Town Officials	1
Independent Auditors' Report	3
Management's Discussion and Analysis	7
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities.....	16
Fund Financial Statements:	
Governmental Fund Financial Statements:	
Balance Sheet.....	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	18
Statement of Revenues, Expenditures and Changes in Fund Balances	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Notes to Financial Statements	21
Required Supplementary Information:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund.....	34
Other Supplementary Information:	
Statement of Revenues-Budget and Actual-General Fund.....	36
Statement of Expenditures-Budget and Actual-General Fund	37
Schedule of Delinquent Taxes Receivable.....	38
Independent Auditors' on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed in Accordance with Government Auditing Standards	39

TOWN OF SHADY SHORES, TEXAS
PRINCIPAL TOWN OFFICIALS
SEPTEMBER 30, 2011

Mayor	Jerry Williams
Mayor Pro-Tem	Cindy Auginbaugh
Council Members:	Cindy Spencer
	John Reedy
	Charles Grimes
Town Secretary	Wendy Withers
Town Attorney	James E. Shepherd Shepherd Law Firm
Town Engineer	Michael Cummings

This page left blank intentionally.

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC
ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

**HANKINS, EASTUP, DEATON,
TONN & SEAY**
A PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

902 NORTH LOCUST
P.O. BOX 977
DENTON, TEXAS 76202-0977

TEL. (940) 387-8563
FAX (940) 383-4746

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Town Council
Town of Shady Shores, Texas

Members of the Council:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Shady Shores, Texas ("Town") as of and for the year ended September 30, 2011, which collectively comprises the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion 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 basic 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 opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the government activities and each major fund of the Town as of September 30, 2011, and the respective changes in financial position 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 issued a report dated January 10, 2012, on our consideration of the Town's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 12 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Town of Shady Shore's financial statements as a whole. The fund statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Town. The fund 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 financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



Hankins, Eastup, Deaton, Tonn & Seay
A Professional Corporation
Certified Public Accountants

January 10, 2012

MANAGEMENT'S DISCUSSION & ANALYSIS

This page left blank intentionally.

TOWN OF SHADY SHORES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

As management of the Town of Shady Shores, we offer readers of the Town of Shady Shores' financial statements this narrative overview and analysis of the financial activities of the Town of Shady Shores for the year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with the Town's basic financial statements.

Financial Highlights

- The assets of the Town of Shady Shores exceeded its liabilities at September 30, 2011 by \$2,957,696. The Unrestricted Net Assets amount of \$1,703,648 may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$133,920. A portion of this increase is attributable to an increase in revenue and a decrease in expenditures.
- As of September 30, 2011, the Town of Shady Shores' governmental fund reported an ending fund balance of \$1,690,050, an increase of \$171,658 in comparison with the beginning of the period. Approximately 99.9 percent of this total amount, \$1,688,964, is available for spending at the government's discretion (*unassigned fund balance*).

Overview of the Financial Statements

The management discussion and analysis are intended to serve as an introduction to the Town of Shady Shores' basic financial statements. The Town of Shady Shores' basic financial statements comprises of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town of Shady Shores' finances, in a manner similar to a private-sector business.

The statement of net assets presents information on the entire Town of Shady Shores' assets and liabilities, with the difference between the two reported as net assets. Over time, increase or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Shady Shores is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during the most recent period. All of the current period's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Assets and the Statement of Activities, the Town has one kind of activity:

- **Governmental activities.** All of the Town's basic services are reported here, including public works and general administration. Property taxes, sales taxes, and franchise fees finance most of these activities.

TOWN OF SHADY SHORES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

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. Fund financial statements provide detailed information about the most significant funds, not the Town as a whole. Some funds are required to be established by state law or bond covenants. However, the Town Council may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money.

Governmental Funds. All of the Town 's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at period-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town 's general operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town of Shady Shores' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town of Shady Shores does not currently have any fiduciary funds.

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 funds financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information highlighting budgetary information for the general fund.

Government-wide Financial Analysis

The Town's net assets were \$2,957,696 as of September 30, 2011. This analysis focuses on the net assets (Table 1) and changes in general revenues (Table 2) and significant expenses of the Town 's governmental activities.

A portion of the Town's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, if applicable.

TOWN OF SHADY SHORES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

Table I

Net Assets

	Governmental Activities	
	2010	2011
Current and other assets	\$1,554,168	\$1,755,885
Capital assets	1,285,564	1,252,962
Total assets	<u>2,839,732</u>	<u>3,008,847</u>
Other liabilities	15,956	51,151
Total liabilities	<u>15,956</u>	<u>51,151</u>
Net Assets:		
Invested in capital assets	1,285,564	1,252,962
Restricted	693,722	1,086
Unrestricted	844,490	1,703,648
Total net assets	<u>\$2,823,776</u>	<u>\$2,957,696</u>

Governmental Activities. The Town's general revenues for governmental activities for the year ended September 30, 2011 are detailed below (Table 2).

Table 2
General Revenues

	2010	2011
Property taxes	\$649,040	\$651,458
Sales taxes	55,984	61,215
Franchise taxes	107,340	118,598
Government grants	2,270	-
Investment earnings	2,682	2,039
Miscellaneous	2,117	755
	<u>\$819,433</u>	<u>\$834,065</u>

The following table provides a summary of the Town's operations for the year ended September 30, 2011. Governmental activities increased the Town's net assets by \$133,920.

TOWN OF SHADY SHORES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

Table 3
Changes in Net Assets

	Governmental Activities	
	2010	2011
Revenues:		
Program Revenues:		
Charges for Services	\$ 56,241	\$ 64,829
General Revenues:		
Property taxes	649,040	651,458
Sales taxes	55,984	61,215
Franchise taxes	107,340	118,598
Government grants	2,270	-
Investment Earnings	2,682	2,039
Miscellaneous	2,117	755
Total Revenue	875,674	898,894
Expenses:		
General government	198,534	210,103
Public safety	411,795	375,423
Public works/other	168,048	179,448
Total Expenses	778,377	764,974
Increase in net assets	97,297	133,920
Net assets – October 1 (beginning)	2,726,479	2,823,776
Net assets – September 30 (ending)	\$2,823,776	\$2,957,696

Financial Analysis of the Government's Funds

Governmental Funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of government's net resources available for spending at the end of the period.

As of the end of the current period, the Town's governmental fund, the general fund reported an ending fund balance of \$1,690,050, an increase of \$171,658 in comparison with the beginning of the period. Approximately 99.9 percent of this total amount (\$1,688,964) constitutes unassigned fund balance, which is available for spending at the Town's discretion. The remainder of fund balance is restricted to indicate that it is not available for new spending because it has already been restricted for court security and technology.

The fund balance of the Town's general fund increased by \$171,658 during the current period. Key factors in this increase are as follows:

- Increase in revenues
- Decrease in expenditures compared to revenues

TOWN OF SHADY SHORES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

General Fund Budgetary Highlights

During the current year, the Town Council of the Town of Shady Shores amended the budget for the General Fund on one occasion.

Capital Assets and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental activities as of September 30, 2011, amounts to \$1,252,962 (net of accumulated depreciation). This amount represents a net decrease of \$32,602, or 3 percent, below the beginning of the period. The investment in capital assets includes land, buildings, equipment, furniture and roads.

Major capital asset additions during the current period was drainage system improvements of \$48,203.

Table 4
Capital Assets at Year-end
(Net of Depreciation)

	Governmental <u>Activities</u>
Land	\$ 6,000
Buildings	520,399
Furniture and Equipment	34,761
Vehicle	4,070
Infrastructure - Roads	<u>687,732</u>
Totals	<u><u>\$1,252,962</u></u>

Additional information on the Town's capital assets can be found in Note 4 of this report.

Long-term Debt. At the end of the current period, the Town had no long-term indebtedness.

Economic Factors and Next Year's Budgets and Rates

- The fiscal year 2011-2012 budget increases by \$39,164 and decreases the tax rate to .312783 per \$100 valuation.
- Again this year we received an unqualified or good opinion from our auditing firm. It is just one more indication the Council is managing your tax dollars carefully.
- The Town continues to contract for the services of an animal control officer, police patrol services, and fire and EMS services.
- The Town plans to maintain a financial reserve with disciplined spending. The ending general fund balance for the fiscal year 2011 was \$1,690,050.

TOWN OF SHADY SHORES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Town of Shady Shores, P.O. Box 362, Lake Dallas, Texas 75065.

BASIC FINANCIAL STATEMENTS

This page left blank intentionally.

TOWN OF SHADY SHORES, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$1,739,979
Receivables (net of allowance for uncollectibles):	
Taxes – Ad Valorem	14,684
Due from Denton County Tax Collector	900
Other Receivables	322
Capital Assets (net of depreciation):	
Land	6,000
Buildings, net	520,399
Furniture and Equipment, net	34,761
Vehicles, net	4,070
Roads & Streets, net	<u>687,732</u>
Total Assets	<u>3,008,847</u>
LIABILITIES	
Accounts Payable	50,750
Payroll Liabilities	<u>401</u>
Total Liabilities	<u>51,151</u>
NET ASSETS	
Invested in Capital Assets	1,252,962
Restricted for:	
Court Technology & Security	1,086
Unrestricted Net Assets	<u>1,703,648</u>
Total Net Assets	<u>\$2,957,696</u>

The accompanying Notes are an integral part of this statement.

TOWN OF SHADY SHORES, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenue and Change in Net Assets</u>
		<u>Charges for Services</u>	<u>Governmental Activities</u>
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 210,103	\$ -	\$ (210,103)
Public Safety	375,423	36,162	(339,261)
Public Works/Other	<u>179,448</u>	<u>28,667</u>	<u>(150,781)</u>
Total Governmental Activities	<u>764,974</u>	<u>64,829</u>	<u>(700,145)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 764,974</u>	<u>\$ 64,829</u>	<u>(700,145)</u>

GENERAL REVENUES:

Taxes:	
Property taxes	651,458
Sales taxes	61,215
Franchise taxes	118,598
Investment Earnings	2,039
Miscellaneous	<u>755</u>
Total General Revenues	<u>834,065</u>
Change in Net Assets	133,920
NET ASSETS, October 1 (beginning)	<u>2,823,776</u>
NET ASSETS, September 30, (ending)	<u>\$2,957,696</u>

The accompanying Notes are an integral part of this statement.

TOWN OF SHADY SHORES, TEXAS
BALANCE SHEET-GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 1,739,979
Ad Valorem Tax Receivable	14,684
Due from Denton County Tax Collector	900
Other Receivables	<u>322</u>
Total Assets	<u>\$ 1,755,885</u>
 LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts Payable	\$ 50,750
Deferred Revenue	14,684
Payroll Liabilities	<u>401</u>
Total Liabilities	<u>65,835</u>
Fund Balance:	
Restricted:	
Court Technology & Security	1,086
Unassigned Fund Balance	<u>1,688,964</u>
Total Fund Balance	<u>1,690,050</u>
 Total Liabilities and Fund Balance	 <u>\$ 1,755,885</u>

The accompanying Notes are an integral part of this statement.

TOWN OF SHADY SHORES, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

Total Fund Balances – Governmental Funds	\$1,690,050
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the period, the cost of these assets was \$1,597,858 and the accumulated depreciation was \$312,294. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net assets.	1,285,564
Current period capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the current period capital outlays is to increase net assets.	50,555
The current period depreciation expense increases accumulated depreciation. The net effect of the current period's depreciation is to decrease net assets.	(83,157)
Property tax revenue reported as deferred revenue in the fund financial statements is recognized as revenue in the government-wide financial statements.	<u>14,684</u>
Net Assets of Governmental Activities	<u>\$2,957,696</u>

The accompanying Notes are an integral part of this statement.

TOWN OF SHADY SHORES, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>General Fund</u>
Revenues:	
Taxes:	
General Sales and Use Taxes	\$ 61,215
Ad Valorem Taxes and Penalties	656,594
Franchise Tax	118,598
Building Permits & Fees	28,667
Municipal Court Fines	36,162
Interest Income	2,039
Miscellaneous & Other Revenue	<u>755</u>
Total Revenues	<u>904,030</u>
 Expenditures:	
General Government Administration	198,277
Public Safety	372,195
Public Works/Other	<u>161,900</u>
Total Expenditures	<u>732,372</u>
 Excess of Revenues Over Expenditures	<u>171,658</u>
 Net Change in Fund Balance	171,658
 Fund Balance - October 1 (beginning)	<u>1,518,392</u>
 Fund Balance - September 30 (ending)	<u>\$ 1,690,050</u>

The accompanying Notes are an integral part of this statement.

TOWN OF SHADY SHORES, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Total Net Change in Fund Balances – Governmental Funds	\$ 171,658
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the capital outlays is to increase net assets.	50,555
Deprecation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current period's depreciation is to decrease net assets.	(83,157)
Revenues from property taxes are deferred in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed, net of an allowance for uncollectible amounts, in the government-wide financial statements.	<u>(5,136)</u>
Change in Net Assets of Governmental Activities	<u>\$ 133,920</u>

The accompanying Notes are an integral part of this statement.

TOWN OF SHADY SHORES, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Shady Shores (the "Town") are presented in accordance with generally accepted accounting principles applicable to state and local governmental units as set forth by the Governmental Accounting Standards Board ("GASB").

In fiscal year 2004, the Town implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* which provides additional guidance for the implementation of GASB Statement 34, GASB Statement No. 38, *Certain Financial Statement Disclosures*, which changes note disclosures requirements for governmental entities, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, which clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where difference have arisen, or potentially could arise, in interpretation and practice of GASB Statement No. 34.

GASB Statements No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, government-wide financial statements, required supplementary information and the elimination of the use of account groups to the already required fund financial statements and notes. GASB Statement No. 37 provides additional guidance in reporting infrastructure, program revenues and major criteria.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that the government-wide financial statements are needed to allow users of financial reports to assess a government's operational accountability. The new GASB model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

The following is a summary of the more significant accounting policies.

A. Reporting Entity

The Town of Shady Shores (Town) is a municipal corporation governed by an elected mayor and five-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Town holds the corporate powers of the organization
- the Town appoints a voting majority of the organization's board

TOWN OF SHADY SHORES, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

- the Town is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Town
- there is fiscal dependency by the organization on the Town

Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Town.

The Town had no discretely presented component units at September 30, 2011.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the Town.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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.

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. 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.

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 Town 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.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Town.

TOWN OF SHADY SHORES, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

The Town reports the following major governmental fund:

General Fund - The General fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

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, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

D. Cash and Investments

The Town's cash and investments are considered to be cash on hand, demand deposits and short-term investments in State investment pools.

E. Property Taxes

Ad valorem taxes are levied from valuations assessed as of January 1 and recognized as revenue on the date of levy, on October 1. Property tax receivables are recognized when the Town has an enforceable claim against the property owner. In the governmental funds, property tax revenue is recognized in the fiscal period for which the taxes are levied, provided that they become available. Available means collected within the current period, or expected to be collected soon enough thereafter, to be used to pay current liabilities. The Town's availability period is sixty days. Taxes collected prior to the levy date to which they apply are recorded as deferred revenues and recognized as revenue of the period to which they apply.

Current taxes are due on October 1 and become delinquent if unpaid on February 1. Taxes unpaid as of February 1 are subject to penalty and interest as the Town Council provides by ordinance. On January 1 of each year, a tax lien attaches to property to secure all taxes, penalties and interest ultimately imposed.

F. Bad Debts

No allowance is provided for uncollectible real property taxes, since all real property taxes will ultimately be collected when title to the property is transferred, except in rare instances in which the taxes are discharged in bankruptcy.

TOWN OF SHADY SHORES, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

G. Capital Assets

Capital assets, which include property, plant, 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. The Town defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. 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 time received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of governmental activities is not included as part of the capitalized value of the assets constructed.

Depreciation expense is calculated on the straight-line method. Depreciation methods are designed to amortize the cost of the assets over their estimated useful lives. Estimated useful lives of major categories of property are as follows:

<u>Category</u>	<u>Estimated Life</u>
Infrastructure	15-30 years
Buildings	50 years
Furniture and equipment	7-10 years

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

TOWN OF SHADY SHORES, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

J. Budgets

The Town prepares an annual budget for the General Fund in order to provide appropriate budgetary control over revenues and expenditures through comparison of actual data to budgetary data. If a change in the approved budget is required due to unforeseen circumstances, the Council may approve amendments to the budget. All annual appropriations lapse at fiscal year-end.

2. FUND BALANCE

Beginning with the fiscal period ending September 30, 2011, the Town implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Town had no nonspendable fund balances.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Court security and technology fees are being restricted because their use is restricted pursuant to the regulations that allow the collection of those fees.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Town Council. The Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Council had not committed any resources as of September 30, 2011.

TOWN OF SHADY SHORES, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

- Assigned: This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Council or through the Council delegating this responsibility to other individuals in the Town. The Town had not assigned any fund balance resources of the General Fund as of September 30, 2011.
- Unassigned: This classification includes all amounts not included in other spendable classifications, including the residual fund balance for the General Fund.

Beginning fund balances for the Town's governmental funds have been restated to reflect the above classifications. The details of the fund balances are included in the Governmental Funds Balance Sheet (page 17) and are described below:

General Fund

The General Fund has unassigned fund balance of \$1,688,964 at September 30, 2011. The fund balances of the Court Technology Fund and Court Security Fund (totaling \$1,086) are shown as restricted for those purposes.

3. DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS

The Town's funds are required to be deposited and invested under the terms of a depository agreement. The depository bank deposits for safekeeping and trust with the Town's agent bank approved pledged securities in an amount sufficient to protect Town funds on a day-to-day basis during the period of the agreement. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At September 30, 2011, the carrying amount of the Town's deposits in checking accounts and interest-bearing savings accounts was \$610,318 and the bank balance was \$619,136. The Town's cash deposits at September 30, 2011 were entirely covered by FDIC insurance or by pledged collateral held by the Town's agent bank in the Town's name.

TOWN OF SHADY SHORES, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

2. Investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the Town to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the Town to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptance, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds.

The Act also requires the Town to have independent auditors perform test procedures related to investment practices as provided by the Act. The Town is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the Town has adopted a deposit and investment policy. That policy addresses the following risks:

- a. **Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. As of September 30, 2011, the Town's cash balances totaled \$610,318. This entire amount was either collateralized with securities held by the Town's financial institution's agent in the Town's name or covered by FDIC insurance. Thus, the Town's deposits are not exposed to custodial credit risk.
- b. **Custodial Credit Risk – Investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2011, the Town's investments were two public funds investment pools (LOGIC) and TexSTAR. Investments in external investments pools are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.
- c. **Credit Risk:** This is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for the investment pool is AAA (Standard & Poor's).

TOWN OF SHADY SHORES, TEXAS
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

- d. Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for LOGIC and TexSTAR is less than 60 days.
- e. Foreign Currency Risk: This is the risk that exchange rates will adversely affect the fair value of an investment. At September 30, 2011, the Town was not exposed to foreign currency risk.
- f. Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of the Town's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investment pools are excluded from the 5 percent disclosure requirement.

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The Town's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

The Town's investments pool at September 30, 2011, are shown below:

Name	Carrying Amount	Market Value
LOGIC	\$ 386,938	\$ 386,938
TexSTAR	742,723	742,723
Total	\$ 1,129,661	\$ 1,129,661

TOWN OF SHADY SHORES, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

4. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended September 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government				
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Total capital assets, not being depreciated	<u>6,000</u>	<u>-</u>	<u>-</u>	<u>6,000</u>
Capital assets being depreciated:				
Roads & Streets	974,238	48,203	-	1,022,441
Buildings & Improvements	555,001	-	-	555,001
Vehicles	11,400	-	-	11,400
Furniture & Equipment	51,219	2,352	-	53,571
Total capital assets, being depreciated	<u>1,591,858</u>	<u>50,555</u>	<u>-</u>	<u>1,642,413</u>
Less accumulated depreciation for:				
Buildings & Improvements	23,571	11,031	-	34,602
Furniture & Equipment	14,064	4,746	-	18,810
Vehicles	5,701	1,629	-	7,330
Roads & Streets	268,958	65,751	-	334,709
Total accumulated depreciation	<u>312,294</u>	<u>83,157</u>	<u>-</u>	<u>395,451</u>
Total capital assets, being depreciated, net	<u>1,279,564</u>	<u>(32,602)</u>	<u>-</u>	<u>1,246,962</u>
Governmental activities capital assets, net	<u>\$1,285,564</u>	<u>\$(32,602)</u>	<u>\$ -</u>	<u>\$1,252,962</u>

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

Governmental Activities:	
Administration	\$ 14,178
Public Safety	3,228
Public works	<u>65,751</u>
Total depreciation expense – Governmental activities	<u>\$ 83,157</u>

5. LITIGATION AND CONTINGENCIES

The Town Attorney (general legal counsel) expresses the opinion that there does not now exist any pending or threatened litigation, claim or assessment, or an unasserted claim and/or assessment which individually or collectively represent a potential loss exposure to the Town of Shady Shores, Texas.

6. RISK MANAGEMENT

Significant losses to which the Town is exposed are covered by insurance obtained primarily through the Texas Municipal League. This includes property and liability insurance. The Town retains no risk of loss except for small deductibles on some of the policies.

For insured programs, there have been no significant reduction in insurance coverage, and settlement amounts have not been exceeded insurance coverage for the current year or the three prior years.

TOWN OF SHADY SHORES, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

7. EMPLOYEE RETIREMENT PLAN

Plan Description

The Town provides pension benefits for all of its eligible 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 Town are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8667; in addition, the report is available on TMRS' website at www.TMRS.com.

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

	Plan Year 2011
Employee deposit rate	5.0%
Matching ratio (Town to employee)	1 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/20
Updated Service Credit	0%,
Annuity Increase (to retirees)	0% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each town 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 cost 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 town. 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.

TOWN OF SHADY SHORES, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

The Town contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the Town make contributions monthly. Since the Town needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

1.	Annual Required Contribution (ARC)	<u>\$ 998</u>
2.	Annual Pension Cost (APC)	998
3.	Contributions Made	<u>(998)</u>
4.	Increase (decrease) in net pension obligation	-0-
5.	Net Pension Obligation/(Asset), beginning of year	<u>-0-</u>
6.	Net Pension Obligation/(Asset), end of year	<u>\$ -0-</u>

This page left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF SHADY SHORES, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Budgeted Amounts</u>		Actual Amounts (GAAP BASIS)	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	\$ 50,000	\$ 50,000	\$ 61,215	\$ 11,215
Ad Valorem Taxes and Penalties	637,826	637,826	656,594	18,768
Franchise Taxes	101,109	101,109	118,598	17,489
Government Grants	2,200	2,200	-	(2,200)
Building Permits & Fees	20,000	20,000	28,667	8,667
Municipal Court Fines	25,800	25,800	36,162	10,362
Interest Income	2,000	2,000	2,039	39
Miscellaneous & Other Revenue	1,170	1,170	755	(415)
Total Revenues	<u>840,105</u>	<u>840,105</u>	<u>904,030</u>	<u>63,925</u>
Expenditures:				
General Government Administration	257,300	257,300	198,277	59,023
Public Safety	385,500	385,500	372,195	13,305
Public Works/Other	233,000	233,000	161,900	71,100
Total Expenditures	<u>875,800</u>	<u>875,800</u>	<u>732,372</u>	<u>143,428</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(35,695)</u>	<u>(35,695)</u>	<u>171,658</u>	<u>207,353</u>
Net Change in Fund Balances	(35,695)	(35,695)	171,658	207,353
Fund Balance – October 1 (Beginning)	<u>1,518,392</u>	<u>1,518,392</u>	<u>1,518,392</u>	<u>-</u>
Fund Balance – September 30 (Ending)	<u>\$1,482,697</u>	<u>\$1,482,697</u>	<u>\$1,690,050</u>	<u>\$ 207,353</u>

OTHER SUPPLEMENTARY INFORMATION

TOWN OF SHADY SHORES, TEXAS
GENERAL FUND
STATEMENT OF REVENUES
BUDGET AND ACTUAL FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Property Taxes:			
Current Year Taxes and Penalties	<u>\$637,826</u>	<u>\$656,594</u>	<u>\$18,768</u>
Franchise Taxes:			
TXU Energy	65,000	71,631	6,631
Atmos Energy	16,954	19,810	2,856
CoServ Gas	40	31	(9)
Century Telephone	4,000	4,761	761
Charter Communications	14,000	20,380	6,380
Waste Management	1,000	1,565	565
Other Fees	115	420	305
Total	<u>101,109</u>	<u>118,598</u>	<u>17,489</u>
Other Revenues:			
Government Grants	2,200	-	(2,200)
Sales Taxes	50,000	61,215	11,215
Permits and Other Fees	20,000	28,667	8,667
Municipal Court Fines	25,800	36,162	10,362
Interest on Investments	2,000	2,039	39
Other Revenues	1,170	755	(415)
Total	<u>101,170</u>	<u>128,838</u>	<u>27,668</u>
 Total Revenues	 <u>\$840,105</u>	 <u>\$904,030</u>	 <u>\$ 63,925</u>

TOWN OF SHADY SHORES, TEXAS
GENERAL FUND
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
General Government Administration:			
Town Secretary	\$ 39,687	\$ 39,687	\$ -
Office Clerk	9,740	5,004	4,736
Court Clerk	14,174	14,173	1
Payroll Taxes	5,711	4,501	1,210
Retirement	-	998	(998)
Municipal Judge	1,800	1,800	-
Computer Expense	5,631	4,430	1,201
Attorney Fees	33,288	31,913	1,375
Accounting/Audit Fees	6,500	5,500	1,000
Postage/Mailing	662	662	-
Staff Development/Training	3,000	1,365	1,635
Advertising	1,107	804	303
Engineering Fees	30,000	25,209	4,791
Building/Maintenance	25,000	7,055	17,945
Telephone & Utilities	15,650	14,601	1,049
Dues & Subscriptions	500	526	(26)
Office/Insurance	10,000	9,184	816
Bank Service Charge	1,000	-	1,000
Promotional	5,000	1,053	3,947
Court Fines to State	15,000	15,743	(743)
Court Software	900	950	(50)
Jury Fees	500	-	500
Elections	3,150	2,786	364
Other Expenses	200	84	116
Conferences	100	-	100
Tax Collection	7,500	5,299	2,201
Contingency	10,000	4,950	5,050
Capital Outlay	11,500	-	11,500
Total Administration	<u>257,300</u>	<u>198,277</u>	<u>59,023</u>
Public Safety:			
Police Services	114,000	108,655	5,345
Animal Control	14,000	14,000	-
Fire and Ambulance	250,000	249,540	460
Fire Hydrants	7,500	-	7,500
Total Public Safety	<u>385,500</u>	<u>372,195</u>	<u>13,305</u>
Public Works:			
Inspections	10,000	11,883	(1,883)
Roads & Streets	150,000	95,275	54,725
Street Signs	1,500	1,497	3
Library	25,000	25,000	-
Regional Storm Water Program	2,500	125	2,375
Public Works	44,000	28,120	15,880
Total Public Works	<u>233,000</u>	<u>161,900</u>	<u>71,100</u>
Total Expenditures	<u>\$ 875,800</u>	<u>\$ 732,372</u>	<u>\$ 143,428</u>

TOWN OF SHADY SHORES, TEXAS
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 SEPTEMBER 30, 2011

<u>Tax Year</u>	<u>Balance September 30, 2010</u>	<u>Current Year Levy</u>	<u>Collections</u>	<u>Supplements/ Adjustments</u>	<u>Balance September 30, 2011</u>
1999-2000	\$ 119	\$ -	\$ -	\$ -	\$ 119
2000-2001	120	-	-	-	120
2001-2002	114	-	-	-	114
2002-2003	191	-	-	-	191
2003-2004	219	-	-	-	219
2004-2005	856	-	643	-	213
2005-2006	1,431	-	592	-	839
2006-2007	2,328	-	1,550	145	923
2007-2008	2,593	-	1,467	138	1,264
2008-2009	4,241	-	2,770	97	1,568
2009-2010	7,608	-	4,659	(674)	2,275
2010-2011	<u>-</u>	<u>647,038</u>	<u>640,170</u>	<u>(29)</u>	<u>6,839</u>
Totals	<u>\$ 19,820</u>	<u>\$ 647,038</u>	<u>\$ 651,851</u>	<u>\$ (323)</u>	14,684
Less allowance for uncollectible accounts					<u>-</u>
					<u>\$14,684</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Town Council
Town of Shady Shores, Texas

We have audited the financial statements of the governmental activities of the Town of Shady Shores (the "Town") as of and for the year ended September 30, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 10, 2012. 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 Town's 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 Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Town Council, others within the Town, and appropriate 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.



Hankins, Eastup, Deaton, Tonn & Seay
A Professional Corporation
Certified Public Accountants

January 10, 2012