



Required Auditor Disclosure Letter

February 17, 2012

To the Honorable Mayor and
City Council Members of the
City of Mont Belvieu, Texas:

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Mont Belvieu, Texas (the "City") as of and for the year ended September 30, 2011, and have issued our report thereon dated February 17, 2012. Professional standards require that we provide the Mayor and members of City Council (the "governing body") with the following information related to our audit.

I. Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 24, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with its oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve the governing body or management of its responsibilities.

II. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to the governing body in our engagement letter dated May 24, 2011.

III. Significant Audit Findings

I. *Qualitative Aspects of Accounting Practices*

A. Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

- i. The significant accounting policies used by the City are described in Note I to the financial statements.
- ii. No new accounting policies were adopted and the application of existing policies was not changed during the year.
- iii. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

B. Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

6100 Windy Hill Lane
Bellville, TX 77418
979.865.3169

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the financial statements was the estimate of the useful lives of capital assets as based on industry standards relating to capital assets. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

- C. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The most sensitive disclosure affecting the financial statements is the schedule of long-term debt.

2. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

3. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes both material and immaterial misstatements detected as a result of our audit procedures.

4. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

5. Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 17, 2012.

6. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions

occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

Client: *City of Mont Belvieu, Texas*
 Engagement: *4.1 - Mont Belvieu 09/30/11*
 Period Ending: *9/30/2011*
 Trial Balance: *2.2.01 - TB*
 Workpaper: *2.5.06 - Adjusting Journal Entries Report - 2*

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1				
Adjusting entry to account for pension liability in the utility fund. Make entry as of yearend and do not reverse.				
16-4205230	UNDERFUNDED PENSION EXPENSE		5,632.00	
16-2100	ACCRUED LIABILITIES			5,632.00
Total			5,632.00	5,632.00
Adjusting Journal Entries JE # 2				
Adjusting journal entry to account for compensated absences in the utility fund. Make entry as of yearend and do not reverse.				
16-2100	ACCRUED LIABILITIES		18,935.00	
16-2120	ACCRUED VACATION PAYABLE			18,935.00
Total			18,935.00	18,935.00
Adjusting Journal Entries JE # 3				
Golf course capital asset entry for depreciation expense. Make entry as of yearend and do not reverse.				
05-4105752	DEPRECIATION EXPENSE		290,897.54	
05-1699	ACCUMULATED DEPRECIATION			290,897.54
Total			290,897.54	290,897.54
Adjusting Journal Entries JE # 4				
Recreation center adjusting entry for capital assets depreciation expense. Make entry as of yearend and do not reverse.				
15-4105752	DEPRECIATION EXPENSE		438,587.40	
15-1699	ACCUMULATED DEPRECIATION			438,587.40
Total			438,587.40	438,587.40
Adjusting Journal Entries JE # 5				
Public utility adjusting entry for capital assets depreciation expense. Make entry as of yearend and do not reverse.				
16-4205752	DEPRECIATION EXPENSE		497,359.96	
16-1699	ACCULATED DEPRECIATION			497,359.96
Total			497,359.96	497,359.96
Adjusting Journal Entries JE # 6 2.4.03 Sheet 4				
Client entry 2006 G.O. Construction fund.				
16-4205318	LICENSES, REG & INSPECTION		16,397.37	
16-4205760.021	Transfers out		16,397.37	
21-1000	CLAIM ON CASH		16,397.37	
16-1000	CLAIM ON CASH			16,397.37
16-1599.707	CIP - FA- WTR & SWR MAINS			16,397.37
21-3999	Transfers in -PUF			16,397.37
Total			49,192.11	49,192.11
Adjusting Journal Entries JE # 7 2.4.03 Sheet 7				
Client entry for golf course capital assets.				
05-1599.805	CIP - EPGC PAVILLION		14,465.27	
05-1599.806	CIP - GC PARKING LOT CONFIG		3,134.11	
22-1390.005	DUE FRM/TO GOLF COURSE FUND		17,599.38	
05-1390.022	DUE FRM/TO 2007 CO VAR PURP			17,599.38
22-8015760.005	TRANSFR OUT CIP GOLF COURSE			17,599.38
Total			35,198.76	35,198.76
Adjusting Journal Entries JE # 8 2.4.05				

Client: *City of Mont Belvieu, Texas*
 Engagement: *4.1 - Mont Belvieu 09/30/11*
 Period Ending: *9/30/2011*
 Trial Balance: *2.2.01 - TB*
 Workpaper: *2.5.06 - Adjusting Journal Entries Report - 2*

Account	Description	W/P Ref	Debit	Credit
Client entry for 2007 Co Various Purpose Construction.				
05-1000	CLAIM ON CASH		4,648.36	
05-1014	P.BNK MONEY MKT INVESTMENT		987,838.72	
05-1599.805	CIP - EPGC PAVILLION		317.92	
05-1599.806	CIP - GC PARKING LOT CONFIG		69.79	
05-4105740	BANKING FEES & SERV CHGS		1,457.88	
22-1004	CASH IN BANK - BANK OF AMERICA		17.67	
22-1390.005	DUE FRM/TO GOLF COURSE FUND		553,603.78	
22-2092	RETAINAGE PAYABLE		407,073.73	
22-3980	INTEREST INCOME		33,637.49	
05-1004	CASH IN BANK - BANK OF AMERICA			17.67
05-1390.022	DUE FRM/TO 2007 CO VAR PURP			387.71
05-1390.022	DUE FRM/TO 2007 CO VAR PURP			553,216.07
05-2100	ACCRUED LIABILITES			407,073.73
05-3980	INTEREST INCOME			33,637.49
22-1000	CLAIM ON CASH			4,648.36
22-1014.022	P.BNK MONEY MKT INVESTMENT			987,838.72
22-4105740	BANKING FEES & SERVICE CHRGE			1,457.88
22-8015760	Transfer Out - Construction in Progress			387.71
Total			1,988,665.34	1,988,665.34

Adjusting Journal Entries JE # 9 2.4.03 Sheet 3
 Client entry for fund 27 and 21.

21-1000	CLAIM ON CASH		27,221.25	
27-5255921	CAP-ROADS/SIDEWALKS/DITCHES		19,539.61	
27-5265911.031	CAP-Land Improv-Strm Swrs,Di		6,856.18	
27-5275921	CAP - ROADS/SIDEWLKS/BRIDGES		631.23	
27-5285921	CAP - ROADS/SIDEWLKS/BRIDGES		194.23	
21-6015921	CAP - ROAD, SIDEWALK & DITCH			27,099.86
21-6035941.04	CAP - WATER MAINS, LINES, & H			121.39
27-1000	CLAIM ON CASH			27,221.25
Total			54,442.50	54,442.50

Adjusting Journal Entries JE # 10 2.4.04
 Client entry for fund 21 and 16.

16-1000	CLAIM ON CASH		202,640.39	
16-1152.085	INTEREST RECEIVABLE		29,092.73	
16-1390.021	DUE FRM/TO 2006 GOB FUND		209,182.34	
16-1550	VEHICLES AND EQUIPMENT		12,988.82	
16-1599.603	CIP - FA - WATER & SWR MAINS		108,898.85	
16-1599.604	CIP - ELEVATED TANKS		572,085.72	
16-1599.701	CIP - FA - LIFT STATIONS		2,953,438.30	
16-4205740	BANKING FEES & SERV CHGS		2,187.90	
21-1390.016	DUE FRM/TO PUBLIC UTILITY FND		3,392,909.89	
21-2092	RETAINAGE PAYABLE		402,560.69	
21-3980	INTEREST INCOME		40,542.67	
16-1390.021	DUE FRM/TO 2006 GOB FUND			3,602,092.23
16-1599.013	CONSTRUCTION IN PROGRESS-CIP			27,099.86
16-1599.707	CIP - FA- WTR & SWR MAINS			18,219.60
16-2092	RETAINAGE PAYABLE			402,560.69
16-3980	INTEREST INCOME			40,542.67
21-1000	CLAIM ON CASH			202,640.39
21-1152.085	INTEREST RECEIVABLE			29,092.73
21-4105740	BANKING FEES & SERVICE CHRGE			2,187.90
21-4205760.016	Transfer Out- CIP			3,602,092.23

Client: *City of Mont Belvieu, Texas*
 Engagement: *4.1 - Mont Belvieu 09/30/11*
 Period Ending: *9/30/2011*
 Trial Balance: *2.2.01 - TB*
 Workpaper: *2.5.06 - Adjusting Journal Entries Report - 2*

Account	Description	W/P Ref	Debit	Credit
Total			<u><u>7,926,528.30</u></u>	<u><u>7,926,528.30</u></u>
Adjusting Journal Entries JE # 11				
Client entry for assets in fund 16 and 26.				
		2.4.06		
16-1000	CLAIM ON CASH		2,928,444.80	
16-1014	P.BNK MONEY MKT INVESTMENT		243,810.41	
16-1599.603	CIP - FA - WATER & SWR MAINS		19,705.95	
16-1599.604	CIP - ELEVATED TANKS		31,000.00	
16-1599.701	CIP - FA - LIFT STATIONS		1,340,604.88	
16-1599.707	CIP - FA- WTR & SWR MAINS		594,169.67	
16-2092	RETAINAGE PAYABLE		239,499.05	
16-4205740	BANKING FEES & SERV CHGS		1,943.19	
26-1390.016	DUE FRM/TO PUBLIC UTILITY FND		4,967,119.16	
26-2000	AP PENDING (DUE TO POOLED)		387,509.37	
26-3980	INTEREST INCOME		44,549.42	
16-1390.022	DUE FRM/TO 2007 CO VAR PURP			4,967,119.16
16-2000	AP PENDING (DUE TO POOLED)			387,509.37
16-3980	INTEREST INCOME			44,549.42
26-1000	CLAIM ON CASH			2,928,444.80
26-1014.026	P.BNK MONEY MKT INVESTMENT			243,810.41
26-2092	RETAINAGE PAYABLE			239,499.05
26-4105740	BANKING FEES & CHGS			1,943.19
26-5015760.022	TRANSFER OUT - FUND 22 PARK			1,985,480.50
Total			<u><u>10,798,355.90</u></u>	<u><u>10,798,355.90</u></u>
Adjusting Journal Entries JE # 12				
Transfer adjustment to balance zero cash account. Make entry as of year end.				
01-1390.006	DUE F/T CAP PROJ-INFRA		710,455.71	
13-1000	CLAIM ON CASH		710,455.71	
01-1000	CLAIM ON CASH			710,455.71
13-1390.022	DUE FRM/TO 2007 CO CONSTRUCT			710,455.71
Total			<u><u>1,420,911.42</u></u>	<u><u>1,420,911.42</u></u>
Adjusting Journal Entries JE # 13				
Entry to reduce fund 26 fund balance to show the correct amount of unspent bond proceeds. Client should make entry as of yearend.				
16-1390.022	DUE FRM/TO 2007 CO VAR PURP		1,985,480.00	
26-50000	Transfers Out		1,985,480.00	
16-3999.13	TRANSFER IN			1,985,480.00
26-1390.016	DUE FRM/TO PUBLIC UTILITY FND			1,985,480.00
Total			<u><u>3,970,960.00</u></u>	<u><u>3,970,960.00</u></u>
Adjusting Journal Entries JE # 14				
General fixed asset entry for the governmental activities.				
07-1521	ROADS & BRIDGES		609,841.31	
07-1730	PARKS & RECREATION		605,293.52	
07-2710	INVESTMENT IN FIXED ASSET			1,215,134.83
Total			<u><u>1,215,134.83</u></u>	<u><u>1,215,134.83</u></u>