

Village of Surfside Beach, Texas

Annual Financial Report
For the Year Ended September 30, 2014

Baker, Stogner & Associates
Certified Public Accountants

Village of Surfside Beach, Texas

Annual Financial Report

For the Year Ended September 30, 2014

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Village of Surfside Beach, Texas

Principal Officials

September 30, 2014

Governing Body

Mayor:	Larry Davison
Mayor Pro-Tem:	Troy McMinn
Alderspersons:	Elizabeth Brown
	Peggy Llewellyn
	Toni Capretta
	David Guzman

Other Principal Officials

City Secretary:	Amanda Davenport
Finance Director:	Ronda Henson
Police Chief:	Gary Phillips
Public Works Supervisor:	Pete Gutierrez
Municipal Judge:	Bobby Smith
Municipal Court Clerk:	Barbara Bluejacket
Building Official	Kay Huffman
Utility Clerk:	Teresa Timms

FINANCIAL SECTION

Baker, Stogner & Associates
Certified Public Accountants

316 E. Jackson
El Campo, TX 77437

(979) 543-3251
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of Village Council
Village of Surfside Beach, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Surfside Beach, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Village of Surfside Beach'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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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 entity'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 entity'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.

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 business-type activities, each major fund, and the aggregate remaining fund information of the Village of Surfside Beach, Texas, as of

September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof 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 and budgetary comparison information 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 Village of Surfside Beach's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2015, on our consideration of the Village of Surfside Beach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of Surfside Beach's internal control over financial reporting and compliance.

Baker, Stogner & Associates

El Campo, Texas
May 27, 2015

Management Discussion and Analysis

The Village of Surfside Beach
Management's Discussion and Analysis

As management of the Village of Surfside Beach (The Village), we offer readers of the Village of Surfside Beach's financial statements this narrative overview and analysis of the financial activities of the Village of Surfside Beach for the fiscal year ending September 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Village of Surfside Beach, Brazoria County financial statements, which follow this narrative.

Financial Highlights

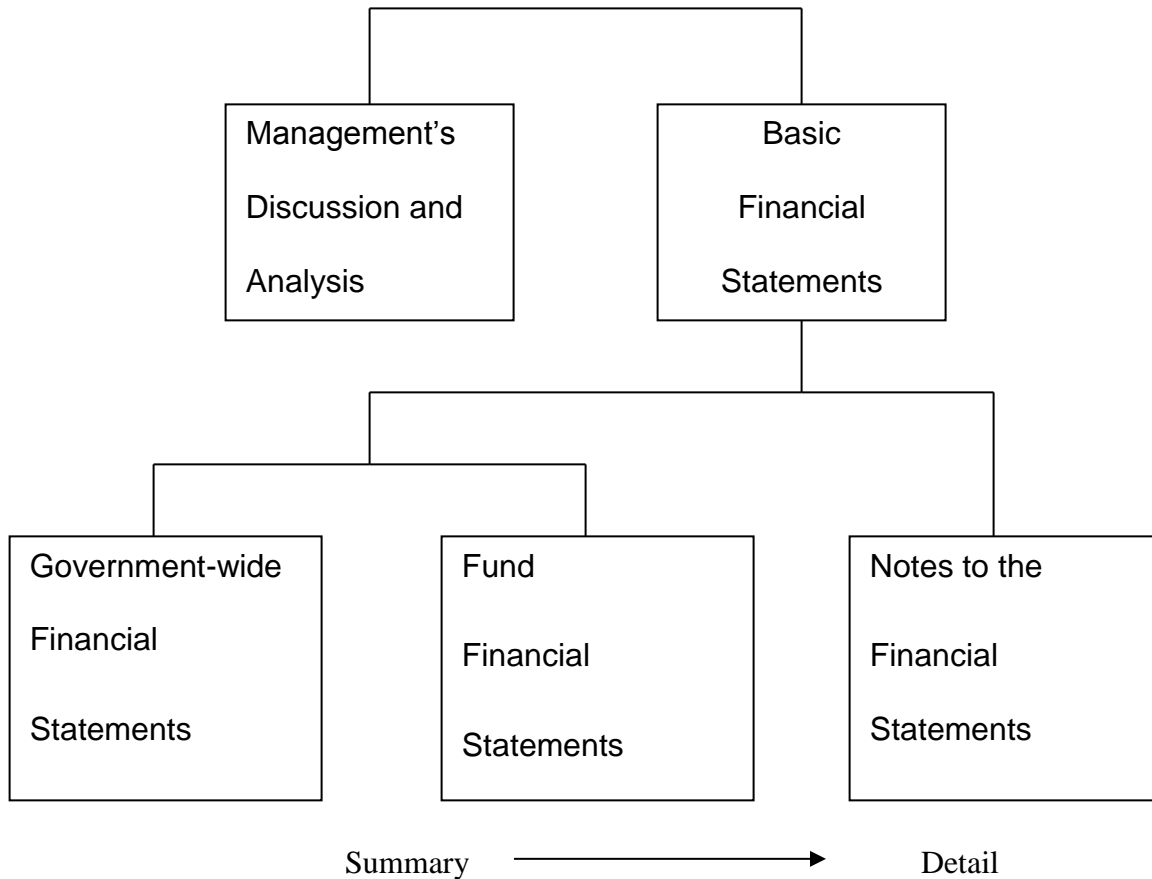
- The assets of the Village exceeded its liabilities at the close of the fiscal year by \$ 9,002,809.
- The government's total net position increased by \$440,507.
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$1,864,857 an increase of \$118,165 in comparison with the prior year. Approximately 29 percent of this total amount, or \$541,662, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$541,662, or 27 percent of total general fund expenditures for the fiscal year.
- The Village's total debt decreased by \$185,473 or 4% during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Village of Surfside Beach basic financial statements. The basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Village through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Village.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the Government-wide Financial Statements. They provide both short and long-term information about the Village's financial status.

The next statements are Fund Financial Statements. These statements focus on the activities of the individual parts of the Village's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the Village's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Village's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Village's financial status as a whole.

The two government-wide statements report the Village's net position and how it has changed. Net position is the difference between the Village's total assets and total liabilities. Measuring net position is one way to gauge the Village's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Village's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Village charges customers to provide. These include the water, sewer and garbage collection services offered by the water department.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Village's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of Surfside like all other governmental entities in Texas uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Village's budget ordinance. All of the funds of The Village of Surfside can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Village's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Village programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Village adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Village, the management of The Village, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the Village of Surfside Beach to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Village of Surfside Beach complied with the budget ordinance and whether or not the Village of Surfside Beach succeeded in providing the services as planned when the

budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds

The Village has one enterprise fund, The Water System Fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village of Surfside Beach uses the enterprise fund to account for its water and sewer activity and for the garbage collection fee. These funds are the same as those functions shown in the business-type activities in the Statement of Net position and the Statement of Activities.

Notes to the Financial Statements

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

Government-Wide Financial Analysis The Village of Surfside Beach's Net Position

Figure 2

	Governmental Activity		Business Type Activity		Totals	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 1,926,556	\$ 1,865,874	\$ 275,081	\$ 215,712	\$ 2,201,637	\$ 2,081,586
Capital Assets	5,936,521	5,796,188	3,727,616	3,732,966	9,664,137	9,529,154
Deferred Outflows	-	-	-	-	-	-
Total Assets	\$ 7,863,077	\$ 7,662,062	\$ 4,002,697	\$ 3,948,678	\$ 11,865,774	\$ 11,610,740
Long Term Liabilities	1,419,411	1,522,633	1,132,148	1,207,473	2,551,559	2,730,106
Other Liabilities	214,956	202,546	96,450	115,786	311,406	318,332
Deferred Inflows	-	-	-	-	-	-
Total Liabilities	\$ 1,634,367	\$ 1,725,179	\$ 1,228,598	\$ 1,323,259	\$ 2,862,965	\$ 3,048,438
Net Position						
Invested in capital assets						
net of related debt	4,360,110	4,181,749	2,528,707	2,445,297	6,888,817	6,627,046
Restricted	6,995	6,995	110,008	76,114	117,003	83,109
Unrestricted	1,861,605	1,748,139	135,385	104,008	1,996,990	1,852,147
Total Net Position	\$ 6,228,710	\$ 5,936,883	\$ 2,774,099	\$ 2,625,419	\$ 9,002,809	\$ 8,562,302

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Village of Surfside exceeded liabilities by \$9,002,809 as of September 30, 2014. The Village's net position increased by \$440,507 for the fiscal year ended September 30, 2014. However, the largest portion 77% reflects the Village's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Village's uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Village's net position 1% represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,996,990 is unrestricted.

Changes in Net position
Figure 3

	Governmental Activity		Business Type Activity		Totals	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues						
Charges for Services	\$ 445,386	\$ 408,338	\$ 556,945	\$ 560,801	\$ 1,002,331	\$ 969,139
Operating Grants and Contributions	-	111,368	-	-	-	111,368
Capital Grants and Contributions	1,079,490	534,524	37,569	794,906	1,117,059	1,329,430
General Revenues						
Property Taxes	726,936	690,983	-	-	726,936	690,983
Other Taxes	571,483	717,451	-	-	571,483	717,451
Other	22,179	48,442	12,927	2,651	35,106	51,093
Total Revenues	\$ 2,845,474	\$ 2,511,106	\$ 607,441	\$ 1,358,358	\$ 3,452,915	\$ 3,869,464
Expenses						
General Government	\$ 427,004	\$ 467,055	\$ -	\$ -	\$ 427,004	\$ 467,055
Municipal Court	47,510	50,110	-	-	47,510	50,110
Police/EMS	262,370	297,511	-	-	262,370	297,511
Public Works	322,549	296,740	-	-	322,549	296,740
Public Facilities	407,806	581,286	516,522	509,283	924,328	1,090,569
Economic Development	98,262	70,169	-	-	98,262	70,169
Employee Benefits	64,787	57,192	-	-	64,787	57,192
Grant Expenses	651,533	453,488	-	-	651,533	453,488
Interest and Fees	42,695	29,398	59,469	59,036	102,164	88,434
Non Departmental	111,901	91,780	-	-	111,901	91,780
Total Expenses	\$ 2,436,417	\$ 2,394,729	\$ 575,991	\$ 568,319	\$ 3,012,408	\$ 2,963,048
Increase in Net Position before transfers	\$ 409,057	\$ 116,377	\$ 31,450	\$ 790,039	\$ 440,507	\$ 906,416
Transfers	(117,230)	(107,428)	117,230	107,428	-	-
Increase in Net Position	\$ 291,827	\$ 8,949	\$ 148,680	\$ 897,467	\$ 440,507	\$ 906,416
Net Position beginning of year	\$ 5,936,883	\$ 5,927,934	\$ 2,625,419	\$ 1,727,952	\$ 8,562,302	\$ 7,655,886
Net Position end of year	\$ 6,228,710	\$ 5,936,883	\$ 2,774,099	\$ 2,625,419	\$ 9,002,809	\$ 8,562,302

Governmental activities: Governmental activities increased the Village's net position by \$291,827, thereby accounting for 66% of the total increase in the net position of the Village.

Business-type activities: Business-type activities increased the Village's net position by \$148,680.

Financial Analysis of Surfside Beach Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Village's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$541,662, while total fund balance reached \$548,687. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 76 percent of total General Fund expenditures.

At September 30, 2014 the governmental funds of The Village reported a combined fund balance of \$1,864,857, a 7 percent increase over last year. Included in this change in fund balance are increases in fund balance in the General Fund.

General Fund Budgetary Highlights: During the fiscal year, the Village did not revise the budget. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. The original budget was not amended.

Proprietary Funds: The Village's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water System Fund at the end of the fiscal year amounted to \$135,385. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Village's business-type activities.

Capital Asset and Debt Administration

Capital assets: The Village's investment in capital assets for its governmental and business-type activities as of September 30, 2014 totals \$6,888,817 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

The Village of Surfside Beach, Capital Assets

Figure 4

	Governmental Activity		Business Type Activity		Totals	
	2014	2013	2014	2013	2014	2013
Land	\$ -	\$ -	\$ 112,233	\$ 91,304	\$ 112,233	\$ 91,304
Buildings and Systems	1,306,085	1,306,085	-	-	1,306,085	1,306,085
Improvements other than buildings	-	-	664,155	662,655	664,155	662,655
Machinery and Equipment	721,445	659,154	65,480	65,480	786,925	724,634
Infrastructure	8,816,005	8,487,214	3,652,077	3,652,077	12,468,082	12,139,291
Construction in Progress	35,145	-	160,766	87,662	195,911	87,662
					-	-
Totals	\$ 10,878,680	\$ 10,452,453	\$ 4,654,711	\$ 4,559,178	\$ 15,533,391	\$ 15,011,631

Long-term Debt: As of September 30, 2014 the Village had total bonded debt outstanding of \$2,351,000. Of this, \$1,190,000 is debt backed by the full faith and credit of the Village. The remainder of the Village's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

The Village of Surfside Beach - Outstanding Debt General Obligation and Revenue Bonds

Figure 5

	Governmental Activity		Business Type Activity		Totals	
	2014	2013	2014	2013	2014	2013
General Obligation	\$ 1,190,000	\$ 1,225,000	\$ -	\$ -	\$ 1,190,000	\$ 1,225,000
Revenue Bonds	-	-	1,161,000	1,217,000	1,161,000	1,217,000
Totals	\$ 1,190,000	\$ 1,225,000	\$ 1,161,000	\$ 1,217,000	\$ 2,351,000	\$ 2,442,000

The Village's total bonded debt decreased by \$91,000, or 4%, during the past fiscal year.

Economic Factors for the Village of Surfside Beach

Round two of funds for emergency recovery in Hurricanes Ike and Dolly will be spent by Brazoria County on behalf of the Village of Surfside Beach. These will be utilized for water, sewer, and street improvements and restoration.

Requests for Information

This report is designed to provide an overview of the Village's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the City Secretary, 1304 Monument Drive Surfside Beach, Texas 77541 City Email address is: Sandra@surfside.org Website: www.surfsidetx.org.

Basic Financial Statements

Village of Surfside Beach, Texas

Statement of Net Position

September 30, 2014

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Current Assets:			
Cash and investments	\$ 1,724,262	\$ 103,373	\$ 1,827,635
Receivables, net of allowance for uncollectibles -			
Property taxes	21,089	-	21,089
Franchise taxes	8,844	-	8,844
Other taxes	18,906	-	18,906
Miscellaneous	142,416		142,416
Customer Accounts	-	58,743	58,743
Intergovernmental	-	-	-
Other	-	299	299
Internal balances	4,044	257	4,301
Due from other governments	-		-
Inventories	-	2,401	2,401
Total Current Assets	<u>1,919,561</u>	<u>165,073</u>	<u>2,084,634</u>
Restricted assets:			
Cash and investments	<u>6,995</u>	<u>110,008</u>	<u>117,003</u>
Total Restricted Assets	<u>6,995</u>	<u>110,008</u>	<u>117,003</u>
Noncurrent Assets:			
	-	-	-
Net Capital Assets (Note C)	<u>5,936,521</u>	<u>3,727,616</u>	<u>9,664,137</u>
Total Noncurrent Assets	<u>5,936,521</u>	<u>3,727,616</u>	<u>9,664,137</u>
Deferred Outflows of Resources			
	-	-	-
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 7,863,077</u>	<u>\$ 4,002,697</u>	<u>\$ 11,865,774</u>

	Governmental Activities	Business-type Activities	Total
<u>Liabilities</u>			
Current Liabilities			
Accrued liabilities	\$ -	\$ 267	\$ 267
Accounts payable	39,888	8,248	48,136
Compensated absences payable	12,905	1,205	14,110
Accrued interest payable	4,440	6,452	10,892
Due to other governments	466	-	466
Internal balances	257	4,044	4,301
Current portion of long-term debt	157,000	76,234	233,234
Liabilities payable from restricted assets	-	-	-
Deferred revenue	-	-	-
Total Current Liabilities	<u>214,956</u>	<u>96,450</u>	<u>311,406</u>
Noncurrent Liabilities			
Customer deposits	-	9,473	9,473
Notes payable - banks	59,411	18,675	78,086
Notes payable - CDL	240,000	-	240,000
Bonds and similar debt obligations	<u>1,120,000</u>	<u>1,104,000</u>	<u>2,224,000</u>
Total Noncurrent Liabilities	<u>1,419,411</u>	<u>1,132,148</u>	<u>2,551,559</u>
Total Liabilities	<u>1,634,367</u>	<u>1,228,598</u>	<u>2,862,965</u>
Deferred Inflows of Resources	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net Position</u>			
Investment in capital assets	4,360,110	2,528,707	6,888,817
Restricted for:			
Debt service	-	110,008	110,008
MCTF/MCSF	6,995	-	6,995
Unrestricted	<u>1,861,605</u>	<u>135,385</u>	<u>1,996,990</u>
Total Net Position	<u>6,228,710</u>	<u>2,774,099</u>	<u>9,002,809</u>
Total Liabilities and Net Position	<u>\$ 7,863,077</u>	<u>\$ 4,002,697</u>	<u>\$ 11,865,774</u>

Village of Surfside Beach, Texas

Statement of Activities

For the Year Ended September 30, 2014

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Administration	\$ 427,004	\$ -	\$ -	\$ -
Municipal Court	47,510	90,939	-	-
Police Department/EMS	262,370	99,361	-	-
Public Works	322,549	199,086	-	-
Public Facilities	407,806	56,000	-	15,720
Economic Development	98,262	-	-	-
Employee benefits	64,787	-	-	-
Grant expenditures	651,533	-	-	1,063,770
Interest and fees on debt	42,695	-	-	-
Non Departmental	111,901	-	-	-
Total Governmental Activities	2,436,417	445,386	-	1,079,490
Business Type Activities:				
Water and sewer services	516,522	556,945	-	37,569
Interest and fees on debt	59,469	-	-	-
Contract for emergency services	-	-	-	-
Total Business-type Activities	575,991	556,945	-	37,569
Totals	3,012,408	1,002,331	-	1,117,059

General Revenues:

Property taxes
 Sales taxes
 Franchise taxes
 Hotel-Motel taxes
 Beach permits
 Tap Fees
 Interest earned
 Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position:

Beginning of year (Note C) (restated)

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$ (427,004)	\$ -	\$ (427,004)
43,429	-	43,429
(163,009)	-	(163,009)
(123,463)	-	(123,463)
(336,086)	-	(336,086)
(98,262)	-	(98,262)
(64,787)	-	(64,787)
412,237	-	412,237
(42,695)	-	(42,695)
(111,901)	-	(111,901)
<u>(911,541)</u>	<u>-</u>	<u>(911,541)</u>
-	77,992	77,992
-	(59,469)	(59,469)
-	-	-
-	18,523	18,523
<u>(911,541)</u>	<u>18,523</u>	<u>(893,018)</u>
726,936	-	726,936
79,678	-	79,678
56,424	-	56,424
243,856	-	243,856
191,525	-	191,525
7,000	-	7,000
8,719	25	8,744
6,460	12,902	19,362
(117,230)	117,230	-
<u>1,203,368</u>	<u>130,157</u>	<u>1,333,525</u>
291,827	148,680	440,507
<u>5,936,883</u>	<u>2,625,419</u>	<u>8,562,302</u>
<u>\$ 6,228,710</u>	<u>\$ 2,774,099</u>	<u>\$ 9,002,809</u>

Village of Surfside Beach

Balance Sheet

Governmental Funds

September 30, 2014

	Special Revenue Funds		
	General Fund	Beach Fund	Hotel-Motel Tax Fund
<u>Assets</u>			
Cash and Investments	\$ 568,300	\$ 38,283	\$ 547,011
Receivables:	-	-	-
Property taxes, net of allowance for uncollectives	18,275	-	-
Franchise taxes	8,844	-	-
Other taxes	18,906	-	-
Miscellaneous	598	399	133,595
Due from other funds	7,511	-	-
Due from other governments	-	-	-
Restricted Assets:Cash & Investments	6,995	-	-
Total Assets	<u>\$ 629,429</u>	<u>\$ 38,682</u>	<u>\$ 680,606</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	37,527	2,295	66
Due to other governments	466	-	-
Due to other funds	24,504	3,366	100
Unearned revenue	18,275	-	-
Total Liabilities	<u>80,772</u>	<u>5,661</u>	<u>166</u>
Fund Balances (Deficit)			
Restricted for MCTF/MCSF	6,995		
Unassigned, reported in General Fund	541,662	-	-
Assigned, reported in			
Debt service			
Special Revenue Fund		33,021	680,440
Capital Projects Fund	-	-	-
Total Fund Balances	<u>548,657</u>	<u>33,021</u>	<u>680,440</u>
Total Liabilities and Fund Balances	<u>\$ 629,429</u>	<u>\$ 38,682</u>	<u>\$ 680,606</u>

Special Revenue Funds (contd)

Sewer Tap	2006 TWDB	Debt Service	Total Governmental Funds
\$ 513,096	\$ -	\$ 57,572	\$ 1,724,262
-	-	-	-
-	-	2,814	21,089
-	-	-	8,844
-	-	-	18,906
7,824	-	-	142,416
-	-	24,247	31,758
-	-	-	-
-	-	-	6,995
<u>\$ 520,920</u>	<u>\$ -</u>	<u>\$ 84,633</u>	<u>\$ 1,954,270</u>
			-
			-
-	-	-	39,888
-	-	-	466
-	-	-	27,970
-	-	2,814	21,089
<u>-</u>	<u>-</u>	<u>2,814</u>	<u>89,413</u>
			6,995
			-
-	-	-	541,662
			-
		81,819	81,819
520,920	-	-	1,234,381
-	-	-	-
<u>520,920</u>	<u>-</u>	<u>81,819</u>	<u>1,864,857</u>
<u>\$ 520,920</u>	<u>\$ -</u>	<u>\$ 84,633</u>	<u>\$ 1,954,270</u>

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Village of Surfside Beach

Reconciliation of Total Governmental Fund
Fund Balance to Governmental Net Position
September 30, 2014

Total Governmental Fund Balance \$ 1,864,857

*Amounts reported for governmental activities
in the statement of net assets are different because:*

Long term assets used in governmental activities are not
financial resources and therefore are not reported
in these funds.

Capital assets	5,936,521
Property tax receivables, unearned revenue	21,089

Certain liabilities; long-term liabilities and accruals
are not reported in fund accounting, but are included
in the full accrual Statement of Net Assets

Notes payable	(1,576,412)
Compensated absences and accrued interest liabilities	<u>(17,345)</u>

Net Position of Governmental Activities \$ 6,228,710

Village of Surfside Beach

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended September 30, 2014

	Special Revenue Funds		
	General Fund	Beach Fund	Hotel-Motel Tax Fund
Revenues:			
Property taxes	\$ 567,691	\$ -	\$ -
Franchise tax	56,424	-	-
Sales and use tax	79,678	-	-
Other Taxes	10,314	-	233,542
Municipal court fines and fees	90,939	-	-
Licenses and permits	35,324	191,525	-
Garbage and service fees	163,762	-	-
Parks and Recreation	56,000	-	-
EMS	99,361	-	-
Miscellaneous	5,010	702	2,232
Intergovernmental	730,139	-	4,840
Donations			15,720
Total Revenues	<u>1,894,642</u>	<u>192,227</u>	<u>256,334</u>
Expenditures:			
Current -			
General Administration	368,717	-	-
Municipal Court	47,510	-	-
Police Department/EMS	233,068	-	-
Public Works	198,347	-	-
Public Facilities	-	331,201	-
Economic Development	-	-	98,262
Employee Benefits	64,787	-	-
Debt Service	12,495	15,494	-
Capital Outlay	62,291	-	-
Grant Expenditures	600,000	-	51,533
Non Departmental	111,901	-	-
Total Expenditures	<u>1,699,116</u>	<u>346,695</u>	<u>149,795</u>
Excess of Revenues Over (Under) Expenditures	<u>195,526</u>	<u>(154,468)</u>	<u>106,539</u>
Other Financing Sources (Uses):			
Proceeds from long-term debt	20,943		
Operating Transfers In	-	91,000	-
Operating Transfers Out	(60,535)	-	(91,000)
Total Other Financing Sources (Uses)	<u>(39,592)</u>	<u>91,000</u>	<u>(91,000)</u>
Net Change in Fund Balances	155,934	(63,468)	15,539
Fund Balances:			
Beginning of year, as restated	392,723	96,489	664,901
End of year	<u>\$ 548,657</u>	<u>\$ 33,021</u>	<u>\$ 680,440</u>

Special Revenue Funds (contd)

Sewer Tap	2006 TWDB	Debt Service	Total Governmental Funds
\$ -	\$ -	\$ 161,442	\$ 729,133
-	-	-	56,424
-	-	-	79,678
-	-	-	243,856
-	-	-	90,939
7,000	-	-	233,849
-	-	-	163,762
-	-	-	56,000
-	-	-	99,361
7,235	-	-	15,179
-	-	-	734,979
			15,720
14,235	-	161,442	2,518,880
-	-	-	368,717
-	-	-	47,510
-	-	-	233,068
-	-	-	198,347
-	-	-	331,201
-	-	-	98,262
-	-	-	64,787
-	-	108,677	136,666
-	35,145	-	97,436
-	-	-	651,533
-	-	-	111,901
-	35,145	108,677	2,339,428
14,235	(35,145)	52,765	179,452
-	35,000	-	55,943
-	-	-	91,000
-	(2,285)	(54,410)	(208,230)
-	32,715	(54,410)	(61,287)
14,235	(2,430)	(1,645)	118,165
506,685	2,430	83,464	1,746,692
\$ 520,920	\$ -	\$ 81,819	\$ 1,864,857

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Village of Surfside Beach

Reconciliation of the Statement of Revenues Expenditures and Changes in Fund Balances to the Governmental Statement of Activities For the Year Ended September 30, 2014

Net Change in Fund Balances - Governmental Funds \$ 118,165

*Amounts reported for governmental activities in the
statement of activities differ because:*

Governmental funds report capital outlays as expenditures,
However, in the Statement of Activities, the cost of these
assets should be allocated over their estimated useful lives
capital outlay and depreciation in the current period. 140,332

Long Term Debt Transactions -

Repayment of debt principal is an expenditure in the
governmental funds, but the repayment reduces long-
term liabilities in the Statement of Net Position. 93,971

Proceeds from long-term borrowing is a financial resource
in the fund reporting, but a liability in the Statement of
Net Assets - net of lending reported in the enterprise fund. (55,943)

Some expenses in the Statement of Activities do not
require the use of current financial resources and, therefore,
are not reported as expenditures in governmental funds (2,501)

Uncollected property taxes are not recognized as revenue
in governmental funds. (2,197)

Change in Net Position of Governmental Activities \$ 291,827

Village of Surfside Beach, Texas

Statement of Net Position

Proprietary Fund - Water & Sewer Utility

September 30, 2014

Assets

Current Assets:

Cash	\$	103,373
Accounts receivable, net of allowance for uncollectibles		58,743
Other receivables		299
Due from other funds		257
Inventory		<u>2,401</u>

Total Current Assets 165,073

Restricted assets:

Interest and Sinking		110,008
Debt service reserve		<u>-</u>

Total Restricted Assets 110,008

Noncurrent assets:

Capital Assets		4,654,711
Less: Accumulated Depreciation		<u>(927,095)</u>

Total Noncurrent Assets 3,727,616

Deferred Outflows of Resources

Debt issuance cost, net of accumulated amortization		<u>-</u>
--	--	----------

Total Deferred Outflows of Resources -

Total Assets \$ 4,002,697

Liabilities

Current liabilities:

Accrued liabilities	\$	267
Accounts payable		8,248
Compensated absences payable		1,205
Due to other Funds		4,044
Payables from restricted assets -		-
Accrued interest payable		6,452
Current portion of long-term debt		<u>76,234</u>

Total Current Liabilities 96,450

Noncurrent Liabilities (net of current portion):

Customer deposits		9,473
1997 Revenue Bonds		90,000
2005 Certificates of Obligation		1,014,000
Note payable CRG		18,675
		<u>-</u>

Total Noncurrent Liabilities 1,132,148

Total Liabilities 1,228,598

Deferred Inflows of Resources -

Total Deferred Inflows of Resources -

Net Position

Investment in capital assets		2,528,707
Restricted for debt service		110,008
Restricted for interfund receivable		-
Unrestricted		<u>135,385</u>

Total Net Position 2,774,099

Total Liabilities and Net Position \$ 4,002,697

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Village of Surfside Beach, Texas

Statement of Revenues, Expenses, and Changes in
Fund Net Position - Proprietary Fund - Water and Sewer Utility
For the Year Ended September 30, 2014

Operating Revenues:	
Water sales	\$ 381,469
Sewer services	149,711
Late payment charges	6,993
Tap fees	17,500
Reconnection fees	1,272
Miscellaneous	12,902
Grant Revenues	<u>37,569</u>
Total Operating Revenue	<u>607,416</u>
Operating Expenses:	
Personnel related	183,446
Contracted services	3,500
Repairs and maintenance	79,007
Other charges	149,687
Depreciation and amortization	<u>100,882</u>
Total Operating Expenses	<u>516,522</u>
Operating Income (Loss)	<u>90,894</u>
Nonoperating Revenue (Expenses):	
Interest earned	25
Paying agent fees	(600)
Interest expense	<u>(58,869)</u>
Total Nonoperating Revenue (Expenses)	<u>(59,444)</u>
Net Income (Loss) Before Contributions and Transfers	31,450
Capital Contributions	-
Transfers In	<u>117,230</u>
Change in Net Position	148,680
Net Position:	
Beginning of year, as restated	<u>2,625,419</u>
Total Net Position - Ending	<u>\$ 2,774,099</u>

Village of Surfside Beach, Texas

Statement of Cash Flows

Proprietary Fund - Water & Sewer Utility

For the Year Ended September 30, 2014

Cash flows from operating activities:	
Receipts from customers	\$ 561,082
Payments to suppliers and contractors	(231,049)
Payments to employees	(183,446)
Other revenues	12,902
Grant Revenue	<u>37,569</u>
Net Cash Provided (Used) by Operating Activities	<u>197,058</u>
Cash flows from non-capital financing activities:	
Increase (decrease) in customer deposits	911
(Increase) decrease in interfund lending	49,530
Contract for emergency services	<u>-</u>
Net Cash Provided (Used) for Non-capital Financing Activities	<u>50,441</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets, net of dispositions	(95,533)
Long-term debt	-
Interest and fees paid on debt	(59,469)
Transfer in	117,230
Principal paid on other long-term debt	<u>(88,759)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(126,531)</u>
Cash flows from Investing Activities:	
Interest received	<u>25</u>
Net Cash Provided (Used) by Investing Activities	<u>25</u>
Net Increase (Decrease) in Cash and Cash Equivalents	120,993
Cash balances, beginning of year	<u>92,388</u>
Cash balances, End of Year	<u>\$ 213,381</u>

Reconciliation of Operating Income to
Net Cash Provided by Operating Activities:

Operating Income	\$	90,894
Adjustments to operating income for items not requiring cash outlay:		
Depreciation and amortization		100,882
Changes in assets and liabilities -		
(Increase) decrease in accounts receivable		4,137
(Increase) decrease in inventory		1
Increase (decrease) in accounts payable		3,977
Increase (decrease) in accrued expenses		<u>(2,833)</u>
Net Cash Provided by Operating Activities	\$	<u>197,058</u>
Composition of Cash:		
Operating Cash	\$	103,373
Restricted Cash -		
Interest and sinking		110,008
Debt reserve		<u>-</u>
Total Cash	\$	<u>213,381</u>

Village of Surfside Beach, Texas

Notes to Financial Statements

September 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Surfside Beach, Texas (the Village), have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the primary accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant principles of the Village are described below.

A. Reporting Entity

The Village of Surfside Beach is a political subdivision of the state of Texas, incorporated as a General Law Municipality, and is governed by an elected mayor and five-member council. As required by generally accepted accounting principles, these financial statements present all governmental activities, agencies, organizations and functions for which the Village's governing body is considered to be financially accountable.

The Surfside Volunteer Fire Department (VFD) is a separate nonprofit organization governed by its own board of directors. Accordingly, these financial statements do not include the assets or operations of this legally separate entity. The Village has an ordinance related to utility billing providing for a regular monthly fee, which the Village has been paying to the VFD for providing contractual fire and emergency services that are considered essential within the incorporated limits of the Village. During 2006 the Village began providing EMS services that were previously provided by the VFD.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the statement of changes in net assets) report information on all activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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*. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF PRESENTATION, AND BASIS OF ACCOUNTING

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund. 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 government considers some revenues to be available if they are collected within sixty days of the end of the current fiscal period. Certain intergovernmental and similar revenues are also accrued even when the collection period may extend beyond this sixty-day period, if related to grant and similar programs operating under a reimbursement basis. 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.

FUND ACCOUNTING – The Village used funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Village has two categories of funds; *governmental and proprietary*. Accounting standards require separate fund disclosures (including certain budgetary comparisons) for all major funds, which are those fitting certain criteria based upon relative size and also based upon judgment of importance to ongoing Village operations. The only fund not meeting the criteria for a major fund would be the Debt Service fund. Accordingly, the Village chooses to report all funds as major funds. The Village reports the following major governmental and proprietary funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special revenue funds reported as major funds. The *Beach Fund* is used to account for daily and annual permit fee revenues the Village collects for patrons using the local beach. These revenues are utilized to pay for providing services to the beach area including law enforcement, sanitation, maintenance and administration. The *Hotel-Motel Tax* fund controls the receipt and expenditure of taxes levied on temporary property rentals. The *Sewer Tap Fund* accounts for tap fees to be used for future expansion of the Oyster Creek Facility

The Village has one major Capital Project Fund. The *2006 TWDB Fund* will account for the enhancement of water lines. This will be financed with grant monies from the Texas Water Development Board.

The *Debt Service Fund* accounts for the resources accumulated and payments made on the 2006 TWDB bonds.

The *Water & Sewer Enterprise Fund* is a proprietary fund, which is a fund type that focuses on the determination of operating income, changes in net assets, and cash flows. Enterprise funds are accounted for in a manner similar to private business – where the intent of management is to cover operating costs through user charges.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are utility charges between the water and sewer function and various other functions of the government.

Amounts reported as *program revenues* for governmental activities include charges for services, municipal court fines and fees, and operating and capital grants and contributions. All taxes are reported as general revenues. Proprietary funds distinguish operating *revenues and expenses* from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing business operations. The principal operating revenues of the proprietary fund are charges to customers for services. Operating expenses for this fund include the cost of providing the services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these criteria are reported as non-operating.

The Village adopted two new GASB statements for the fiscal year under audit. GASB 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which was effective for financial statements periods beginning after December 15, 2011, established report standards for the deferred outflows and inflows of resources and changed presentation titles of the financial statements.

The Village chose to adopt GASB 65, Items Previously Reported as Assets and Liabilities, which is effective for financial statement periods beginning after December 15, 2012. That statement established accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities as deferred outflows and deferred inflows.

D. SPECIFIC ACCOUNTS

1. Deposits and investments

The Village'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.

The Village may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed

by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

As of September 30, 2014, the Village has adopted a formal investment policy.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” All activity between the funds was for short-term cash flow requirements.

Property taxes are levied as of October 1, of each year with statements prepared and mailed at that date or as soon thereafter as practical. The tax levy is based upon appraised property valued as of January 1. Taxes are due and payable when levied, and may be timely paid through January 31. On February 1, the unpaid taxes become delinquent and subject to penalty and interest charges. After June 30, any uncollected taxes are subject to lawsuit for collection and additional charges to offset related legal costs. The appraisal of property is the responsibility of a separate governmental entity. The Village’s taxes are collected by Brazoria County with collections remitted by direct deposit into the Village’s bank accounts.

Both property tax and utility customer receivables are shown net of allowances for uncollectible accounts. The amount provided for the allowance is based upon historical experience and evaluation of collectivity that uses an aging analysis. The net total for property taxes is offset by a deferred revenue balance that is disclosed as a liability and effectively results in this revenue being recognized, as cash is received.

3. Restricted Assets

Certain accounts related to the Village’s revenue bonds are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants or grant contractual restrictions. The balances held in separate cash accounts established as debt reserve and debt interest and sinking accounts are separately reported within the balance sheet as restricted assets as are cash accounts resulting from restricted grant sources.

4. Capital Assets

The Village has implemented the current accounting standards (GASB 34 et seq) for governmental capital assets that require valuation at historical cost with an annual provision for depreciation charged to the governmental function associated with each asset class.

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the Village as assets with an initial cost of \$1,000 or more and an estimated useful life in excess of two years. Such assets are reported at historical cost.

In the case of the initial capitalization of general infrastructure assets, the Village chose to include all items regardless of their acquisition date or amount. The Village hired an outside engineering firm to help estimate the historical cost for initial reporting of these assets.

The cost of normal maintenance and repairs that do not add to the value or materially extend the useful life of an asset are not capitalized. Major outlays for capital assets are capitalized as projects are constructed and completed.

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of “available spendable resources”.

The operating statements of governmental funds present increases and decreases in net current assets, and accordingly, are considered to present a summary of sources and uses of “available spendable resources” during a period. Capital assets used in government operations, along with depreciation (if provided) and the related debt, are added to combined governmental fund totals for full accrual basis reporting (economic resources measurement focus) in the government-wide financial statements. Capital assets acquired or constructed for use in the Enterprise (Proprietary) Fund are capitalized within that fund’s balance sheet. Depreciation of all exhaustible capital assets used by a proprietary fund is charged as an expense against operations with accumulated depreciation reported on the balance sheet.

Fixed assets acquired or constructed for use in the enterprise fund are capitalized within that fund. Depreciation of all exhaustible fixed assets used by a proprietary fund is charged as an expense against operations with accumulated depreciation reported on the balance sheet. Depreciation has been provided on the estimated useful lives of the assets using the straight-line method. An average estimated useful life of 50 years has been used for utility system assets.

5. Long-Term Debt

In government-wide and proprietary fund financial statements, long-term debt and similar obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Debt issuance costs, including premiums and discounts, are deferred and amortized over the life of the debt. In fund financial statements, governmental fund types recognize bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

The related expenditures for long-term debt are recognized within the governmental fund responsible for servicing the debt. Long-term debt, which is to be paid from the revenue derived through proprietary fund operations, is recorded within that fund.

6. Compensated Absence Liability

The Village records a liability for the amount of unused vacation that it has vested in each employee at year-end. Time accumulated for sick leave is not included in this accrual; as such time is only used for cause, and is subject to forfeiture. In the government-wide financial statements, and proprietary fund statements, this amount is accrued. A liability is only reported in the governmental funds if they have matured, for example, as a result of resignations or retirement.

7. Fund Equity

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," (the "Statement") was issued in February 2009. This Statement eliminates the requirement to report governmental fund balances as reserved, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances – nonspendable, restricted, committed, assigned, and unassigned. This Statement also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. The provisions of this Statement are effective for periods beginning after June 15, 2010.

8. Inventories

All inventories were valued at cost using the first-in-first-out (FIFO) method.

9. Comparative Date

Comparative total data for the prior year has been presented in the Management Discussion and Analysis in order to provide an understanding of changes in the Village's financial position and operations. However, comparative data (i.e., presentation of prior year totals by fund type) has not been presented in all statements since their inclusion would make certain statements unduly complex and difficult to read.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Village's budget is prepared for governmental fund types in accordance with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and two of the individual special revenue funds. Appropriations lapse at fiscal year-end except those for contracted commitments for construction or significant acquisitions. Such commitments are disclosed as a reservation of each respective fund's equity balance. Fiscal year budgets are not utilized for capital project funds.

B. Restated Fund Balance

The beginning fund balances were restated due to prior grants received and paid for directly by Brazoria County. This increased the General Fund fund balance by \$62,790 and the System Fund Net Position by \$80,891.

NOTE 3 – DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Cash and Temporary Investments

All of the Village's cash accounts are maintained at a financial institution located within Brazoria County. All accounts were covered by federal depository insurance (FDIC) as of September 30, 2014 and throughout the fiscal year. At year-end, the Village's bank balances totaled \$1,694,765.

In addition to depository balances with banks, as described above, the Village's investment classification also includes investments with TexPool, which is an investment trust administered through the Texas State Treasury. TexPool investments are restricted to investments authorized by state statute for investment by local governments. Each TexPool participant owns an undivided beneficial interest in the assets of TexPool, and these amounts are available on demand. As of September 30, 2014 the Village's investments in TexPool totaled \$210,834. The Village also holds \$2,275 in petty cash accounts.

In addition, the Village has pledged securities which are held by their bank depository. The pledged par MBS face par value of those securities as of September 30, 2014 is \$9,472,187.

B. Receivables and Uncollectibles

Property taxes are levied and attached as an enforceable lien on property as of October 1 of each year. The tax levy is based upon appraised property values as of each January 1 for all taxable property within the Village. The appraisal of property is the responsibility of the Brazoria County Central Appraisal District. Payments are due and payable when taxes are levied, and may be timely paid through January 31. On February 1, the taxes become delinquent and subject to penalty and interest charges. After June 30, any uncollected taxes are subject to tax suit and additional charges to offset related legal costs.

Property tax revenues are recognized when received, and deferred revenues are recorded to the extent of net receivables after allowance for uncollectibles. The tax rate for the October 2013 levy, supporting the fiscal year budget for the year ended September 30, 2014, was \$0.335984 per \$100 valuation for maintenance and operations and \$.096617 per \$100 valuation for interest and sinking. State property tax laws permit a maximum tax rate of \$1.50 per \$100 valuation for general government purposes other than servicing qualified debt obligations.

Allowances for Doubtful Accounts

General Fund – The allowance for uncollectible property tax receivables has been based upon historical experience and evaluation of collectivity within the near future. As of September 30, 2014, the allowance for the Village was estimated at \$1,110.

Enterprise Fund – The proprietary fund accounts receivable are related to water utility billings. The allowance of uncollectibles at September 30, 2014 is \$1,335 and is comprised of all accounts with balances past due for sixty days.

C. Capital Assets

Capital asset activity for the year ended September 30, 2014 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Process	-	35,145	-	35,145
Total capital assets, not being depreciated	\$ -	\$ 35,145	\$ -	\$ 35,145
Capital assets, being depreciated:				
Buildings	\$ 1,306,085	\$ -	-	\$ 1,306,085
Machinery and equipment	659,154	62,291	-	721,445
Infrastructure	8,487,214	328,791	-	8,816,005
Total capital assets, being depreciated	\$ 10,452,453	\$ 391,082	\$ -	\$ 10,843,535
Less accumulated depreciation for:				
Buildings	\$ (611,630)	\$ (44,032)	\$ -	\$ (655,662)
Machinery and equipment	(392,147)	(56,362)	-	(448,509)
Infrastructure	(3,652,487)	(185,501)	-	(3,837,988)
Total accumulated depreciation	\$ (4,656,264)	\$ (285,895)	\$ -	\$ (4,942,159)
Total capital assets, being depreciated, net	5,796,189	105,187	-	5,901,376
Governmental activities capital assets, net	\$ 5,796,189	\$ 140,332	\$ -	\$ 5,936,521

Business-type activities, water and sewer system:

Capital assets not being depreciated:

Land	\$ 91,304	\$ 20,929	\$ -	\$ 112,233
Construction in Process	<u>87,662</u>	<u>73,104</u>	<u>-</u>	<u>160,766</u>
Total capital assets, not being depreciated	<u>\$ 178,966</u>	<u>\$ 94,033</u>	<u>\$ -</u>	<u>\$ 272,999</u>

Capital assets, being depreciated:

Wells and related equipment	\$ 662,655	\$ 1,500	\$ -	\$ 664,155
Machinery and equipment	65,480	-	-	65,480
Infrastructure	<u>3,652,077</u>	<u>-</u>	<u>-</u>	<u>3,652,077</u>
Total capital assets, being depreciated	<u>\$ 4,380,212</u>	<u>\$ 1,500</u>	<u>\$ -</u>	<u>\$ 4,381,712</u>

Less accumulated depreciation for:

Wells and related equipment	\$ (195,269)	\$ (18,342)	\$ -	\$ (213,611)
Machinery and equipment	(45,078)	(2,675)	-	(47,753)
Infrastructure	<u>(585,866)</u>	<u>(79,865)</u>	<u>-</u>	<u>(665,731)</u>
Total accumulated depreciation	<u>\$ (826,213)</u>	<u>\$ (100,882)</u>	<u>\$ -</u>	<u>\$ (927,095)</u>

Total capital assets, being depreciated, net	<u>3,553,999</u>	<u>(99,382)</u>	<u>-</u>	<u>3,454,617</u>
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Governmental activities capital assets, net	<u>\$ 3,732,965</u>	<u>\$ (5,349)</u>	<u>\$ -</u>	<u>\$ 3,727,616</u>
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government - administration	\$ 55,786
Public safety	29,302
Highways and streets, including depreciation of general infrastructure assets	124,202
Culture and recreation	<u>76,605</u>
Total depreciation expense, governmental activities	<u>\$ 285,895</u>

D. Long Term Debt

The Village's General Long Term Debt at September 30, 2014 is comprised of several small loans from local institutions. These obligations which were all for equipment acquisitions, are summarized as follows:

Governmental activities

Issue Type	Beginning Balance 10/1/2013	Additions	Reductions	Ending Balance 9/30/2014
Notes payable	389,439	20,943	23,971	386,411
Bonds Payable	1,225,000	35,000	70,000	1,190,000
	<u>1,614,439</u>	<u>55,943</u>	<u>93,971</u>	<u>1,576,411</u>

Governmental	Interest Rate	Payment Terms	Maturity	Balance
Community Disaster Loan	1.88%	\$60,000 Annually	Apr-19	300,000
Bank loan - Brazos Nat (Truck)	4.90%	\$390 monthly	Feb-16	6,415
Bank loan - Brazos Nat (2013 Truck)	4.90%	\$494 monthly	Mar-18	19,055
Bank loan - Brazos Nat (Tractor)	4.90%	\$1079 monthly	Mar-18	41,618
Bank loan - Brazos Nat (Police truck)	4.90%	\$627 monthly	Jun-17	19,324
				<u>386,412</u>

Proprietary activities

Issue Type	Beginning Balance 10/1/2013	Additions	Reductions	Ending Balance 9/30/2014
Notes payable	70,668	-	32,759	37,909
Bonds Payable	1,217,000	-	56,000	1,161,000
	<u>1,287,668</u>	<u>-</u>	<u>88,759</u>	<u>1,198,909</u>

Proprietary	Interest Rate	Payment Terms	Maturity	Balance
Bank loan - local (Yucca)	5.25%	-	Apr-14	-
Bank of America (CRG)	5.90%	\$1746 monthly	May-16	37,909
				<u>37,909</u>

The Village sold revenue bonds to the Texas Water Development Board in May 1997 for the purpose of acquiring the local independently owned water utility system. During the current fiscal year two series of certificates of obligation were issued through the USDA for extension of utility services in the Village. These debts are being accounted for within a proprietary fund type-enterprise fund, established to account for the assets, liabilities and operations of the water utility system. The following provides a summary for the fiscal year 2014:

		<u>Principal Paid</u>	<u>Interest Paid</u>	<u>Balance 9/30/2014</u>
Water System Revenue Bonds				
Series 1997				
Interest dates:	2/15 ; 8/15			
Interest rates:	4.35 - 6.15%			
Principal pays annually:	8/15			
Callable, at par	8/15/2007	40,000	10,415	130,000
Tax and Revenue Certificates of Obligation,				
Series 2005A and 2005B				
Interest dates:	2/15 ; 8/15			
Interest rates:	4.35 - 6.15%			
Principal pays annually:	8/15			
Callable, at par	2/14/2006	<u>16,000</u>	<u>48,126</u>	<u>1,031,000</u>
Totals		<u><u>56,000</u></u>	<u><u>58,541</u></u>	<u><u>1,161,000</u></u>

The following are the annual requirements for these two debt issues:

Fiscal Year	<u>1997 Bonds</u>		<u>2005 USDA Certificate of Obligation</u>		Total
	Interest	Principal	Interest	Principal	
2015	7,975	40,000	47,391	17,000	112,366
2016	5,535	45,000	46,609	17,000	114,144
2017	2,768	45,000	45,826	19,000	112,594
2018	-	-	44,955	19,000	63,955
2019			44,084	20,000	64,084
2020			43,165	21,000	64,165
2021			42,199	21,000	63,199
2022			41,233	23,000	64,233
2023			40,178	24,000	64,178
2024			39,075	24,000	63,075
2025			37,973	25,000	62,973
2026			36,823	27,000	63,823
2027			35,584	28,000	63,584
2028			34,298	29,000	63,298
2029			32,964	30,000	62,964
2030			31,583	32,000	63,583
2031			30,113	32,000	62,113
2032			28,643	34,000	62,643
2033			27,078	36,000	63,078
2034			25,424	37,000	62,424
2035			23,723	38,000	61,723
2036			21,974	40,000	61,974
2037			20,136	41,000	61,136
2038			18,251	43,000	61,251
2039			16,278	45,000	61,278
2040			14,209	46,000	60,209
2041			12,093	49,000	61,093
2042			9,840	50,000	59,840
2043			7,540	53,000	60,540
2044			5,104	54,000	59,104
2045	-	-	2,620	57,000	59,620
	<u>\$ 16,278</u>	<u>\$ 130,000</u>	<u>\$ 906,966</u>	<u>\$ 1,031,000</u>	<u>\$ 2,084,244</u>

Other debt – The Village has also executed an additional long-term debt agreement that is being funded through the Texas Water Development Board. This approved debt is titled Tax & Revenue Certificates of Obligation, Series 2006. The interest rate on this debt ranges from 2.4% to 3.35% will final maturity scheduled in 2025. The following is the annual obligation for this note:

Texas Water Development Board
Tax & Revenue Certificates of Obligation, Series 2006

Interest Dates: 2-15; 8-15
Interest Rates: 2.4% - 3.35%
Principal pays annually: 8-15
Maturity in 2025

Fiscal Year	Principal	Interest	Total
2015	70,000	37,145	107,145
2016	75,000	35,060	110,060
2017	75,000	32,848	107,848
2018	80,000	30,503	110,503
2019	85,000	27,965	112,965
2020	85,000	25,309	110,309
2021	90,000	22,553	112,553
2022	90,000	19,695	109,695
2023	95,000	16,687	111,687
2024	100,000	13,445	113,445
2025	105,000	10,011	115,011
2026	105,000	6,467	111,467
2027	110,000	2,785	112,785
2028	25,000	444	25,444
	<u>\$ 1,190,000</u>	<u>\$ 280,917</u>	<u>\$ 1,470,917</u>

The Village received approval of \$354,446 Special Community Disaster Loan proceeds provided by FEMA. To date, the Village has drawn \$300,000 on this loan. The loan is due 4/15/2019 and carries an interest rate of 1.875%. The following is the annual obligation for this note:

U.S. Department of Homeland Security
FEMA

Community Disaster Loan 1791TX07

Interest dates: monthly

Interest rate: 1.875%

Principal pays at maturity

Maturity date: 4/15/2019 \$300,000

Community Disaster Loan

Interest 1.875% \$60,000 Annual plus interest

<u>Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	60,000.00	5,625.00	65,625.00
2016	60,000.00	4,500.00	64,500.00
2017	60,000.00	3,375.00	63,375.00
2018	60,000.00	2,250.00	62,250.00
<u>2019</u>	<u>60,000.00</u>	<u>1,125.00</u>	<u>61,125.00</u>
	300,000.00	16,875.00	316,875.00

E. Interfund receivables, payables and transfers

The composition of interfund balances as of September 30, 2014 is as follows:

Due to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Hotel/Motel	\$ 100
General	System	4,044
General	Beach	3,366
Debt Service Fund	General	24,247
System	General	257
	TWDB - Cap Projects	-
Sewer	System	-
		-
Totals		<u>\$ 32,014</u>

Interfund Transfers

Transfers Out	System	Beach	Total
	Transfers In	Transfers In	
General Fund	\$ 60,535		\$ 60,535
Hotel/Motel		91,000	91,000
Debt Service	54,410		54,410
2006 TWDB Cap Project	2,285	-	2,285
Totals	<u>\$ 117,230</u>	<u>\$ 91,000</u>	<u>\$ 208,230</u>

NOTE 4 – OTHER MATTERS

A. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Village has commercial insurance coverage for property and casualty, general liability, automobile liability, law enforcement liability and public officials' liability, as well as employee health and workers' compensation. Various deductibles are attached to the policies. Amounts of settlements have not exceeded insurance coverage's for the past three years.

B. Subsequent Events

The Village has been working toward securing additional funding for extending its abilities to provide water and sanitary sewer services. The Village has also completed a lending arrangement through the Texas Water Development Board in the amount of \$1,655,000. This new debt will consist of certificates of obligation to be supported by both utility system revenues and a dedicated debt service tax. This will be the Village's first property tax specifically dedicated for debt service. The new debt service tax took effect in fiscal year 2007, and a debt service fund was created.

C. Contingent Liabilities

The Village has pending lawsuits arising principally in the normal course of operations. Although the outcome of these lawsuits is not presently determinable, legal counsel assigned by the Village's insurance carrier, is keeping the Village's legal counsel abreast of the status of these cases. In the opinion of management, the outcome of these lawsuits will not have a material adverse effect on the accompanying combined financial statements, and accordingly, no provision for losses has been recorded.

The Village participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Village has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2043 may be impaired.

The Village entered into a contract with the GLO (No 10-206-000-4101) to “cooperate to renourish the pedestrian beach along approximately 3500 linear feet”. Section 4.02 of the contract states that the parties agree that the Village’s contribution will originate from FEMA pursuant to the Stafford Act under previously obligated PW 926-0 related to federally declared disaster DR-1606 (Hurricane Rita).

D. Employee Retirement Plan

Plan Description

The Village provides pension benefits for all of its eligible employees through a nontraditional, 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 Village 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 from TMRS’s website at www.TMRS.com.

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

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (Village to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5 0/25
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

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 percent 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 for the Village. Both the normal cost and the prior service contribution rates

include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The Village contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the Village make contributions monthly. Since the Village needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., the December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015).

The annual pension cost and net pension obligation/ (asset) are as follows:

Employer contributions for year	\$ 3,261
Member contributions for year	28,603
Benefit payments	<u>(38,079)</u>
External cash flow for year	(6,215)
Interest credit	<u>41,751</u>
Increase (decrease) in net pension	35,537
Net Pension Obligation/(Asset), beginning of year	<u>430,219</u>
Net Pension Obligation/(Asset), end of year	<u><u>\$ 465,756</u></u>

Three Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2012	34,386	33,719	98.1%	430,219
2013	35,210	31,864	90.5%	465,755
2014	35,307	34,380	97.4%	518,486

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

Valuation Date	12/31/2011	12/31/2012	12/31/2013
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	24.8 years; closed period	24.9 years; closed period	25 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
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	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	0.0%	0.0%	0.0%

Funding 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 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 (CAFR).

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2011	391,638	334,696	117.0%	(56,942)	536,768	-10.6%
12/31/2012	415,242	319,743	129.9%	(95,499)	606,460	-15.7%
12/31/2013	440,860	345,566	127.6%	(95,294)	572,055	-16.7%

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 Required Supplementary Information 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.

Required Supplementary Information

Texas Municipal Retirement System

Schedule of Funding Progress:

(unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2011	391,638	334,696	117.0%	(56,942)	536,768	-10.6%
12/31/2012	415,242	319,743	129.9%	(95,499)	606,460	-15.7%
12/31/2013	440,860	345,566	127.6%	(95,294)	572,055	-16.7%

Required Supplementary Information

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
Non-Departmental	89,800	99,605	111,901	(12,296)
Payroll expenses	71,100	71,100	64,787	6,313
Debt Service	17,300	12,300	12,495	(195)
Capital Outlay	54,450	54,450	62,291	(7,841)
Grant Expenditures	-	-	600,000	(600,000)
Total Expenditures and Other Uses	1,080,112	1,110,442	1,699,116	(588,674)
Other Financing Sources (Uses)				
Debt Revenues		-	20,943	20,943
Transfers in		-	-	-
Transfers out	(60,000)	(44,570)	(60,535)	(15,965)
Total Other Financing Sources (Uses)	(60,000)	(44,570)	(39,592)	(15,965)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	155,934	155,934
Fund Balance (Deficit):				
Beginning of year (as restated)	392,723	392,723	392,723	-
End of Year	\$ 392,723	\$ 392,723	\$ 548,657	\$ 155,934

Village of Surfside Beach, Texas

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Beach Fund

For the Year Ended September 30, 2014

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
Revenues and Other Sources				
Revenues - -				
State Beach Funds	32,000	-	-	-
Seasonal Permits	290,000	240,000	167,249	(72,751)
S-Permit Sales	29,000	35,000	24,276	(10,724)
Interest Earned	100	100	22	(78)
Miscellaneous	1,500	1,500	680	(820)
Intergovernmental	91,000	91,000	91,000	-
Total Revenues and Other Sources	443,600	367,600	283,227	(84,373)
Expenditures and Other Uses				
Current Expenditures - -				
Personnel	255,500	255,000	236,943	18,057
Supplies	10,800	12,000	10,469	1,531
Maintenance	9,000	6,000	5,598	402
Service	49,000	49,000	36,631	12,369
Miscellaneous	116,800	65,364	41,560	23,804
Debt Service	2,500	17,236	15,494	1,742
Transfers	-	-	-	-
Capital Outlay	-	-	-	-
Transfers to other funds - -	-	-	-	-
General Fund	-	-	-	-
Total Expenditures and Other Uses	443,600	404,600	346,695	57,905
Excess of Revenues Over (Under)				
Expenditures and Other Uses	-	(37,000)	(63,468)	(26,468)
Fund Balance				
Beginning of year	96,849	96,489	96,489	-
End of year	\$ 96,849	\$ 59,489	\$ 33,021	\$ (26,468)

Village of Surfside Beach, Texas

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Hotel/Motel Tax Fund

For the Year Ended September 30, 2014

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
Revenues and Other Sources				
Revenues - -				
Hotel-motel taxes	165,000	165,000	233,542	68,542
Interest Earned	10	10	922	912
Miscellaneous	-	59,500	1,310	(58,190)
Ft Velasco Donations	-	18,000	15,720	(2,280)
Grant Revenue	-	-	4,840	4,840
Total Revenues and Other Sources	165,010	242,510	256,334	13,824
Expenditures and Other Uses				
Current Expenditures - -				
Ft Velasco	-	3,500	5,615	(2,115)
Personnel	-	-	-	-
Supplies	-	-	-	-
Maintenance	23,500	26,500	7,736	18,764
Service	41,200	105,500	84,174	21,326
Miscellaneous	900	1,200	737	463
Capital Expenses	-	-	-	-
Transfers	91,000	91,000	91,000	-
Grant Expenditures	5,000	8,000	51,533	(43,533)
Total Expenditures and Other Uses	161,600	235,700	240,795	(5,095)
Excess of Revenues Over (Under)				
Expenditures and Other Uses	3,410	6,810	15,539	8,729
Fund Balance				
Beginning of year	664,901	664,901	664,901	-
End of year	\$ 668,311	\$ 671,711	\$ 680,440	\$ 8,729

Village of Surfside Beach

Notes to Required Supplementary Information

For the year ended September 30, 2014

Budgetary Information

Budgets are adopted on a GAAP basis. Annual appropriated budgets are adopted for the governmental funds: General, Beach, and Hotel/Motel Fund. All annual appropriations lapse at the fiscal year end.

The appropriated budget is prepared by fund, function, department and classification. All transfers within a department and between departments require the approval of council. The level of budgetary control is the departmental level.

Compliance Section

Baker, Stogner & Associates
Certified Public Accountants

316 E. Jackson
El Campo, TX 77437

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INDEPENDENT AUDITOR'S 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

The Honorable Mayor and members of Village Council
Village of Surfside Beach, Texas

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Surfside Beach, Texas as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Village of Surfside Beach's basic financial statements, and have issued our report thereon dated May 27, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village of Surfside Beach's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Village of Surfside Beach's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Surfside Beach's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker, Stogner & Associates

El Campo, Texas
May 27, 2015

Baker, Stogner & Associates
Certified Public Accountants

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El Campo, TX 77437

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR
A-133

The Honorable Mayor and members of Village Council
Village of Surfside Beach, Texas

Report on Compliance for Each Major Federal Program

We have audited the Village of Surfside Beach's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Village of Surfside Beach's major federal programs for the year ended September 30, 2014. The Village of Surfside Beach's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Village of Surfside Beach's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Surfside Beach's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Village of Surfside Beach's compliance.

Opinion on Each Major Federal Program

In our opinion, the Village of Surfside Beach complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Report on Internal Control over Compliance

Management of the Village of Surfside Beach is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Village of Surfside Beach's

internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village of Surfside Beach's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Baker Stogner & Associates

El Campo, Texas

May 27, 2015

Village of Surfside Beach, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended September 30, 2014

FEDERAL

	Federal CFDA or State Number	Pass-through Entity Number	Federal Expenditures
Federal Emergency Management Agency Pass through Texas Department of Public Safety 1606 - H Rita	97.036		\$ 600,000
US Department of Housing and Urban Development Pass through: GLO CDBG Rd 2.2	14.228	12-481-000-6647	366,360
US Department of Transportation Federal Highway Division Pass through Texas Parks and Wildlife Department	20.219	RT - 012033	49,061
Environmental Protection Agency (EPA) Pass through Texas Water Development Board Drinking Water State Revolving Fund Certificates of Obligation Series 2006	66.468	61153	35,000
Total Expenditure of Federal Awards			\$ 1,050,421

Village of Surfside Beach, Texas

Notes to Schedule of Expenditures of Federal and State Awards

For the year ended September 30, 2014

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the Schedule) includes the federal activity of the Village of Surfside Beach, Texas (Village) under programs of the federal and state governments for the year ended September 30, 2014. The information in this schedule is presented in accordance with requirements of the Office of Management and Budget, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas Uniform Grant Management Standards Chapter IV *Texas State Audit Circular*. Because the Schedule presents only a selected portion of the operations of the Village, it is not intended to and does not present the financial position, changes in net position or cash flows of the Village.

Note 2: Basis of Accounting:

The Village accounts for all awards under programs of the federal and state governments in the General and Special Revenue Funds. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these funds. The basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal and state grant funds for governmental funds are considered to be earned to the extent of expenditures made under the provisions of the grant. When such funds are advanced to the Village, they are recorded as inflows or outflows until earned. Otherwise, federal and state grant funds are received on a reimbursement basis from the respective federal or state program agencies. Generally, unused balances are returned to the grantor at the close of the specified project periods.

Note 3: Reimbursement of Prior Expenditures

The Village received funds of \$66,121.30 and \$64,016.94 in 2014 as reimbursement from prior year expenditures on federally declared disaster 1606 (Rita) on PW's 217 and 926 respectively. No expenditures for these were made in the current year and they are not included in the Schedule.

Village of Surfside Beach

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Types of auditor's report issued: Unqualified

Internal control over financial reporting:

- a. Material weakness(es) identified? No
- b. Significant deficiency(ies) identified that are not considered to be material weakness(es)? No

Noncompliance material to the financial statements noted? N/A

Federal Awards

Internal control over major programs:

- a. Material weakness(es) identified? No
- b. Significant deficiency(ies) identified that are not considered to be material weakness(es)? No

Type of auditor's issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? No

CFDA Numbers

14.228, 97.036

Name of Federal Program or Cluster

CDBG 2.2, FEMA 1606

Dollar threshold used to distinguish between type A and type B Programs

\$500,000

Auditee qualified as low-risk auditee? No

Village of Surfside Beach

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2014

Section II - Financial Statement Findings

No matters reported

Section III - Federal Award Findings and Questioned Costs

No matters reported

Section IV - Status of Prior Year Findings and Questioned Costs

No matters reported

Section V - Corrective Action Plan

No matters reported