

Village of Surfside Beach, Texas

Annual Financial Report
For the Year Ended September 30, 2016

Baker, Stogner & Associates
Certified Public Accountants

Village of Surfside Beach, Texas

Annual Financial Report

For the Year Ended September 30, 2016

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Village of Surfside Beach, Texas

Principal Officials

September 30, 2016

Governing Body

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

Other Principal Officials

City Secretary:	Amanda Davenport
City Bookkeeper:	Ronda Henson
Police Chief:	Gary Phillips
Public Works Supervisor:	Pete Gutierrez
Municipal Judge:	Randy 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, 2016, 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, 2016, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2017, 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
November 29, 2017

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, 2016. 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

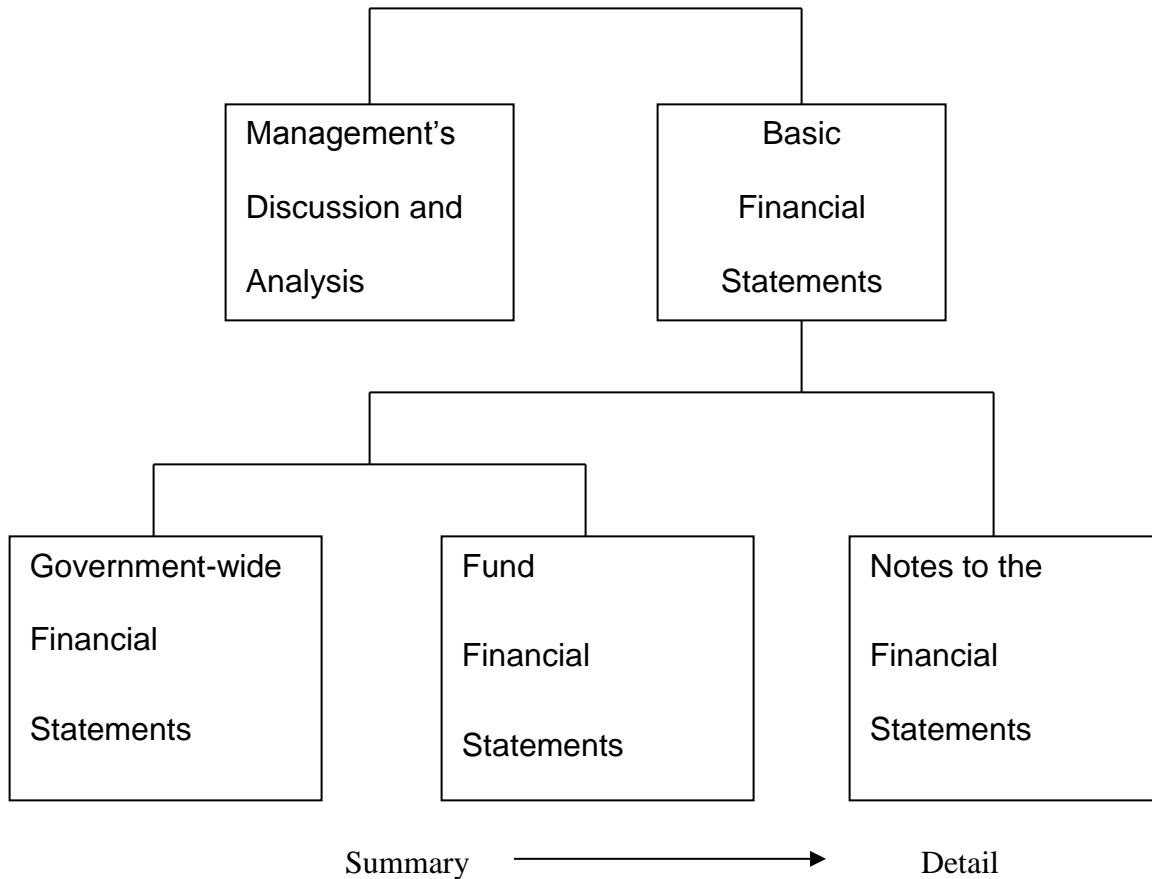
- The assets of the Village exceeded its liabilities at the close of the fiscal year by \$ 11,077,782.
- The government's total net position increased by \$1,352,151.
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$2,733,560 an increase of \$399,019 in comparison with the prior year. Approximately 21 percent of this total amount, or \$579,652, 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 \$579,652, or 47 percent of total general fund expenditures for the fiscal year.
- The Village's total debt decreased by \$164,091 or 11% 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	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 2,833,130	\$ 2,442,285	\$ 538,777	\$ 402,449	\$ 3,371,907	\$ 2,844,734
Non Current Assets	5,481,840	5,774,030	4,668,553	3,813,676	10,150,393	9,587,706
Deferred Outflows	43,191	5,983	14,034	1,845	57,225	7,828
Total Assets	\$ 8,358,161	\$ 8,222,298	\$ 5,221,364	\$ 4,217,970	\$ 13,579,525	\$ 12,440,268
Current Liabilities	262,996	273,962	100,856	90,599	363,852	364,561
Long Term Liabilities	1,137,854	1,292,273	987,533	1,051,145	2,125,387	2,343,418
Deferred Inflows	9,492	5,089	3,012	1,569	12,504	6,658
Total Liabilities	\$ 1,410,342	\$ 1,571,324	\$ 1,091,401	\$ 1,143,313	\$ 2,501,743	\$ 2,714,637
Net Position						
Net Investment in capital assets	4,111,505	4,202,486	3,608,020	2,660,312	7,719,525	6,862,798
Restricted	6,995	6,995	106,076	105,303	113,071	112,298
Unrestricted	2,829,319	2,441,493	415,867	309,042	3,245,186	2,750,535
Total Net Position	\$ 6,947,819	\$ 6,650,974	\$ 4,129,963	\$ 3,074,657	\$ 11,077,782	\$ 9,725,631

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 \$11,077,782 as of September 30, 2016. The Village's net position increased by \$1,352,151 for the fiscal year ended September 30,

2016. However, the largest portion 69% 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 \$3,245,186 is unrestricted.

Changes in Net position
Figure 3

	Governmental Activity		Business Type Activity		Totals	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Charges for Services	\$ 484,063	\$ 462,214	\$ 603,673	\$ 586,800	\$ 1,087,736	\$ 1,049,014
Operating Grants and Contributions	-	-	-	-	-	-
Capital Grants and Contributions	24,260	85,541	908,979	-	933,239	85,541
General Revenues						
Property Taxes	306,347	733,624	-	-	306,347	733,624
Other Taxes	1,008,394	895,655	-	-	1,008,394	895,655
Other	37,715	78,242	11,718	15,922	49,433	94,164
Total Revenues	\$ 1,860,779	\$ 2,255,276	\$ 1,524,370	\$ 602,722	\$ 3,385,149	\$ 2,857,998
Expenses						
General Government	\$ 502,963	\$ 481,080	\$ -	\$ -	\$ 502,963	\$ 481,080
Municipal Court	48,295	55,197	-	-	48,295	55,197
Police/EMS	297,938	350,420	-	-	297,938	350,420
Public Works	302,828	312,143	-	-	302,828	312,143
Public Facilities	512,414	352,106	502,949	478,876	1,015,363	830,982
Economic Development	95,997	87,405	-	-	95,997	87,405
Employee Benefits	87,847	75,115	-	-	87,847	75,115
Grant Expenses	-	-	-	-	-	-
Interest and Fees	43,215	72,557	53,564	58,116	96,779	130,673
Non Departmental	84,988	79,542	-	-	84,988	79,542
Total Expenses	\$ 1,976,485	\$ 1,865,565	\$ 556,513	\$ 536,992	\$ 2,532,998	\$ 2,402,557
Increase in Net Position before transfers	\$ 384,294	\$ 391,691	\$ 967,857	\$ 65,730	\$ 1,352,151	\$ 457,421
Transfers	(87,449)	(62,904)	87,449	62,904	-	-
Increase in Net Position	\$ 296,845	\$ 328,787	\$ 1,055,306	\$ 128,634	\$ 1,352,151	\$ 457,421
Net Position beginning of year	\$ 6,650,974	\$ 6,322,187	\$ 3,074,657	\$ 2,946,023	\$ 9,725,631	\$ 9,268,210
Net Position end of year	\$ 6,947,819	\$ 6,650,974	\$ 4,129,963	\$ 3,074,657	\$ 11,077,782	\$ 9,725,631

Governmental activities: Governmental activities increased the Village's net position by \$296,845, thereby accounting for 21% of the total increase in the net position of the Village.

Business-type activities: Business-type activities increased the Village's net position by \$1,055,306.

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 \$579,652, while total fund balance reached \$603,502. 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 39 percent of total General Fund expenditures.

At September 30, 2016 the governmental funds of The Village reported a combined fund balance of \$2,733,560, a 16 percent increase over last year. Included in this change in fund balance are increases in fund balance in both the General and Special Revenue Funds.

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 \$415,867. 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, 2016 totals \$10,069,454 (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	
	2016	2015	2016	2015	2016	2015
Land	\$ -	\$ -	\$ 112,233	\$ 112,233	\$ 112,233	\$ 112,233
Buildings and Systems	1,306,085	1,306,085	-	-	1,306,085	1,306,085
Improvements other than buildings	-	-	1,202,157	664,155	1,202,157	664,155
Machinery and Equipment	766,186	746,366	112,060	81,930	878,246	828,296
Infrastructure	8,816,005	8,816,005	3,652,077	3,652,077	12,468,082	12,468,082
Construction in Progress	41,895	35,145	711,799	160,766	753,694	195,911
					-	-
Totals	\$ 10,930,171	\$ 10,903,601	\$ 5,790,326	\$ 4,671,161	\$ 16,720,497	\$ 15,574,762

Long-term Debt: As of September 30, 2016 the Village had total bonded debt outstanding of \$2,097,000. Of this, \$1,055,000 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	
	2016	2015	2016	2015	2016	2015
General Obligation	\$ 1,055,000	\$ 1,120,000	\$ -	\$ -	\$ 1,055,000	\$ 1,120,000
Revenue Bonds	-	-	1,042,000	1,104,000	1,042,000	1,104,000
Totals	\$ 1,055,000	\$ 1,120,000	\$ 1,042,000	\$ 1,104,000	\$ 2,097,000	\$ 2,224,000

The Village's total bonded debt decreased by \$65,000, or 5%, during the past fiscal year.

Economic Factors and Next Years' Budget and Rates

The certified assessed property valuations for the 2016 tax roll total \$239,548,193 with a tax rate of \$0.359506 per \$100 valuation. The maintenance and operations rate is \$0.286922 and the debt service rate is \$0.072584.

The projected M&O property tax due is \$686,376 for the 2016/17 tax year. The certified assessed property valuations were more than the 2015 values.

Of the \$686,376 projected property taxes due, \$27,314 is to be raised from new property added to the tax roll.

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: Amanda@surfsidetx.org Website: www.surfsidetx.org.

Basic Financial Statements

Village of Surfside Beach, Texas

Statement of Net Position

September 30, 2016

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Current Assets:			
Cash and investments	\$ 2,523,236	\$ 358,277	\$ 2,881,513
Receivables, net of allowance for uncollectibles -			
Property taxes	19,145	-	19,145
Franchise taxes	10,835	-	10,835
Other taxes	21,202	-	21,202
Miscellaneous	219,240		219,240
Customer Accounts	-	68,618	68,618
Intergovernmental	-	-	-
Other	-	-	-
Internal balances	15,622	3,405	19,027
Due from other governments	-		-
Inventories	-	2,401	2,401
Prepaid expenses	16,855	-	16,855
Total Current Assets	<u>2,826,135</u>	<u>432,701</u>	<u>3,258,836</u>
Restricted assets:			
Cash and investments	6,995	106,076	113,071
Total Restricted Assets	<u>6,995</u>	<u>106,076</u>	<u>113,071</u>
Noncurrent Assets:			
Net Pension Asset	62,406	18,533	80,939
Net Capital Assets (Note C)	5,419,434	4,650,020	10,069,454
Total Noncurrent Assets	<u>5,481,840</u>	<u>4,668,553</u>	<u>10,150,393</u>
Deferred Outflows of Resources			
Contributions 12/31/14 - 9/30/15	43,191	14,034	57,225
Total Deferred Outflows of Resources	<u>43,191</u>	<u>14,034</u>	<u>57,225</u>
Total Assets	<u><u>8,358,161</u></u>	<u><u>5,221,364</u></u>	<u><u>13,579,525</u></u>

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

	Governmental Activities	Business-type Activities	Total
<u>Liabilities</u>			
Current Liabilities			
Accrued liabilities	\$ -	\$ 869	\$ 869
Accounts payable	76,555	11,047	87,602
Compensated absences payable	8,392	3,311	11,703
Accrued interest payable	4,103	6,007	10,110
Due to other governments	466	-	466
Internal balances	3,405	15,622	19,027
Current portion of long-term debt	170,075	64,000	234,075
Liabilities payable from restricted assets	-	-	-
Total Current Liabilities	<u>262,996</u>	<u>100,856</u>	<u>363,852</u>
Noncurrent Liabilities			
Customer deposits	-	9,533	9,533
Notes payable - banks	8,538	-	8,538
Notes payable - CDL	149,316	-	149,316
Bonds and similar debt obligations	980,000	978,000	1,958,000
Total Noncurrent Liabilities	<u>1,137,854</u>	<u>987,533</u>	<u>2,125,387</u>
Total Liabilities	<u>1,400,850</u>	<u>1,088,389</u>	<u>2,489,239</u>
Deferred Inflows of Resources	<u>9,492</u>	<u>3,012</u>	<u>12,504</u>
Total Deferred Inflows of Resources	<u>9,492</u>	<u>3,012</u>	<u>12,504</u>
<u>Net Position</u>			
Net Investment in capital assets	4,111,505	3,608,020	7,719,525
Restricted for:			
Debt service	-	106,076	106,076
MCTF/MCSF	6,995	-	6,995
Unrestricted	<u>2,829,319</u>	<u>415,867</u>	<u>3,245,186</u>
Total Net Position	<u>6,947,819</u>	<u>4,129,963</u>	<u>11,077,782</u>
Total Liabilities and Net Position	<u>8,358,161</u>	<u>5,221,364</u>	<u>13,579,525</u>

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

Village of Surfside Beach, Texas

Statement of Activities

For the Year Ended September 30, 2016

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Administration	\$ 502,963	\$ -	\$ -	\$ -
Municipal Court	48,295	112,088	-	-
Police Department/EMS	297,938	107,463	-	-
Public Works	302,828	214,262	-	-
Public Facilities	512,414	50,250	-	24,260
Economic Development	95,997	-	-	-
Employee benefits	87,847	-	-	-
Grant expenditures	-	-	-	-
Interest and fees on debt	43,215	-	-	-
Non Departmental	84,988	-	-	-
Total Governmental Activities	1,976,485	484,063	-	24,260
Business Type Activities:				
Water and sewer services	502,949	603,673	-	908,979
Interest and fees on debt	53,564	-	-	-
Contract for emergency services	-	-	-	-
Total Business-type Activities	556,513	603,673	-	908,979
Totals	2,532,998	1,087,736	-	933,239

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)

End of year

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

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$ (502,963)	\$ -	\$ (502,963)
63,793	-	63,793
(190,475)	-	(190,475)
(88,566)	-	(88,566)
(437,904)	-	(437,904)
(95,997)	-	(95,997)
(87,847)	-	(87,847)
-	-	-
(43,215)	-	(43,215)
(84,988)	-	(84,988)
<u>(1,468,162)</u>	<u>-</u>	<u>(1,468,162)</u>
-	1,009,703	1,009,703
-	(53,564)	(53,564)
-	-	-
-	<u>956,139</u>	<u>956,139</u>
(1,468,162)	956,139	(512,023)
806,347	-	806,347
105,673	-	105,673
70,029	-	70,029
414,589	-	414,589
418,103	-	418,103
16,000	-	16,000
7,926	257	8,183
13,789	11,461	25,250
(87,449)	<u>87,449</u>	<u>-</u>
1,765,007	99,167	1,864,174
296,845	1,055,306	1,352,151
<u>6,650,974</u>	<u>3,074,657</u>	<u>9,725,631</u>
\$ 6,947,819	\$ 4,129,963	\$ 11,077,782

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

Village of Surfside Beach

Balance Sheet
 Governmental Funds
 September 30, 2016

	Special Revenue Funds		
	General Fund	Beach Fund	Hotel-Motel Tax Fund
Assets			
Cash and Investments	\$ 558,365	\$ 209,434	\$ 1,141,572
Receivables:	-	-	-
Property taxes, net of allowance for uncollectives	15,832	-	-
Franchise taxes	10,835	-	-
Other taxes	21,202	-	-
Miscellaneous	5,495	19,791	186,130
Due from other funds	64,093	3,188	-
Due from other governments	-	-	-
Restricted Assets:Cash & Investments	6,995	-	-
Prepaid Expense	16,855	-	-
Total Assets	\$ 699,672	\$ 232,413	\$ 1,327,702
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	76,467	22	66
Due to other governments	466	-	-
Due to other funds	3,405	51,175	4,340
Total Liabilities	80,338	51,197	4,406
Deferred Inflows of Resources			
Unearned Revenue	15,832	-	-
Total Deferred Inflows of Resources	15,832	-	-
Fund Balances (Deficit)			
Restricted for MCTF/MCSF	6,995	-	-
Nonspendable	16,855	-	-
Unassigned, reported in General Fund	579,652	-	-
Assigned, reported in			
Debt service	-	-	-
Special Revenue Fund	-	181,216	1,323,296
Capital Projects Fund	-	-	-
Total Fund Balances	603,502	181,216	1,323,296
Total Liabilities and Fund Balances	\$ 699,672	\$ 232,413	\$ 1,327,702

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

<u>Special Revenue Funds (contd)</u>		
<u>Sewer Tap</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ 520,300	\$ 93,565	\$ 2,523,236
-	-	-
-	-	-
-	3,313	19,145
-	-	10,835
-	-	21,202
7,824	-	219,240
11,000	-	78,281
-	-	-
-	-	6,995
-	-	16,855
<u>\$ 539,124</u>	<u>\$ 96,878</u>	<u>\$ 2,895,789</u>
-	-	-
-	-	-
-	-	76,555
-	-	466
-	7,143	66,063
-	<u>7,143</u>	<u>143,084</u>
-	3,313	19,145
-	3,313	19,145
-	-	6,995
-	-	16,855
-	-	-
-	-	579,652
-	-	-
-	86,422	86,422
539,124	-	2,043,636
-	-	-
<u>539,124</u>	<u>86,422</u>	<u>2,733,560</u>
<u>\$ 539,124</u>	<u>\$ 96,878</u>	<u>\$ 2,895,789</u>

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

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Village of Surfside Beach

Reconciliation of Total Governmental Fund
Fund Balance to Governmental Net Position
September 30, 2016

Total Governmental Fund Balance \$ 2,733,560

*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	5,419,434
Property tax receivables, unearned revenue	19,145
Net Pension Asset	62,406

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	(1,307,929)
Compensated absences and accrued interest liabilities	(12,496)

Net deferred outflows and inflows of resources making up Net
Position Asset are not recorded in the funds. 33,699

Net Position of Governmental Activities \$ 6,947,819

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

Village of Surfside Beach

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended September 30, 2016

	Special Revenue Funds		
	General Fund	Beach Fund	Hotel-Motel Tax Fund
Revenues:			
Property taxes	\$ 635,326	\$ -	\$ -
Franchise tax	70,029	-	-
Sales and use tax	105,673	-	-
Other Taxes	9,495	-	405,094
Municipal court fines and fees	112,088	-	-
Licenses and permits	35,494	418,103	-
Garbage and service fees	178,768	-	-
Parks and Recreation	50,250	-	-
EMS	107,463	-	-
Miscellaneous	13,354	90	786
Intergovernmental	-	-	-
Donations	-	-	24,260
Total Revenues	1,317,940	418,193	430,140
Expenditures:			
Current -			
General Administration	447,370	-	-
Municipal Court	49,903	-	-
Police Department/EMS	277,144	-	-
Public Works	181,066	-	-
Public Facilities	-	430,046	-
Economic Development	-	-	95,997
Employee Benefits	87,847	-	-
Debt Service	92,949	14,028	-
Capital Outlay	5,020	14,800	-
Grant Expenditures	-	-	-
Non Departmental	84,988	-	-
Total Expenditures	1,226,287	458,874	95,997
Excess of Revenues Over (Under) Expenditures	91,653	(40,681)	334,143
Other Financing Sources (Uses):			
Proceeds from long-term debt	10,000	-	-
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
Total Other Financing Sources (Uses)	10,000	-	-
Net Change in Fund Balances	101,653	(40,681)	334,143
Fund Balances:			
Beginning of year, as restated	501,849	221,897	989,153
End of year	\$ 603,502	\$ 181,216	\$ 1,323,296

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

<u>Special Revenue Funds (contd)</u>		
<u>Sewer Tap</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ -	\$ 178,433	\$ 813,759
-	-	70,029
-	-	105,673
-	-	414,589
-	-	112,088
16,000	-	469,597
-	-	178,768
-	-	50,250
-	-	107,463
7,485	-	21,715
-	-	-
		24,260
<u>23,485</u>	<u>178,433</u>	<u>2,368,191</u>
5	-	447,375
-	-	49,903
-	-	277,144
-	-	181,066
-	-	430,046
-	-	95,997
-	-	87,847
-	110,560	217,537
-	-	19,820
-	-	-
-	-	84,988
<u>5</u>	<u>110,560</u>	<u>1,891,723</u>
<u>23,480</u>	<u>67,873</u>	<u>476,468</u>
-	-	10,000
-	-	-
<u>(23,175)</u>	<u>(64,274)</u>	<u>(87,449)</u>
<u>(23,175)</u>	<u>(64,274)</u>	<u>(77,449)</u>
305	3,599	399,019
<u>538,819</u>	<u>82,823</u>	<u>2,334,541</u>
<u>\$ 539,124</u>	<u>\$ 86,422</u>	<u>\$ 2,733,560</u>

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

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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, 2016

Net Change in Fund Balances - Governmental Funds	\$ 399,019
<i>Amounts reported for governmental activities in the statement of activities differ because:</i>	
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.	(261,822)
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.	174,091
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.	(10,000)
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	-
Increase in Pension Expense	(4,313)
Decrease in Compensated Absences	7,051
Decrease in Accrued Interest	231
Uncollected property taxes are not recognized as revenue in governmental funds.	<u>(7,412)</u>
Change in Net Position of Governmental Activities	<u>\$ 296,845</u>

Village of Surfside Beach, Texas

Statement of Net Position

Proprietary Fund - Water & Sewer Utility

September 30, 2016

Assets

Current Assets:

Cash	\$	358,277
Accounts receivable, net of allowance for uncollectibles		68,618
Other receivables		-
Due from other funds		3,405
Inventory		<u>2,401</u>

Total Current Assets 432,701

Restricted assets:

Interest and Sinking		106,076
Debt service reserve		<u>-</u>

Total Restricted Assets 106,076

Noncurrent assets:

Net Pension Asset		18,533
Capital Assets		5,790,327
Less: Accumulated Depreciation		<u>(1,140,307)</u>

Total Noncurrent Assets 4,668,553

Deferred Outflows of Resources

Contributions 12/31/13 through 9/30/14		<u>14,034</u>
----------------------------------------	--	---------------

Total Deferred Outflows of Resources 14,034

Total Assets \$ 5,221,364

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

Liabilities

Current liabilities:

Accrued liabilities	\$	869
Accounts payable		11,047
Compensated absences payable		3,311
Due to other Funds		15,622
Payables from restricted assets -		-
Accrued interest payable		6,007
Current portion of long-term debt		<u>64,000</u>

Total Current Liabilities 100,856

Noncurrent Liabilities (net of current portion):

Customer deposits		9,533
1997 Revenue Bonds		-
2005 Certificates of Obligation		978,000
		<u>-</u>

Total Noncurrent Liabilities 987,533

Total Liabilities 1,088,389

Deferred Inflows of Resources

Actual Expense vs Assumptions		<u>3,012</u>
-------------------------------	--	--------------

Total Deferred Inflows of Resources 3,012

Net Position

Net Investment in capital assets		3,608,020
Restricted for debt service		106,076
Unrestricted		<u>415,867</u>

Total Net Position 4,129,963

Total Liabilities and Net Position \$ 5,221,364

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

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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, 2016

Operating Revenues:	
Water sales	\$ 414,106
Sewer services	144,582
Late payment charges	6,900
Tap fees	36,485
Reconnection fees	1,600
Miscellaneous	11,461
Grant Revenues	<u>-</u>
Total Operating Revenue	<u>615,134</u>
Operating Expenses:	
Personnel related	182,579
Contracted services	3,500
Repairs and maintenance	60,951
Other charges	145,743
Depreciation and amortization	<u>110,176</u>
Total Operating Expenses	<u>502,949</u>
Operating Income (Loss)	<u>112,185</u>
Nonoperating Revenue (Expenses):	
Interest earned	257
Paying agent fees	(928)
Interest expense	<u>(52,636)</u>
Total Nonoperating Revenue (Expenses)	<u>(53,307)</u>
Net Income (Loss) Before Contributions and Transfers	58,878
Capital Contributions	908,979
Transfers In	<u>87,449</u>
Change in Net Position	1,055,306
Net Position:	
Beginning of year, as restated	<u>3,074,657</u>
Total Net Position - Ending	<u>\$ 4,129,963</u>

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

Village of Surfside Beach, Texas

Statement of Cash Flows

Proprietary Fund - Water & Sewer Utility

For the Year Ended September 30, 2016

Cash flows from operating activities:	
Receipts from customers	\$ 595,508
Payments to suppliers and contractors	(197,474)
Payments to employees	(182,579)
Other revenues	11,461
Grant Revenue	-
	<hr/>
Net Cash Provided (Used) by Operating Activities	<u>226,916</u>
Cash flows from non-capital financing activities:	
Increase (decrease) in customer deposits	388
(Increase) decrease in interfund lending	18,972
Contract for emergency services	-
	<hr/>
Net Cash Provided (Used) for Non-capital Financing Activities	<u>19,360</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets, net of dispositions	(74,988)
Long-term debt	-
Interest and fees paid on debt	(53,564)
Transfer in	87,449
Principal paid on other long-term debt	(80,672)
	<hr/>
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(121,775)</u>
Cash flows from Investing Activities:	
Interest received	257
	<hr/>
Net Cash Provided (Used) by Investing Activities	<u>257</u>
Net Increase (Decrease) in Cash and Cash Equivalents	124,758
Cash balances, beginning of year	<hr/> <u>339,595</u>
Cash balances, End of Year	<u><u>\$ 464,353</u></u>

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

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

Operating Income	\$	112,185
Adjustments to operating income for items not requiring cash outlay:		
Depreciation and amortization		110,176
Changes in assets and liabilities - (Increase) decrease in accounts receivable		(8,165)
(Increase) decrease in inventory		-
Increase (decrease) in accounts payable		9,181
Increase (decrease) in accrued expenses		<u>3,539</u>
Net Cash Provided by Operating Activities	\$	<u>226,916</u>
Composition of Cash:		
Operating Cash	\$	358,277
Restricted Cash - Interest and sinking Debt reserve		106,076
		<u>-</u>
Total Cash	\$	<u>464,353</u>

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

Village of Surfside Beach, Texas

Notes to Financial Statements

September 30, 2016

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 *Debt Service Fund* accounts for the resources accumulated and payments made on the 2006 TWDB bonds and the 2005 USDA 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.

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, 2016, the Village has adopted a formal investment policy and is in compliance with that 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 \$5,000 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.

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. Deferred Outflows/Inflows of Resources

The statement of net position reports a separate section for deferred outflows of resources which follows the asset section. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category. It is the deferred amount calculated in the actuarial pension study required by Government Accounting Standards Board (GASB) Statement No. 68 “*Accounting and Financial Reporting for pensions*” (GASB No. 68) and the current year pension payments reported in the government-wide statement of net position.

In addition to liabilities, the statement of net position can also report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items that are considered deferred inflows of resources. One of the items arises only under a modified accrual basis of accounting and this item, *unavailable revenue*, is reported only in the government funds balance sheet. The government funds report unavailable revenues from a variety of sources and are further defined in Note 4. The other item that qualifies for reporting as a deferred inflow of resources is calculated in the actuarial pension study required by GASB 68. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and to pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at their fair value.

9. Fund Equity

Fund balances of Government Funds classified as restricted are balances with constraints placed on the use of resources by creditors, groups, contributors or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the Council through a resolution. Once the resolution is passed, the commitment remains in place until another resolution is passed to remove or revise the commitment.

Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. The Council has by resolution authorized the City Manager or his/her designee to assign fund balance. Unlike commitments, assignments generally on exist temporarily and a formal action by the Council does not have to occur in order to remove the assignment.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available.

10. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

11. Inventories

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

12. 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 Net Position

During the fiscal year 2016, the Village increased net position of the systems fund by \$141,954. This was done because a prior year asset donation from Brazoria County was not recorded. The net position of governmental funds was reduced \$3,706 due to a prior period adjustment.

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, 2016 and throughout the fiscal year. At year-end, the Village's bank balances totaled \$2,741,426.

Interest Rate Risk

In accordance with the Village's investment policy, the Village manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. TexPool's weighted average maturity cannot exceed 60 days.

Credit Risk

The investment pool operates in full compliance with the Public Funds Investment Act. TexPool is rated AAAM by Standard & Poor's.

Concentration of Credit Risk

The Village's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the Village was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

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, 2016 the Village's investments in TexPool totaled \$211,552. The Village also holds \$7,366 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, 2016 is \$4,650.00 held at Compass and Amegy banks.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Village's investments in TexPool and with banks and they have no custodial credit risk.

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 2015 levy, supporting the fiscal year budget for the year ended September 30, 2016, was \$0.271000 per \$100 valuation for maintenance and operations and \$.082524 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, 2016, the allowance for the Village was estimated at \$1,008.

Enterprise Fund – The proprietary fund accounts receivable are related to water utility billings. The allowance of uncollectibles at September 30, 2016 is \$849 and is comprised of all accounts with balances past due for sixty days.

Net Receivables at September 30, 2016 consist of the following:

Net Receivables	Other			Total
	General	System	Governmental	
Accounts	\$ -	\$ 68,616	\$ -	\$ 68,616
Ad Valorem Taxes	15,832	-	3,313	19,145
Other Taxes	32,037	-	186,130	218,167
Miscellaneous	5,495	-	27,615	33,110
	<u>\$ 53,364</u>	<u>\$ 68,616</u>	<u>\$ 217,058</u>	<u>\$ 339,038</u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2016 was as follows:

Primary Government

	Beginning			Ending
	Balance	Increases	Decreases	Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Process	41,895	-	-	41,895
Total capital assets, not being depreciated	<u>\$ 41,895</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,895</u>
Capital assets, being depreciated:				
Buildings	\$ 1,306,085	\$ -	\$ -	\$ 1,306,085
Machinery and equipment	746,366	19,820	-	766,186
Infrastructure	8,816,005	-	-	8,816,005
Total capital assets, being depreciated	<u>\$ 10,868,456</u>	<u>\$ 19,820</u>	<u>\$ -</u>	<u>\$ 10,888,276</u>
Less accumulated depreciation for:				
Buildings	\$ (699,694)	\$ (43,262)	\$ -	\$ (742,956)
Machinery and equipment	(505,912)	(52,879)	-	(558,791)
Infrastructure	(4,023,489)	(185,501)	-	(4,208,990)
Total accumulated depreciation	<u>\$ (5,229,095)</u>	<u>\$ (281,642)</u>	<u>\$ -</u>	<u>\$ (5,510,737)</u>
Total capital assets, being depreciated, net	<u>5,639,361</u>	<u>(261,822)</u>	<u>-</u>	<u>5,377,539</u>
Governmental activities capital assets, net	<u>\$ 5,681,256</u>	<u>\$ (261,822)</u>	<u>\$ -</u>	<u>\$ 5,419,434</u>

Business-type activities, water and sewer system:

Capital assets not being depreciated:

Land	\$ 112,233	\$ -	\$ -	\$ 112,233
Construction in Process	<u>160,766</u>	<u>562,891</u>	<u>11,858</u>	<u>711,799</u>
Total capital assets, not being depreciated	<u>\$ 272,999</u>	<u>\$ 562,891</u>	<u>\$ 11,858</u>	<u>\$ 824,032</u>

Capital assets, being depreciated:

Wells and related equipment	\$ 799,353	\$ 402,804	\$ -	\$ 1,202,157
Machinery and equipment	81,930	30,130	-	112,060
Infrastructure	<u>3,652,077</u>	<u>-</u>	<u>-</u>	<u>3,652,077</u>
Total capital assets, being depreciated	<u>\$ 4,533,360</u>	<u>\$ 432,934</u>	<u>\$ -</u>	<u>\$ 4,966,294</u>

Less accumulated depreciation for:

Wells and related equipment	\$ (231,953)	\$ (24,315)	\$ -	\$ (256,268)
Machinery and equipment	(52,582)	(5,996)	-	(58,578)
Infrastructure	<u>(745,596)</u>	<u>(79,865)</u>	<u>-</u>	<u>(825,461)</u>
Total accumulated depreciation	<u>\$ (1,030,131)</u>	<u>\$ (110,176)</u>	<u>\$ -</u>	<u>\$ (1,140,307)</u>

Total capital assets, being depreciated, net	<u>3,503,229</u>	<u>322,758</u>	<u>-</u>	<u>3,825,987</u>
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Governmental activities capital assets, net	<u>\$ 3,776,228</u>	<u>\$ 885,649</u>	<u>\$ 11,858</u>	<u>\$ 4,650,019</u>
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government - administration	\$ 53,512
Public safety	25,348
Highways and streets, including depreciation of general infrastructure assets	121,106
Culture and recreation	<u>81,676</u>
Total depreciation expense, governmental activities	<u>\$ 281,642</u>

D. Long Term Debt

The Village's General Long Term Debt at September 30, 2016 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 10/1/2015	Additions	Reductions	Ending Balance 9/30/2016
Notes payable	352,020	-	99,091	252,929
Bonds Payable	1,120,000	10,000	75,000	1,055,000
	<u>1,472,020</u>	<u>10,000</u>	<u>174,091</u>	<u>1,307,929</u>

Governmental	Interest Rate	Payment Terms	Maturity	Balance
Community Disaster Loan	1.88%	\$72,416 Annually	Apr-19	221,908
Bank loan - Brazos Nat (Truck)	4.90%	\$390 monthly	Feb-16	-
Bank loan - Brazos Nat (2013 Truck)	4.90%	\$494 monthly	Mar-18	8,179
Bank loan - Brazos Nat (Tractor)	4.90%	\$1079 monthly	Mar-18	17,935
Bank loan - Brazos Nat (Police truck)	4.90%	\$627 monthly	Jun-17	4,907
				<u>252,929</u>

Proprietary activities

Issue Type	Beginning Balance 10/1/2015	Additions	Reductions	Ending Balance 9/30/2016
Notes payable	18,672	-	18,672	-
Bonds Payable	1,104,000	-	62,000	1,042,000
	<u>1,122,672</u>	<u>-</u>	<u>80,672</u>	<u>1,042,000</u>

Proprietary	Interest Rate	Payment Terms	Maturity	Balance
Bank of America (CRG)	5.90%	\$1746 monthly	May-16	-
				<u>-</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 2016:

		<u>Principal Paid</u>	<u>Interest Paid</u>	<u>Balance 9/30/2015</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	45,000	5,535	45,000
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>17,000</u>	<u>46,609</u>	<u>997,000</u>
Totals		<u><u>62,000</u></u>	<u><u>52,144</u></u>	<u><u>1,042,000</u></u>

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

Fiscal Year	1997 Bonds		2005 USDA Certificate of Obligation		
	Interest	Principal	Interest	Principal	Total
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>\$ 2,768</u>	<u>\$ 45,000</u>	<u>\$ 812,966</u>	<u>\$ 997,000</u>	<u>\$ 1,857,734</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
2017	75,000	33,188	108,188
2018	80,000	30,857	110,857
2019	85,000	28,320	113,320
2020	85,000	25,664	110,664
2021	90,000	22,908	112,908
2022	90,000	20,050	110,050
2023	95,000	17,042	112,042
2024	100,000	13,800	113,800
2025	105,000	10,366	115,366
2026	105,000	6,822	111,822
2027	110,000	3,140	113,140
2028	35,000	621	35,621
	<u>\$ 1,055,000</u>	<u>\$ 212,779</u>	<u>\$ 1,267,779</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

Interest 1.875%

<u>Payment Date</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
10/2/2016	38,208.25	36,122.16	2,086.09	221,246.30
4/2/2017	38,208.25	36,471.27	1,736.98	184,775.03
10/2/2017	38,208.25	36,804.59	1,403.66	147,970.44
4/2/2018	38,208.25	37,156.35	1,051.90	110,814.09
10/2/2018	38,208.25	37,499.87	708.38	73,314.22
4/2/2019	38,208.25	37,854.35	353.91	35,459.87
	-	-	-	-
	229,249.50	221,908.59	7,340.92	

E. Interfund receivables, payables and transfers

The composition of interfund balances as of September 30, 2016 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Hotel/Motel	1,152
	System	1,217
	Beach	51,275
Beach	Hotel/Motel	3,187
Sewer	System	11,000
Debt Service	General	2,857
	Totals	<u>\$ 70,688</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 begun a water plant improvement project to be financed with Disaster Recovery Project Round II funds. The total cost of the project is estimated at \$923,232 and the Village portion will be \$73,682. The project was completed in fiscal 2017.

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, 2016 may be impaired.

D. Employee Retirement Plan

Plan Description

The Village participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the TMRS with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined Benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com. All eligible employees of the Village are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability and death benefits. Benefit provisions are adopted by the governing body of the Village, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the Village-financed monetary credits with interest were used to purchase an annuity.

Members may choose to receive their retirement benefits in one of seven payments options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the Village, within the options available in the state statutes governing TMRS. Plan provisions of the Village for plan year 2016 were as follows:

Employee deposit rate	5.00%
Matching ratio (City to employee)	.98 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100.0 repeating
Annuity increase (to retirees)	70.0% of CPI

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefits terms:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	25
Active employees	<u>20</u>
	46

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employees gross earnings, and the Village matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the Village. Under the state law governing TMRS, the contribution rate for each Village is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees for the Village were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution plan rates for the Village were .76% in calendar years 2015 and 2016, respectively. The Village's contributions to TMRS for the fiscal year ended September 30, 2016 were \$4,743, and were equal to the required contributions.

Net Pension Liability

The Village's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31st
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 Years
Asset Valuation Method	10 year Smoothed Market; 15% Soft Corridor
Inflation	2.50%
Overall Payroll Growth	3.00%
Salary Increases	3.50 % to 12.00% including inflation
Investment Rate of Return*	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the largest asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.80%
International Equity	17.50%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	<u>5.00%</u>	8.50%
 Total	 <u>100.00%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension's plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	\$ 377,426	\$ 507,642	\$ (130,216)
Changes for the year:			-
Service cost	41,884	-	41,884
Interest	27,739	-	27,739
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(7,978)	-	(7,978)
Change of assumptions	15,046	-	15,046
Contributions - Employer	-	4,743	(4,743)
Contributions - Employee	-	31,397	(31,397)
Net Investment Income	-	748	(748)
Benefit payments, including refunds of employee contributions	(4,207)	(4,207)	-
Administrative expense	-	(456)	456
Other changes	-	(23)	23
Net changes	<u>72,484</u>	<u>32,202</u>	<u>40,282</u>
Balance at 12/31/2015	<u>\$ 449,910</u>	<u>\$ 539,844</u>	<u>\$ (89,933)</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Net Pension Liability of the Village, calculated using the discount rate of 6.75%, as well as what the Village's Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.75%) or 1-percentage point higher (7.75%) than the current rate.

	1.0% Decrease in Discount Rate 5.75%	Current Single Rate Assumption 6.75%	1.0% Increase in Discount Rate 7.75%
Village's Net Pension Liability:	\$ (24,802)	\$ (89,934)	\$ (142,929)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmr.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016 the Village recognized pension expense of \$5,777.

At September 30, 2016, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ (5,845)
Changes in actuarial assumptions	11,023	-
Difference between projected and actual investment earnings	27,830	-
Contributions subsequent to the measurement date	-	-
Total	\$ 38,853	\$ (5,845)

\$4,283 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount	
2016	\$	7,040
2017		9,400
2018		9,554
2019		6,959
2020		-
Thereafter		-
Total	\$	32,953

E. Supplemental Death Benefit

The Village also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The Village elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The Village may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1st of any year to be effective the following January 1st.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit", or OPEB.

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

The Village's contributions to the TMRS' SDBF for the year ended 2016 was \$1,293, which equaled the retired contributions.

Required Supplementary Information

Village of Surfside Beach

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended September 30, 2016

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
Revenues				
Revenues:				
Taxes - -				
Property	\$ 627,033	\$ 627,033	\$ 635,326	\$ 8,293
Franchise	60,000	60,000	70,029	10,029
Sales and use	80,000	80,000	105,673	25,673
Mixed beverage	15,000	15,000	9,495	(5,505)
Municipal court fines and fees	79,125	79,125	112,088	32,963
Licenses and permits	43,500	43,500	35,494	(8,006)
Garbage and service fees	160,000	160,000	178,768	18,768
Parks & Recreation	50,000	50,000	50,250	250
EMS	109,000	109,000	107,463	(1,537)
Miscellaneous	6,400	6,400	9,356	2,956
Intergovernmental	-	-	-	-
Market Gains	-	-	3,998	3,998
	-	-	-	-
	-	-	-	-
Total Revenues and Other Sources	1,230,058	1,230,058	1,317,940	87,882
Expenditures and Other Uses				
Current Expenditures - -				
Administration				
Personnel	114,518	114,518	98,118	16,400
Supplies	8,750	8,750	9,506	(756)
Maintenance	18,120	18,120	18,038	82
Service	63,100	63,100	115,670	(52,570)
Miscellaneous	32,800	32,800	35,213	(2,413)
Garbage	160,000	160,000	170,825	(10,825)
Municipal Court				
Personnel	44,066	44,066	44,249	(183)
Supplies	1,800	1,800	970	830
Maintenance	100	100	-	100
Service	4,500	4,500	4,165	335
Miscellaneous	800	800	519	281
Police Department/EMS				
Personnel	271,549	271,549	191,060	80,489
Supplies	31,350	31,350	27,683	3,667
Maintenance	9,350	9,350	8,830	520
Service	12,600	12,600	11,077	1,523
Miscellaneous	38,800	38,800	38,494	306
Public Works				
Personnel	110,100	110,100	98,828	11,272
Supplies	17,800	17,800	13,238	4,562
Maintenance	52,500	52,500	43,929	8,571
Service	14,755	14,755	15,886	(1,131)
Miscellaneous	13,400	13,400	9,185	4,215

	<u>Budget</u>		<u>Actual</u>	Variance With
	<u>Original</u>	<u>Final</u>		Final Budget
				Favorable (Unfavorable)
Non-Departmental	89,500	89,500	84,988	4,512
Payroll expenses	91,600	91,600	87,847	3,753
Debt Service	93,400	93,400	92,949	451
Capital Outlay	6,000	6,000	5,020	980
Grant Expenditures	-	-	-	-
Total Expenditures and Other Uses	1,301,258	1,301,258	1,226,287	74,971
Other Financing Sources (Uses)				
Debt Revenues			10,000	10,000
Transfers in	71,200	71,200	-	(71,200)
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	71,200	71,200	10,000	(71,200)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	101,653	101,653
Fund Balance (Deficit):				
Beginning of year (as restated)	501,849	501,849	501,849	-
End of Year	\$ 501,849	\$ 501,849	\$ 603,502	\$ 101,653

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

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, 2016

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
Revenues and Other Sources				
Revenues - -				
State Beach Funds	20,000	20,000	31,257	11,257
Seasonal Permits	300,000	300,000	330,746	30,746
S-Permit Sales	50,000	50,000	56,100	6,100
Interest Earned	100	100	-	(100)
Miscellaneous	500	500	90	(410)
Intergovernmental	-	-	-	-
Total Revenues and Other Sources	370,600	370,600	418,193	47,593
Expenditures and Other Uses				
Current Expenditures - -				
Personnel	208,300	208,300	232,897	(24,597)
Supplies	15,850	15,850	26,266	(10,416)
Maintenance	5,700	5,700	10,333	(4,633)
Service	50,500	50,500	94,453	(43,953)
Miscellaneous	62,250	62,250	66,097	(3,847)
Debt Service	13,000	13,000	14,028	(1,028)
Transfers	-	-	-	-
Capital Outlay	15,000	15,000	14,800	200
Transfers to other funds - -	-	-	-	-
General Fund	-	-	-	-
Total Expenditures and Other Uses	370,600	370,600	458,874	(88,274)
Excess of Revenues Over (Under)				
Expenditures and Other Uses	-	-	(40,681)	(40,681)
Fund Balance				
Beginning of year	221,897	221,897	221,897	-
End of year	\$ 221,897	\$ 221,897	\$ 181,216	\$ (40,681)

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

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, 2016

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
Revenues and Other Sources				
Revenues - -				
Hotel-motel taxes	165,000	165,000	405,094	240,094
Interest Earned	-	-	441	441
Miscellaneous	400	400	345	(55)
Transfers in	-	-	-	-
Ft Velasco Donations	18,000	18,000	24,260	6,260
Grant Revenue	73,800	73,800	-	(73,800)
Total Revenues and Other Sources	257,200	257,200	430,140	172,940
Expenditures and Other Uses				
Current Expenditures - -				
Ft Velasco	3,500	3,500	5,748	
Personnel	-	-	-	-
Supplies	-	-	-	-
Maintenance	22,000	22,000	24,420	(2,420)
Service	81,700	81,700	40,839	40,861
Miscellaneous	-	-	-	-
Capital Expenses	75,000	75,000	-	75,000
Transfers	-	-	-	-
Grant Expenditures	75,000	75,000	24,990	50,010
Total Expenditures and Other Uses	257,200	257,200	95,997	113,441
Excess of Revenues Over (Under)				
Expenditures and Other Uses	-	-	334,143	286,381
Fund Balance				
Beginning of year	989,153	989,153	989,153	-
End of year	\$ 989,153	\$ 989,153	\$ 1,323,296	\$ 286,381

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

Schedule of Changes in Net Pension Liability and Related Ratios

Last 10 Years (will ultimately be displayed)

	2014	2015	2016	2017
Total pension liability				
Service Cost	\$ 40,364	41,884		
Interest (on the Total Pension Liability)	24,776	27,739		
Changes of Benefit Terms	-	-		
Difference between expected and actual experience	(9,664)	(7,978)		
Changes of assumptions	-	15,046		
Benefit payments, including refunds of employee contributions	<u>(23,616)</u>	<u>(4,207)</u>		
Net Change in Total Pension Liability	31,860	72,484		
Total Pension Liability - Beginning	<u>345,566</u>	<u>377,426</u>		
Total Pension Liability - Ending (a)	<u>\$ 377,426</u>	<u>\$ 449,910</u>		
Plan Fiduciary Net Position				
Contributions - Employer	5,191	4,743		
Contributions - Employee	31,141	31,397		
Net Investment Income	26,795	748		
Benefit payments, including refunds of employee contributions	-	-		
Administrative Expense	(23,616)	(4,207)		
Other	(280)	(456)		
	<u>(23)</u>	<u>(23)</u>		
Net Change in Plan Fiduciary Net Position	39,208	32,202		
Plan Fiduciary Net Position - Beginning	<u>468,434</u>	<u>507,642</u>		
Plan Fiduciary Net Position - Ending (b)	<u>\$ 507,642</u>	<u>\$ 539,844</u>		
Net Pension Liability - Ending (a) - (b)	(130,216)	(89,934)		
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	134.50%	119.99%		
Covered Employee Payroll	\$ 622,811	\$ 627,939		
Net Pension Liability as a Percentage of Covered Employee Payroll	-20.91%	-14.32%		

The accompanying notes are an integral part of this financial statement.

Schedule of Employer Contributions

Last ten years

	<u>2015</u>	<u>2,016</u>
Actuarially Determined Contribution	\$ 3,939	\$ 4,484
Contribution in relation to the actuarially determined contribution	<u>(5,191)</u>	<u>(4,743)</u>
Contribution Deficiency (excess)	<u>\$ (1,252)</u>	<u>\$ (259)</u>
Covered employee payroll	\$ 622,811	\$ 627,939
Contributions as a percentage of coverage employee payroll	0.83%	0.76%

Information for the prior fiscal years was not readily available. The City will compile the respective information over the next several fiscal years.

The accompanying notes to required supplementary information are an integral part of this schedule.

Village of Surfside Beach

Notes to Required Supplementary Information

For the year ended September 30, 2016

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. Budgets were not prepared for the Sewer and Debt Service Funds. The Beach Fund's expenditures exceeded budgeted appropriations in the current year by \$88,274.

Texas Municipal Retirement System

Valuation Date	December 31st
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 Years
Asset Valuation Method	10 year Smoothed Market; 15% Soft Corridor
Inflation	2.50%
Overall Payroll Growth	3.00%
Salary Increases	3.50 % to 12.00% including inflation
Investment Rate of Return*	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Compliance Section

Baker, Stogner & Associates
Certified Public Accountants

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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, 2016, 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 November 29, 2017.

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
November 29, 2017