

**Village of Surfside Beach, Texas**

Annual Financial Report  
For the Year Ended September 30, 2017

***Baker, Stogner & Associates***  
*Certified Public Accountants*

# Village of Surfside Beach, Texas

## Annual Financial Report

For the Year Ended September 30, 2017

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# Village of Surfside Beach, Texas

Principal Officials

September 30, 2017

## **Governing Body**

Mayor:	Larry Davison
Mayor Pro-Tem:	Toni Capretta
Alderspersons:	David Guzman
	Peggy Llewellyn
	Gregg Bisso
	Jennie Green-Prats

## **Other Principal Officials**

City Secretary:	Amanda Davenport
City Bookkeeper:	Ronda Richardson
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*

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El Campo, TX 77437

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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, 2017, 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, 2017, 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 July 18, 2018, 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  
July 18, 2018

# **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, 2017. 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**

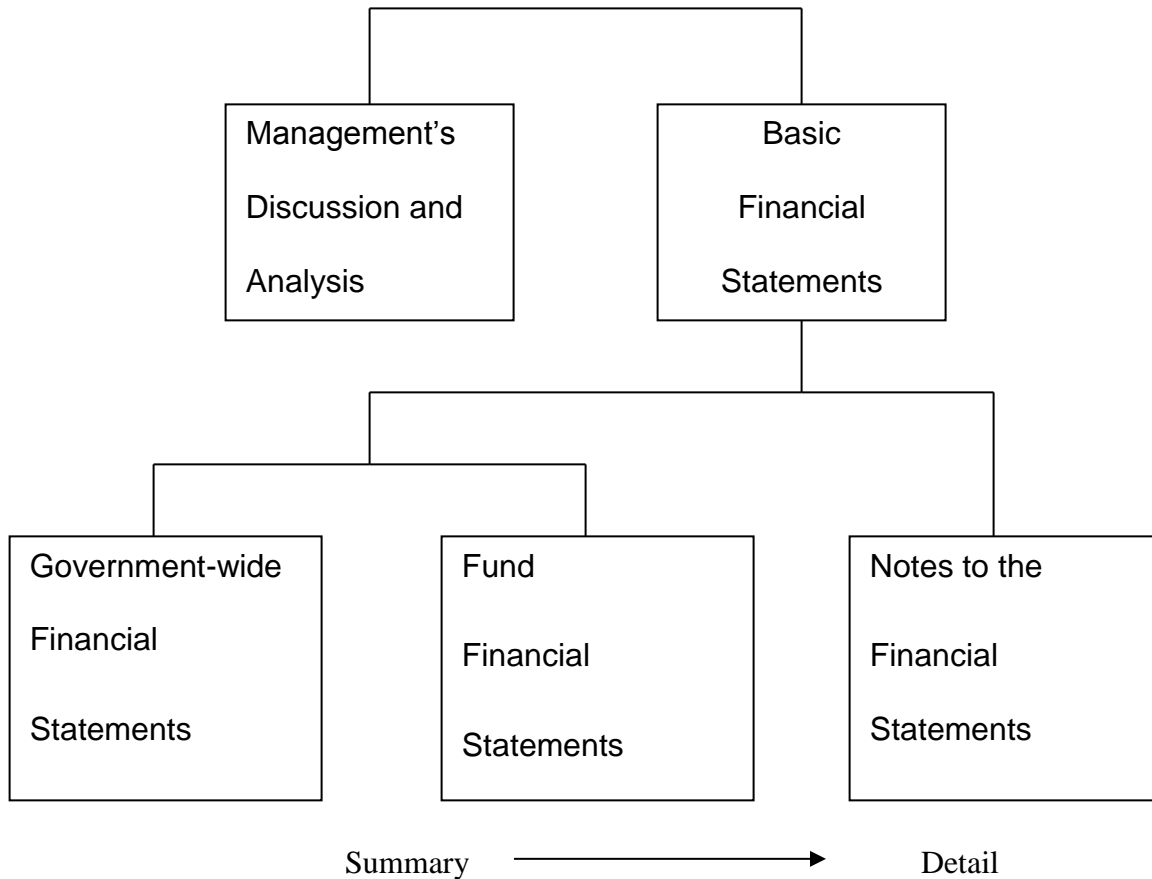
- The assets of the Village exceeded its liabilities at the close of the fiscal year by \$ 12,517,947.
- The government's total net position increased by \$1,449,979.
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$3,227,439 an increase of \$506,557 in comparison with the prior year. Approximately 26 percent of this total amount, or \$814,986, 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 \$814,986, or 65 percent of total general fund expenditures for the fiscal year.
- The Village's total debt decreased by \$109,270 or 9% 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	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 3,269,654	\$ 2,833,130	\$ 594,426	\$ 538,777	\$ 3,864,080	\$ 3,371,907
Non Current Assets	5,457,185	5,481,840	5,511,090	4,668,553	10,968,275	10,150,393
Deferred Outflows	66,252	43,191	23,262	14,034	34	57,225
Total Assets	\$ 8,793,091	\$ 8,358,161	\$ 6,128,778	\$ 5,221,364	\$ 14,921,869	\$ 13,579,525
Current Liabilities	197,675	262,996	136,825	100,856	334,500	363,852
Long Term Liabilities	1,035,354	1,137,854	1,004,198	987,533	2,039,552	2,125,387
Deferred Inflows	21,895	9,492	7,975	3,012	29,870	12,504
Total Liabilities	\$ 1,254,924	\$ 1,410,342	\$ 1,148,998	\$ 1,091,401	\$ 2,403,922	\$ 2,501,743
Net Position						
Net Invested in Capital Assets	4,372,831	4,111,505	4,519,922	3,608,020	8,892,753	7,719,525
Restricted	6,995	6,995	98,156	106,076	105,151	113,071
Unrestricted	3,158,341	2,829,319	361,702	415,867	3,520,043	3,245,186
Total Net Position	\$ 7,538,167	\$ 6,947,819	\$ 4,979,780	\$ 4,129,963	\$ 12,517,947	\$ 11,077,782

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 \$12,517,947 as of September 30, 2017. The Village's net position increased by \$1,449,979 for the fiscal year ended September 30,

2017. However, the largest portion 71% 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 \$3,520,043 is unrestricted.

**Changes in Net position**  
**Figure 3**

	Governmental Activity		Business Type Activity		Totals	
	2017	2016	2017	2016	2017	2016
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 505,306	\$ 484,063	\$ 596,639	\$ 603,673	\$ 1,101,945	\$ 1,087,736
Operating Grants and Contributions	-	-	-	-	-	-
Capital Grants and Contributions	2,032	24,260	747,845	908,979	749,877	933,239
General Revenues						
Property Taxes	867,160	806,347	-	-	867,160	806,347
Other Taxes	1,126,481	1,008,394	-	-	1,126,481	1,008,394
Other	88,450	37,715	12,772	11,718	101,222	49,433
<b>Total Revenues</b>	<b>\$ 2,589,429</b>	<b>\$ 2,360,779</b>	<b>\$ 1,357,256</b>	<b>\$ 1,524,370</b>	<b>\$ 3,946,685</b>	<b>\$ 3,885,149</b>
<b>Expenses</b>						
General Government	\$ 449,932	\$ 502,963	\$ -	\$ -	\$ 449,932	\$ 502,963
Municipal Court	52,468	48,295	-	-	52,468	48,295
Police/EMS	329,547	297,938	-	-	329,547	297,938
Public Works	280,864	302,828	-	-	280,864	302,828
Public Facilities	444,939	512,414	588,954	502,949	1,033,893	1,015,363
Economic Development	74,723	95,997	-	-	74,723	95,997
Employee Benefits	100,125	87,847	-	-	100,125	87,847
Grant Expenses	-	-	-	-	-	-
Interest and Fees	39,727	43,215	48,694	53,564	88,421	96,779
Non Departmental	86,733	84,988	-	-	86,733	84,988
<b>Total Expenses</b>	<b>\$ 1,859,058</b>	<b>\$ 1,976,485</b>	<b>\$ 637,648</b>	<b>\$ 556,513</b>	<b>\$ 2,496,706</b>	<b>\$ 2,532,998</b>
Increase in Net Position before transfers	\$ 730,371	\$ 384,294	\$ 719,608	\$ 967,857	\$ 1,449,979	\$ 1,352,151
Transfers	(127,345)	(87,449)	127,345	87,449	-	-
<b>Increase in Net Position</b>	<b>\$ 603,026</b>	<b>\$ 296,845</b>	<b>\$ 846,953</b>	<b>\$ 1,055,306</b>	<b>\$ 1,449,979</b>	<b>\$ 1,352,151</b>
Net Position beginning of year	\$ 6,935,141	\$ 6,638,296	\$ 4,132,827	\$ 3,077,521	\$ 11,067,968	\$ 9,715,817
<b>Net Position end of year</b>	<b>\$ 7,538,167</b>	<b>\$ 6,935,141</b>	<b>\$ 4,979,780</b>	<b>\$ 4,132,827</b>	<b>\$ 12,517,947</b>	<b>\$ 11,067,968</b>

**Governmental activities:** Governmental activities increased the Village's net position by \$603,026, thereby accounting for 42% of the total increase in the net position of the Village.

**Business-type activities:** Business-type activities increased the Village's net position by \$846,953.

## 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 \$814,986, while total fund balance reached \$842,444. 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, 2017 the governmental funds of The Village reported a combined fund balance of \$3,227,439, 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 \$361,702. 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, 2017 totals \$10,906,107 (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	
	2017	2016	2017	2016	2017	2016
Land	\$ -	\$ -	\$ 112,233	\$ 112,233	\$ 112,233	\$ 112,233
Buildings and Systems	1,486,168	1,306,085	-	-	1,486,168	1,306,085
Improvements other than building	-	-	1,202,157	1,202,157	1,202,157	1,202,157
Machinery and Equipment	786,620	766,186	196,452	112,060	983,072	878,246
Infrastructure	8,816,005	8,816,005	3,652,077	3,652,077	12,468,082	12,468,082
Construction in Progress	108,212	41,895	1,595,840	711,799	1,704,052	753,694
Totals	<u>\$ 11,197,005</u>	<u>\$ 10,930,171</u>	<u>\$ 6,758,759</u>	<u>\$ 5,790,326</u>	<u>\$ 17,955,764</u>	<u>\$ 16,720,497</u>

**Long-term Debt:** As of September 30, 2017, the Village had total bonded debt outstanding of \$2,018,000. Of this, \$1,040,000 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	
	2017	2016	2017	2016	2017	2016
General Obligation	\$ 1,040,000	\$ 1,055,000	\$ -	\$ -	\$ 1,040,000	\$ 1,055,000
Revenue Bonds	-	-	978,000	1,042,000	978,000	1,042,000
Totals	<u>\$ 1,040,000</u>	<u>\$ 1,055,000</u>	<u>\$ 978,000</u>	<u>\$ 1,042,000</u>	<u>\$ 2,018,000</u>	<u>\$ 2,097,000</u>

The Village's total bonded debt decreased by \$15,000, or 2%, during the past fiscal year.

### Economic Factors and Next Years' Budget and Rates

The certified assessed property valuations for the 2017 tax roll total \$251,692,308 with a tax rate of \$0.359506 per \$100 valuation. The maintenance and operations rate is \$0.289575 and the debt service rate is \$0.069931.

The projected M&O property tax due is \$728,838 for the 2017/18 tax year. The certified assessed property valuations were more than the 2016 values.

Of the \$728,838 projected property taxes due, \$25,988 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](mailto:Amanda@surfsidetx.org) Website: [www.surfsidetx.org](http://www.surfsidetx.org).



## **Basic Financial Statements**

# Village of Surfside Beach, Texas

## Statement of Net Position

September 30, 2017

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Current Assets:			
Cash and investments	\$ 2,820,730	\$ 372,155	\$ 3,192,885
Receivables, net of allowance for uncollectibles -			
Property taxes	20,654	-	20,654
Franchise taxes	10,863	-	10,863
Other taxes	26,195	-	26,195
Miscellaneous	213,043		213,043
Customer Accounts	-	72,722	72,722
Intergovernmental	-	-	-
Other	-	15,893	15,893
Internal balances	89,770	-	89,770
Due from other governments	60,941	-	60,941
Inventories	2,000	35,500	37,500
Prepaid expenses	18,463	-	18,463
Total Current Assets	<u>3,262,659</u>	<u>496,270</u>	<u>3,758,929</u>
Restricted assets:			
Cash and investments	6,995	98,156	105,151
Total Restricted Assets	<u>6,995</u>	<u>98,156</u>	<u>105,151</u>
Noncurrent Assets:			
Net Pension Asset	49,000	13,168	62,168
Net Capital Assets (Note C)	5,408,185	5,497,922	10,906,107
Total Noncurrent Assets	<u>5,457,185</u>	<u>5,511,090</u>	<u>10,968,275</u>
Deferred Outflows of Resources			
Contributions 12/31/15 - 9/30/16	66,252	23,262	89,514
Total Deferred Outflows of Resources	<u>66,252</u>	<u>23,262</u>	<u>89,514</u>
<b>Total Assets</b>	<b><u>8,793,091</u></b>	<b><u>6,128,778</u></b>	<b><u>14,921,869</u></b>

	Governmental Activities	Business-type Activities	Total
<u>Liabilities</u>			
Current Liabilities			
Accrued liabilities	\$ -	\$ 356	\$ 356
Accounts payable	17,516	15,954	33,470
Compensated absences payable	12,663	6,187	18,850
Accrued interest payable	4,146	5,558	9,704
Due to other governments	45	-	45
Internal balances	-	89,770	89,770
Current portion of long-term debt	163,305	19,000	182,305
Liabilities payable from restricted assets	-	-	-
Total Current Liabilities	197,675	136,825	334,500
Noncurrent Liabilities			
Customer deposits	-	45,198	45,198
Notes payable - banks	-	-	-
Notes payable - CDL	75,354	-	75,354
Bonds and similar debt obligations	960,000	959,000	1,919,000
Total Noncurrent Liabilities	1,035,354	1,004,198	2,039,552
<b>Total Liabilities</b>	<b>1,233,029</b>	<b>1,141,023</b>	<b>2,374,052</b>
Deferred Inflows of Resources	21,895	7,975	29,870
Total Deferred Inflows of Resources	21,895	7,975	29,870
<u>Net Position</u>			
Net Investment in capital assets	4,372,831	4,519,922	8,892,753
Restricted for:			
Debt service	-	98,156	98,156
MCTF/MCSF	6,995	-	6,995
Unrestricted	3,158,341	361,702	3,520,043
Total Net Position	7,538,167	4,979,780	12,517,947
<b>Total Liabilities and Net Position</b>	<b>8,793,091</b>	<b>6,128,778</b>	<b>14,921,869</b>

# Village of Surfside Beach, Texas

## Statement of Activities

For the Year Ended September 30, 2017

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Administration	\$ 449,932	\$ -	\$ -	\$ -
Municipal Court	52,468	90,690	-	-
Police Department/EMS	329,547	130,010	-	-
Public Works	280,864	238,789	-	-
Public Facilities	444,939	45,817	-	2,032
Economic Development	74,723	-	-	-
Employee benefits	100,125	-	-	-
Grant expenditures	-	-	-	-
Interest and fees on debt	39,727	-	-	-
Non Departmental	86,733	-	-	-
<b>Total Governmental Activities</b>	<b>1,859,058</b>	<b>505,306</b>	<b>-</b>	<b>2,032</b>
<b>Business Type Activities:</b>				
Water and sewer services	588,954	596,639	-	747,845
Interest and fees on debt	48,694	-	-	-
Contract for emergency services	-	-	-	-
<b>Total Business-type Activities</b>	<b>637,648</b>	<b>596,639</b>	<b>-</b>	<b>747,845</b>
<b>Totals</b>	<b>2,496,706</b>	<b>1,101,945</b>	<b>-</b>	<b>749,877</b>

**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
\$ (449,932)	\$ -	\$ (449,932)
38,222	-	38,222
(199,537)	-	(199,537)
(42,075)	-	(42,075)
(397,090)	-	(397,090)
(74,723)	-	(74,723)
(100,125)	-	(100,125)
-	-	-
(39,727)	-	(39,727)
(86,733)	-	(86,733)
<u>(1,351,720)</u>	<u>-</u>	<u>(1,351,720)</u>
-	755,530	755,530
-	(48,694)	(48,694)
-	-	-
<u>-</u>	<u>706,836</u>	<u>706,836</u>
<b>(1,351,720)</b>	<b>706,836</b>	<b>(644,884)</b>
867,160	-	867,160
114,239	-	114,239
66,089	-	66,089
452,510	-	452,510
493,643	-	493,643
13,000	-	13,000
11,866	622	12,488
63,584	12,150	75,734
(127,345)	127,345	-
<b>1,954,746</b>	<b>140,117</b>	<b>2,094,863</b>
<b>603,026</b>	<b>846,953</b>	<b>1,449,979</b>
<u>6,935,141</u>	<u>4,132,827</u>	<u>11,067,968</u>
<b><u>\$ 7,538,167</u></b>	<b><u>\$ 4,979,780</u></b>	<b><u>\$ 12,517,947</u></b>

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

# Village of Surfside Beach

## Balance Sheet

### Governmental Funds

September 30, 2017

	Special Revenue Funds		
	General Fund	Beach Fund	Hotel-Motel Tax Fund
<b>Assets</b>			
Cash and Investments	\$ 512,521	\$ 437,740	\$ 1,320,963
Receivables:			
Property taxes, net of allowance for uncollectives	16,861	-	-
Franchise taxes	10,863	-	-
Other taxes	26,195	-	-
Miscellaneous	3,837	255	201,127
Due from other funds	218,640	3,294	-
Due from other governments	60,941	-	-
Restricted Assets: Cash & Investments	6,995	-	-
Prepaid Expense	18,463	-	-
Inventory	2,000	-	-
<b>Total Assets</b>	<b>\$ 877,316</b>	<b>\$ 441,289</b>	<b>\$ 1,522,090</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	17,118	-	398
Due to other governments	45	-	-
Due to other funds	848	151,264	8,900
<b>Total Liabilities</b>	<b>18,011</b>	<b>151,264</b>	<b>9,298</b>
<b>Deferred Inflows of Resources</b>			
Unearned Revenue	16,861	-	-
<b>Total Deferred Inflows of Resources</b>	<b>16,861</b>	<b>-</b>	<b>-</b>
<b>Fund Balances (Deficit)</b>			
Restricted for MCTF/MCSF	6,995	-	-
Nonspendable	20,463	-	-
Unassigned, reported in			
General Fund	814,986	-	-
Assigned, reported in			
Debt service			
Special Revenue Fund		290,025	1,512,792
Capital Projects Fund	-	-	-
<b>Total Fund Balances</b>	<b>842,444</b>	<b>290,025</b>	<b>1,512,792</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 877,316</b>	<b>\$ 441,289</b>	<b>\$ 1,522,090</b>

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>	
\$ 454,754	\$ 94,752	\$ 2,820,730	
-	3,793	20,654	
-	-	10,863	
-	-	26,195	
7,824	-	213,043	
28,001	847	250,782	
-	-	60,941	
-	-	6,995	
-	-	18,463	
-	-	2,000	
<u>\$ 490,579</u>	<u>\$ 99,392</u>	<u>\$ 3,430,666</u>	
-	-	-	
-	-	17,516	
-	-	45	
-	-	161,012	
-	-	<u>178,573</u>	
4,000	3,793	<u>24,654</u>	
4,000	3,793	<u>24,654</u>	
-	-	6,995	
-	-	20,463	
-	-	-	
-	-	814,986	
-	-	-	
-	95,599	95,599	
486,579	-	2,289,396	
-	-	-	
<u>486,579</u>	<u>95,599</u>	<u>3,227,439</u>	
<u>\$ 490,579</u>	<u>\$ 99,392</u>	<u>\$ 3,430,666</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, 2017

**Total Governmental Fund Balance** \$ 3,227,439

*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	5,408,185
Property tax receivables, unearned revenue	24,654
Net Pension Asset	49,000

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	(1,198,659)
Compensated absences and accrued interest liabilities	(16,809)

Net deferred outflows and inflows of resources making up Net Position Asset are not recorded in the funds.	44,357
---------------------------------------------------------------------------------------------------------------	--------

**Net Position of Governmental Activities** \$ 7,538,167

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, 2017

	Special Revenue Funds		
	General Fund	Beach Fund	Hotel-Motel Tax Fund
Revenues:			
Property taxes	\$ 687,940	\$ -	\$ -
Franchise tax	66,089	-	-
Sales and use tax	114,239	-	-
Other Taxes	11,778	-	440,732
Municipal court fines and fees	90,690	-	-
Licenses and permits	38,498	493,643	-
Garbage and service fees	200,291	-	-
Parks and Recreation	45,817	-	-
EMS	130,010	-	-
Miscellaneous	59,750	180	3,403
Intergovernmental	-	-	4,458
Donations	-	-	2,032
<b>Total Revenues</b>	<b><u>1,445,102</u></b>	<b><u>493,823</u></b>	<b><u>450,625</u></b>
Expenditures:			
Current -			
General Administration	391,834	-	-
Municipal Court	49,298	-	-
Police Department/EMS	305,753	-	-
Public Works	161,132	-	-
Public Facilities	-	364,631	-
Economic Development	-	-	74,723
Employee Benefits	100,125	-	-
Debt Service	87,817	12,949	-
Capital Outlay	72,994	7,434	180,083
Grant Expenditures	-	-	6,323
Non Departmental	86,733	-	-
<b>Total Expenditures</b>	<b><u>1,255,686</u></b>	<b><u>385,014</u></b>	<b><u>261,129</u></b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b><u>189,416</u></b>	<b><u>108,809</u></b>	<b><u>189,496</u></b>
Other Financing Sources (Uses):			
Proceeds from long-term debt	60,000	-	-
Operating Transfers In	-	-	-
Operating Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>60,000</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	249,416	108,809	189,496
Fund Balances:			
Beginning of year, as restated	<u>593,028</u>	<u>181,216</u>	<u>1,323,296</u>
<b>End of year</b>	<b><u>\$ 842,444</u></b>	<b><u>\$ 290,025</u></b>	<b><u>\$ 1,512,792</u></b>

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

Special Revenue Funds (contd)

Sewer Tap	Debt Service	Total Governmental Funds
\$ -	\$ 173,710	\$ 861,650
-	-	66,089
-	-	114,239
-	-	452,510
-	-	90,690
13,000	-	545,141
-	-	200,291
-	-	45,817
-	-	130,010
7,659	-	70,992
-	-	4,458
		2,032
<b><u>20,659</u></b>	<b><u>173,710</u></b>	<b><u>2,583,919</u></b>
-	-	391,834
-	-	49,298
-	-	305,753
-	-	161,132
-	-	364,631
-	-	74,723
-	-	100,125
-	108,188	208,954
-	-	260,511
-	-	6,323
-	-	86,733
-	<b><u>108,188</u></b>	<b><u>2,010,017</u></b>
<b><u>20,659</u></b>	<b><u>65,522</u></b>	<b><u>573,902</u></b>
		60,000
<u>(71,000)</u>	<u>(56,345)</u>	<u>(127,345)</u>
<u>(71,000)</u>	<u>(56,345)</u>	<u>(67,345)</u>
(50,341)	9,177	506,557
<u>536,920</u>	<u>86,422</u>	<u>2,720,882</u>
<b><u>\$ 486,579</u></b>	<b><u>\$ 95,599</u></b>	<b><u>\$ 3,227,439</u></b>

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, 2017

Net Change in Fund Balances - Governmental Funds	\$	506,557
<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.		(11,249)
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.		169,270
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.		(60,000)
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		(2,748)
Decrease in Compensated Absences		(4,271)
Decrease in Accrued Interest		(43)
Uncollected property taxes are not recognized as revenue in governmental funds.		<u>5,510</u>
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>603,026</u></b>

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

# Village of Surfside Beach, Texas

## Statement of Net Position

Proprietary Fund - Water & Sewer Utility

September 30, 2017

### Assets

#### Current Assets:

Cash	\$	372,155
Accounts receivable, net of allowance for uncollectibles		72,722
Other receivables		15,893
Due from other funds		-
Inventory		<u>35,500</u>

**Total Current Assets** 496,270

#### Restricted assets:

Interest and Sinking		98,156
Debt service reserve		<u>-</u>

**Total Restricted Assets** 98,156

#### Noncurrent assets:

Net Pension Asset		13,168
Capital Assets		6,758,760
Less: Accumulated Depreciation		<u>(1,260,838)</u>

**Total Noncurrent Assets** 5,511,090

#### Deferred Outflows of Resources

Contributions 12/31/16 through 9/30/17		<u>23,262</u>
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**Total Deferred Outflows of Resources** 23,262

**Total Assets** \$ 6,128,778

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

**Village of Surfside Beach, Texas**  
Statement of Net Position  
Proprietary Fund - Water & Sewer Utility (Continued)  
September 30, 2017

**Liabilities**

Current liabilities:

Accrued liabilities	\$ 356
Accounts payable	15,954
Compensated absences payable	6,187
Due to other Funds	89,770
Payables from restricted assets -	-
Accrued interest payable	5,558
Current portion of long-term debt	<u>19,000</u>

**Total Current Liabilities** 136,825

**Noncurrent Liabilities (net of current portion):**

Customer deposits	9,198
Sewer infrastructure deposit	36,000
2005 Certificates of Obligation	959,000

**Total Noncurrent Liabilities** 1,004,198

**Total Liabilities** 1,141,023

**Deferred Inflows of Resources**

Actual Expenditure vs Assumption	<u>7,975</u>
----------------------------------	--------------

**Total Deferred Inflows of Resources** 7,975

**Net Position**

Investment in capital assets	4,519,922
Restricted for debt service	98,156
Unrestricted	<u>361,702</u>

**Total Net Position** 4,979,780

**Total Liabilities and Net Position** \$ 6,128,778

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, 2017

Operating Revenues:	
Water sales	\$ 404,026
Sewer services	159,393
Late payment charges	6,120
Tap fees	26,500
Reconnection fees	600
Miscellaneous	12,150
Grant Revenues	<u>-</u>
<b>Total Operating Revenue</b>	<b><u>608,789</u></b>
Operating Expenses:	
Personnel related	244,393
Contracted services	3,500
Repairs and maintenance	72,097
Other charges	148,433
Depreciation and amortization	<u>120,531</u>
<b>Total Operating Expenses</b>	<b><u>588,954</u></b>
<b>Operating Income (Loss)</b>	<b><u>19,835</u></b>
Nonoperating Revenue (Expenses):	
Interest earned	622
Paying agent fees	(550)
Interest expense	<u>(48,144)</u>
<b>Total Nonoperating Revenue (Expenses)</b>	<b><u>(48,072)</u></b>
<b>Net Income (Loss) Before Contributions and Transfers</b>	<b>(28,237)</b>
Capital Contributions	747,845
Transfers In	<u>127,345</u>
<b>Change in Net Position</b>	<b>846,953</b>
Net Position:	
Beginning of year, as restated	<u>4,132,827</u>
<b>Total Net Position - Ending</b>	<b><u>\$ 4,979,780</u></b>

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, 2017

Cash flows from operating activities:	
Receipts from customers	\$ 576,642
Payments to suppliers and contractors	(249,208)
Payments to employees	(244,393)
Other revenues	12,150
Grant Revenue	-
	<hr/>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>95,191</u></b>
Cash flows from non-capital financing activities:	
Increase (decrease) in customer deposits	35,665
(Increase) decrease in interfund lending	77,553
Contract for emergency services	-
	<hr/>
<b>Net Cash Provided (Used) for Non-capital Financing Activities</b>	<b><u>113,218</u></b>
Cash flows from capital and related financing activities:	
Acquisition of capital assets, net of dispositions	(220,587)
Long-term debt	-
Interest and fees paid on debt	(48,694)
Transfer in	127,345
Principal paid on other long-term debt	(64,000)
	<hr/>
<b>Net Cash Provided (Used) for Capital and Related Financing Activities</b>	<b><u>(205,938)</u></b>
Cash flows from Investing Activities:	
Interest received	<u>622</u>
	<hr/>
<b>Net Cash Provided (Used) by Investing Activities</b>	<b><u>622</u></b>
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	<b>3,095</b>
	<hr/>
Cash balances, beginning of year	<u>467,216</u>
	<hr/>
<b>Cash balances, End of Year</b>	<b><u><u>\$ 470,311</u></u></b>

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 Continued**  
**For the Year Ended September 30, 2017**

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

Operating Income	\$ 19,835
Adjustments to operating income for items not requiring cash outlay:	
Depreciation and amortization	120,531
Changes in assets and liabilities -	
(Increase) decrease in accounts receivable	(19,997)
(Increase) decrease in inventory	(33,099)
Increase (decrease) in accounts payable	4,907
Increase (decrease) in accrued expenses	<u>3,014</u>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 95,191</u></b>

**Composition of Cash:**

Operating Cash	\$ 372,155
Restricted Cash -	
Interest and sinking	98,156
Debt reserve	<u>-</u>
<b>Total Cash</b>	<b><u>\$ 470,311</u></b>

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

# Village of Surfside Beach, Texas

Notes to Financial Statements

September 30, 2017

## **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.

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, 2017, 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 2017, the Village increased net position of the systems fund by \$2864 . This was done because a prior year asset donation from Brazoria County was not recorded. The net position of governmental funds was reduced \$12,678 due to a prior period adjustment for deposits double recorded.

### **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, 2017 and throughout the fiscal year. At year-end, the Village's bank balances totaled \$2,123,277.

##### 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, 2017 the Village's investments in TexPool totaled \$463,917. The Village also holds \$11,692 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, 2017 is \$4,650,000 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 2016 levy, supporting the fiscal year budget for the year ended September 30, 2017, was \$0.286922 per \$100 valuation for maintenance and operations and \$.072584 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, 2017, the allowance for the Village was estimated at \$1,087.

Enterprise Fund – The proprietary fund accounts receivable are related to water utility billings. The allowance of uncollectibles at September 30, 2017 is \$849 and is comprised of all accounts with balances past due for sixty days.

Net receivables at September 30, 2017 consist of the following:

Net Receivables	General	System	Other Governmental	Total
Accounts	\$ -	\$ 72,722	\$ -	\$ 72,722
Ad valorem	16,861	-	3,793	20,654
Other taxes	37,058	-	201,127	238,185
Miscellaneous	3,837	-	8,079	11,916
	<u>\$ 57,756</u>	<u>\$ 72,722</u>	<u>\$ 212,999</u>	<u>\$ 343,477</u>

### C. Capital Assets

Capital asset activity for the year ended September 30, 2017 was as follows:

#### Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Process	41,895	66,317	-	108,212
Total capital assets, not being depreciated	<u>\$ 41,895</u>	<u>\$ 66,317</u>	<u>\$ -</u>	<u>\$ 108,212</u>
Capital assets, being depreciated:				
Buildings	\$ 1,306,085	\$ 180,083		\$ 1,486,168
Machinery and equipment	766,186	20,434	-	786,620
Infrastructure	8,816,005	-	-	8,816,005
Total capital assets, being depreciated	<u>\$ 10,888,276</u>	<u>\$ 200,517</u>	<u>\$ -</u>	<u>\$ 11,088,793</u>
Less accumulated depreciation for:				
Buildings	\$ (742,956)	\$ (44,762)	\$ -	\$ (787,718)
Machinery and equipment	(558,791)	(47,820)		(606,611)
Infrastructure	(4,208,990)	(185,501)	-	(4,394,491)
Total accumulated depreciation	<u>\$ (5,510,737)</u>	<u>\$ (278,083)</u>	<u>\$ -</u>	<u>\$ (5,788,820)</u>
Total capital assets, being depreciated, net	<u>5,377,539</u>	<u>(77,566)</u>	<u>-</u>	<u>5,299,973</u>
Governmental activities capital assets, net	<u>\$ 5,419,434</u>	<u>\$ (11,249)</u>	<u>\$ -</u>	<u>\$ 5,408,185</u>

**Business-type activities, water and sewer system:**

Capital assets not being depreciated:

Land	\$ 112,233	\$ -	\$ -	\$ 112,233
Construction in Process	<u>711,799</u>	<u>884,041</u>	<u>-</u>	<u>1,595,840</u>
Total capital assets, not being depreciated	<u>\$ 824,032</u>	<u>\$ 884,041</u>	<u>\$ -</u>	<u>\$ 1,708,073</u>

Capital assets, being depreciated:

Wells and related equipment	\$ 1,202,157	\$ -	\$ -	\$ 1,202,157
Machinery and equipment	112,060	84,392	-	196,452
Infrastructure	<u>3,652,077</u>	<u>-</u>	<u>-</u>	<u>3,652,077</u>
Total capital assets, being depreciated	<u>\$ 4,966,294</u>	<u>\$ 84,392</u>	<u>\$ -</u>	<u>\$ 5,050,686</u>

Less accumulated depreciation for:

Wells and related equipment	\$ (256,268)	\$ (31,646)	\$ -	\$ (287,914)
Machinery and equipment	(58,578)	(9,535)	-	(68,113)
Infrastructure	<u>(825,461)</u>	<u>(79,350)</u>	<u>-</u>	<u>(904,811)</u>
Total accumulated depreciation	<u>\$ (1,140,307)</u>	<u>\$ (120,531)</u>	<u>\$ -</u>	<u>\$ (1,260,838)</u>

Total capital assets, being depreciated, net	<u>3,825,987</u>	<u>(36,139)</u>	<u>-</u>	<u>3,789,848</u>
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Governmental activities capital assets, net	<u>\$ 4,650,019</u>	<u>\$ 847,902</u>	<u>\$ -</u>	<u>\$ 5,497,921</u>
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government - administration	\$ 55,933
Public safety	20,348
Highways and streets, including depreciation of general infrastructure assets	121,106
Culture and recreation	<u>80,696</u>
Total depreciation expense, governmental activities	<u>\$ 278,083</u>

**D. Long Term Debt**

The Village's General Long Term Debt at September 30, 2017 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 10/1/2016	Additions	Reductions	Ending Balance 9/30/2017
Notes payable	252,929	-	94,270	158,659
Bonds Payable	1,055,000	60,000	75,000	1,040,000
	<u>1,307,929</u>	<u>60,000</u>	<u>169,270</u>	<u>1,198,659</u>

Governmental	Interest Rate	Payment Terms	Maturity	Balance
Community Disaster Loan	1.88%	\$72,416 Annually	Apr-19	149,315
Bank loan - Brazos Nat (2013 Truck)	4.90%	\$494 monthly	Mar-18	2,929
Bank loan - Brazos Nat (Tractor)	4.90%	\$1079 monthly	Mar-18	6,415
Bank loan - Brazos Nat (Police truck)	4.90%	\$627 monthly	Jun-17	-
				<u>158,659</u>

**Proprietary activities**

Issue Type	Beginning Balance 10/1/2016	Additions	Reductions	Ending Balance 9/30/2017
Bonds Payable	1,042,000	-	64,000	978,000
	<u>1,042,000</u>	<u>-</u>	<u>64,000</u>	<u>978,000</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 2017:

		<u>Principal Paid</u>	<u>Interest Paid</u>	<u>Balance 9/30/2015</u>
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>19,000</u>	<u>45,826</u>	<u>978,000</u>
Totals		<u><u>19,000</u></u>	<u><u>45,826</u></u>	<u><u>978,000</u></u>

The following are the annual requirements for this debt issue:

2005 USDA Certificate of Obligation

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
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>\$ 767,140</u>	<u>\$ 978,000</u>	<u>\$ 1,745,140</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 2028. 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
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	95,000	1,686	96,686
	<u>\$ 1,040,000</u>	<u>\$ 180,656</u>	<u>\$ 1,220,656</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

<u>Payment Date</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
	-	-	-	-
	152,833.00	149,315.16	3,517.85	

### **E. Interfund receivables, payables and transfers**

The composition of interfund balances as of September 30, 2017 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Hotel/Motel	5,606
	System	61,770
	Beach	151,264
Beach	Hotel/Motel	3,294
Sewer	System	28,000
Debt Service	General	847
	Totals	<u>\$ 250,781</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. 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, 2017 may be impaired.

## **C. 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](http://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, 2016 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	27
Active employees	<u>19</u>
	47

### 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, 2017 were \$4,360, and were equal to the required contributions.

### Net Pension Liability

The Village's Net Pension Liability (NPL) was measured as of December 31, 2016, 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, 2016 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, 2016, 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 2016 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>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
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)
<b>Balance at 12/31/2015</b>	\$ 449,910	\$ 539,844	\$ (89,934)
Changes for the year:			-
Service cost	44,959	-	44,959
Interest	31,040	-	31,040
Changes of benefit terms	4,383	-	4,383
Difference between expected and actual experience	(24,230)	-	(24,230)
Change of assumptions	-	-	-
Contributions - Employer	-	4,360	(4,360)
Contributions - Employee	-	33,156	(33,156)
Net Investment Income	-	36,225	(36,225)
Benefit payments, including refunds of employee contributions	(33,851)	(33,851)	-
Administrative expense	-	(412)	412
Other changes	-	(22)	22
Net changes	22,301	39,456	(17,155)
<b>Balance at 12/31/2016</b>	<u>\$ 472,211</u>	<u>\$ 579,300</u>	<u>\$ (107,089)</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:	\$ (42,981)	\$ (107,089)	\$ (159,551)

*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.tmrs.com](http://www.tmrs.com).

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

For the year ended September 30, 2017 the Village recognized pension expense of \$8,959.

At September 30, 2017, 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	\$ -	\$ (17,366)
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	171	-
Contributions subsequent to the measurement date	-	-
Total	\$ 171	\$ (17,366)

\$7,348 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, 2017. 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
2017	\$ 2,579
2018	2,733
2019	3,364
2020	42
2021	-
Thereafter	-
Total	\$ 8,718

### **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 1<sup>st</sup> of any year to be effective the following January 1<sup>st</sup>.

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 2017 was \$1,366, 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, 2017

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
<b>Revenues</b>				
Revenues:				
Taxes - -				
Property	\$ 694,416	\$ 694,416	\$ 687,940	\$ (6,476)
Franchise	60,000	60,000	66,089	6,089
Sales and use	95,000	95,000	114,239	19,239
Mixed beverage	9,000	9,000	11,778	2,778
Municipal court fines and fees	96,025	96,025	90,690	(5,335)
Licenses and permits	36,500	36,500	38,498	1,998
Garbage and service fees	160,000	160,000	200,291	40,291
Parks & Recreation	50,000	50,000	45,817	(4,183)
EMS	99,000	99,000	130,010	31,010
Miscellaneous	6,100	6,100	6,663	563
Intergovernmental	-	-	-	-
Market gains	-	-	5,902	5,902
Sale of Easment	-	-	47,185	47,185
	-	-	-	-
<b>Total Revenues and Other Sources</b>	<b>1,306,041</b>	<b>1,306,041</b>	<b>1,445,102</b>	<b>139,061</b>
<b>Expenditures and Other Uses</b>				
Current Expenditures - -				
Administration				
Personnel	118,995	118,995	102,766	16,229
Supplies	7,800	7,800	8,504	(704)
Maintenance	18,120	18,120	18,310	(190)
Service	69,600	69,600	49,192	20,408
Miscellaneous	26,050	26,050	39,300	(13,250)
Garbage	160,000	160,000	173,762	(13,762)
Municipal Court				
Personnel	48,900	48,900	42,077	6,823
Supplies	1,250	1,250	1,409	(159)
Maintenance	100	100	-	100
Service	5,500	5,500	5,412	88
Miscellaneous	800	800	400	400
Police Department/EMS				
Personnel	281,557	281,557	211,261	70,296
Supplies	38,700	38,700	43,184	(4,484)
Maintenance	9,600	9,600	9,179	421
Service	11,700	11,700	11,425	275
Miscellaneous	26,800	26,800	30,704	(3,904)
Public Works				
Personnel	113,485	113,485	92,060	21,425
Supplies	8,500	8,500	11,788	(3,288)
Maintenance	94,450	94,450	31,719	62,731
Service	15,750	15,750	23,208	(7,458)
Miscellaneous	10,650	10,650	2,357	8,293

## Village of Surfside Beach

### Statement of Revenues, Expenditures and Changes in Fund Balances

#### Budget and Actual - General Fund

For the Year Ended September 30, 2017 (Continued)

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
Non-Departmental	88,500	88,500	86,733	1,767
Payroll expenses	99,700	99,700	100,125	(425)
Debt Service	88,700	88,700	87,817	883
Capital Outlay	15,000	15,000	72,994	(57,994)
Grant Expenditures	-	-	-	-
<b>Total Expenditures and Other Uses</b>	<b>1,360,207</b>	<b>1,360,207</b>	<b>1,255,686</b>	<b>104,521</b>
<b>Other Financing Sources (Uses)</b>				
Debt Revenues	-	-	60,000	60,000
Transfers in	83,200	83,200	-	(83,200)
Transfers out	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>83,200</b>	<b>83,200</b>	<b>60,000</b>	<b>(83,200)</b>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<b>29,034</b>	<b>29,034</b>	<b>249,416</b>	<b>220,382</b>
Fund Balance (Deficit):				
Beginning of year (as restated)	593,028	593,028	593,208	180
<b>End of Year</b>	<b>\$ 622,062</b>	<b>\$ 622,062</b>	<b>\$ 842,624</b>	<b>\$ 220,562</b>

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, 2017

	Original	Budget		Actual	Variance With
		Final			Final Budget
					Favorable (Unfavorable)
<b>Revenues and Other Sources</b>					
Revenues - -					
State Beach Funds	40,000	40,000		23,013	(16,987)
Seasonal Permits	300,000	300,000		386,194	86,194
S-Permit Sales	46,000	46,000		84,436	38,436
Interest Earned	100	100		-	(100)
Miscellaneous	200	200		180	(20)
Intergovernmental	-	-		-	-
<b>Total Revenues and Other Sources</b>	<b>386,300</b>	<b>386,300</b>		<b>493,823</b>	<b>107,523</b>
<b>Expenditures and Other Uses</b>					
Current Expenditures - -					
Personnel	250,900	250,900		201,914	48,986
Supplies	18,750	18,750		14,123	4,627
Maintenance	10,500	10,500		23,172	(12,672)
Service	40,500	40,500		56,281	(15,781)
Miscellaneous	54,650	54,650		69,141	(14,491)
Debt Service	13,000	13,000		12,949	51
Transfers	-	-		-	-
Capital Outlay	8,000	8,000		7,434	566
Transfers to other funds - -	-	-		-	-
General Fund	-	-		-	-
<b>Total Expenditures and Other Uses</b>	<b>396,300</b>	<b>396,300</b>		<b>385,014</b>	<b>11,286</b>
<b>Excess of Revenues Over (Under) Expenditures and Other Uses</b>	-	-		108,809	118,809
<b>Fund Balance</b>					
Beginning of year	181,216	181,216		181,216	-
<b>End of year</b>	<b>\$ 181,216</b>	<b>\$ 181,216</b>		<b>\$ 290,025</b>	<b>\$ 118,809</b>

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, 2017

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
<b>Revenues and Other Sources</b>				
Revenues - -				
Hotel-motel taxes	265,600	265,600	440,732	175,132
Interest Earned	-	-	2,974	2,974
Miscellaneous	200	200	429	229
Transfers in	-	-	-	-
Ft Velasco Donations	18,000	18,000	2,032	(15,968)
Grant Revenue	73,000	73,000	4,458	(68,542)
	<u>356,800</u>	<u>356,800</u>	<u>450,625</u>	<u>93,825</u>
<b>Total Revenues and Other Sources</b>				
<b>Expenditures and Other Uses</b>				
Current Expenditures - -				
Ft Velasco	3,500	3,500	4,103	(603)
Personnel	-	-	-	-
Supplies	-	-	-	-
Maintenance	14,000	14,000	20,505	(6,505)
Service	78,700	78,700	50,115	28,585
Miscellaneous	-	-	-	-
Capital Expenses	140,600	140,600	180,083	(39,483)
Transfers	-	-	-	-
Grant Expenditures	73,000	73,000	6,323	66,677
	<u>309,800</u>	<u>309,800</u>	<u>261,129</u>	<u>48,671</u>
<b>Total Expenditures and Other Uses</b>				
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures and Other Uses</b>	47,000	47,000	189,496	142,496
<b>Fund Balance</b>				
Beginning of year	1,323,296	1,323,296	1,323,296	-
<b>End of year</b>	<u>\$ 1,370,296</u>	<u>\$ 1,370,296</u>	<u>\$ 1,512,792</u>	<u>\$ 142,496</u>

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

# Village of Surfside Beach, Texas

## Schedule of Changes in Net Pension Liability and Related Ratios

Last 10 Years (will ultimately be displayed)

	2014	2015	2016
<b>Total pension liability</b>			
Service Cost	\$ 40,364	41,884	44,959
Interest (on the Total Pension Liability)	24,776	27,739	31,040
Changes of Benefit Terms	-	-	4,383
Difference between expected and actual experience	(9,664)	(7,978)	(24,230)
Changes of assumptions	-	15,046	-
Benefit payments, including refunds of employee contributions	(23,616)	(4,207)	(33,851)
<b>Net Change in Total Pension Liability</b>	31,860	72,484	22,301
<b>Total Pension Liability - Beginning</b>	345,566	377,426	449,910
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 377,426</u>	<u>\$ 449,910</u>	<u>\$ 472,211</u>
<b>Plan Fiduciary Net Position</b>			
Contributions - Employer	5,191	4,743	4,360
Contributions - Employee	31,141	31,397	33,156
Net Investment Income	26,795	748	36,225
Benefit payments, including refunds of employee contributions	-	-	-
Administrative Expense	(23,616)	(4,207)	(33,851)
Other	(280)	(456)	(412)
Other	(23)	(23)	(22)
<b>Net Change in Plan Fiduciary Net Position</b>	39,208	32,202	39,456
<b>Plan Fiduciary Net Position - Beginning</b>	468,434	507,642	539,844
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 507,642</u>	<u>\$ 539,844</u>	<u>\$ 579,300</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	(130,216)	(89,934)	(107,089)
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	134.50%	119.99%	122.68%
<b>Covered Employee Payroll</b>	\$ 622,811	\$ 627,939	\$ 663,116
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	-20.91%	-14.32%	-16.15%

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

# Village of Surfside Beach, Texas

## Schedule of Employer Contributions

Last ten years

	2015	2016	2017
Actuarially Determined Contribution	\$ 3,939	\$ 4,484	\$ 7,592
Contribution in relation to the actuarially determined contribution	<u>(5,191)</u>	<u>(4,743)</u>	<u>(4,360)</u>
Contribution Deficiency (excess)	<u>\$ (1,252)</u>	<u>\$ (259)</u>	<u>\$ 3,232</u>
Covered employee payroll	\$ 622,811	\$ 627,939	\$ 663,116
Contributions as a percentage of coverage employee payroll	0.83%	0.76%	0.66%

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, 2017

### 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.

### 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*

316 E. Jackson  
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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, 2017, 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 July 18, 2018.

**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  
July 18, 2018