

Village of Surfside Beach, Texas

Annual Financial Report
For the Year Ended September 30, 2015

Baker, Stogner & Associates
Certified Public Accountants

Village of Surfside Beach, Texas

Annual Financial Report

For the Year Ended September 30, 2015

Table of Contents

	<u>Page</u>
Title Page	
Table of contents	2-3
Principal Officials	4
 <u>Financial Section</u>	
Independent Auditors Report	6-7
Management Discussion and Analysis	9-16
Basic Financial Statements	
 <u>Government Wide Financial Statements</u>	
Statements of Net Position	18-19
Statement of Activities	20-21
 <u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	22-23
Reconciliation of Total Government Fund - Fund Balance to Governmental Net Position	25
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	26-27
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Governmental Statement of Activities	29
Statement of Net Position – Proprietary Fund	30-31
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund	33
Statement of Cash Flows – Proprietary Fund	34-35
 <u>Notes to Financial Statements</u>	 36-57
 <u>Required Supplementary Data</u>	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
General Fund	59-60
Beach Fund	61
Hotel/Motel Fund	62
Historical Pension Information	63-64
	65

Notes to Required Supplementary Information

Compliance Section

Accountant's Reports

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

67-68

Village of Surfside Beach, Texas

Principal Officials
September 30, 2015

Governing Body

Mayor:

Larry Davison

Mayor Pro-Tem:

Troy McMinn

Alderpersons:

Elizabeth Brown

Peggy Llewellyn

Toni Capretta

David Guzman

Other Principal Officials

City Secretary:

Amanda Davenport

City Bookkeeper:

Ronda Henson

Police Chief:

Gary Phillips

Public Works Supervisor:

Pete Gutierrez

Municipal Judge:

Randy Smith

Municipal Court Clerk:

Barbara Bluejacket

Building Official

Kay Huffman

Utility Clerk:

Teresa Timms

FINANCIAL SECTION

Baker, Stogner & Associates
Certified Public Accountants

316 E. Jackson
El Campo, TX 77437

(979) 543-3251
(979) 543-6668 Fax

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, 2015, 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, 2015, 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 March 29, 2016, 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
March 29, 2016

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, 2015. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Village of Surfside Beach, Brazoria County financial statements, which follow this narrative.

Financial Highlights

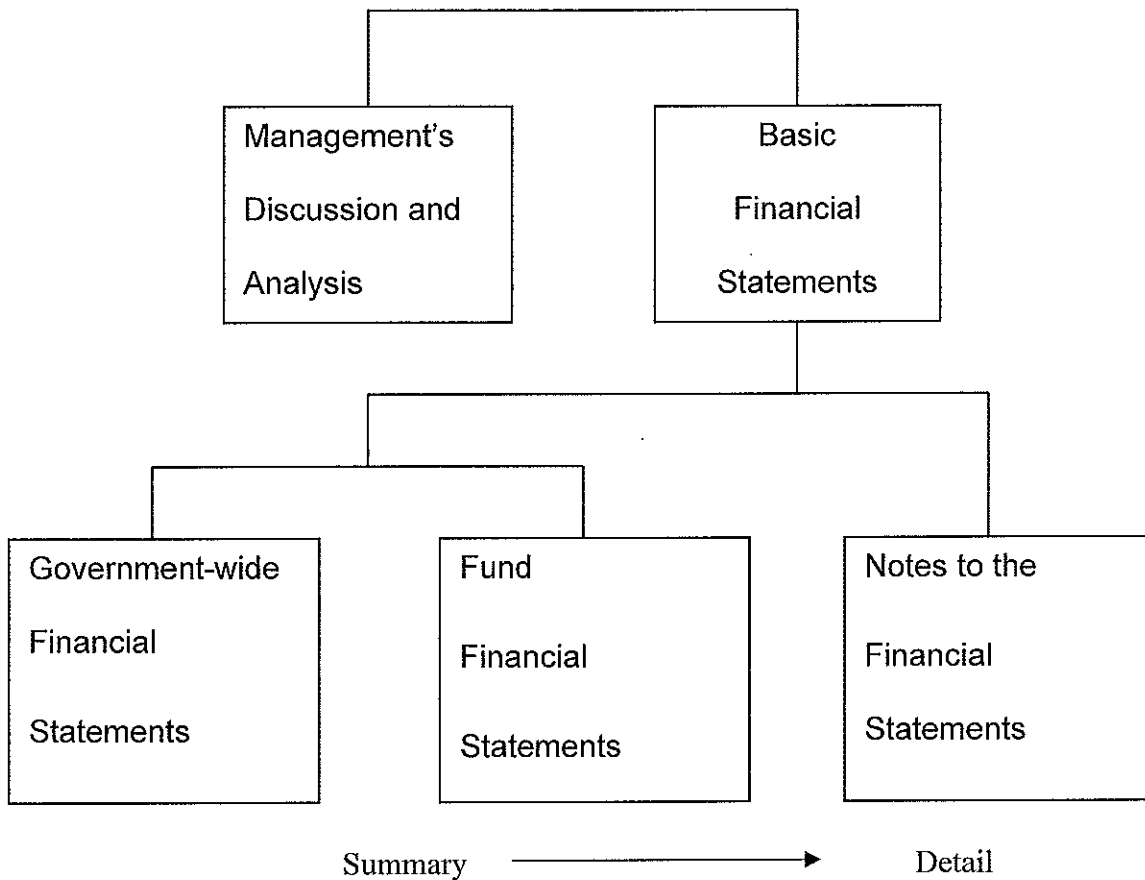
- The assets of the Village exceeded its liabilities at the close of the fiscal year by \$ 9,587,383.
- The government's total net position increased by \$457,421.
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$2,344,996 an increase of \$480,139 in comparison with the prior year. Approximately 20 percent of this total amount, or \$484,698, 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 \$484,698, or 39 percent of total general fund expenditures for the fiscal year.
- The Village's total debt decreased by \$154,986 or 5.41% 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	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$ 2,445,991	\$ 1,926,556	\$ 402,449	\$ 275,081	\$ 2,848,440	\$ 2,201,637
Non Current Assets	5,774,030	6,030,429	3,671,722	3,756,576	9,445,752	9,787,005
Deferred Outflows	5,983	3,274	1,845	1,010	7,828	4,284
Total Assets	\$ 8,226,004	\$ 7,960,259	\$ 4,076,016	\$ 4,032,667	\$ 12,302,020	\$ 11,992,926
Long Term Liabilities	1,292,273	1,419,411	1,051,145	1,132,148	2,343,418	2,551,559
Other Liabilities	273,962	214,956	90,599	96,450	364,561	311,406
Deferred Inflows	5,089	-	1,569	-	6,658	-
Total Liabilities	\$ 1,571,324	\$ 1,634,367	\$ 1,143,313	\$ 1,228,598	\$ 2,714,637	\$ 2,862,965
Net Position						
Invested in capital assets net of related debt	4,202,486	4,360,110	2,518,358	2,528,707	6,720,844	6,888,817
Restricted	6,995	6,995	105,303	110,008	112,298	117,003
Unrestricted	2,445,199	1,958,787	309,042	165,354	2,754,241	2,124,141
Total Net Position	\$ 6,654,680	\$ 6,325,892	\$ 2,932,703	\$ 2,804,069	\$ 9,587,383	\$ 9,129,961

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Village of Surfside exceeded liabilities by \$9,587,383 as of September 30, 2015. The Village's net position increased by \$457,421 for the fiscal year ended September 30, 2015.

However, the largest portion 70% 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 \$2,754,241 is unrestricted.

Changes in Net position
Figure 3

	Governmental Activities		Business Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues						
Charges for Services	\$ 462,214	\$ 445,386	\$ 586,800	\$ 556,945	\$ 1,049,014	\$ 1,002,331
Operating Grants and Contributions	-	-	-	-	-	-
Capital Grants and Contributions	85,541	1,079,490	-	37,569	85,541	1,117,059
General Revenues						
Property Taxes	733,624	726,936	-	-	733,624	726,936
Other Taxes	895,655	571,483	-	-	895,655	571,483
Other	78,242	22,179	15,922	12,927	94,164	35,106
Total Revenues	\$ 2,255,276	\$ 2,845,474	\$ 602,722	\$ 607,441	\$ 2,857,998	\$ 3,452,915
Expenses						
General Government	\$ 481,080	\$ 427,004	\$ -	\$ -	\$ 481,080	\$ 427,004
Municipal Court	55,197	47,510	-	-	55,197	47,510
Police/EMS	350,420	262,370	-	-	350,420	262,370
Public Works	312,143	322,549	-	-	312,143	322,549
Public Facilities	352,106	407,806	478,876	516,522	830,982	924,328
Economic Development	87,405	98,262	-	-	87,405	98,262
Employee Benefits	75,115	64,787	-	-	75,115	64,787
Grant Expenses	-	-	-	-	-	-
Interest and Fees	72,557	42,695	58,116	59,469	130,673	102,164
Non Departmental	79,542	111,901	-	-	79,542	111,901
Total Expenses	\$ 1,865,565	\$ 1,784,884	\$ 536,992	\$ 575,991	\$ 2,402,557	\$ 2,360,875
Increase in Net Position before transfers	\$ 391,691	\$ 409,057	\$ 65,730	\$ 31,450	\$ 457,421	\$ 440,507
Transfers	(62,904)	(117,230)	62,904	117,230	-	-
Increase in Net Position	\$ 328,787	\$ 291,827	\$ 128,634	\$ 148,680	\$ 457,421	\$ 440,507
Net Position beginning of year	\$ 6,325,893	\$ 6,034,066	\$ 2,804,069	\$ 2,655,389	\$ 9,129,962	\$ 8,689,455
Net Position end of year	\$ 6,654,680	\$ 6,325,893	\$ 2,932,703	\$ 2,804,069	\$ 9,587,383	\$ 9,129,962

Governmental activities: Governmental activities increased the Village's net position by \$328,787, thereby accounting for 71% of the total increase in the net position of the Village.

Business-type activities: Business-type activities increased the Village's net position by \$128,634.

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 \$484,698, while total fund balance reached \$508,599. 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, 2015 the governmental funds of The Village reported a combined fund balance of \$2,344,996, a 25 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 \$309,042. 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, 2015 totals \$6,720,814 (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 Activities		Business Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ -	\$ -	\$ 112,233	\$ 112,233	\$ 112,233	\$ 112,233
Buildings and Systems	1,306,085	1,306,085	-	-	1,306,085	1,306,085
Improvements other than buildings	-	-	664,155	664,155	664,155	664,155
Machinery and Equipment	746,366	721,445	81,930	65,480	828,296	786,925
Infrastructure	8,816,005	8,816,005	3,652,077	3,652,077	12,468,082	12,468,082
Construction in Progress	35,145	35,145	160,766	160,766	195,911	195,911
Totals	<u>\$ 10,903,601</u>	<u>\$ 10,878,680</u>	<u>\$ 4,671,161</u>	<u>\$ 4,654,711</u>	<u>\$ 15,574,762</u>	<u>\$ 15,533,391</u>

Long-term Debt: As of September 30, 2015 the Village had total bonded debt outstanding of \$2,224,000. Of this, \$1,120,000 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 Activities		Business Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
General Obligation	\$ 1,120,000	\$ 1,190,000	\$ -	\$ -	\$ 1,120,000	\$ 1,190,000
Revenue Bonds	-	-	1,104,000	1,161,000	1,104,000	1,161,000
Totals	<u>\$ 1,120,000</u>	<u>\$ 1,190,000</u>	<u>\$ 1,104,000</u>	<u>\$ 1,161,000</u>	<u>\$ 2,224,000</u>	<u>\$ 2,351,000</u>

The Village's total bonded debt decreased by \$127,000, or 5%, during the past fiscal year.

Economic Factors and Next Years' Budget and Rates

The certified assessed property valuations for the 2015 tax roll total \$211,778,546 with a tax rate of \$.375204 per \$100 valuation. The maintenance and operations rate is \$.292680 and the debt service rate is \$.082524.

The projected M&O property tax due is \$619,833 for the 2015/16 tax year. The certified assessed property valuations were more than the 2014 values.

Of the \$619,833 projected property taxes due, \$81,665 is to be raised from new property added to the tax roll.

Requests for Information

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

Basic Financial Statements

Village of Surfside Beach, Texas

Statement of Net Position

September 30, 2015

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Current Assets:			
Cash and investments	\$ 2,155,775	\$ 234,292	\$ 2,390,067
Receivables, net of allowance for uncollectibles -			
Property taxes	26,557	-	26,557
Franchise taxes	10,177	-	10,177
Other taxes	22,073	-	22,073
Miscellaneous	207,508		207,508
Customer Accounts	-	60,304	60,304
Intergovernmental	-	-	-
Other	-	149	149
Internal balances	-	-	-
Due from other governments	-		-
Inventories	-	2,401	2,401
Prepaid expenses	16,906	-	16,906
Total Current Assets	<u>2,438,996</u>	<u>297,146</u>	<u>2,736,142</u>
Restricted assets:			
Cash and investments	6,995	105,303	112,298
Total Restricted Assets	<u>6,995</u>	<u>105,303</u>	<u>112,298</u>
Noncurrent Assets:			
Net Pension Asset	99,524	30,692	130,216
Net Capital Assets (Note C)	5,674,506	3,641,030	9,315,536
Total Noncurrent Assets	<u>5,774,030</u>	<u>3,671,722</u>	<u>9,445,752</u>
Deferred Outflows of Resources			
Contributions 12/31/13 - 9/30/14	5,983	1,845	7,828
Total Deferred Outflows of Resources	<u>5,983</u>	<u>1,845</u>	<u>7,828</u>
Total Assets	<u>8,226,004</u>	<u>4,076,016</u>	<u>12,302,020</u>

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

	Governmental Activities	Business-type Activities	Total
<u>Liabilities</u>			
Current Liabilities			
Accrued liabilities	\$ -	\$ 542	\$ 542
Accounts payable	73,972	1,866	75,838
Compensated absences payable	15,443	1,465	16,908
Accrued interest payable	4,334	6,054	10,388
Due to other governments	466	-	466
Internal balances	-	-	-
Current portion of long-term debt	179,747	80,672	260,419
Liabilities payable from restricted assets	-	-	-
Total Current Liabilities	273,962	90,599	364,561
Noncurrent Liabilities			
Customer deposits	-	9,145	9,145
Notes payable - banks	30,528	-	30,528
Notes payable - CDL	216,745	-	216,745
Bonds and similar debt obligations	1,045,000	1,042,000	2,087,000
Total Noncurrent Liabilities	1,292,273	1,051,145	2,343,418
Total Liabilities	1,566,235	1,141,744	2,707,979
Deferred Inflows of Resources	5,089	1,569	6,658
Total Deferred Inflows of Resources	5,089	1,569	6,658
<u>Net Position</u>			
Investment in capital assets	4,202,486	2,518,358	6,720,844
Restricted for:			
Debt service	-	105,303	105,303
MCTF/MCSF	6,995	-	6,995
Unrestricted	2,445,199	309,042	2,754,241
Total Net Position	6,654,680	2,932,703	9,587,383
Total Liabilities and Net Position	8,226,004	4,076,016	12,302,020

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

Village of Surfside Beach, Texas

Statement of Activities

For the Year Ended September 30, 2015

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Administration	\$ 481,080	\$ -	\$ -	\$ -
Municipal Court	53,197	75,801	-	-
Police Department/EMS	350,420	117,201	-	14,842
Public Works	312,143	215,622	-	-
Public Facilities	352,106	53,590	-	26,478
Economic Development	87,405	-	-	-
Employee benefits	75,115	-	-	-
Grant expenditures	-	-	-	44,221
Interest and fees on debt	72,577	-	-	-
Non Departmental	79,542	-	-	-
Total Governmental Activities	1,863,585	462,214	-	85,541
Business Type Activities:				
Water and sewer services	478,876	586,800	-	-
Interest and fees on debt	58,116	-	-	-
Contract for emergency services	-	-	-	-
Total Business-type Activities	536,992	586,800	-	-
Totals	2,400,577	1,049,014	-	85,541

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
\$ (481,080)	\$ -	\$ (481,080)
22,604	-	22,604
(218,377)	-	(218,377)
(96,521)	-	(96,521)
(272,038)	-	(272,038)
(87,405)	-	(87,405)
(75,115)	-	(75,115)
44,221	-	44,221
(72,577)	-	(72,577)
(79,542)	-	(79,542)
<u>(1,315,830)</u>	<u>-</u>	<u>(1,315,830)</u>
-	107,924	107,924
-	(58,116)	(58,116)
-	-	-
-	<u>49,808</u>	<u>49,808</u>
<u>(1,315,830)</u>	<u>49,808</u>	<u>(1,266,022)</u>
733,624	-	733,624
107,245	-	107,245
62,033	-	62,033
333,288	-	333,288
393,089	-	393,089
13,000	-	13,000
91	40	131
65,151	15,882	81,033
(62,904)	62,904	-
<u>1,644,617</u>	<u>78,826</u>	<u>1,723,443</u>
328,787	128,634	457,421
<u>6,325,893</u>	<u>2,804,069</u>	<u>9,129,962</u>
<u>\$ 6,654,680</u>	<u>\$ 2,932,703</u>	<u>\$ 9,587,383</u>

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

Village of Surfside Beach

Balance Sheet

Governmental Funds

September 30, 2015

	Special Revenue Funds		
	General Fund	Beach Fund	Hotel-Motel Tax Fund
Assets			
Cash and Investments	\$ 562,978	\$ 210,499	\$ 823,154
Receivables:	-	-	-
Property taxes, net of allowance for uncollectives	21,741	-	-
Franchise taxes	10,177	-	-
Other taxes	22,073	-	-
Miscellaneous	3,755	22,302	173,627
Due from other funds	-	-	-
Due from other governments	-	-	-
Restricted Assets:Cash & Investments	6,995	-	-
Prepaid Expense	16,906	-	-
Total Assets	\$ 644,625	\$ 232,801	\$ 996,781
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	64,019	3,470	6,483
Due to other governments	466	-	-
Due to other funds	49,800	-	-
Total Liabilities	114,285	3,470	6,483
Deferred Inflows of Resources			
Unearned Revenue	21,741	-	-
Total Deferred Inflows of Resources	21,741	-	-
Fund Balances (Deficit)			
Restricted for MCTF/MCSF	6,995	-	-
Nonspendable	16,906	-	-
Unassigned, reported in General Fund	484,698	-	-
Assigned, reported in			
Debt service	-	-	-
Special Revenue Fund	-	229,331	990,298
Capital Projects Fund	-	-	-
Total Fund Balances	508,599	229,331	990,298
Total Liabilities and Fund Balances	\$ 644,625	\$ 232,801	\$ 996,781

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

Special Revenue Funds (contd)		
Sewer Tap	Debt Service	Total Governmental Funds
\$ 526,121	\$ 33,023	\$ 2,155,775
-	-	-
-	-	-
-	4,816	26,557
-	-	10,177
-	-	22,073
7,824	-	207,508
-	49,800	49,800
-	-	-
-	-	6,995
\$ 533,945	\$ 87,639	\$ 2,495,791
-	-	-
-	-	-
-	-	73,972
-	-	466
-	-	49,800
-	-	124,238
-	4,816	26,557
-	4,816	26,557
-	-	6,995
-	-	16,906
-	-	-
-	-	484,698
-	-	-
-	82,823	82,823
533,945	-	1,753,574
-	-	-
533,945	82,823	2,344,996
\$ 533,945	\$ 87,639	\$ 2,495,791

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, 2015

Total Governmental Fund Balance \$ 2,344,996

*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	5,674,506
Property tax receivables, unearned revenue	26,557
Net Pension Asset	99,524

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	(1,472,020)
Compensated absences and accrued interest liabilities	(19,777)

Net deferred outflows and inflows of resources making up Net Position Asset are not recorded in the funds.	<u>894</u>
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Net Position of Governmental Activities \$ **6,654,680**

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, 2015

	Special Revenue Funds		
	General Fund	Beach Fund	Hotel-Motel Tax Fund
Revenues:			
Property taxes	\$ 556,603	\$ -	\$ -
Franchise tax	62,033	-	-
Sales and use tax	107,245	-	-
Other Taxes	10,338	-	322,950
Municipal court fines and fees	75,801	-	-
Licenses and permits	41,704	393,089	-
Garbage and service fees	173,918	-	-
Parks and Recreation	53,590	-	-
EMS	117,201	-	-
Miscellaneous	5,198	180	59,839
Intergovernmental	-	-	44,221
Donations	14,842	-	26,478
Total Revenues	1,218,473	393,269	453,488
Expenditures:			
Current -			
General Administration	421,500	-	-
Municipal Court	53,197	-	-
Police Department/EMS	321,930	-	-
Public Works	187,941	-	-
Public Facilities	-	275,010	-
Economic Development	-	-	87,405
Employee Benefits	78,351	-	-
Debt Service	56,374	12,949	-
Capital Outlay	24,921	-	-
Grant Expenditures	-	-	-
Non Departmental	79,542	-	-
Total Expenditures	1,223,756	287,959	87,405
Excess of Revenues Over (Under) Expenditures	(5,283)	105,310	366,083
Other Financing Sources (Uses):			
Proceeds from long-term debt	-	-	-
Operating Transfers In	-	91,000	34,775
Operating Transfers Out	(34,775)	-	(91,000)
Total Other Financing Sources (Uses)	(34,775)	91,000	(56,225)
Net Change in Fund Balances	(40,058)	196,310	309,858
Fund Balances:			
Beginning of year, as restated	548,657	33,021	680,440
End of year	\$ 508,599	\$ 229,331	\$ 990,298

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

Special Revenue Funds (contd)

Sewer Tap	Debt Service	Total Governmental Funds
\$ -	\$ 171,553	\$ 728,156
-	-	62,033
-	-	107,245
-	-	333,288
-	-	75,801
13,000	-	447,793
-	-	173,918
-	-	53,590
-	-	117,201
25	-	65,242
-	-	44,221
-	-	41,320
13,025	171,553	2,249,808
-	-	421,500
-	-	53,197
-	-	321,930
-	-	187,941
-	-	275,010
-	-	87,405
-	-	78,351
-	107,645	176,968
-	-	24,921
-	-	-
-	-	79,542
-	107,645	1,706,765
13,025	63,908	543,043
-	-	-
-	-	125,775
-	(62,904)	(188,679)
-	(62,904)	(62,904)
13,025	1,004	480,139
520,920	81,819	1,864,857
\$ 533,945	\$ 82,823	\$ 2,344,996

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, 2015

Net Change in Fund Balances - Governmental Funds	\$	480,139
<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.		(262,015)
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.		104,391
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.		-
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		3,236
Decrease in Pension Expense		(2,432)
Increase in Compensated Absences		
Uncollected property taxes are not recognized as revenue in governmental funds.		5,468
Change in Net Position of Governmental Activities	\$	<u>328,787</u>

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, 2015

Assets

Current Assets:

Cash	\$	234,292
Accounts receivable, net of allowance for uncollectibles		60,304
Other receivables		149
Due from other funds		-
Inventory		2,401

Total Current Assets 297,146

Restricted assets:

Interest and Sinking Debt service reserve		105,303
		-

Total Restricted Assets 105,303

Noncurrent assets:

Net Pension Asset		30,692
Capital Assets		4,671,161
Less: Accumulated Depreciation		<u>(1,030,131)</u>

Total Noncurrent Assets 3,671,722

Deferred Outflows of Resources

Contributions 12/31/13 through 9/30/14		<u>1,845</u>
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Total Deferred Outflows of Resources 1,845

Total Assets \$ 4,076,016

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

Liabilities

Current liabilities:

Accrued liabilities	\$ 542
Accounts payable	1,866
Compensated absences payable	1,465
Due to other Funds	-
Payables from restricted assets -	-
Accrued interest payable	6,054
Current portion of long-term debt	<u>80,672</u>

Total Current Liabilities 90,599

Noncurrent Liabilities (net of current portion):

Customer deposits	9,145
1997 Revenue Bonds	45,000
2005 Certificates of Obligation	997,000
	<u>-</u>

Total Noncurrent Liabilities 1,051,145

Total Liabilities 1,141,744

Deferred Inflows of Resources

Actual Expense vs Assumptions	<u>1,569</u>
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Total Deferred Inflows of Resources 1,569

Net Position

Investment in capital assets	2,518,358
Restricted for debt service	105,303
Unrestricted	<u>309,042</u>

Total Net Position 2,932,703

Total Liabilities and Net Position \$ 4,076,016

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, 2015

Operating Revenues:	
Water sales	\$ 395,165
Sewer services	148,939
Late payment charges	7,218
Tap fees	33,750
Reconnection fees	1,728
Miscellaneous	15,882
Grant Revenues	-
Total Operating Revenue	<u>602,682</u>
Operating Expenses:	
Personnel related	154,016
Contracted services	3,500
Repairs and maintenance	81,469
Other charges	136,855
Depreciation and amortization	103,036
Total Operating Expenses	<u>478,876</u>
Operating Income (Loss)	<u>123,806</u>
Nonoperating Revenue (Expenses):	
Interest earned	40
Paying agent fees	(1,428)
Interest expense	(56,688)
Total Nonoperating Revenue (Expenses)	<u>(58,076)</u>
Net Income (Loss) Before Contributions and Transfers	65,730
Capital Contributions	-
Transfers In	62,904
Change in Net Position	128,634
Net Position:	
Beginning of year, as restated	<u>2,804,069</u>
Total Net Position - Ending	<u>\$ 2,932,703</u>

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

Village of Surfside Beach, Texas

Statement of Cash Flows

Proprietary Fund - Water & Sewer Utility

For the Year Ended September 30, 2015

Cash flows from operating activities:

Receipts from customers	\$ 585,389
Payments to suppliers and contractors	(229,067)
Payments to employees	(154,016)
Other revenues	15,882
Grant Revenue	-

Net Cash Provided (Used) by Operating Activities 218,188

Cash flows from non-capital financing activities:

Increase (decrease) in customer deposits	(328)
(Increase) decrease in interfund lending	(3,787)
Contract for emergency services	-

Net Cash Provided (Used) for Non-capital Financing Activities (4,115)

Cash flows from capital and related financing activities:

Acquisition of capital assets, net of dispositions	(16,450)
Long-term debt	-
Interest and fees paid on debt	(58,116)
Transfer in	62,904
Principal paid on other long-term debt	(76,237)

Net Cash Provided (Used) for Capital and Related Financing Activities (87,899)

Cash flows from Investing Activities:

Interest received	<u>40</u>
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Net Cash Provided (Used) by Investing Activities 40

Net Increase (Decrease) in Cash and Cash Equivalents 126,214

Cash balances, beginning of year 213,381

Cash balances, End of Year \$ 339,595

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

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

Operating Income	\$	123,806
Adjustments to operating income for items not requiring cash outlay:		
Depreciation and amortization		103,036
Changes in assets and liabilities -		
(Increase) decrease in accounts receivable		(1,411)
(Increase) decrease in inventory		-
Increase (decrease) in accounts payable		(6,382)
Increase (decrease) in accrued expenses		(861)
		<hr/>
Net Cash Provided by Operating Activities	\$	<u>218,188</u>
Composition of Cash:		
Operating Cash	\$	234,292
Restricted Cash -		
Interest and sinking		105,303
Debt reserve		-
		<hr/>
Total Cash	\$	<u>339,595</u>

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

Village of Surfside Beach, Texas

Notes to Financial Statements

September 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the government considers some revenues to be available if they are collected within sixty days of the end of the current fiscal period. Certain intergovernmental and similar revenues are also accrued even when the collection period may extend beyond this sixty-day period, if related to grant and similar programs operating under a reimbursement basis. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

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

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

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

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

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

D. SPECIFIC ACCOUNTS

1. Deposits and investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

The Village may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

As of September 30, 2015, the Village has adopted a formal investment policy and is 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 2015, the City adopted GASB No. 68 Accounting and Financial Reporting for Pensions. With GASB 68, the City must report their net pension liability of the Texas Municipal Retirement System. Adoption of GASB 68 required a prior period adjustment to report the effect of GASB 68 retroactively. The amount of the prior period adjustment is \$97,182 for the governmental activities, \$29,970 for the business-type activities.

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, 2015 and throughout the fiscal year. At year-end, the Village's bank balances totaled \$1,612,319.

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, 2015 the Village's investments in TexPool totaled \$210,928. The Village also holds \$5,446 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, 2015 is \$9,472,187.

B. Receivables and Uncollectibles

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

Property tax revenues are recognized when received, and deferred revenues are recorded to the extent of net receivables after allowance for uncollectibles. The tax rate for the October 2014 levy, supporting the fiscal year budget for the year ended September 30, 2015, was \$0.309068 per \$100 valuation for maintenance and operations and \$.09440 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, 2015, the allowance for the Village was estimated at \$1,393.

Enterprise Fund – The proprietary fund accounts receivable are related to water utility billings. The allowance of uncollectibles at September 30, 2015 is \$744 and is comprised of all accounts with balances past due for sixty days.

Net Receivables at September 30, 2015 consist of the following:

Net Receivables	Other			Total
	General	System	Governmental	
Accounts	\$ -	\$ 60,304	\$ -	\$ 60,304
Ad Valorem Taxes	21,741	-	4,816	26,557
Other Taxes	32,250	-	173,627	205,877
Miscellaneous	3,755	-	30,126	33,881
	<u>\$ 57,746</u>	<u>\$ 60,304</u>	<u>\$ 208,569</u>	<u>\$ 326,619</u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2015 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Process	35,145	-	-	35,145
Total capital assets, not being depreciated	\$ 35,145	\$ -	\$ -	\$ 35,145
Capital assets, being depreciated:				
Buildings	\$ 1,306,085	\$ -	\$ -	\$ 1,306,085
Machinery and equipment	721,445	24,921	-	746,366
Infrastructure	8,816,005	-	-	8,816,005
Total capital assets, being depreciated	\$ 10,843,535	\$ 24,921	\$ -	\$ 10,868,456
Less accumulated depreciation for:				
Buildings	\$ (655,662)	\$ (44,032)	\$ -	\$ (699,694)
Machinery and equipment	(448,509)	(57,403)	-	(505,912)
Infrastructure	(3,837,988)	(185,501)	-	(4,023,489)
Total accumulated depreciation	\$ (4,942,159)	\$ (286,936)	\$ -	\$ (5,229,095)
Total capital assets, being depreciated, net	5,901,376	(262,015)	-	5,639,361
Governmental activities capital assets, net	\$ 5,936,521	\$ (262,015)	\$ -	\$ 5,674,506

Business-type activities, water and sewer system:

Capital assets not being depreciated:

Land	\$ 112,233	\$ -	\$ -	\$ 112,233
Construction in Process	160,766	-	-	160,766
Total capital assets, not being depreciated	<u>\$ 272,999</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 272,999</u>

Capital assets, being depreciated:

Wells and related equipment	\$ 664,155	\$ -	\$ -	\$ 664,155
Machinery and equipment	65,480	16,450	-	81,930
Infrastructure	3,652,077	-	-	3,652,077
Total capital assets, being depreciated	<u>\$ 4,381,712</u>	<u>\$ 16,450</u>	<u>\$ -</u>	<u>\$ 4,398,162</u>

Less accumulated depreciation for:

Wells and related equipment	\$ (213,611)	\$ (18,342)	\$ -	\$ (231,953)
Machinery and equipment	(47,753)	(4,829)	-	(52,582)
Infrastructure	(665,731)	(79,865)	-	(745,596)
Total accumulated depreciation	<u>\$ (927,095)</u>	<u>\$ (103,036)</u>	<u>\$ -</u>	<u>\$ (1,030,131)</u>

Total capital assets, being depreciated, net	<u>3,454,617</u>	<u>(86,586)</u>	<u>-</u>	<u>3,368,031</u>
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Governmental activities capital assets, net	<u>\$ 3,727,616</u>	<u>\$ (86,586)</u>	<u>\$ -</u>	<u>\$ 3,641,030</u>
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government - administration	\$ 57,148
Public safety	28,490
Highways and streets, including depreciation of general infrastructure assets	124,202
Culture and recreation	77,096
Total depreciation expense, governmental activities	<u>\$ 286,936</u>

D. Long Term Debt

The Village's General Long Term Debt at September 30, 2015 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 10/1/2014	Additions	Reductions	Ending Balance 9/30/2015
Notes payable	386,411	-	34,391	352,020
Bonds Payable	1,190,000	-	70,000	1,120,000
	<u>1,576,411</u>	<u>-</u>	<u>104,391</u>	<u>1,472,020</u>

Governmental	Interest Rate	Payment Terms	Maturity	Balance
Community Disaster Loan	1.88%	\$72,416 Annually	Apr-16	293,161
Bank loan - Brazos Nat (Truck)	4.90%	\$390 monthly	Feb-16	1,931
Bank loan - Brazos Nat (2013 Truck)	4.90%	\$494 monthly	Mar-18	13,886
Bank loan - Brazos Nat (Tractor)	4.90%	\$1079 monthly	Mar-18	30,469
Bank loan - Brazos Nat (Police truck)	4.90%	\$627 monthly	Jun-17	12,573
				<u>352,020</u>

Proprietary activities

Issue Type	Beginning Balance 10/1/2014	Additions	Reductions	Ending Balance 9/30/2015
Notes payable	37,909	-	19,237	18,672
Bonds Payable	1,161,000	-	57,000	1,104,000
	<u>1,198,909</u>	<u>-</u>	<u>76,237</u>	<u>1,122,672</u>

Proprietary	Interest Rate	Payment Terms	Maturity	Balance
Bank of America (CRG)	5.90%	\$1746 monthly	May-16	18,672
				<u>18,672</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 2015:

		<u>Principal Paid</u>	<u>Interest Paid</u>	<u>Balance 9/30/2015</u>
Water System Revenue Bonds				
Series 1997				
Interest dates:	2/15 ; 8/15			
Interest rates:	4.35 - 6.15%			
Principal pays annually:	8/15			
Callable, at par	8/15/2007	40,000	7,975	90,000
Tax and Revenue Certificates of Obligation,				
Series 2005A and 2005B				
Interest dates:	2/15 ; 8/15			
Interest rates:	4.35 - 6.15%			
Principal pays annually:	8/15			
Callable, at par	2/14/2006	<u>17,000</u>	<u>47,391</u>	<u>1,014,000</u>
Totals		<u><u>57,000</u></u>	<u><u>55,366</u></u>	<u><u>1,104,000</u></u>

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

Fiscal Year	<u>1997 Bonds</u>		<u>2005 USDA Certificate of Obligation</u>		Total
	Interest	Principal	Interest	Principal	
2016	5,535	45,000	46,609	17,000	114,144
2017	2,768	45,000	45,826	19,000	112,594
2018	-	-	44,955	19,000	63,955
2019			44,084	20,000	64,084
2020			43,165	21,000	64,165
2021			42,199	21,000	63,199
2022			41,233	23,000	64,233
2023			40,178	24,000	64,178
2024			39,075	24,000	63,075
2025			37,973	25,000	62,973
2026			36,823	27,000	63,823
2027			35,584	28,000	63,584
2028			34,298	29,000	63,298
2029			32,964	30,000	62,964
2030			31,583	32,000	63,583
2031			30,113	32,000	62,113
2032			28,643	34,000	62,643
2033			27,078	36,000	63,078
2034			25,424	37,000	62,424
2035			23,723	38,000	61,723
2036			21,974	40,000	61,974
2037			20,136	41,000	61,136
2038			18,251	43,000	61,251
2039			16,278	45,000	61,278
2040			14,209	46,000	60,209
2041			12,093	49,000	61,093
2042			9,840	50,000	59,840
2043			7,540	53,000	60,540
2044			5,104	54,000	59,104
2045	-	-	2,620	57,000	59,620
	<u>\$ 8,303</u>	<u>\$ 90,000</u>	<u>\$ 859,575</u>	<u>\$ 1,014,000</u>	<u>\$ 1,971,878</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% with final maturity scheduled in 2025. The following is the annual obligation for this note:

Texas Water Development Board
 Tax & Revenue Certificates of Obligation, Series 2006
 Interest Dates: 2-15; 8-15
 Interest Rates: 2.4% - 3.35%
 Principal pays annually: 8-15
 Maturity in 2025

Fiscal Year	Principal	Interest	Total
2016	75,000	35,060	110,060
2017	75,000	32,848	107,848
2018	80,000	30,503	110,503
2019	85,000	27,965	112,965
2020	85,000	25,309	110,309
2021	90,000	22,553	112,553
2022	90,000	19,695	109,695
2023	95,000	16,687	111,687
2024	100,000	13,445	113,445
2025	105,000	10,011	115,011
2026	105,000	6,467	111,467
2027	110,000	2,785	112,785
2028	25,000	444	25,444
	<u>\$ 1,120,000</u>	<u>\$ 243,772</u>	<u>\$ 1,363,772</u>

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

U.S. Department of Homeland Security
 FEMA
 Community Disaster Loan 1791TX07
 Interest dates: monthly
 Interest rate: 1.875%
 Principal pays at maturity
 Maturity date: 4/15/2019 \$300,000

Community Disaster Loan

Interest 1.875%

<u>Payment Date</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
10/2/2015	38,208.25	35,459.87	2,748.38	293,160.76
4/2/2016	38,208.25	35,792.30	2,415.95	257,368.46
10/2/2016	38,208.25	36,122.16	2,086.09	221,246.30
4/2/2017	38,208.25	36,471.27	1,736.98	184,775.03
10/2/2017	38,208.25	36,804.59	1,403.66	147,970.44
4/2/2018	38,208.25	37,156.35	1,051.90	110,814.09
10/2/2018	38,208.25	37,499.87	708.38	73,314.22
4/2/2019	38,208.25	37,854.35	353.91	35,459.87
	-	-	-	-
	<u>305,666.00</u>	<u>293,160.76</u>	<u>12,505.25</u>	

E. Interfund receivables, payables and transfers

The composition of interfund balances as of September 30, 2015 is as follows:

Due to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Debt Service Fund	General	49,800
Totals		<u>\$ 49,800</u>

Interfund Transfers

<u>Transfers Out</u>	<u>System Transfers In</u>	<u>Beach Transfers In</u>	<u>Hotel/Motel Transfers In</u>	<u>Total</u>
General Fund			\$ 34,775	\$ 34,775
Hotel/Motel		91,000		91,000
Debt Service	62,904			62,904
	-	-	-	-
Totals	<u>\$ 62,904</u>	<u>\$ 91,000</u>	<u>\$ 34,775</u>	<u>\$ 188,679</u>

NOTE 4 – OTHER MATTERS

A. Risk Management

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

B. Subsequent Events

The Village has begun a water plant improvement project to be financed with Disaster Recovery Project Round II funds. The total cost of the project is estimated at \$923,232 and the Village portion will be \$73,682. The project begin in fiscal 2016.

C. Contingent Liabilities

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

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

D. Employee Retirement Plan

Plan Description

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

Benefits Provided

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

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

The plan provisions are adopted by the governing body of the Village, within the options available in the state statutes governing TMRS. Plan provisions of the Village for plan year 2015 were as follows:

Employee deposit rate	5.00%
Matching ratio (Village 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, 2014 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	21
Active employees	<u>21</u>
	43

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 .83% in calendar years 2014 and 2015, respectively. The Village's contributions to TMRS for the fiscal year ended September 30, 2015 were \$5,591, and were equal to the required contributions.

Net Pension Liability

The Village's Net Pension Liability (NPL) was measured as of December 31, 2014, 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, 2014 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	3.00%
Salary Increases	3.50 % to 12.00% including inflation
Investment Rate of Return*	7%
Retirement Age	Experience-based table of rates that are specific to the Village's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
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, 2014, 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 2014 valuation.

The long-term expected rate of return on pension plan investments is 7%. 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 7%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension's plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$ 345,566	\$ 468,434	\$ (122,868)
Changes for the year:			-
Service cost	40,364	-	40,364
Interest	24,776	-	24,776
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(9,664)	-	(9,664)
Change of assumptions	-	-	-
Contributions - Employer	-	5,191	(5,191)
Contributions - Employee	-	31,141	(31,141)
Net Investment Income	-	26,795	(26,795)
Benefit payments, including refunds of employee contributions	(23,616)	(23,616)	-
Administrative expense	-	(280)	280
Other changes	-	(23)	23
Net changes	<u>31,860</u>	<u>39,208</u>	<u>(7,348)</u>
Balance at 12/31/2014	<u>\$ 377,426</u>	<u>\$ 507,642</u>	<u>\$ (130,216)</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 7.0%, 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 (6.0%) or 1-percentage point higher (8.0%) than the current rate.

	1.0% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1.0% Increase in Discount Rate (8.0%)
Village's Net Pension Liability:	\$ (76,709)	\$ (130,216)	\$ (173,935)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2015 the Village recognized pension expense of \$5,191.

At September 30, 2015, 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	\$ -	\$ (6,658)
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	4,796	-
Contributions subsequent to the measurement date	-	-
Total	\$ 4,796	\$ (6,658)

\$4,283 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. 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
2015	\$ (1,807)
2016	(1,807)
2017	553
2018	1,199
2019	-
Thereafter	-
Total	\$ (1,862)

E. Supplemental Death Benefit

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

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

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

The Village's contributions to the TMRS' SDBF for the year ended 2015 was \$1,652, 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, 2015

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
Revenues				
Revenues:				
Taxes --				
Property	\$ 566,100	\$ 566,100	\$ 556,603	\$ (9,497)
Franchise	60,000	60,000	62,033	2,033
Sales and use	80,000	80,000	107,245	27,245
Mixed beverage	10,000	10,000	10,338	338
Municipal court fines and fees	80,125	80,125	75,801	(4,324)
Licenses and permits	39,000	39,000	41,704	2,704
Garbage and service fees	155,000	155,000	173,918	18,918
Parks & Recreation	50,000	50,000	53,590	3,590
EMS	104,000	104,000	132,043	28,043
Miscellaneous	6,400	6,400	5,198	(1,202)
Intergovernmental	-	-	-	-
Donations	112,500	112,500	-	(112,500)
	-	-	-	-
	-	-	-	-
	-	-	-	-
Total Revenues and Other Sources	1,263,125	1,263,125	1,218,473	(44,652)
Expenditures and Other Uses				
Current Expenditures --				
Administration				
Personnel	108,900	108,900	111,050	(2,150)
Supplies	10,050	10,050	9,310	740
Maintenance	24,700	24,700	12,560	12,140
Service	70,600	70,600	88,072	(17,472)
Miscellaneous	33,100	33,100	31,598	1,502
Garbage	135,000	135,000	168,910	(33,910)
Municipal Court				
Personnel	41,600	41,600	42,624	(1,024)
Supplies	2,400	2,400	1,990	410
Maintenance	100	100	-	100
Service	7,200	7,200	7,619	(419)
Miscellaneous	1,000	1,000	964	36
Police Department/EMS				
Personnel	138,685	138,685	219,928	(81,243)
Supplies	43,918	43,918	46,107	(2,189)
Maintenance	15,250	15,250	8,756	6,494
Service	16,800	16,800	12,552	4,248
Miscellaneous	38,000	38,000	34,587	3,413
Public Works				
Personnel	105,000	105,000	100,637	4,363
Supplies	18,000	18,000	15,025	2,975
Maintenance	73,000	73,000	49,171	23,829
Service	16,675	16,675	14,958	1,717
Miscellaneous	15,186	15,186	8,150	7,036

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
Non-Departmental	186,740	186,740	79,542	107,198
Payroll expenses	83,100	83,100	78,351	4,749
Debt Service	182,800	182,800	56,374	126,426
Capital Outlay	24,921	24,921	24,921	-
Grant Expenditures	-	-	-	-
Total Expenditures and Other Uses	1,392,725	1,392,725	1,223,756	168,969
Other Financing Sources (Uses)				
Debt Revenues	-	-	-	-
Transfers in	4,600	4,600	-	(4,600)
Transfers out	(75,000)	(75,000)	(34,775)	40,225
Total Other Financing Sources (Uses)	(70,400)	(70,400)	(34,775)	35,625
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	(40,058)	159,942
Fund Balance (Deficit):				
Beginning of year (as restated)	548,657	548,657	548,657	-
End of Year	\$ 348,657	\$ 348,657	\$ 508,599	\$ 159,942

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, 2015

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
Revenues and Other Sources				
Revenues --				
State Beach Funds	-	-	22,302	22,302
Seasonal Permits	300,000	300,000	320,078	20,078
S-Permit Sales	245,800	245,800	50,709	(195,091)
Interest Earned	100	100	-	(100)
Miscellaneous	1,000	1,000	180	(820)
Intergovernmental	91,000	91,000	91,000	-
Total Revenues and Other Sources	637,900	637,900	484,269	(153,631)
Expenditures and Other Uses				
Current Expenditures --				
Personnel	277,000	277,000	165,383	111,617
Supplies	11,750	11,750	10,341	1,409
Maintenance	7,000	7,000	10,844	(3,844)
Service	43,500	43,500	49,002	(5,502)
Miscellaneous	56,950	56,950	39,440	17,510
Debt Service	13,000	13,000	12,949	51
Transfers	-	-	-	-
Capital Outlay	7,400	7,400	-	7,400
Transfers to other funds --	-	-	-	-
General Fund	-	-	-	-
Total Expenditures and Other Uses	416,600	416,600	287,959	128,641
Excess of Revenues Over (Under)				
Expenditures and Other Uses	-	-	196,310	(24,990)
Fund Balance				
Beginning of year	33,021	33,021	33,021	-
End of year	\$ 33,021	\$ 33,021	\$ 229,331	\$ (24,990)

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, 2015

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
Revenues and Other Sources				
Revenues - -				
Hotel-motel taxes	165,000	165,000	322,950	157,950
Interest Earned	-	-	31	31
Miscellaneous	59,500	59,500	59,808	308
Transfers in	-	-	34,775	34,775
Ft Velasco Donations	18,000	18,000	26,478	8,478
Grant Revenue	73,800	73,800	44,221	(29,579)
Total Revenues and Other Sources	316,300	316,300	488,263	171,963
Expenditures and Other Uses				
Current Expenditures - -				
Ft Velasco	3,500	3,500	9,337	
Personnel	-	-	-	-
Supplies	-	-	-	-
Maintenance	67,500	67,500	5,022	62,478
Service	95,000	95,000	66,739	28,261
Miscellaneous	21,300	21,300	821	20,479
Capital Expenses	150,000	150,000	5,486	144,514
Transfers	-	-	91,000	(91,000)
Grant Expenditures	106,000	106,000	-	106,000
Total Expenditures and Other Uses	443,300	443,300	178,405	164,732
Excess of Revenues Over (Under) Expenditures and Other Uses	(127,000)	(127,000)	309,858	336,695
Fund Balance				
Beginning of year	680,440	680,440	680,440	-
End of year	\$ 553,440	\$ 553,440	\$ 990,298	\$ 336,695

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

Schedule of Changes in Net Pension Liability and Related Ratios

Last 10 Years (will ultimately be displayed)

	2014	2015	2016	2017
Total pension liability				
Service Cost	\$ 40,364			
Interest (on the Total Pension Liability)	24,779			
Changes of Benefit Terms	-			
Difference between expected and actual experience	(9,664)			
Changes of assumptions	-			
Benefit payments, including refunds of employee contributions	<u>(23,616)</u>			
Net Change in Total Pension Liability	31,863			
Total Pension Liability - Beginning	<u>345,566</u>			
Total Pension Liability - Ending (a)	<u>\$ 377,429</u>			
Plan Fiduciary Net Position				
Contributions - Employer	5,191			
Contributions - Employee	31,141			
Net Investment Income	26,795			
Benefit payments, including refunds of employee contributions	(23,616)			
Administrative Expense	(280)			
Other	<u>(23)</u>			
Net Change in Plan Fiduciary Net Position	39,208			
Plan Fiduciary Net Position - Beginning	<u>468,434</u>			
Plan Fiduciary Net Position - Ending (b)	<u>\$ 507,642</u>			
Net Pension Liability - Ending (a) - (b)	(130,213)			
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	134.50%			
Covered Employee Payroll	\$ 622,811			
Net Pension Liability as a Percentage of Covered Employee Payroll	-20.91%			

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

Schedule of Employer Contributions

Last ten years

	<u>2015</u>
Actuarially Determined Contribution	3,939
Contribution in relation to the actuarially determined contribution	<u>(5,191)</u>
Contribution deficiency (excess)	(1,252)
Covered employee payroll	622,811
Contributions as a percentage of covered employee payroll	0.83%

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

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

Village of Surfside Beach

Notes to Required Supplementary Information
For the year ended September 30, 2015

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.

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	3.00%
Salary Increases	3.50 % to 12.00% including inflation
Investment Rate of Return*	7%
Retirement Age	Experience-based table of rates that are specific to the Village's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Compliance Section

Baker, Stogner & Associates
Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Surfside Beach, Texas as of and for the year ended September 30, 2015, 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 March 29, 2016.

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
March 29, 2016