

Village of Surfside Beach, Texas

Annual Financial Report
For the Year Ended September 30, 2018

Baker, Stogner & Associates
Certified Public Accountants

Village of Surfside Beach, Texas

Annual Financial Report

For the Year Ended September 30, 2018

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Village of Surfside Beach, Texas

Principal Officials

September 30, 2018

Governing Body

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

Other Principal Officials

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

Financial Section

Baker, Stogner & Associates
Certified Public Accountants

316 E. Jackson
El Campo, TX 77437

(979) 543-3251
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Surfside Beach, Texas, as of and for the year ended September 30, 2018, 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for

the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2018, on our consideration of the Village of Surfside Beach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of Surfside Beach's internal control over financial reporting and compliance.

Baker, Stogner & Associates

El Campo, Texas
March 5, 2019

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, 2018. 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

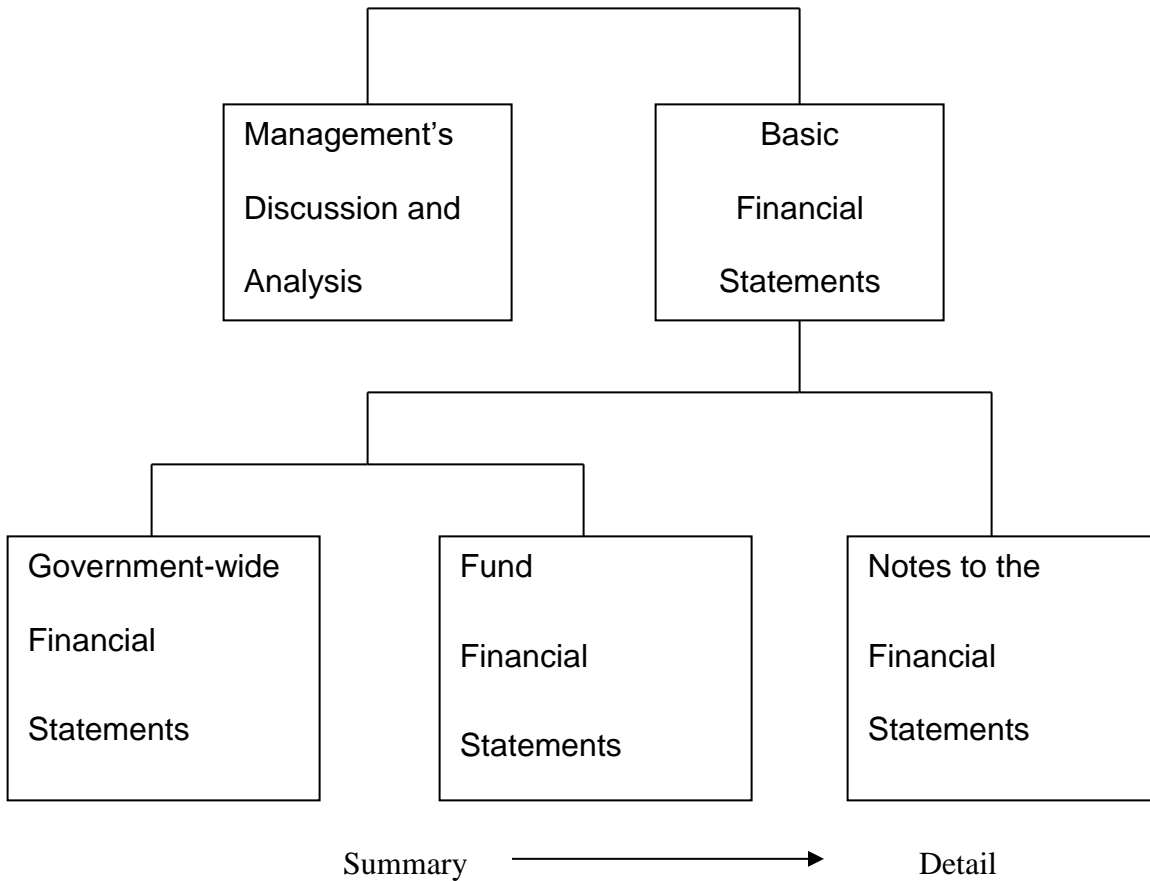
- The assets of the Village exceeded its liabilities at the close of the fiscal year by \$ 13,485,987.
- The government's total net position increased by \$971,865.
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$3,562,606 an increase of \$338,992 in comparison with the prior year. Approximately 21 percent of this total amount, or \$731,821, 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 \$731,821, or 47 percent of total general fund expenditures for the fiscal year.
- The Village's total debt decreased by \$76,795 or 7% 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	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 3,651,093	\$ 3,269,654	\$ 535,009	\$ 594,426	\$ 4,186,102	\$ 3,864,080
Non Current Assets	5,578,519	5,457,185	5,857,932	5,511,090	11,436,451	10,968,275
Deferred Outflows	137,717	66,252	51,278	23,262	34	89,514
Total Assets	\$ 9,367,329	\$ 8,793,091	\$ 6,444,219	\$ 6,128,778	\$ 15,811,548	\$ 14,921,869
Current Liabilities	273,332	197,675	97,088	136,825	370,420	334,500
Long Term Liabilities	1,201,708	1,035,354	984,022	1,004,198	2,185,730	2,039,552
Deferred Inflows	31,339	21,895	11,404	7,975	42,743	29,870
Total Liabilities	\$ 1,506,379	\$ 1,254,924	\$ 1,092,514	\$ 1,148,998	\$ 2,598,893	\$ 2,403,922
Net Position						
Net Invested in Capital Assets	4,439,703	4,372,831	4,898,932	4,519,922	9,338,635	8,892,753
Restricted	6,995	6,995	94,139	98,156	101,134	105,151
Unrestricted	3,687,584	3,158,341	358,634	361,702	4,046,218	3,520,043
Total Net Position	\$ 8,134,282	\$ 7,538,167	\$ 5,351,705	\$ 4,979,780	\$ 13,485,987	\$ 12,517,947

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 \$13,485,987 as of September 30, 2018. The Village's net position increased by \$971,865 for the fiscal year ended September 30, 2018. However, the largest portion 71% reflects the Village's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items.

The Village 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 \$4,046,218 is unrestricted.

Changes in Net Position
Figure 3

	Governmental Activity		Business Type Activity		Totals	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues						
Charges for Services	\$ 545,500	\$ 505,306	\$ 638,941	\$ 596,639	\$ 1,184,441	\$ 1,101,945
Operating Grants and Contributions	-	-	-	-	-	-
Capital Grants and Contributions	99,720	2,032	373,684	747,845	473,404	749,877
General Revenues						
Property Taxes	899,409	867,160	-	-	899,409	867,160
Other Taxes	1,257,060	1,126,481	-	-	1,257,060	1,126,481
Other	47,328	88,450	11,791	12,772	59,119	101,222
Total Revenues	\$ 2,849,017	\$ 2,589,429	\$ 1,024,416	\$ 1,357,256	\$ 3,873,433	\$ 3,946,685
Expenses						
General Government	\$ 489,568	\$ 449,932	\$ -	\$ -	\$ 489,568	\$ 449,932
Municipal Court	50,535	52,468	-	-	50,535	52,468
Police/EMS	436,332	329,547	-	-	436,332	329,547
Public Works	253,103	280,864	-	-	253,103	280,864
Public Facilities	483,752	444,939	725,956	588,954	1,209,708	1,033,893
Economic Development	149,872	74,723	-	-	149,872	74,723
Employee Benefits	118,109	100,125	-	-	118,109	100,125
Grant Expenses	-	-	-	-	-	-
Interest and Fees	35,106	39,727	45,347	48,694	80,453	88,421
Non Departmental	113,888	86,733	-	-	113,888	86,733
Total Expenses	\$ 2,130,265	\$ 1,859,058	\$ 771,303	\$ 637,648	\$ 2,901,568	\$ 2,496,706
Increase in Net Position before transfers	\$ 718,752	\$ 730,371	\$ 253,113	\$ 719,608	\$ 971,865	\$ 1,449,979
Transfers	(118,812)	(127,345)	118,812	127,345	-	-
Increase in Net Position	\$ 599,940	\$ 603,026	\$ 371,925	\$ 846,953	\$ 971,865	\$ 1,449,979
Net Position beginning of year	\$ 7,534,342	\$ 6,935,141	\$ 4,979,780	\$ 4,132,827	\$ 12,514,122	\$ 11,067,968
Net Position end of year	\$ 8,134,282	\$ 7,538,167	\$ 5,351,705	\$ 4,979,780	\$ 13,485,987	\$ 12,517,947

Governmental activities: Governmental activities increased the Village's net position by \$599,940, thereby accounting for 62% of the total increase in the net position of the Village.

Business-type activities: Business-type activities increased the Village's net position by \$371,925.

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 \$731,821, while total fund balance reached \$759,594. 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, 2018 the governmental funds of The Village reported a combined fund balance of \$3,562,606, a 10 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 \$358,634. 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, 2018 totals \$11,419,499 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

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

The Village of Surfside Beach, Capital Assets

Figure 4

	Governmental Activity		Business Type Activity		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ -	\$ -	\$ 112,233	\$ 112,233	\$ 112,233	\$ 112,233
Buildings and Systems	1,486,168	1,486,168	-	-	1,486,168	1,486,168
Improvements other than building	-	-	1,202,157	1,202,157	1,202,157	1,202,157
Machinery and Equipment	1,028,612	786,620	211,452	196,452	1,240,064	983,072
Infrastructure	8,886,584	8,816,005	4,133,334	3,652,077	13,019,918	12,468,082
Construction in Progress	233,692	108,212	1,595,840	1,595,840	1,829,532	1,704,052
					-	-
Totals	<u>\$ 11,635,056</u>	<u>\$ 11,197,005</u>	<u>\$ 7,255,016</u>	<u>\$ 6,758,759</u>	<u>\$ 18,890,072</u>	<u>\$ 17,955,764</u>

Long-term Debt: As of September 30, 2018, the Village had total bonded debt outstanding of \$1,919,000. Of this, \$960,000 is debt backed by the full faith and credit of the Village. The remainder of the Village's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

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

Figure 5

	Governmental Activity		Business Type Activity		Totals	
	2018	2017	2018	2017	2018	2016
General Obligation	\$ 960,000	\$ 1,040,000	\$ -	\$ -	\$ 960,000	\$ 1,040,000
Revenue Bonds	-	-	959,000	978,000	959,000	978,000
Totals	<u>\$ 960,000</u>	<u>\$ 1,040,000</u>	<u>\$ 959,000</u>	<u>\$ 978,000</u>	<u>\$ 1,919,000</u>	<u>\$ 2,018,000</u>

The Village's total bonded debt decreased by \$80,000, or 8%, during the past fiscal year.

Economic Factors and Next Years' Budget and Rates

The certified assessed property valuations for the 2018 tax roll total \$258,478,841 with a tax rate of \$0.359506 per \$100 valuation. The maintenance and operations rate is \$0.290206 and the debt service rate is \$0.069300.

The projected M&O property tax due is \$750,121 for the 2018/19 tax year. The certified assessed property valuations were more than the 2017 values.

Of the \$750,121 projected property taxes due, \$19,695 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, 2018

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Current Assets:			
Cash and investments	\$ 3,202,431	\$ 242,986	\$ 3,445,417
Receivables, net of allowance for uncollectibles -			
Property taxes	28,394	-	28,394
Franchise taxes	10,861	-	10,861
Other taxes	30,409	-	30,409
Miscellaneous	294,666		294,666
Customer Accounts	-	66,395	66,395
Intergovernmental	-	-	-
Other	-	94,489	94,489
Internal balances	53,481	-	53,481
Due from other governments	494	-	494
Inventories	2,000	37,000	39,000
Prepaid expenses	21,362	-	21,362
Total Current Assets	<u>3,644,098</u>	<u>440,870</u>	<u>4,084,968</u>
Restricted assets:			
Cash and investments	6,995	94,139	101,134
Total Restricted Assets	<u>6,995</u>	<u>94,139</u>	<u>101,134</u>
Noncurrent Assets:			
Net Pension Asset	16,952	-	16,952
Net Capital Assets (Note C)	5,561,567	5,857,932	11,419,499
Total Noncurrent Assets	<u>5,578,519</u>	<u>5,857,932</u>	<u>11,436,451</u>
Deferred Outflows of Resources			
Contributions 12/31/16 - 9/30/17	137,717	51,278	188,995
Total Deferred Outflows of Resources	<u>137,717</u>	<u>51,278</u>	<u>188,995</u>
Total Assets	<u>9,367,329</u>	<u>6,444,219</u>	<u>15,811,548</u>

	Governmental Activities	Business-type Activities	Total
<u>Liabilities</u>			
Current Liabilities			
Accrued liabilities	\$ -	\$ 356	\$ 356
Accounts payable	59,760	8,816	68,576
Compensated absences payable	15,824	8,985	24,809
Accrued interest payable	3,927	5,450	9,377
Due to other governments	333	-	333
Internal balances	-	53,481	53,481
Current portion of long-term debt	193,488	20,000	213,488
Liabilities payable from restricted assets	-	-	-
Total Current Liabilities	<u>273,332</u>	<u>97,088</u>	<u>370,420</u>
Noncurrent Liabilities			
Customer deposits	-	44,168	44,168
Net pension liability	-	854	854
Notes payable - banks	53,376	-	53,376
Notes payable - CDL	-	-	-
Bonds and similar debt obligations	875,000	939,000	1,814,000
Total Noncurrent Liabilities	<u>928,376</u>	<u>984,022</u>	<u>1,911,544</u>
Total Liabilities	<u>1,201,708</u>	<u>1,081,110</u>	<u>2,281,964</u>
Deferred Inflows of Resources	<u>31,339</u>	<u>11,404</u>	<u>42,743</u>
Total Deferred Inflows of Resources	<u>31,339</u>	<u>11,404</u>	<u>42,743</u>
<u>Net Position</u>			
Net Investment in capital assets	4,439,703	4,898,932	9,338,635
Restricted for:			
Debt service	-	94,139	94,139
MCTF/MCSF	6,995	-	6,995
Unrestricted	<u>3,687,584</u>	<u>358,634</u>	<u>4,046,218</u>
Total Net Position	<u>8,134,282</u>	<u>5,351,705</u>	<u>13,485,987</u>
Total Liabilities and Net Position	<u>9,367,329</u>	<u>6,444,219</u>	<u>15,810,694</u>

Village of Surfside Beach, Texas

Statement of Activities

For the Year Ended September 30, 2018

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Administration	\$ 489,568	\$ -	\$ -	\$ -
Municipal Court	50,535	99,748	-	-
Police Department/EMS	436,332	137,777	-	-
Public Works	253,103	256,975	-	-
Public Facilities	483,752	51,000	-	99,720
Economic Development	149,872	-	-	-
Employee benefits	118,109	-	-	-
Grant expenditures	-	-	-	-
Interest and fees on debt	35,106	-	-	-
Non Departmental	113,888	-	-	-
Total Governmental Activities	2,130,265	545,500	-	99,720
Business Type Activities:				
Water and sewer services	725,956	638,941	-	373,684
Interest and fees on debt	45,347	-	-	-
Contract for emergency services	-	-	-	-
Total Business-type Activities	771,303	638,941	-	373,684
Totals	2,901,568	1,184,441	-	473,404

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
\$ (489,568)	\$ -	\$ (489,568)
49,213	-	49,213
(298,555)	-	(298,555)
3,872	-	3,872
(333,032)	-	(333,032)
(149,872)	-	(149,872)
(118,109)	-	(118,109)
-	-	-
(35,106)	-	(35,106)
(113,888)	-	(113,888)
<u>(1,485,045)</u>	<u>-</u>	<u>(1,485,045)</u>
-	286,669	286,669
-	(45,347)	(45,347)
-	-	-
<u>-</u>	<u>241,322</u>	<u>241,322</u>
<u>(1,485,045)</u>	<u>241,322</u>	<u>(1,243,723)</u>
899,409	-	899,409
122,905	-	122,905
64,168	-	64,168
498,650	-	498,650
571,337	-	571,337
26,000	-	26,000
14,160	1,391	15,551
7,168	10,400	17,568
(118,812)	118,812	-
<u>2,084,985</u>	<u>130,603</u>	<u>2,215,588</u>
599,940	371,925	971,865
<u>7,564,642</u>	<u>4,979,780</u>	<u>12,544,422</u>
<u>\$ 8,164,582</u>	<u>\$ 5,351,705</u>	<u>\$ 13,516,287</u>

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

Village of Surfside Beach

Balance Sheet
 Governmental Funds
 September 30, 2018

	Special Revenue Funds		
	General Fund	Beach Fund	Hotel-Motel Tax Fund
Assets			
Cash and Investments	\$ 621,818	\$ 449,294	\$ 1,546,354
Receivables:			
Property taxes, net of allowance for uncollectives	23,220	-	-
Franchise taxes	10,861	-	-
Other taxes	30,409	-	-
Miscellaneous	4,307	-	290,359
Due from other funds	169,710	50	-
Due from other governments	494	-	-
Restricted Assets:Cash & Investments	6,995	-	-
Prepaid Expense	18,778	-	2,584
Inventory	2,000	-	-
Total Assets	<u>\$ 888,592</u>	<u>\$ 449,344</u>	<u>\$ 1,839,297</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	59,496	264	-
Due to other governments	333	-	-
Due to other funds	45,949	89,347	4,702
Total Liabilities	<u>105,778</u>	<u>89,611</u>	<u>4,702</u>
Deferred Inflows of Resources			
Unearned Revenue	23,220	-	-
Total Deferred Inflows of Resources	<u>23,220</u>	<u>-</u>	<u>-</u>
Fund Balances (Deficit)			
Restricted for MCTF/MCSF	6,995	-	-
Nonspendable	20,778	-	-
Unassigned, reported in			
General Fund	731,821	-	-
Assigned, reported in			
Debt service			
Special Revenue Fund		359,733	1,834,595
Capital Projects Fund	-	-	-
Total Fund Balances	<u>759,594</u>	<u>359,733</u>	<u>1,834,595</u>
Total Liabilities and Fund Balances	<u>\$ 888,592</u>	<u>\$ 449,344</u>	<u>\$ 1,839,297</u>

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

<u>Special Revenue Funds (contd)</u>		
<u>Sewer Tap</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ 488,410	\$ 96,555	\$ 3,202,431
-	5,174	28,394
-	-	10,861
-	-	30,409
-	-	294,666
22,001	1,718	193,479
-	-	494
-	-	6,995
-	-	21,362
-	-	2,000
<u>\$ 510,411</u>	<u>\$ 103,447</u>	<u>\$ 3,791,091</u>
-	-	-
-	-	59,760
-	-	333
-	-	139,998
-	-	200,091
-	5,174	28,394
-	5,174	28,394
-	-	6,995
-	-	20,778
-	-	-
-	-	731,821
-	-	-
-	98,273	98,273
510,411	-	2,704,739
-	-	-
<u>510,411</u>	<u>98,273</u>	<u>3,562,606</u>
<u>\$ 510,411</u>	<u>\$ 103,447</u>	<u>\$ 3,791,091</u>

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

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Village of Surfside Beach
 Reconciliation of Total Governmental Fund
 Fund Balance to Governmental Net Position
 September 30, 2018

Total Governmental Fund Balance \$ 3,562,606

*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	5,561,567
Property tax receivables, unearned revenue	28,394
Net Pension Asset	16,952

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	(1,121,864)
Compensated absences and accrued interest liabilities	(19,751)

Net deferred outflows and inflows of resources making up Net Position Asset are not recorded in the funds.	<u>106,378</u>
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Net Position of Governmental Activities **\$ 8,134,282**

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, 2018

	Special Revenue Funds		
	General Fund	Beach Fund	Hotel-Motel Tax Fund
Revenues:			
Property taxes	\$ 721,530	\$ -	\$ -
Franchise tax	64,168	-	-
Sales and use tax	122,905	-	-
Other Taxes	14,982	-	483,668
Municipal court fines and fees	99,748	-	-
Licenses and permits	36,101	571,337	-
Garbage and service fees	220,874	-	-
Parks and Recreation	51,000	-	-
EMS	137,777	-	-
Miscellaneous	5,724	180	13,767
Intergovernmental	-	-	99,640
Donations	-	-	80
Total Revenues	<u>1,474,809</u>	<u>571,517</u>	<u>597,155</u>
Expenditures:			
Current -			
General Administration	438,270	-	-
Municipal Court	55,435	-	-
Police Department/EMS	422,643	-	-
Public Works	131,341	-	-
Public Facilities	-	407,744	-
Economic Development	-	-	149,872
Employee Benefits	118,109	-	-
Debt Service	95,998	5,417	-
Capital Outlay	210,623	-	-
Grant Expenditures	-	-	125,480
Non Departmental	113,888	-	-
Total Expenditures	<u>1,586,307</u>	<u>413,161</u>	<u>275,352</u>
Excess of Revenues Over (Under) Expenditures	<u>(111,498)</u>	<u>158,356</u>	<u>321,803</u>
Other Financing Sources (Uses):			
Proceeds from long-term debt	-	-	-
Operating Transfers In	88,648	-	-
Operating Transfers Out	(60,000)	(88,648)	-
Total Other Financing Sources (Uses)	<u>28,648</u>	<u>(88,648)</u>	<u>-</u>
Net Change in Fund Balances	(82,850)	69,708	321,803
Fund Balances:			
Beginning of year, as restated	842,444	290,025	1,512,792
End of year	<u>\$ 759,594</u>	<u>\$ 359,733</u>	<u>\$ 1,834,595</u>

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

Special Revenue Funds (contd)

<u>Sewer Tap</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ -	\$ 174,136	\$ 895,666
-	-	64,168
-	-	122,905
-	-	498,650
-	-	99,748
26,000	-	633,438
-	-	220,874
-	-	51,000
-	-	137,777
1,657	-	21,328
-	-	99,640
		80
<u>27,657</u>	<u>174,136</u>	<u>2,845,274</u>
-	-	438,270
-	-	55,435
-	-	422,643
-	-	131,341
-	-	407,744
-	-	149,872
-	-	118,109
-	112,650	214,065
-	-	210,623
-	-	125,480
-	-	113,888
-	<u>112,650</u>	<u>2,387,470</u>
<u>27,657</u>	<u>61,486</u>	<u>457,804</u>
-	-	-
-	-	88,648
-	<u>(58,812)</u>	<u>(207,460)</u>
-	<u>(58,812)</u>	<u>(118,812)</u>
27,657	2,674	338,992
482,754	95,599	3,223,614
<u>\$ 510,411</u>	<u>\$ 98,273</u>	<u>\$ 3,562,606</u>

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

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Village of Surfside Beach

Reconciliation of the Statement of Revenues Expenditures and Changes in Fund Balances to the Governmental Statement of Activities For the Year Ended September 30, 2018

Net Change in Fund Balances - Governmental Funds	\$	338,992
<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.		153,382
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.		178,740
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.		(101,945)
Some expenses in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		-
Increase in Pension Expense		29,973
Decrease in Compensated Absences		(3,161)
Decrease in Accrued Interest		219
Uncollected property taxes are not recognized as revenue in governmental funds.		<u>3,740</u>
Change in Net Position of Governmental Activities	\$	<u>599,940</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, 2018

Assets

Current Assets:

Cash	\$	242,986
Accounts receivable, net of allowance for uncollectibles		66,395
Other receivables		94,489
Due from other funds		-
Inventory		<u>37,000</u>

Total Current Assets 440,870

Restricted assets:

Interest and Sinking		94,139
Debt service reserve		<u>-</u>

Total Restricted Assets 94,139

Noncurrent assets:

Net Pension Asset		-
Capital Assets		7,255,016
Less: Accumulated Depreciation		<u>(1,397,084)</u>

Total Noncurrent Assets 5,857,932

Deferred Outflows of Resources

Contributions 12/31/16 through 9/30/17		<u>51,278</u>
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Total Deferred Outflows of Resources 51,278

Total Assets \$ 6,444,219

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

Village of Surfside Beach, Texas
Statement of Net Position
Proprietary Fund - Water & Sewer Utility (Continued)
September 30, 2018

Liabilities

Current liabilities:

Accrued liabilities	\$ 356
Accounts payable	8,816
Compensated absences payable	8,985
Due to other Funds	53,481
Payables from restricted assets -	-
Accrued interest payable	5,450
Current portion of long-term debt	<u>20,000</u>

Total Current Liabilities **97,088**

Noncurrent Liabilities (net of current portion):

Customer deposits	8,168
Sewer infrastructure deposit	36,000
2005 Certificates of Obligation	939,000
Net Pension Liability	854

Total Noncurrent Liabilities **984,022**

Total Liabilities **1,081,110**

Deferred Inflows of Resources

Actual Expense vs Assumption	<u>11,404</u>
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Total Deferred Inflows of Resources **11,404**

Net Position

Investment in capital assets	4,898,932
Restricted for debt service	94,139
Unrestricted	<u>358,634</u>

Total Net Position **5,351,705**

Total Liabilities and Net Position **\$ 6,444,219**

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, 2018

Operating Revenues:	
Water sales	\$ 433,466
Sewer services	176,160
Late payment charges	6,815
Tap fees	21,500
Reconnection fees	1,000
Miscellaneous	10,400
Grant Revenues	<u>-</u>
Total Operating Revenue	<u>649,341</u>
Operating Expenses:	
Personnel related	232,265
Contracted services	3,500
Repairs and maintenance	161,977
Other charges	191,969
Depreciation and amortization	<u>136,245</u>
Total Operating Expenses	<u>725,956</u>
Operating Income (Loss)	<u>(76,615)</u>
Nonoperating Revenue (Expenses):	
Interest earned	1,391
Paying agent fees	(500)
Interest expense	<u>(44,847)</u>
Total Nonoperating Revenue (Expenses)	<u>(43,956)</u>
Net Income (Loss) Before Contributions and Transfers	(120,571)
Capital Contributions	373,684
Transfers In	<u>118,812</u>
Change in Net Position	371,925
Net Position:	
Beginning of year	<u>4,979,780</u>
Total Net Position - Ending	<u>\$ 5,351,705</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, 2018

Cash flows from operating activities:	
Receipts from customers	\$ 566,672
Payments to suppliers and contractors	(373,959)
Payments to employees	(232,265)
Other revenues	10,400
Grant Revenue	<u>-</u>
Net Cash Provided (Used) by Operating Activities	<u>(29,152)</u>
Cash flows from non-capital financing activities:	
Increase (decrease) in customer deposits	(1,030)
(Increase) decrease in interfund lending	(36,288)
Contract for emergency services	<u>-</u>
Net Cash Provided (Used) for Non-capital Financing Activities	<u>(37,318)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets, net of dispositions	(122,572)
Long-term debt	-
Interest and fees paid on debt	(45,347)
Transfer in	118,812
Principal paid on other long-term debt	<u>(19,000)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(68,107)</u>
Cash flows from Investing Activities:	
Interest received	<u>1,391</u>
Net Cash Provided (Used) by Investing Activities	<u>1,391</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(133,186)
Cash balances, beginning of year	<u>470,311</u>
Cash balances, End of Year	<u><u>\$ 337,125</u></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 (Continued)
For the Year Ended September 30, 2018

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

Operating Income	\$ (76,615)
Adjustments to operating income for items not requiring cash outlay:	
Depreciation and amortization	136,245
Changes in assets and liabilities -	
(Increase) decrease in accounts receivable	(72,269)
(Increase) decrease in inventory	(1,500)
Increase (decrease) in accounts payable	(7,138)
Increase (decrease) in accrued expenses	<u>(7,875)</u>
Net Cash Provided by Operating Activities	<u>\$ (29,152)</u>
 Composition of Cash:	
Operating Cash	\$ 242,986
Restricted Cash -	
Interest and sinking	94,139
Debt reserve	<u>-</u>
Total Cash	<u>\$ 337,125</u>

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

Village of Surfside Beach, Texas

Notes to Financial Statements

September 30, 2018

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 used to pay for providing services to the beach area including law enforcement, sanitation, maintenance and administration. The *Hotel-Motel Tax* fund controls the receipt and expenditure of taxes levied on temporary property rentals. The *Sewer Tap Fund* accounts for tap fees to be used for future expansion of the Oyster Creek Facility

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

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

Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

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

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

D. Specific Accounts

1. Deposits and Investments

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

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

As of September 30, 2018, the Village has adopted a formal investment policy and is in compliance with that policy.

2. Receivables and Payables

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

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

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

3. Restricted Assets

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

4. Capital Assets

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

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the Village as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are reported at historical cost.

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

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

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

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

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

5. Long-Term Debt

In government-wide and proprietary fund financial statements, long-term debt and similar obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

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

6. Compensated Absence Liability

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

7. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position can also report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as

an inflow of resources (revenue) until that time. The City has two items that are considered deferred inflows of resources. One of the items arises only under a modified accrual basis of accounting and this item, *unavailable revenue*, is reported only in the government funds balance sheet. The government funds report unavailable revenues from a variety of sources and are further defined in Note 4. The other item that qualifies for reporting as a deferred inflow of resources is calculated in the actuarial pension study required by GASB 68. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Pensions

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

9. Fund Equity

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

Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. The Council has by resolution authorized the City Manager or his/her designee to assign fund balance. Unlike commitments, assignments generally 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 2018, the Village decreased net position of the sewer fund by \$3,825. This was due to a prior period adjustment.

NOTE 3 – DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Cash and Temporary Investments

All of the Village's cash accounts are maintained at a financial institution located within Brazoria County. All accounts were covered by federal depository insurance (FDIC) as of September 30, 2018 and throughout the fiscal year. At year-end, the Village's bank balances totaled \$2,530,505.

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

Custodial Credit Risk - Deposits

In addition to depository balances with banks, as described above, the Village's investment classification also includes investments with TexPool, which is an investment trust administered through the Texas State Treasury. TexPool investments are restricted to investments authorized by state statute for investment by local governments. Each TexPool participant owns an undivided beneficial interest in the assets of TexPool, and these amounts are available on demand. As of September 30, 2018 the Village's investments in TexPool totaled \$975,818. The Village also holds \$7,366 in petty cash accounts.

In addition, the Village has pledged securities which are held by their bank depository. The pledged par MBS face par value of those securities as of September 30, 2018 is \$4,650,000 held at Amegy bank.

Custodial Credit Risk – Investments

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

B. Receivables and Uncollectibles

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

Property tax revenues are recognized when received, and deferred revenues are recorded to the extent of net receivables after allowance for uncollectibles. The tax rate for the October 2017 levy, supporting the fiscal year budget for the year ended September 30, 2018, was \$0.289575 per \$100 valuation for maintenance and operations and \$.069931 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, 2018, the allowance for the Village was estimated at \$1,222.

Enterprise Fund – The proprietary fund accounts receivable are related to water utility billings. The allowance of uncollectibles at September 30, 2018 is \$849 and is comprised of all accounts with balances past due for sixty days.

Net receivables at September 30, 2018 consist of the following:

Net Receivables	General	System	Other Governmental	Total
Accounts	\$ -	\$ 72,722	\$ -	\$ 72,722
Ad valorem	23,220	-	5,174	28,394
Other taxes	41,270	-	290,359	331,629
Miscellaneous	4,307	-	-	4,307
	<u>\$ 68,797</u>	<u>\$ 72,722</u>	<u>\$ 295,533</u>	<u>\$ 437,052</u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2018 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Process	108,212	125,480	-	233,692
Total capital assets, not being depreciated	<u>\$ 108,212</u>	<u>\$ 125,480</u>	<u>\$ -</u>	<u>\$ 233,692</u>
Capital assets, being depreciated:				
Buildings	\$ 1,486,168	\$ -	\$ -	\$ 1,486,168
Machinery and equipment	786,620	241,992	-	1,028,612
Infrastructure	8,816,005	70,579	-	8,886,584
Total capital assets, being depreciated	<u>\$ 11,088,793</u>	<u>\$ 312,571</u>	<u>\$ -</u>	<u>\$ 11,401,364</u>
Less accumulated depreciation for:				
Buildings	\$ (787,718)	\$ (32,334)	\$ -	\$ (820,052)
Machinery and equipment	(606,611)	(66,011)	-	(672,622)
Infrastructure	(4,394,491)	(186,324)	-	(4,580,815)
Total accumulated depreciation	<u>\$ (5,788,820)</u>	<u>\$ (284,669)</u>	<u>\$ -</u>	<u>\$ (6,073,489)</u>
Total capital assets, being depreciated, net	<u>5,299,973</u>	<u>27,902</u>	<u>-</u>	<u>5,327,875</u>
Governmental activities capital assets, net	<u>\$ 5,408,185</u>	<u>\$ 153,382</u>	<u>\$ -</u>	<u>\$ 5,561,567</u>

Business-type activities, water and sewer system:

Capital assets not being depreciated:

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

Capital assets, being depreciated:

Wells and related equipment	\$ 1,202,157	\$ -	\$ -	\$ 1,202,157
Machinery and equipment	196,452	15,000	-	211,452
Infrastructure	<u>3,652,077</u>	<u>481,257</u>	<u>-</u>	<u>4,133,334</u>
Total capital assets, being depreciated	<u>\$ 5,050,686</u>	<u>\$ 496,257</u>	<u>\$ -</u>	<u>\$ 5,546,943</u>

Less accumulated depreciation for:

Wells and related equipment	\$ (287,914)	\$ (31,646)	\$ -	\$ (319,560)
Machinery and equipment	(68,113)	(10,223)	-	(78,336)
Infrastructure	<u>(904,811)</u>	<u>(94,376)</u>	<u>-</u>	<u>(999,187)</u>
Total accumulated depreciation	<u>\$ (1,260,838)</u>	<u>\$ (136,245)</u>	<u>\$ -</u>	<u>\$ (1,397,083)</u>

Total capital assets, being depreciated, net	<u>3,789,848</u>	<u>360,012</u>	<u>-</u>	<u>4,149,860</u>
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Governmental activities capital assets, net	<u>\$ 5,497,921</u>	<u>\$ 360,012</u>	<u>\$ -</u>	<u>\$ 5,857,933</u>
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government - administration	\$ 59,780
Public safety	22,774
Highways and streets, including depreciation of general infrastructure assets	125,254
Culture and recreation	<u>76,861</u>
Total depreciation expense, governmental activities	<u>\$ 284,669</u>

D. Long Term Debt

The Village's General Long Term Debt at September 30, 2018 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 10/1/2017	Additions	Reductions	Ending Balance 9/30/2018
Notes payable	158,659	101,945	98,740	161,864
Bonds Payable	1,040,000	-	80,000	960,000
	1,198,659	101,945	178,740	1,121,864

Governmental	Interest Rate	Payment Terms	Maturity	Balance
Community Disaster Loan	1.88%	\$72,416 Annually	Apr-19	75,354
Bank loan - FSB Clute	4.25%	\$646 monthly	Mar-21	18,915
Bank loan - FSB Clute	4.75%	\$2396 monthly	Apr-21	67,595
				-
				161,864

Proprietary activities

Issue Type	Beginning Balance 10/1/2017	Additions	Reductions	Ending Balance 9/30/2018
Bonds Payable	978,000	-	19,000	959,000
	978,000	-	19,000	959,000

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 2018:

		<u>Principal Paid</u>	<u>Interest Paid</u>	<u>Balance 9/30/2018</u>
Tax and Revenue Certificates of Obligation, Series 2005A and 2005B				
Interest dates:	2/15 ; 8/15			
Interest rates:	4.35 - 6.15%			
Principal pays annually:	8/15			
Callable, at par	2/14/2006	<u>19,000</u>	<u>44,847</u>	<u>959,000</u>
Totals		<u><u>19,000</u></u>	<u><u>44,847</u></u>	<u><u>959,000</u></u>

The following are the annual requirements for this debt issue:

2005 USDA Certificate of Obligation

Fiscal Year	Interest	Principal	Total
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>\$ 722,185</u>	<u>\$ 959,000</u>	<u>\$ 1,681,185</u>

Other debt – The Village has also executed an additional long-term debt agreement that is being funded through the Texas Water Development Board. This approved debt is titled Tax & Revenue Certificates of Obligation, Series 2006. The interest rate on this debt ranges from 2.4% to 3.35% will final maturity scheduled in 2028. The following is the annual obligation for this note:

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	85,000	28,320	113,320
2020	85,000	25,664	110,664
2021	90,000	22,908	112,908
2022	90,000	20,050	110,050
2023	95,000	17,042	112,042
2024	100,000	13,800	113,800
2025	105,000	10,366	115,366
2026	105,000	6,822	111,822
2027	110,000	3,140	113,140
2028	95,000	1,686	96,686
	<u>\$ 960,000</u>	<u>\$ 149,799</u>	<u>\$ 1,109,799</u>

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

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

<u>Payment Date</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
10/2/2018	38,208.25	37,499.87	708.38	75,354.22
4/2/2019	38,208.25	37,854.35	353.91	37,854.35
	-	-	-	-
	76,416.50	75,354.22	1,062.29	

E. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2018 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Hotel/Motel	4,652
	System	31,479
	Beach	89,347
Beach	Hotel/Motel	50
Sewer	System	22,000
	General	1
Debt Service	General	1,718
	Totals	<u>\$ 149,247</u>

NOTE 4 – OTHER MATTERS

A. Risk Management

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

B. Contingent Liabilities

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

The Village participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Village has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2018 may be impaired.

C. Employee Retirement Plan

Plan Description

The Village participates as one of 872 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 2017 were as follows:

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

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefits terms:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	27
Active employees	<u>22</u>
	50

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employees gross earnings, and the Village matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the Village. Under the state law governing TMRS, the contribution rate for each Village is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees for the Village were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution plan rates for the Village were .76% in calendar years 2015 and 2016, respectively. The Village's contributions to TMRS for the fiscal year ended September 30, 2018 were \$4,360, and were equal to the required contributions.

Net Pension Liability

The Village's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

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

Actuarial assumptions used in the December 31, 2017, 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 2017 valuation.

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

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

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

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

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension 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	Plan Fiduciary	Net Pension
	Liability	Net Position	Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2016	\$ 472,211	\$ 579,300	\$ (107,089)
Changes for the year:			-
Service cost	59,576	-	59,576
Interest	33,313	-	33,313
Changes of benefit terms	3,980	-	3,980
Difference between expected and actual experience	(12,918)	-	(12,918)
Change of assumptions	-	-	-
Contributions - Employer	-	9,145	(9,145)
Contributions - Employee	-	44,294	(44,294)
Net Investment Income	-	79,795	(79,795)
Benefit payments, including refunds of employee contributions	(24,907)	(24,907)	-
Administrative expense	-	(416)	416
Other changes	-	(21)	21
Net changes	59,044	107,890	(48,846)
Balance at 12/31/2017	<u>\$ 531,255</u>	<u>\$ 687,190</u>	<u>\$ (155,934)</u>

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

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

	1.0% Decrease in Discount Rate 5.75%	Current Single Rate Assumption 6.75%	1.0% Increase in Discount Rate 7.75%
Village's Net Pension Liability:	\$ (87,496)	\$ (155,935)	\$ (212,526)

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, 2018 the Village recognized pension expense of \$9,145.

At September 30, 2018, 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	\$ -	\$ (9,073)
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	(32,554)
Contributions subsequent to the measurement date	-	-
Total	\$ -	\$ (41,627)

\$7,348 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. 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
2018	\$ (9,251)
2019	(8,620)
2020	(9,480)
2021	(8,137)
2022	-
Thereafter	-
Total	\$ (35,488)

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 2018 was \$1,293, which equaled the retired contributions.

Required Supplementary Information

Village of Surfside Beach

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended September 30, 2018

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
Revenues				
Revenues:				
Taxes - -				
Property	\$ 739,088	\$ 739,088	\$ 721,530	\$ (17,558)
Franchise	60,000	60,000	64,168	4,168
Sales and use	95,000	95,000	122,905	27,905
Mixed beverage	12,000	12,000	14,982	2,982
Municipal court fines and fees	96,030	96,030	99,748	3,718
Licenses and permits	39,000	39,000	36,101	(2,899)
Garbage and service fees	190,000	190,000	220,874	30,874
Parks & Recreation	50,000	50,000	51,000	1,000
EMS	119,000	119,000	137,777	18,777
Miscellaneous	5,500	5,500	7,120	1,620
Intergovernmental	-	-	-	-
Market gains	-	-	(1,996)	(1,996)
Sale of Easment	-	-	600	600
	-	-	-	-
Total Revenues and Other Sources	1,405,618	1,405,618	1,474,809	69,191
Expenditures and Other Uses				
Current Expenditures - -				
Administration				
Personnel	117,461	117,461	116,392	1,069
Supplies	7,800	7,800	8,968	(1,168)
Maintenance	18,620	18,620	22,849	(4,229)
Service	50,300	50,300	63,744	(13,444)
Miscellaneous	38,350	38,350	39,007	(657)
Garbage	170,000	170,000	187,310	(17,310)
Municipal Court				
Personnel	47,427	47,427	44,834	2,593
Supplies	1,250	1,250	767	483
Maintenance	100	100	-	100
Service	6,500	6,500	9,434	(2,934)
Miscellaneous	800	800	400	400
Police Department/EMS				
Personnel	325,336	325,336	336,479	(11,143)
Supplies	37,650	37,650	44,323	(6,673)
Maintenance	9,500	9,500	7,274	2,226
Service	11,900	11,900	12,788	(888)
Miscellaneous	26,800	26,800	21,779	5,021
Public Works				
Personnel	119,000	119,000	63,733	55,267
Supplies	11,000	11,000	17,767	(6,767)
Maintenance	14,250	14,250	15,277	(1,027)
Service	24,500	24,500	26,237	(1,737)
Miscellaneous	6,450	6,450	8,327	(1,877)

Village of Surfside Beach

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended September 30, 2018 (Continued)

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
Non-Departmental	114,724	114,724	113,888	836
Payroll expenses	116,900	116,900	118,109	(1,209)
Debt Service	80,500	80,500	95,998	(15,498)
Capital Outlay	131,800	131,800	210,623	(78,823)
Grant Expenditures	-	-	-	-
Total Expenditures and Other Uses	1,488,918	1,488,918	1,586,307	(97,389)
Other Financing Sources (Uses)				
Debt Revenues	-	-	-	-
Transfers in	83,300	83,300	88,648	5,348
Transfers out	-	-	(60,000)	(60,000)
Total Other Financing Sources (Uses)	83,300	83,300	28,648	(54,652)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	(82,850)	(82,850)
Fund Balance (Deficit):				
Beginning of year (as restated)	842,624	842,624	842,624	-
End of Year	\$ 842,624	\$ 842,624	\$ 759,774	\$ (82,850)

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, 2018

	Budget		Actual	Variance With
	Original	Final		Final Budget
				Favorable (Unfavorable)
Revenues and Other Sources				
Revenues - -				
State Beach Funds	30,000	30,000	21,997	(8,003)
Seasonal Permits	350,000	350,000	434,137	84,137
S-Permit Sales	80,000	80,000	115,203	35,203
Interest Earned	-	-	-	-
Miscellaneous	200	200	180	(20)
Intergovernmental	-	-	-	-
Total Revenues and Other Sources	460,200	460,200	571,517	111,317
Expenditures and Other Uses				
Current Expenditures - -				
Personnel	196,000	196,000	306,616	(110,616)
Supplies	20,500	20,500	18,745	1,755
Maintenance	13,000	13,000	21,674	(8,674)
Service	51,500	51,500	49,490	2,010
Miscellaneous	79,700	79,700	99,867	(20,167)
Debt Service	7,500	7,500	5,417	2,083
Transfers	-	-	-	-
Capital Outlay	92,000	92,000	-	92,000
Transfers to other funds - -	-	-	-	-
General Fund	-	-	-	-
Total Expenditures and Other Uses	460,200	460,200	501,809	(41,609)
Excess of Revenues Over (Under)				
Expenditures and Other Uses	-	-	69,708	69,708
Fund Balance				
Beginning of year	290,025	290,025	290,025	-
End of year	\$ 290,025	\$ 290,025	\$ 359,733	\$ 69,708

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, 2018

	Original	Budget		Actual	Variance With
		Final			Final Budget
					Favorable (Unfavorable)
Revenues and Other Sources					
Revenues - -					
Hotel-motel taxes	375,000	375,000		483,668	108,668
Interest Earned	200	200		10,478	10,278
Miscellaneous	200	200		3,289	3,089
Transfers in	-	-		-	-
Ft Velasco Donations	-	-		80	80
Grant Revenue	68,000	68,000		99,640	31,640
	<u>68,000</u>	<u>68,000</u>		<u>99,640</u>	<u>31,640</u>
Total Revenues and Other Sources	443,400	443,400		597,155	153,755
Expenditures and Other Uses					
Current Expenditures - -					
Ft Velasco	5,000	5,000		31,101	(26,101)
Personnel	26,500	26,500		27,652	(1,152)
Supplies	-	-		-	-
Maintenance	36,000	36,000		31,953	4,047
Service	68,450	68,450		59,166	9,284
Miscellaneous	-	-		-	-
Capital Expenses	105,000	105,000		-	105,000
Transfers	-	-		-	-
Grant Expenditures	69,000	69,000		125,480	(56,480)
	<u>69,000</u>	<u>69,000</u>		<u>125,480</u>	<u>(56,480)</u>
Total Expenditures and Other Uses	309,950	309,950		275,352	34,598
Excess of Revenues Over (Under) Expenditures and Other Uses	133,450	133,450		321,803	188,353
Fund Balance					
Beginning of year	1,512,792	1,512,792		1,512,792	-
End of year	\$ 1,646,242	\$ 1,646,242		\$ 1,834,595	\$ 188,353

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

Village of Surfside Beach, Texas

Schedule of Changes in Net Pension Liability and Related Ratios

Last 10 Years (will ultimately be displayed)

	2014	2015	2016	2017
Total pension liability				
Service Cost	\$ 40,364	41,884	44,959	59,576
Interest (on the Total Pension Liability)	24,776	27,739	31,040	33,313
Changes of Benefit Terms	-	-	4,383	3,980
Difference between expected and actual experience	(9,664)	(7,978)	(24,230)	(12,918)
Changes of assumptions	-	15,046	-	-
Benefit payments, including refunds of employee contributions	(23,616)	(4,207)	(33,851)	(24,907)
Net Change in Total Pension Liability	31,860	72,484	22,301	59,044
Total Pension Liability - Beginning	345,566	377,426	449,910	472,211
Total Pension Liability - Ending (a)	<u>\$ 377,426</u>	<u>\$ 449,910</u>	<u>\$ 472,211</u>	<u>\$ 531,255</u>
Plan Fiduciary Net Position				
Contributions - Employer	5,191	4,743	4,360	9,145
Contributions - Employee	31,141	31,397	33,156	44,294
Net Investment Income	26,795	748	36,225	79,795
Benefit payments, including refunds of employee contributions	-	-	-	-
Administrative Expense	(280)	(456)	(412)	(416)
Other	(23)	(23)	(22)	(21)
Net Change in Plan Fiduciary Net Position	39,208	32,202	39,456	107,890
Plan Fiduciary Net Position - Beginning	468,434	507,642	539,844	579,300
Plan Fiduciary Net Position - Ending (b)	<u>\$ 507,642</u>	<u>\$ 539,844</u>	<u>\$ 579,300</u>	<u>\$ 687,190</u>
Net Pension Liability - Ending (a) - (b)	(130,216)	(89,934)	(107,089)	(155,935)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	134.50%	119.99%	122.68%	129.35%
Covered Employee Payroll	\$ 622,811	\$ 627,939	\$ 663,116	\$ 738,239
Net Pension Liability as a Percentage of Covered Employee Payroll	-20.91%	-14.32%	-16.15%	-21.12%

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

Village of Surfside Beach, Texas

Schedule of Employer Contributions

Last ten years

	2015	2016	2017	2018
Actuarially Determined Contribution	\$ 3,939	\$ 4,484	\$ 7,592	\$ 9,145
Contribution in relation to the actuarially determined contribution	<u>(5,191)</u>	<u>(4,743)</u>	<u>(4,360)</u>	<u>(9,145)</u>
Contribution Deficiency (excess)	<u>\$ (1,252)</u>	<u>\$ (259)</u>	<u>\$ 3,232</u>	<u>\$ -</u>
Covered employee payroll	\$ 622,811	\$ 627,939	\$ 663,116	\$ 738,239
Contributions as a percentage of coverage employee payroll	0.83%	0.76%	0.66%	1.24%

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

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

Village of Surfside Beach, Texas

Notes to Required Supplementary Information

For the year ended September 30, 2018

Budgetary Information

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

The appropriated budget is prepared by fund, function, department and classification. All transfers within a department and between departments require the approval of council. The level of budgetary control is the departmental level. Budgets were not prepared for the Sewer and Debt Service Funds.

Texas Municipal Retirement System

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

Compliance Section

Baker, Stogner & Associates
Certified Public Accountants

316 E. Jackson
El Campo, TX 77437

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(979) 543-6668 Fax

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, 2018, 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 5, 2019.

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 5, 2019