

CITY OF PORT ARANSAS, TEXAS

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended

SEPTEMBER 30, 2017

CITY OF PORT ARANSAS, TEXAS
Annual Financial Report
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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FINANCIAL SECTION

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Port Aransas, 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 City of Port Aransas, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Port Aransas, Texas' 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 City of Port Aransas, Texas, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, Advertising Fund, Beach Cleaning Fund, and the Hotel-Motel/Facility Fund 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, the Employees Retirement System Information, and the nonmajor budgetary comparison information on pages 3–12, 75-76, and 79-88 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Port Aransas, Texas' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2018, on our consideration of the City of Port Aransas, Texas' 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 City of Port Aransas, Texas' internal control over financial reporting and compliance.



BEYER & COMPANY
Certified Public Accountants
June 24, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Port Aransas' (the City) annual financial report presents an overview, through management's discussion and analysis (MD&A), of the City's financial activities and performance during the fiscal year ended September 30, 2017. Please read it in conjunction with the independent auditors' report and the City's financial statements and disclosures, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Port Aransas exceeded its liabilities at the close of the most recent fiscal year by \$32,514,324 (net position). Of this amount, \$5,619,337 (unrestricted net position) may be used to meet the government's ongoing obligation to citizens and creditors.
- Total net position for the City of Port Aransas increased by \$1,384,277 during the fiscal year.
- As of the close of the current fiscal year, the City of Port Aransas governmental funds reported combined ending fund balances of \$18,059,143. Approximately 42% of this amount, \$7,540,445 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 4,254,943 or 44% of General Fund expenditures.
- The City of Port Aransas' total bonded debt had an increase of \$3,195,000 during the current fiscal year. Debt was increased due to the issuance of a \$4,380,000 Certificate of Obligation.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City of Port Aransas' basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements, including information on individual funds.

Government-wide financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements are designed to provide readers with a broad overview of the City of Port Aransas finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, including capital assets and long-term obligations. The difference between the two is reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other indicators of the City's financial position should also be taken into consideration, such as the change in the City's property tax base and condition of the City's infrastructure (i.e. roads and drainage systems), in order to more accurately assess the overall financial condition of the City.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this

statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Port Aransas include general administration, legal, financial administration, public facilities, public safety, public transportation, culture and recreation, and interest and fiscal charges. The business-type activities include gas, sanitation, and harbor.

Fund financial statements. The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The City of Port Aransas, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance, related legal requirements.

- Some funds are required by State law and by covenants of bonds/certificates of obligation.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes, fees and grants.

Governmental funds – Except for the operations of the Harbor, Gas, and Sanitation funds, the City’s services are included in governmental funds. These funds focus on how cash and other financial assets can readily be converted to available resources and on the available balances left at year-end. This information may be useful in determining what financial resources are available in the near future to finance the City’s programs. Other funds are referred to as non-major funds and are presented as summary data.

Because the focus of governmental fund level statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In addition to the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balance, separate statements are provided that reconcile between the government-wide and fund level statements.

Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Advertising Fund, Beach Cleaning Fund, Hotel Motel/Facility Fund, Hurricane Recovery Fund, and the Construction Fund all of which are considered to be major funds. Data for the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds – The City accounts for the harbor, gas and sanitation operations in the Proprietary Funds.

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 following table reflects a summary of Net Position compared to prior year:

**TABLE A-1
SUMMARY STATEMENT OF NET POSITION
SEPTEMBER 30,**

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|---------------------|-----------------------------|--------------------|---------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Current and Other Assets | \$22,836,667 | \$14,070,181 | \$1,793,833 | \$1,904,705 | \$24,630,500 | \$15,974,886 |
| Restricted Assets: | 65,741 | 65,735 | 0 | 0 | 65,741 | 65,735 |
| Capital Assets: | 27,950,547 | 28,374,026 | 4,725,356 | 3,687,813 | 32,675,903 | 32,061,839 |
| Total Deferred Outflows of Resources | 834,777 | 1,264,593 | 81,352 | 130,910 | | 0 |
| Total Assets | 51,687,732 | 43,774,535 | 6,600,541 | 5,723,428 | 57,372,144 | 48,102,460 |
| Long-Term Liabilities | 20,564,157 | 16,858,669 | 483,401 | 450,297 | 21,047,558 | 17,308,966 |
| Other Liabilities (Payable from Restricted Assets) | 0 | 0 | 157,844 | 154,079 | 157,844 | 154,079 |
| Other Liabilities | 4,439,202 | 343,258 | 128,860 | 147,920 | 4,568,062 | 491,178 |
| Total Liabilities | 25,003,359 | 17,201,927 | 770,105 | 752,296 | 25,773,464 | 17,954,223 |
| Total Deferred Inflows of Resources | 442 | 374,885 | 43 | 38,808 | | |
| Invested in Capital Assets, Net of Related Debt | 16,898,774 | 16,373,417 | 4,725,356 | 3,687,813 | 21,624,130 | 20,061,230 |
| Restricted | 5,270,857 | 4,676,032 | 0 | 0 | 5,270,857 | 4,676,032 |
| Unrestricted | 4,514,300 | 5,148,274 | 1,105,037 | 1,244,511 | 5,619,337 | 6,392,785 |
| Total Net Assets | \$26,683,931 | \$26,197,723 | \$5,830,393 | \$4,932,324 | \$32,514,324 | \$31,130,047 |

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Port Aransas, assets exceeded liabilities by \$26,683,931 at the close of the most recent fiscal year for governmental activities and \$5,830,393 for business-type activities.

A large portion of the City's net assets (63.3 percent in governmental activities and 81.0 percent in business type activities) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current fiscal year, the City of Port Aransas is able to report positive balances in all categories of net position, both for the government as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

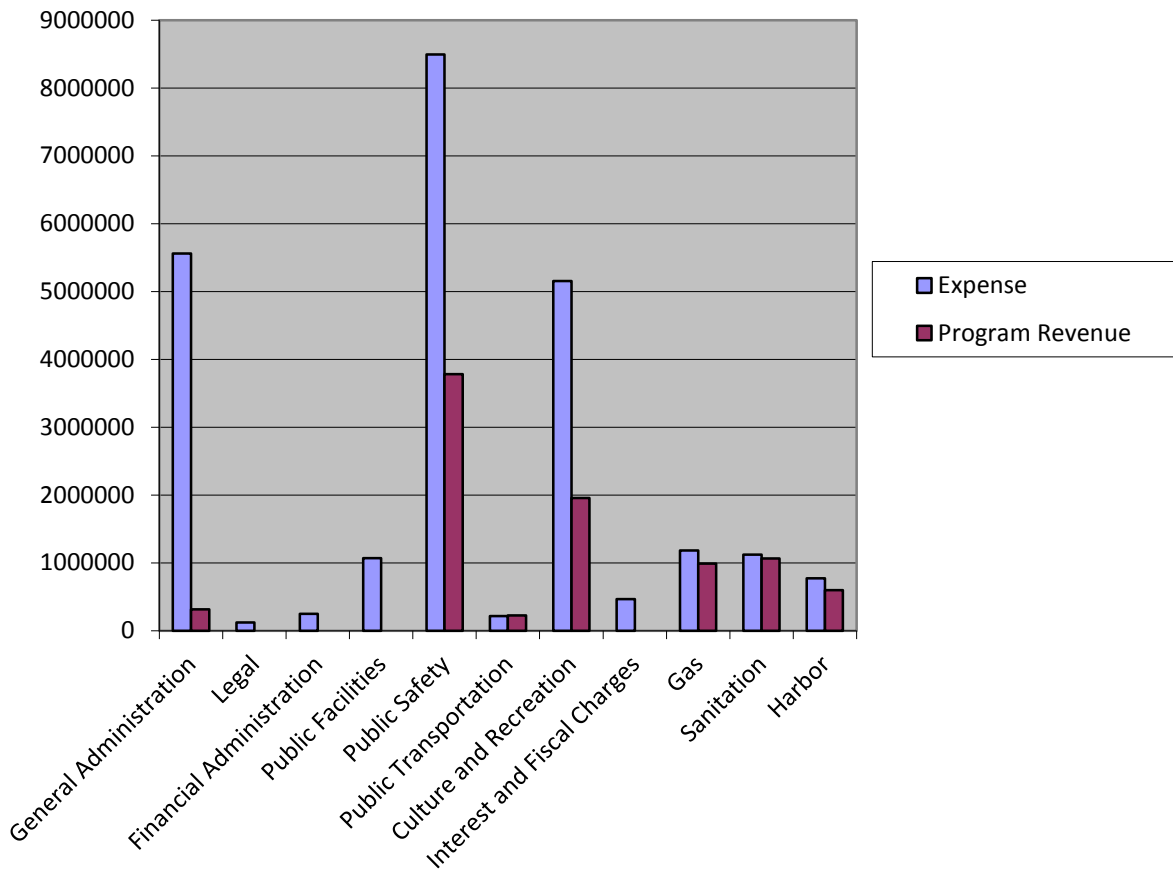
Changes in Net Position. Governmental activities increased the City’s net assets by \$486,208 and Business-type activities decreased the City’s net assets by \$898,069 for an increase of \$1,384,277.

**TABLE A-2
CHANGES IN NET POSITION**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|----------------------------|-------------------|-----------------------------|------------------|-------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$2,258,095 | \$2,430,565 | \$2,647,565 | \$2,532,690 | \$4,905,660 | \$4,963,255 |
| Operating Grants and Contributions | 3,794,918 | 272,009 | 220 | 197 | 3,795,138 | 272,206 |
| Capital Grants and Contributions | 224,694 | 249,052 | 0 | 0 | 224,694 | 249,052 |
| General Revenues: | | | | | | |
| Property Taxes, Levies for General Purposes | 5,655,350 | 5,101,901 | | | 5,655,350 | 5,101,901 |
| Sales Taxes | 2,100,446 | 2,069,236 | | | 2,100,446 | 2,069,236 |
| Franchise Taxes | 508,154 | 487,174 | | | 508,154 | 487,174 |
| Hotel/Motel Taxes | 6,208,634 | 5,595,526 | | | 6,208,634 | 5,595,526 |
| Licenses and Permits | 1,865,429 | 1,504,644 | | | 1,865,429 | 1,504,644 |
| Unrestricted Investment Earnings | 131,891 | 51,742 | 15,794 | 8,395 | 147,685 | 60,137 |
| Grants and Contributions not Restricted to Specific Programs | 183,830 | 176,965 | 0 | 0 | 183,830 | 176,965 |
| Miscellaneous | 198,880 | 169,698 | 0 | 1,975 | 198,880 | 171,673 |
| Total Revenue | 23,130,321 | 18,108,512 | 2,663,579 | 2,543,257 | 25,793,900 | 20,651,769 |
| Expenses: | | | | | | |
| General Administration | 5,561,302 | 5,709,970 | | | 5,561,302 | 5,709,970 |
| Legal | 122,072 | 76,094 | | | 122,072 | 76,094 |
| Financial Administration | 246,172 | 219,720 | | | 246,172 | 219,720 |
| Public Facilities | 1,070,264 | 1,039,023 | | | 1,070,264 | 1,039,023 |
| Public Safety | 8,494,880 | 4,318,484 | | | 8,494,880 | 4,318,484 |
| Public Transportation | 216,190 | 174,504 | | | 216,190 | 174,504 |
| Culture and Recreation | 5,152,315 | 5,031,122 | | | 5,152,315 | 5,031,122 |
| Interest and Fiscal Charges | 466,171 | 356,205 | | | 466,171 | 356,205 |
| Gas | | | 1,188,029 | 961,657 | 1,188,029 | 961,657 |
| Sanitation | | | 1,120,414 | 963,492 | 1,120,414 | 963,492 |
| Harbor | | | 771,814 | 705,792 | 771,814 | 705,792 |
| Total Expenses | 21,329,366 | 16,925,122 | 3,080,257 | 2,630,941 | 24,409,623 | 19,556,063 |
| Increase in Net Assets Before Transfers and Special Items | 1,800,955 | 1,183,390 | (416,678) | (87,684) | 1,384,277 | 1,095,706 |
| Transfers | (1,314,747) | 0 | 1,314,747 | 0 | 0 | 0 |
| Increase in Net Assets | 486,208 | 1,183,390 | 898,069 | (87,684) | 1,384,277 | 1,095,706 |
| Net Assets at 09/30/2016 | 26,197,723 | 25,014,333 | 4,932,324 | 5,020,008 | 31,130,047 | 30,034,341 |
| Net Assets at 09/30/2017 | \$26,683,931 | \$26,197,723 | \$5,830,393 | \$4,932,324 | \$32,514,324 | \$31,130,047 |

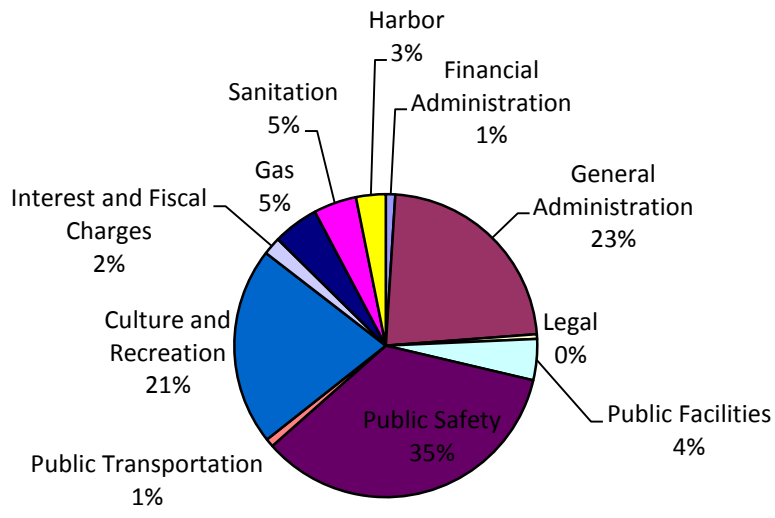
The chart below illustrates the City’s expense and revenues by function: general administration, legal, financial administration, public facilities, public safety, public transportation, culture and recreation, interest and fiscal charges, gas, and harbor.

Government-wide Program Expenses and Revenues

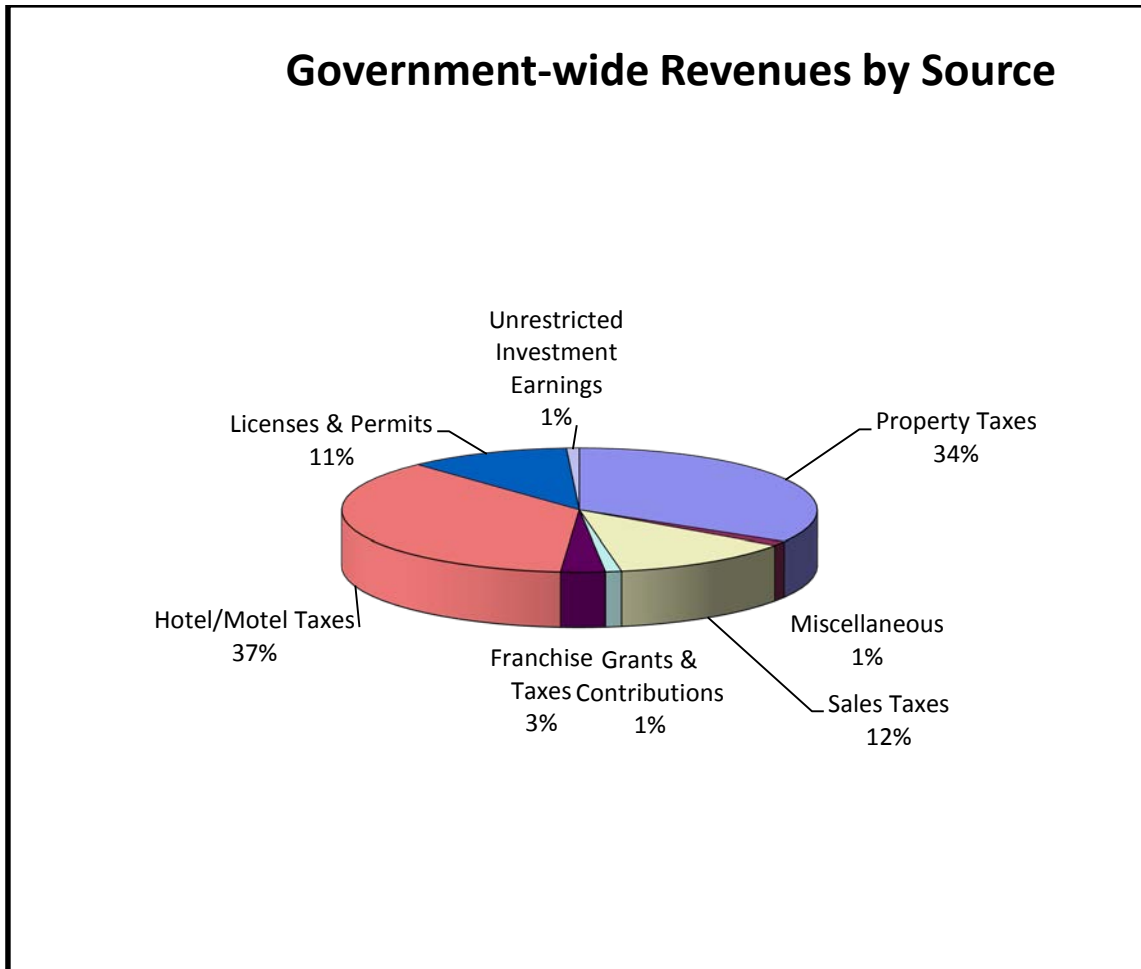


Expenses are broken down by governmental function and are presented below.

Functional Expenses



General revenues such as property taxes, sales taxes and franchise fees are not shown by program, but are used to support all governmental activities. Hotel/Motel Taxes are once again the largest source of general governmental revenues, followed by property tax and sales tax.



Financial Analysis of the Government’s Funds

In comparison to the government-wide statements, the fund level statements focus on the key funds of the City. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Port Aransas’ governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Port Aransas’ governmental funds reported combined ending fund balances of \$18,059,143, an increase of \$4,667,597 in comparison with the prior year. Approximately 41.8%, or \$7,540,445, constitutes unassigned fund balance, which is available for spending at the government’s discretion. The remainder of the fund balance is restricted or committed and is not available for new spending because it has already been committed/restricted to pay for construction (\$4,546,108), debt service (\$320,670), reserved for culture & recreation (\$1,920,192), inventories (\$15,249), public safety (\$82,736), Economic Development (\$3,165,209), and public transportation (\$468,534).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$4,254,943, while total fund balance reached \$4,320,684. 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 43.2% of total general fund expenditures, while total fund balance represents 43.9% of that same amount.

The fund balance of the City General Fund decreased by \$121,794 during the current fiscal year. The key factor for this decrease is the addition to the Library that is being paid for as a cash project.

Budgetary Highlights

The City's budget was amended one time. The Construction Fund, Gas Fund, and Sanitation Fund had a net change of \$0 (amounts were either shifted between departments or had excess revenue to cover expenses). The General Fund had a net change of (\$151,500). This change was due to several revenue categories performing better than anticipated for a total of \$98,000. The revenue increase was offset by an increase to expenditures totaling \$249,500. The two largest increase line items were due to the Library expansion project for 465,000 and the Building & Structure line item in the facility department increased by \$52,000 due to three air conditioners failing in City buildings. The Beach Fund had a net change of \$98,650 due to increase in revenues of \$154,000 due to high sales of beach parking permits and a new contract to service the County's garbage cans for \$64,000 was approved after the budget was set. These increases were offset by an increase of expenses of \$55,350 due to an increased focus in beach lifeguard operations. The Street Maintenance Fund had an increase to expenses of \$305,150 for increased needs for the 2017 Street Bond project. The Construction Fund had a net increase of \$0 as the 2017 bond project expense increased but the monies were transferred from the Street Improvement Fund as discussed earlier. There was also increased dollars added for the library expansion project with funds transferred from the General Fund as the project was not completed in the current budget year. The Gas Fund had adjustments between expense accounts that netted to \$0. The expansion to 361 required additional funds in order to relocate a gas line and more gas was needed for resale, these expenses were offset by projects that were delayed due to the bond issue. The Sanitation Fund also had budget adjustments that netted to \$0 for an increased customer base which added revenue but also costs that had to be paid to the sanitation contractor.

Budget variances are "Favorable" if actual revenues exceed budgeted amounts and if actual expenditures are under budgeted amounts. Variances are "Unfavorable" if actual revenues are under budgeted amounts and if actual expenditures are over budgeted amounts. Favorable variances are indicated by showing amounts without brackets and unfavorable variances are indicated by bracketed amounts.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for all activities as of September 30, 2017 amount to \$32,675,902 (net of accumulated depreciation). This investment in capital assets includes both governmental activities and business type activities such as land, construction in progress, buildings, equipment, fleet, streets, and other infrastructure. Additional information on capital assets can be found in Note IV C. Capital asset balances are as follows:

**Capital Assets, Net of Accumulated Depreciation
30-Sep**

| | Total Activities | Total Activities |
|----------------------------------|-----------------------------|-----------------------------|
| | 2017 | 2016 |
| <i>Governmental Activities:</i> | | |
| Land | \$5,669,307 | \$5,664,130 |
| Construction in Progress | 486,955 | 486,955 |
| Infrastructure | 17,199,612 | 18,158,405 |
| Buildings | 818,977 | 454,440 |
| Machinery & Equipment | 1,535,466 | 1,207,300 |
| Vehicles | 2,240,230 | 2,402,796 |
| Total Governmental Activities | <u>27,950,547</u> | <u>28,374,026</u> |
| <i>Business-type Activities:</i> | | |
| Construction in Progress | 0 | 0 |
| Infrastructure | 4,165,188 | 3,175,363 |
| Buildings | 161,976 | 148,607 |
| Machinery & Equipment | 366,571 | 311,444 |
| Vehicles | 31,620 | 52,399 |
| Total Business-type Activities | <u>4,725,355</u> | <u>3,687,813</u> |
| Total net assets | <u><u>\$32,675,902</u></u> | <u><u>\$32,061,839</u></u> |

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$15,756,769. The table below reflects the outstanding debt at September 30. Additional information can be found in Note F.

**Outstanding Debt
September 30**

| | Total Governmental Activities | Total Governmental Activities |
|-----------------------------------|-------------------------------------|-------------------------------------|
| | 2017 | 2016 |
| General Obligation Bonds | \$14,635,000 | \$11,440,000 |
| Bond Premium - Series 2009 & 2012 | 382,925 | 157,921 |
| Capital Leases | 738,844 | 943,101 |
| Total Bonds Payable | <u><u>\$15,756,769</u></u> | <u><u>\$12,541,022</u></u> |

The City's total bonded outstanding debt increased by \$3,195,000 during the current fiscal year. The key factor in this increase was the issuance of debt for \$4,380,000 for Drainage & Street Improvement projects.

Economic Factors and Next Year's Budgets and Rates

All of these factors were considered in preparing the City's budget for the 2017-2018 fiscal year. Due to Hurricane Harvey striking the Texas Coast on August 25, 2017, the City decided to pass the budget as it was prepared and make adjustments accordingly to the budget as the fiscal year progresses. At the end of the fiscal year, the economic impact of the Hurricane is not completely known. The City will rely on insurance proceeds and Grant assistance to assist in the recovery efforts.

The tax rate for the year has increased to 28.0906 cents per hundred. The tax rate has been split with .218613 for maintenance and operations and .062293 for interest and sinking for the retirement of the bonds.

Overall, the General Fund is budgeted to end the fiscal year 2017-2018 with an estimated fund balance of \$4,713,780. This is approximately 50.3% of General Fund operating expenditures.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 710 W. Avenue A., Port Aransas, TX 78373 or call 361-749-4111. Information is also available on the City's website at www.cityofportaransas.org.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF PORT ARANSAS, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

| | Primary Government | | |
|--|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total |
| ASSETS | | | |
| Cash and Cash Equivalents | \$18,868,542 | \$1,666,232 | \$20,534,774 |
| Receivables (Net of Allowance for Uncollectibles) | 3,883,517 | 126,650 | 4,010,167 |
| Inventories | 15,249 | | 15,249 |
| Prepaid Items | 69,359 | 951 | 70,310 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | 65,741 | | 65,741 |
| Capital Assets Not Being Depreciated: | | | |
| Land | 5,669,307 | | 5,669,307 |
| Construction in Progress | 486,955 | | 486,955 |
| Total Capital Assets Being Depreciated, Net | | | |
| Infrastructure | 17,199,612 | 4,165,188 | 21,364,800 |
| Buildings | 818,977 | 161,976 | 980,953 |
| Machinery and Equipment | 1,535,466 | 366,571 | 1,902,037 |
| Vehicles | 2,240,230 | 31,621 | 2,271,851 |
| Total Assets | \$50,852,955 | \$6,519,189 | \$57,372,144 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| GASB 68 | | | |
| Deferred Outflow of Resources-Contributions (after 12/31/16) | 804,170 | 78,369 | 882,539 |
| Difference in expected and actual experience | 30,607 | 2,983 | 33,590 |
| Total Deferred Outflows of Resources | 834,777 | 81,352 | 916,129 |
| LIABILITIES: | | | |
| Accounts Payable | \$3,968,188 | \$128,765 | \$4,096,953 |
| Accrued Wages Payable | 322,725 | 95 | 322,820 |
| Accrued Interest Payable | 95,026 | | 95,026 |
| Unearned Revenues | 53,263 | | 53,263 |
| Consumer Meter Deposits | | 157,844 | 157,844 |
| Noncurrent Liabilities: | | | |
| Due Within One Year | 1,831,515 | 21,288 | 1,852,803 |
| Due in More Than One Year | 18,732,642 | 462,113 | 19,194,755 |
| Total Liabilities | 25,003,359 | 770,105 | 25,773,464 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| GASB 68 | | | |
| Difference in projected and actual earnings | 442 | 43 | 485 |
| Total Deferred Inflows of Resources | 442 | 43 | 485 |
| LIABILITIES: | | | |
| Net Position | | | |
| Invested in Capital Assets, Net of Related Debt | 16,898,774 | 4,725,356 | 21,624,130 |
| Restricted for: | | | |
| Culture and Recreation | 1,767,983 | | 1,767,983 |
| Debt Service | 320,670 | | 320,670 |
| Economic Development | 3,165,209 | | 3,165,209 |
| Public Safety | 16,995 | | 16,995 |
| Unrestricted | 4,514,300 | 1,105,037 | 5,619,337 |
| Total Net Position | \$26,683,931 | \$5,830,393 | \$32,514,324 |

The accompanying notes are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2017

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in | | Net (Expense) Revenue and Changes in Total |
|--|--------------|----------------------|------------------------------------|--------------------------------------|-------------------------|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | |
| Primary Government | | | | | | |
| Government Activities: | | | | | | |
| General Administration | \$5,561,302 | \$217,248 | \$98,243 | | (\$5,245,811) | (\$5,245,811) |
| Legal | 122,072 | | | | (122,072) | (122,072) |
| Financial Administration | 246,172 | | | | (246,172) | (246,172) |
| Public Facilities | 1,070,264 | | | | (1,070,264) | (1,070,264) |
| Public Safety | 8,494,880 | 533,749 | 3,248,281 | | (4,712,850) | (4,712,850) |
| Public Transportation | 216,190 | | | 224,694 | 8,504 | 8,504 |
| Culture and Recreation | 5,152,315 | 1,507,098 | 448,394 | | (3,196,823) | (3,196,823) |
| Interest and Fiscal Charges | 466,171 | | | | (466,171) | (466,171) |
| Total Government Activities | 21,329,366 | 2,258,095 | 3,794,918 | 224,694 | (15,051,659) | 0 |
| Business-Type Activities: | | | | | | |
| Gas | 1,188,029 | 986,334 | 220 | | (201,475) | (201,475) |
| Sanitation | 1,120,414 | 1,064,428 | | | (55,986) | (55,986) |
| Harbor | 771,814 | 596,803 | | | (175,011) | (175,011) |
| Total Business-Type Activities | 3,080,257 | 2,647,565 | 220 | 0 | (432,472) | (432,472) |
| Total Primary Government | \$24,409,623 | \$4,905,660 | \$3,795,138 | \$224,694 | (15,051,659) | (432,472) |
| General Revenues | | | | | | |
| Property Taxes, Levies for General Purposes | | | | | 5,655,350 | 5,655,350 |
| Sales Taxes | | | | | 2,100,446 | 2,100,446 |
| Franchise Taxes | | | | | 508,154 | 508,154 |
| Hotel/Motel Taxes | | | | | 6,208,634 | 6,208,634 |
| Licenses and Permits | | | | | 1,865,429 | 1,865,429 |
| Unrestricted Investment Earnings | | | | | 131,891 | 15,794 |
| Grants and Contributions Not Restricted to Specific Programs | | | | | 183,830 | 183,830 |
| Miscellaneous | | | | | 198,880 | 198,880 |
| Transfers | | | | | (1,314,747) | 1,314,747 |
| Total General Revenues and Transfers | | | | | 15,537,867 | 1,330,541 |
| Change in Net Position | | | | | 486,208 | 898,069 |
| Net Position - Beginning | | | | | 26,197,723 | 4,932,324 |
| Net Position - Ending | | | | | \$26,683,931 | \$5,830,393 |

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF PORT ARANSAS, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

| | General Fund | Advertising Fund | Beach Cleaning Funds | Hotel-Motel/Facility Fund | Hurricane Recovery Fund | Construction Fund | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|------------------|----------------------|---------------------------|-------------------------|--------------------|--------------------------|--------------------------|
| ASSETS | | | | | | | | |
| Cash and Cash Equivalents | \$4,729,728 | \$475,194 | \$2,806,235 | \$3,669,533 | \$0 | \$4,247,868 | \$2,939,984 | \$18,868,542 |
| Receivables (Net of Allowance for Uncollectibles) | 243,479 | 2,500 | 5,833 | | 3,185,000 | 74,203 | 95,745 | 3,606,760 |
| Restricted Assets: | | | | | | | | |
| Cash and Cash Equivalents | 65,741 | | | | | | | 65,741 |
| Inventories | | | | | | | 15,249 | 15,249 |
| Prepaid Expenses | | | | 0 | | | | 0 |
| Total Assets | \$5,038,948 | \$477,694 | \$2,812,068 | \$3,669,533 | \$3,185,000 | \$4,322,071 | \$3,050,978 | \$22,556,292 |
| LIABILITIES AND FUND BALANCES: | | | | | | | | |
| Accounts Payable | \$541,027 | \$70,748 | \$53,805 | \$5,072 | \$3,141,234 | | \$156,302 | \$3,968,188 |
| Bank Overdraft | | | | | 322,725 | | 0 | 322,725 |
| Deferred Revenue | 53,263 | | | | | | | 53,263 |
| Total Liabilities | 594,290 | 70,748 | 53,805 | 5,072 | 3,463,959 | 0 | 156,302 | 4,344,176 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | | |
| Deferred Property Taxes | 123,974 | | | | | | 28,999 | 152,973 |
| Fund Balances: | | | | | | | | |
| Non-Spendable | | | | | | | | |
| Inventories | | | | | | | 15,249 | 15,249 |
| Restricted | | | | | | | | |
| Construction | | | | | | 4,322,071 | 0 | 4,322,071 |
| Culture and Recreation | | | | 100,000 | | | 1,667,983 | 1,767,983 |
| Debt Service | | | | | | | 320,670 | 320,670 |
| Economic Development | | \$406,946 | 2,758,263 | | | | | 3,165,209 |
| Public Safety | | | | | | | 16,995 | 16,995 |
| Committed | | | | | | | | |
| Construction | | | | | | | 224,037 | 224,037 |
| Culture and Recreation | | | | | | | 152,209 | 152,209 |
| Public Safety | 65,741 | | | | | | | 65,741 |
| Public Transportation | | | | | | | 468,534 | 468,534 |
| Unassigned | 4,254,943 | | | 3,564,461 | (278,959) | | | 7,540,445 |
| Total Fund Balance | 4,320,684 | 406,946 | 2,758,263 | 3,664,461 | (278,959) | 4,322,071 | 2,865,677 | 18,059,143 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$5,038,948 | \$477,694 | \$2,812,068 | \$3,669,533 | \$3,185,000 | \$4,322,071 | \$3,050,978 | \$22,556,292 |

The accompanying notes are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 SEPTEMBER 30, 2017

Total Fund Balances - Governmental Funds Balance Sheet

| | |
|--|---------------------|
| Amounts reported for governmental activities in the statement of net position ("SNA") are different because: | \$18,059,143 |
| Capital assets used in governmental activities are not reported in the funds. Some expenses are not expensed in the current period but rather are deferred in the funds. | 27,950,547 |
| Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles). | 69,359 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 152,973 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | 1,111,092 |
| | (20,659,183) |
| Net Position of Governmental Activities - Statement of Net Position | <u>\$26,683,931</u> |

The accompanying notes are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2017

| | General Fund | Advertising Fund | Beach Cleaning Funds | Hotel-Motel/Facility Fund | Hurricane Recovery Fund | Construction Fund | Other Governmental Funds | Total Governmental Funds |
|---|--------------|------------------|----------------------|---------------------------|-------------------------|-------------------|--------------------------|--------------------------|
| REVENUES | | | | | | | | |
| Taxes | | | | | | | | |
| Property | \$4,413,517 | \$0 | \$0 | \$0 | \$0 | \$0 | \$1,206,118 | \$5,619,635 |
| Sales | 1,400,297 | | | | | | 700,149 | 2,100,446 |
| Franchise | 508,154 | | | | | | | 508,154 |
| Hotel/Motel | | 2,435,651 | 1,337,332 | 2,435,651 | | | | 6,208,634 |
| Intergovernmental | 570,048 | | 425,881 | | 3,185,000 | | 22,513 | 4,203,442 |
| Licenses and Permits | 929,307 | | 936,122 | | | | | 1,865,429 |
| Charges for Services | 1,493,083 | | | | | | 458,520 | 1,951,603 |
| Fines and Forfeitures | 290,490 | | | | | | 9,388 | 299,878 |
| Interest | 45,863 | 5,950 | 20,660 | 14,798 | | 22,136 | 22,484 | 131,891 |
| Miscellaneous | 62,004 | | | | | 74,203 | 58,992 | 195,199 |
| Total Revenues | 9,712,763 | 2,441,601 | 2,719,995 | 2,450,449 | 3,185,000 | 96,339 | 2,478,164 | 23,084,311 |
| EXPENDITURES | | | | | | | | |
| Current: | | | | | | | | |
| General Administration | 1,993,600 | 1,690,198 | | | | | 0 | 3,683,798 |
| Legal | 122,072 | | | | | | | 122,072 |
| Financial Administration | 230,266 | | | | | | | 230,266 |
| Public Facilities | 1,165,515 | | | | | | | 1,165,515 |
| Public Safety | 4,658,849 | | | | 3,463,959 | | 5,364 | 8,128,172 |
| Public Transportation | 180,077 | | | | | | 24,416 | 204,493 |
| Culture and Recreation | 1,255,749 | | 2,891,790 | 208,815 | | | 1,343,491 | 5,699,845 |
| Capital Projects - | | | | | | | | |
| Capital Outlay and Other | | | | | | 656,760 | 0 | 656,760 |
| Debt Service | | | | | | | | |
| Bond Issuance Costs | | | | | | 122,105 | | 122,105 |
| Principal Retirement | 204,256 | | | 190,000 | | | 995,000 | 1,389,256 |
| Interest and Fiscal Charges | 32,173 | | | 7,293 | | | 282,324 | 321,790 |
| Total Expenditures | 9,842,557 | 1,690,198 | 2,891,790 | 406,108 | 3,463,959 | 778,865 | 2,650,595 | 21,724,072 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | | | | | | | | |
| | (129,794) | 751,403 | (171,795) | 2,044,341 | (278,959) | (682,526) | (172,431) | 1,360,239 |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Other Financing Sources - Bond Proceeds | | | | | | 4,380,000 | | 4,380,000 |
| Other Financing Sources - Bond Premium | | | | | | 242,105 | | 242,105 |
| Operating Transfers In | 8,000 | | | 347,950 | | | 524,426 | 880,376 |
| Operating Transfers Out | 0 | (347,950) | | (1,582,600) | | | (264,573) | (2,195,123) |
| Total Other Financing Sources (Uses) | 8,000 | (347,950) | 0 | (1,234,650) | 0 | 4,622,105 | 259,853 | 3,307,358 |
| Net Changes in Fund Balances | (121,794) | 403,453 | (171,795) | 809,691 | (278,959) | 3,939,579 | 87,422 | 4,667,597 |
| Fund Balances - Beginning | 4,442,478 | 3,493 | 2,930,058 | 2,854,770 | 0 | 382,492 | 2,778,255 | 13,391,546 |
| Fund Balances - Ending | \$4,320,684 | \$406,946 | \$2,758,263 | \$3,664,461 | (\$278,959) | \$4,322,071 | \$2,865,677 | \$18,059,143 |

The accompanying notes are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 SEPTEMBER 30, 2017

| | |
|---|------------------|
| Net Changes in Fund Balances - Total Governmental Funds | \$4,667,597 |
| Amounts reported for governmental activities in the statement of net position ("SNA") are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | (423,479) |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This is the change in these amounts this year. | 6,614 |
| Certain property tax revenues are deferred in the funds. This is the change in these amounts this year. | 35,715 |
| Deferred Outflow of Resources-Contribution. This is the change in these amounts this year. | 68,894 |
| Deferred Outflow-Difference in projected and actual earnings. This is the change in these amounts this year. | (459,551) |
| Deferred Outflow-Difference in assumption changes. This is the change in these amounts this year. | (70,208) |
| Deferred Inflow-Difference in expected and actual experience. This is the change in these amounts this year. | 405,492 |
| Bond Issuance Proceeds | (4,380,000) |
| Repayment of loan principal is an expenditure in the funds but not an expense in the SOA. | 1,389,257 |
| (Increase) decrease in accrued interest payable from beginning of period to end of period. | (39,378) |
| (Increase) decrease in compensated absences payable from beginning of period to end of period. | (15,185) |
| (Increase) decrease in bond premium payable from beginning of period to end of period. | (225,004) |
| (Increase) decrease in net pension liability from beginning of period to end of period. | (54,565) |
| (Decrease) increase in Accrued Other Post Employment Benefits from beginning of period to end of period. | (419,991) |
| Change in Net Position of Governmental Activities - Statement of Activities | <u>\$486,208</u> |

The accompanying notes are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual | Variance with |
|---|--------------------|--------------------|--------------------|--|
| | Original | Final | | Final Budget - Positive (Negative) |
| REVENUES | | | | |
| Taxes | | | | |
| Property | \$4,454,850 | \$4,454,850 | \$4,413,517 | (\$41,333) |
| Sales | 1,359,800 | 1,359,800 | 1,400,297 | 40,497 |
| Franchise | 481,000 | 494,000 | 508,154 | 14,154 |
| Intergovernmental | 571,480 | 571,480 | 570,048 | (1,432) |
| Licenses and Permits | 773,245 | 833,245 | 929,307 | 96,062 |
| Charges for Services | 1,570,900 | 1,570,900 | 1,493,083 | (77,817) |
| Fines and Forfeitures | 290,000 | 290,000 | 290,490 | 490 |
| Interest | 15,000 | 40,000 | 45,863 | 5,863 |
| Miscellaneous | 107,200 | 107,200 | 62,004 | (45,196) |
| Total Revenues | <u>9,623,475</u> | <u>9,721,475</u> | <u>9,712,763</u> | <u>(8,712)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Administration | | | | |
| Administration | 252,150 | 265,150 | 263,121 | 2,029 |
| Central Operating | 986,925 | 1,048,425 | 1,085,309 | (36,884) |
| City Secretary | 165,800 | 165,800 | 164,397 | 1,403 |
| Information Technology | 310,650 | 290,150 | 224,971 | 65,179 |
| Mayor and Council | 42,700 | 42,700 | 21,714 | 20,986 |
| Planning | 229,625 | 229,625 | 234,088 | (4,463) |
| Legal | | | | |
| City Attorney | 75,000 | 103,000 | 122,072 | (19,072) |
| Financial Administration | | | | |
| Finance Department | 229,975 | 233,975 | 230,266 | 3,709 |
| Public Facilities | | | | |
| Public Buildings | 289,300 | 341,300 | 306,602 | 34,698 |
| Public Works | 928,425 | 928,425 | 858,913 | 69,512 |
| Public Safety | | | | |
| EMS | 1,288,960 | 1,288,960 | 1,289,249 | (289) |
| Fire Department | 276,850 | 299,850 | 270,527 | 29,323 |
| Inspection | 201,250 | 218,750 | 212,282 | 6,468 |
| Municipal Court | 145,925 | 156,925 | 139,979 | 16,946 |
| Police | 2,856,255 | 2,856,255 | 2,746,812 | 109,443 |
| Public Transportation | | | | |
| Regional Transit | 190,480 | 196,480 | 180,077 | 16,403 |
| Culture and Recreation | | | | |
| Library | 613,075 | 368,875 | 635,698 | (266,823) |
| Parks and Recreation | 649,250 | 649,250 | 620,051 | 29,199 |
| Debt Service | | | | |
| Principal Retirement | 204,256 | 204,256 | 204,256 | 0 |
| Interest Retirement | 32,224 | 32,224 | 32,173 | 51 |
| Total Expenditures | <u>9,969,075</u> | <u>9,920,375</u> | <u>9,842,557</u> | <u>77,818</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (345,600) | (198,900) | (129,794) | 69,106 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers In | 47,000 | 47,000 | 8,000 | (39,000) |
| Operating Transfers Out | | (298,200) | | 298,200 |
| Total Other Financing Sources (Uses) | <u>47,000</u> | <u>(251,200)</u> | <u>8,000</u> | <u>259,200</u> |
| Net Changes in Fund Balances | (298,600) | (450,100) | (121,794) | 328,306 |
| Fund Balances - Beginning | 4,442,478 | 4,442,478 | 4,442,478 | |
| Fund Balances - Ending | <u>\$4,143,878</u> | <u>\$3,992,378</u> | <u>\$4,320,684</u> | <u>\$328,306</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
 ADVERTISING FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|------------------|------------------|------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | | | | |
| Hotel/Motel | \$2,097,500 | \$2,097,500 | \$2,435,651 | \$338,151 |
| Interest | 0 | 0 | 5,950 | 5,950 |
| Total Revenues | <u>2,097,500</u> | <u>2,097,500</u> | <u>2,441,601</u> | <u>344,101</u> |
| EXPENDITURES | | | | |
| General Administration | | | | |
| Mayor and Council | 1,797,850 | 1,797,850 | 1,690,198 | 107,652 |
| Total Expenditures | <u>1,797,850</u> | <u>1,797,850</u> | <u>1,690,198</u> | <u>107,652</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 299,650 | 299,650 | 751,403 | 451,753 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers Out | 299,650 | 299,650 | (347,950) | (647,600) |
| Total Other Financing Sources (Uses) | <u>299,650</u> | <u>299,650</u> | <u>(347,950)</u> | <u>(647,600)</u> |
| Net Changes in Fund Balances | 599,300 | 599,300 | 403,453 | (195,847) |
| Fund Balances - Beginning | 3,493 | 3,493 | 3,493 | |
| Fund Balances - Ending | <u>\$602,793</u> | <u>\$602,793</u> | <u>\$406,946</u> | <u>(\$195,847)</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
 BEACH FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual | Variance with |
|--|--------------------|--------------------|--------------------|--|
| | Original | Final | | Final Budget - Positive (Negative) |
| REVENUES | | | | |
| Taxes | | | | |
| Hotel/Motel | \$1,323,000 | \$1,323,000 | \$1,337,332 | \$14,332 |
| Intergovernmental | 239,000 | 303,000 | 425,881 | 122,881 |
| Licenses and Permits | 663,000 | 753,000 | 936,122 | 183,122 |
| Interest | 3,000 | 3,000 | 20,660 | 17,660 |
| Total Revenues | <u>2,228,000</u> | <u>2,382,000</u> | <u>2,719,995</u> | <u>337,995</u> |
| EXPENDITURES | | | | |
| Culture and Recreation | | | | |
| Beach | 3,216,650 | 3,272,000 | 2,891,790 | 380,210 |
| Total Expenditures | <u>3,216,650</u> | <u>3,272,000</u> | <u>2,891,790</u> | <u>380,210</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (988,650) | (890,000) | (171,795) | 718,205 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers Out | (30,500) | (30,500) | | 30,500 |
| Total Other Financing Sources (Uses) | <u>(30,500)</u> | <u>(30,500)</u> | <u>0</u> | <u>30,500</u> |
| Net Changes in Fund Balances | (1,019,150) | (920,500) | (171,795) | 748,705 |
| Fund Balances - Beginning | 2,930,058 | 2,930,058 | 2,930,058 | |
| Fund Balances - Ending | <u>\$1,910,908</u> | <u>\$2,009,558</u> | <u>\$2,758,263</u> | <u>\$748,705</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
HOTEL-MOTEL/FACILITY FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|--------------------|--------------------|--------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | | | | |
| Hotel/Motel | \$2,097,500 | \$2,097,500 | \$2,435,651 | \$338,151 |
| Interest | 1,400 | 1,400 | 14,798 | 13,398 |
| Total Revenues | <u>2,098,900</u> | <u>2,098,900</u> | <u>2,450,449</u> | <u>351,549</u> |
| EXPENDITURES | | | | |
| Culture and Recreation | | | | |
| Culture and Recreation | 396,525 | 396,525 | 208,815 | 187,710 |
| Debt Service | | | | |
| Principal Retirement | 190,000 | 190,000 | 190,000 | 0 |
| Interest Retirement | 7,350 | 7,350 | 7,293 | 57 |
| Total Expenditures | <u>593,875</u> | <u>593,875</u> | <u>406,108</u> | <u>187,767</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 1,505,025 | 1,505,025 | 2,044,341 | 539,316 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers Out | (1,378,300) | (1,378,300) | (1,234,650) | 143,650 |
| Total Other Financing Sources (Uses) | <u>(1,378,300)</u> | <u>(1,378,300)</u> | <u>(1,234,650)</u> | <u>143,650</u> |
| Net Changes in Fund Balances | 126,725 | 126,725 | 809,691 | 682,966 |
| Fund Balances - Beginning | 2,854,770 | 2,854,770 | 2,854,770 | |
| Fund Balances - Ending | <u>\$2,981,495</u> | <u>\$2,981,495</u> | <u>\$3,664,461</u> | <u>\$682,966</u> |

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

Business-Type Activities
Enterprise Funds

| | Gas Current Year | Gas Prior Year | Sanitation Current Year | Sanitation Prior Year | Harbor Current Year | Harbor Prior Year | Totals Current Year |
|---|------------------------|----------------------|-------------------------------|-----------------------------|---------------------------|-------------------------|---------------------------|
| ASSETS | | | | | | | |
| Current Assets | | | | | | | |
| Cash and Cash Equivalents | \$814,519 | \$946,145 | (\$13,315) | \$47,321 | \$865,028 | \$818,053 | \$1,666,232 |
| Accounts Receivables (Net of Allowance for Uncollectibles) | 18,900 | 2,358 | 107,397 | 89,524 | 353 | 353 | 126,650 |
| Prepaid Items | 951 | 951 | | | | | 951 |
| Total Current Assets | 834,370 | 949,454 | 94,082 | 136,845 | 865,381 | 818,406 | 1,793,833 |
| Noncurrent Assets | | | | | | | |
| Capital Assets | | | | | | | |
| Infrastructure | 1,094,894 | 1,094,895 | 22,614 | 22,614 | 8,064,575 | 6,741,828 | 9,182,083 |
| Buildings | 51,404 | 51,404 | 35,788 | 35,787 | 130,129 | 130,129 | 217,321 |
| Machinery and Equipment | 266,839 | 266,839 | | | 411,188 | 342,967 | 678,027 |
| Vehicles | 217,479 | 158,343 | | | 64,164 | 40,246 | 281,643 |
| Total Capital Assets | 1,630,616 | 1,571,481 | 58,402 | 58,401 | 8,670,056 | 7,255,170 | 10,359,074 |
| Less Accumulated Depreciation | (1,080,018) | (955,406) | (21,662) | (13,066) | (4,532,038) | (4,228,767) | (5,633,718) |
| Total Capital Assets (Net of Accumulated Depreciation) | 550,598 | 616,075 | 36,740 | 45,335 | 4,138,018 | 3,026,403 | 4,725,356 |
| Total Noncurrent Assets | 550,598 | 616,075 | 36,740 | 45,335 | 4,138,018 | 3,026,403 | 4,725,356 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | | |
| GASB 68 | | | | | | | |
| Deferred Outflow of Resources-Contributions (after 12/31/15) | | 46,799 | | 4,939 | | 24,377 | 0 |
| Deferred Outflow of Resources-Contributions (after 12/31/16) | 48,746 | | 5,219 | | 24,404 | | 78,369 |
| Difference in projected and actual earnings | | 29,221 | | 3,084 | | 15,221 | 0 |
| Difference in expected and actual experience | 1,855 | | 199 | | 929 | | 2,983 |
| Difference in assumption changes | 0 | 4,469 | 0 | 472 | 0 | 2,328 | 0 |
| Total Deferred Outflow of Resources | 50,601 | 80,489 | 5,418 | 8,495 | 25,333 | 41,926 | 81,352 |
| TOTAL ASSETS | \$1,435,569 | \$1,646,018 | \$136,240 | \$190,675 | \$5,028,732 | \$3,886,735 | \$6,600,541 |
| (continued) | | | | | | | |

(continued)

| | Business-Type Activities Enterprise Funds | | | | | | |
|---|--|-------------|------------|------------|-------------|-------------|-------------|
| | Gas | Gas | Sanitation | Sanitation | Harbor | Harbor | Totals |
| | Current | Prior | Current | Prior | Current | Prior | Totals |
| | Year | Year | Year | Year | Year | Year | Current |
| | | | | | | | Year |
| LIABILITIES, FUND EQUITY AND OTHER CREDITS | | | | | | | |
| Liabilities | | | | | | | |
| Current Liabilities (Payable from Current Assets) | | | | | | | |
| Accounts Payable | \$44,181 | \$60,130 | \$8,228 | \$7,598 | \$76,356 | \$80,192 | \$128,765 |
| Compensated Absences | 12,117 | 17,282 | 1,310 | 1,165 | 7,861 | 8,958 | 21,288 |
| Deferred Revenue | 95 | 0 | 0 | 0 | 0 | 0 | 95 |
| Total Current Liabilities (Payable from Current Assets) | 56,393 | 77,412 | 9,538 | 8,763 | 84,217 | 89,150 | 150,148 |
| Current Liabilities (Payable from Restricted Assets) | | | | | | | |
| Consumer Meter Deposits | 143,544 | 140,879 | | | 14,300 | 13,200 | 157,844 |
| Total Current Liabilities Payable from Restricted Assets | 143,544 | 140,879 | 0 | 0 | 14,300 | 13,200 | 157,844 |
| Total Current Liabilities | 199,937 | 218,291 | 9,538 | 8,763 | 98,517 | 102,350 | 307,992 |
| Noncurrent Liabilities | | | | | | | |
| Accrued Other Post Employment Benefits | 95,399 | 73,201 | 10,211 | 7,716 | 47,759 | 38,549 | 153,369 |
| Net Pension Liability | 189,861 | 186,553 | 20,047 | 19,693 | 98,836 | 97,180 | 308,744 |
| Total Noncurrent Liabilities | 285,260 | 259,754 | 30,258 | 27,409 | 146,595 | 135,729 | 462,113 |
| Total Liabilities | 485,197 | 478,045 | 39,796 | 36,172 | 245,112 | 238,079 | 770,105 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | |
| GASB 68 | | | | | | | |
| Difference in expected and actual experience | | 23,861 | | 2,518 | | 12,429 | 0 |
| Difference in projected and actual earnings | 27 | | 3 | | 13 | | 43 |
| Total Deferred Inflow of Resources | 27 | 23,861 | 3 | 2,518 | 13 | 12,429 | 43 |
| Invested in Capital Assets, Net of Related Debt | 550,598 | 616,075 | 36,740 | 45,335 | 4,138,018 | 3,026,403 | 4,725,356 |
| Unrestricted | 399,747 | 528,037 | 59,701 | 106,650 | 645,589 | 609,824 | 1,105,037 |
| Total Net Position | \$950,345 | \$1,144,112 | \$96,441 | \$151,985 | \$4,783,607 | \$3,636,227 | \$5,830,393 |

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

Business-Type Activities
 Enterprise Funds

| | Gas Current Year | Gas Prior Year | Sanitation Current Year | Sanitation Prior Year | Harbor Current Year | Harbor Prior Year | Totals Current Year |
|---|------------------------|----------------------|-------------------------------|-----------------------------|---------------------------|-------------------------|---------------------------|
| OPERATING REVENUES: | | | | | | | |
| Charges for Services | \$986,334 | \$936,169 | \$1,064,428 | \$994,172 | \$596,803 | \$602,349 | \$2,647,565 |
| Total Operating Revenues | 986,334 | 936,169 | 1,064,428 | 994,172 | 596,803 | 602,349 | 2,647,565 |
| OPERATING EXPENSES: | | | | | | | |
| Personal Services | 556,335 | 485,874 | 59,865 | 54,218 | 270,678 | 256,484 | 886,878 |
| Supplies and Other Services and Charges | 566,217 | 411,861 | 1,051,953 | 902,562 | 197,865 | 180,993 | 1,816,035 |
| Depreciation | 65,477 | 63,922 | 8,596 | 6,712 | 303,271 | 268,315 | 377,344 |
| Total Operating Expenses | 1,188,029 | 961,657 | 1,120,414 | 963,492 | 771,814 | 705,792 | 3,080,257 |
| Operating Income (Loss) | (201,695) | (25,488) | (55,986) | 30,680 | (175,011) | (103,443) | (432,692) |
| NON-OPERATING REVENUES (EXPENSES): | | | | | | | |
| Interest Income | 7,708 | 4,551 | 442 | 483 | 7,644 | 3,361 | 15,794 |
| Sale of Fixed Assets | 0 | 1,975 | | | | | 0 |
| Federal and State Grants | 220 | 197 | | | | | 220 |
| Total Non-Operating Revenues (Expenses) | 7,928 | 6,723 | 442 | 483 | 7,644 | 3,361 | 16,014 |
| Income Before Transfers | (193,767) | (18,765) | (55,544) | 31,163 | (167,367) | (100,082) | (416,678) |
| Transfers In (Out) - Net | 0 | 0 | 0 | 0 | 1,314,747 | 0 | 1,314,747 |
| Change in Net Position | (193,767) | (18,765) | (55,544) | 31,163 | 1,147,380 | (100,082) | 898,069 |
| Total Net Position - Beginning | 1,144,112 | 1,162,877 | 151,985 | 120,822 | 3,636,227 | 3,736,309 | 4,932,324 |
| Total Net Position - Ending | \$950,345 | \$1,144,112 | \$96,441 | \$151,985 | \$4,783,607 | \$3,636,227 | \$5,830,393 |

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Business-Type Activities
Enterprise Funds

| | Gas Current Year | Gas Prior Year | Sanitation Current Year | Sanitation Prior Year | Harbor Current Year | Harbor Prior Year | Totals Current Year |
|---|------------------------|----------------------|-------------------------------|-----------------------------|---------------------------|-------------------------|---------------------------|
| Cash Flows from Operating Activities | | | | | | | |
| Receipts from Customers and Users | \$972,552 | \$942,349 | \$1,046,555 | \$987,132 | \$597,903 | \$602,849 | \$2,617,010 |
| Payments to Suppliers | (559,968) | (389,395) | (1,048,828) | (986,982) | (192,491) | (193,303) | (1,801,287) |
| Payments to Employees | (552,138) | (489,593) | (58,804) | (55,475) | (265,942) | (263,081) | (892,995) |
| Net Cash Provided (Used) by Operating Activities | (139,554) | 63,361 | (61,077) | (55,325) | 139,470 | 146,465 | (77,272) |
| Cash Flows from Non-Capital and Related Financing Activities | | | | | | | |
| Federal Grants and Contributions | 220 | 197 | 0 | 0 | 0 | 0 | 220 |
| Sale of Fixed Assets | 0 | 1,975 | 0 | 0 | 0 | 0 | 0 |
| Transfers In/Out | 0 | 0 | 0 | 0 | 1,314,747 | 0 | 1,314,747 |
| Net Cash Provided (Used) by Non-Capital and Related Financing Activities | 220 | 2,172 | 0 | 0 | 1,314,747 | 0 | 1,314,967 |
| Cash Flows from Capital and Related Financing Activities | | | | | | | |
| Purchases of Capital Assets | 0 | (155,799) | (1) | (22,614) | (1,414,886) | (8,151) | (1,414,887) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | 0 | (155,799) | (1) | (22,614) | (1,414,886) | (8,151) | (1,414,887) |
| Cash Flows from Investing Activities | | | | | | | |
| Interest Received | 7,708 | 4,551 | 442 | 483 | 7,644 | 3,361 | 15,794 |
| Net Cash Provided (Used) by Investment Activities | 7,708 | 4,551 | 442 | 483 | 7,644 | 3,361 | 15,794 |
| Net Increase (Decrease) in Cash Equivalents | (131,626) | (85,715) | (60,636) | (77,456) | 46,975 | 141,675 | (145,287) |
| Cash and Cash Equivalents at Beginning of Year | 946,145 | 1,031,860 | 47,321 | 124,777 | 818,053 | 676,378 | 1,811,519 |
| Cash and Cash Equivalents at End of Year | \$814,519 | \$946,145 | (\$13,315) | \$47,321 | \$865,028 | \$818,053 | \$1,666,232 |

(continued)

(continued)

Business-Type Activities
Enterprise Funds

| | Gas | Gas | Sanitation | Sanitation | Harbor | Harbor | Totals |
|---|-------------|------------|------------|------------|-------------|-------------|------------|
| | Current | Prior | Current | Prior | Current | Prior | Totals |
| | Year | Year | Year | Year | Year | Year | Current |
| | | | | | | | Year |
| Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities: | | | | | | | |
| Operating Income (Loss) | (\$201,695) | (\$25,488) | (\$55,986) | \$30,680 | (\$175,011) | (\$103,443) | (432,692) |
| Adjustments to Reconcile to Net Cash Flow | | | | | | | |
| Non-Cash Items Included in Net Income | | | | | | | |
| Depreciation | 65,477 | 63,922 | 8,596 | 6,712 | 303,271 | 268,315 | 377,344 |
| Changes in Current Items | | | | | | | |
| Decrease (Increase) in Accounts Receivable | (16,542) | (1,135) | (17,873) | (7,040) | 0 | 0 | (34,415) |
| Decrease (Increase) Deferred Outflow of Resources-Contributions | (1,947) | (6,699) | (280) | (706) | (27) | (3,486) | |
| Decrease (Increase) Difference in projected and actual earnings | 29,248 | (24,251) | 3,087 | (2,559) | 15,234 | (12,632) | |
| Decrease (Increase) Difference in assumption changes | 4,469 | (4,469) | 472 | (472) | 2,328 | (2,328) | |
| Decrease (Increase) Difference in expected and actual experience | (25,716) | 23,358 | (2,717) | 2,465 | (13,358) | 12,167 | |
| Decrease (Increase) in Prepaid Items | 0 | (500) | 0 | 0 | 0 | 0 | 0 |
| Increase (Decrease) in Accounts Payable | (15,949) | 22,966 | 630 | (84,420) | (3,836) | (12,310) | (19,155) |
| Increase (Decrease) Compensated Absences | (5,165) | 7,163 | 145 | 270 | (1,097) | 347 | (6,117) |
| Increase (Decrease) Accrued Wages Payable | | (8,315) | 0 | (1,257) | 0 | (5,610) | 0 |
| Increase (Decrease) Deferred Revenue | 95 | | | | | | 95 |
| Increase (Decrease) in Consumer Meter Deposits | 2,665 | 7,315 | 0 | 0 | 1,100 | 500 | 3,765 |
| Increase (Decrease) in Net pension Liability | 3,308 | 9,494 | 354 | 1,002 | 1,656 | 4,945 | |
| Increase (Decrease) in Accrued Other Post Employment Benefits | 22,198 | 0 | 2,495 | 0 | 9,210 | 0 | 33,903 |
| Net Cash Provided (Used) by Operating Activities | (\$139,554) | \$63,361 | (\$61,077) | (\$55,325) | \$139,470 | \$146,465 | (\$77,272) |
| Noncash Investing, Capital, and Financing Activities: | | | | | | | |
| Sale of Fixed Assets | \$0 | \$1,975 | | | | | \$0 |
| Federal and State Grants | 220 | 197 | | | | | 220 |
| Total Noncash Investing, Capital, and Financing Activities | \$220 | \$2,172 | \$0 | \$0 | \$0 | \$0 | \$220 |

Note: The above funds are all Enterprise Funds.

City of Port Aransas, Texas
Notes to the Financial Statements
September 30, 2017

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Port Aransas, Texas (the “City”) was incorporated as a general law city in November 1955. In August 1978 the City adopted the Mayor-Council-Manager form of government. The principal services accounted for as general governmental functions include public safety, health, streets, sanitation, park and recreation, planning, zoning and general administrative services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United State of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant accounting principles and practices are discussed in subsequent sections of these Notes.

Blended Component Unit

The Port Aransas Recreational Development Corporation (PARDC) was chartered on November 27, 1995. The public purposes for which the Corporation is organized and for which it may issue bonds are as follows: construction, development, expansion, maintenance, operation and promotion of recreational and sports fields and stadiums, swimming pool, sports complexes, and related facilities and improvements. The Board of Directors consisting of seven members is appointed by the City Council. PARDC’s main source of revenue is the additional one-half cent sales tax approved by voters.

Although they are legally separate from the City, the Port Aransas Recreational Development Corporation (PARDC) is reported as if they are a part of the primary government because their primary purpose is to provide services to the citizens of the City. The general fund of this entity is reported as a special revenue fund of the City. Separate financial statements are not prepared for the blended component unit.

B. Government-Wide and Fund Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, those transactions between governmental and business-type activities have not been eliminated. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the Government-Wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. (The City's deferred outflows of resources and deferred inflows of resources are noncurrent.) The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when

received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, hotel/motel taxes, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The government reports the following major governmental 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.

The Advertising Fund accounts for the portion of occupancy taxes that are required to be spent for advertising and promoting the City.

The Beach Cleaning Fund accounts for the portion of sales taxes required to provide beach cleaning and safety.

The Hotel-Motel / Facility Funds account for the portion of sales taxes and hotel/motel taxes that the Council requires to be set aside for recreational development.

The Hurricane Recovery fund is used to administer FEMA monies for reconstruction and cleanup within the City of Port Aransas.

The Construction fund is used to administer bond monies for various construction projects.

C. Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and for the non-major funds aggregated. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position present increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility Fund (Gas, Sanitation, and Harbor Rental) are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The government reports the following major proprietary funds: The Gas Fund accounts for the activities of the gas distribution system. The Sanitation Fund accounts for the garbage collection activities of the City. The Harbor Fund accounts for activities associated with harbor rental and maintenance.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The government'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.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as fair value of the pool shares.

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

2. Receivables and Payables

Activities 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 trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable allowance in excess of 30 days is equal to 5 percent of outstanding trade accounts receivable at September 30, 2017, the trade accounts receivable allowance in excess of 60 days is equal to 10 percent of outstanding trade accounts receivable at September 30, 2017, the trade accounts receivable allowance in excess of 90 days is equal to 25 percent of outstanding trade accounts receivable at September 30, 2017, and the trade accounts receivable allowance in excess of 120 days is equal to 50 percent of outstanding trade accounts receivable at September 30, 2017. The property tax receivable allowance is equal to 10 percent of current outstanding property taxes at September 30, 2017, and 10 percent of delinquent outstanding property taxes at September 30, 2017. Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Restricted Assets*

Certain proceeds are set aside in the general fund for future projects and are maintained in a separate bank account. The restricted assets are as follows:

| Type | Governmental Activities |
|----------------|----------------------------|
| Public Service | \$65,741 |
| | <u>\$65,741</u> |

5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City during the current fiscal year was \$466,171. Of this amount, \$-0- was included as part of the cost of capital assets. Significant construction activity during the year was various street, ramp, and dock construction and paving projects.

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-------------------------|--------------|
| Buildings | 50 |
| Improvements other than | |
| Buildings | 20 |
| Gas Pipelines | 30 |
| Infrastructure | 50 |
| Runways and Related | |
| Improvements | 50 |
| Vehicles | 5 |
| Machinery and Equipment | 5 |
| Office Furniture | 5 |

6. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, governmental funds and proprietary financial statements.

7. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Balances – Governmental Funds

As of September 30, 2017, fund balances of the governmental funds are classified as follows:

Non-Spendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — amounts that can be used only for specific purposes determined by a formal action of City Council. City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by City Council.

Unassigned — all other spendable amounts.

As of September 30, 2017, fund balances are composed of the following:

| | |
|------------------------|---------------------|
| Fund Balances: | |
| Non-Spendable | |
| Inventories | \$15,249 |
| Restricted | |
| Construction | 4,322,071 |
| Culture and Recreation | 1,767,983 |
| Debt Service | 320,670 |
| Economic Development | 3,165,209 |
| Public Safety | 16,995 |
| Committed | |
| Construction | 224,037 |
| Culture and Recreation | 152,209 |
| Public Safety | 65,741 |
| Public Transportation | 468,534 |
| Unassigned | 7,540,445 |
| Total Fund Balance | <u>\$18,059,143</u> |

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council or the finance committee has provided otherwise in its commitment or

assignment actions.

In fiscal year 2011, the City Council adopted a minimum fund balance policy for the General Fund. The policy requires the unassigned fund balance at fiscal year end to be at least equal to 25 to 50 percent of the subsequent year's budgeted General Fund expenditures.

9. Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. It is deferred under GASB 68.

In addition to liabilities, the statement of financial position will sometimes 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 a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government only has one item that qualifies for reporting in this category. It is deferred under GASB 68.

The City reports unearned revenue on its fund financial statements. Unearned revenues arise when potential revenue does not meet both the "measureable" and "available" criteria for recognition in the current period (fund financial statements). Unearned revenues also arise when resources are unearned by the City and received before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures (fund financial statements and government-wide financial statements). In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for unearned revenue is removed from the applicable financial statement and revenue is recognized. Pursuant to GASB 65 we have included deferred ad valorem taxes as deferred inflows in the fund financial statements.

11. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

II. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position

The governmental fund balance sheet includes reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this \$20,659,183 difference are as follows:

| | |
|--------------------------------|---------------------|
| Capital Lease | \$738,844 |
| Bonds Payable | 14,635,000 |
| Bond Premium | 382,925 |
| Other Post Employment Benefits | 1,573,590 |
| Net Pension Liability | 2,986,017 |
| Accrued Interest Payable | 95,026 |
| Compensated Absences | 247,781 |
| | <u>\$20,659,183</u> |

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$27,950,547 difference are as follows:

| | |
|--|----------------------------|
| Capital assets not being depreciated | \$6,156,262 |
| Capital assets being depreciated | 48,741,478 |
| Depreciation expense | (26,947,193) |
| Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in Net Position of governmental activities | <u><u>\$27,950,547</u></u> |

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.") The details of this \$152,973 difference are as follows:

| | |
|---------------------------------|-------------------------|
| Property Taxes Receivable | \$161,025 |
| Allowance for Doubtful Accounts | <u>(8,052)</u> |
| Net | <u><u>\$152,973</u></u> |

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that "Municipal fines and fees receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.") The details of this \$1,111,092 difference are as follows:

| | |
|---|--------------------|
| Fines and Fees Receivable | \$536,198 |
| Allowance for Doubtful Accounts | (259,441) |
| Deferred Outflow of Resources-Contributions (after 12/31/16) | 804,170 |
| Deferred Outflow-Difference in expected and actual experience | 30,607 |
| Deferred Inflow-Difference in projected and actual earnings | (442) |
| Net | <u>\$1,111,092</u> |

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this (\$423,479) difference are as follows:

| | |
|---|---------------------------|
| Capital Outlay - Additions - Not Being Depreciated | \$5,177 |
| Capital Outlay - Additions - Being Depreciated | 2,335,172 |
| Capital Outlay - Deletions | 0 |
| Depreciation Expense | (2,763,828) |
| Net Adjustment to Increase Net Changes in Fund Balances - Total Governmental Funds to Arrive at Changes in Net Position of Governmental Activities | <u><u>(\$423,479)</u></u> |

III. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except for the Library fund. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the city council. The legal level of budgetary control is the fund; whereby budgeted expenditures may not exceed budgeted revenues plus beginning unrestricted equity. The supplemental budgetary appropriations made in the general fund were not material.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

B. Excess of Expenditures over Appropriations

For the year ended September 30, 2017, expenditures did not exceed appropriations in any funds.

C. Deficit Fund Equity

There were no deficit fund balances for any fund at September 30, 2017 except in the Hurricane Recovery fund which had a negative fund balance of \$278,959. This deficit is expected to be liquidated with future resources of the fund.

IV. Detailed Notes on All Funds

A. Deposits and Investments

Legal and Contractual Provisions Governing Deposits and Investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments:

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government has a deposit policy for custodial credit risk. As of September 30, 2017, the government's bank balance of \$384,048 in the City depository (Value Bank) was not exposed to custodial credit risk because it was fully insured and collateralized with securities held by the pledging financial institution's trust department or agent, in the government's name. The fair market value of the securities pledged is \$1,238,672 and the FDIC coverage is \$250,000. The City also had a bank balance of \$600,306 in American Bank at September 30, 2017 and was fully insured and collateralized with securities held by the pledging financial institution's trust department or agent, in the government's name. The fair market value of the securities pledged is \$1,178,515 and the FDIC coverage is \$250,000. The City also has monies (\$1,227,541) with Financial Northeastern Securities, Inc. (a Brokerage) which is a third-party holder of secured certificates of deposit. The book balance of the City's bank balances at September 30, 2017 is \$2,064,198.

Interest rate risk: In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than twelve months.

Credit risk: State law limits investments in commercial paper and corporate bonds to the top two rating issued by nationally recognized statistical rating organizations (NRSROs). It is the government's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of September 30, 2017, the local investment pools Texpool (73% of portfolio) and Texas Class (27% of portfolio) were rated AAAM by Standard and Poor's.

Concentration of credit risk: The City places no limit on the amount the City may invest in any one issuer. 73 percent of the City's investments are in an insured Texpool account and 27 percent are in an insured Texas Class account.

Custodial credit risk – investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2017, the City had \$18,536,317 in investments in insured TexPool and Texas Class accounts.

As of September 30, 2017, the government had the following investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Maturity (Years)</u> | <u>Weighted Average</u> |
|------------------------|-------------------|-------------------------|-------------------------|
| TexPool Funds | \$13,458,916 | Less than 1 year | Less than 1 year |
| Texas Class Funds | \$ 5,077,401 | Less than 1 year | Less than 1 year |

The City participates in two Local Government Investment Pools: TexPool and Texas Class. The City invests in TexPool and Texas Class to provide its liquidity needs. They are local government investment pools established in conformity with the Inter-local Cooperation Act Chapter 791 of the Texas Government Code and the Public Investment Act Chapter 2256 of the Code. TexPool and Texas Class are 2(a) 7 like funds meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are adjusted daily and the fund seeks to maintain a constant net asset value of \$1.00, although this cannot be guaranteed. The City considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder short of a significant change in value. The TexPool and Texas Class funds are within the Governmental Activities.

B. Receivables

Receivables at year end for the government's individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | General | Advertising | Beach Cleaning | Hurricane Recovery | Construc- tion | Airport | Debt Service | Recreat- ional Development- | Gas | Sani- tation | Harbor | Total |
|---------------------------------------|-----------|-------------|-------------------|-----------------------|-------------------|----------|-----------------|-----------------------------------|----------|-----------------|--------|-------------|
| <u>Receivables</u> | | | | | | | | | | | | |
| Taxes - Ad Valorem | \$130,499 | | | | | | \$30,526 | | | | | \$161,025 |
| Taxes - Sales | 99,667 | | | | | | | 49,833 | | | | 149,500 |
| Intergovernmental | 15,369 | | | 3,185,000 | 74,203 | 16,913 | | | | | | 3,291,485 |
| Accounts | | | | | | | | | 18,900 | 107,397 | | 126,297 |
| Municipal Court Fines | 332,892 | | | | | | | | | | | 332,892 |
| EMS Fees | 203,306 | | | | | | | | | | | 203,306 |
| Other | 4,469 | 2,500 | 5,833 | | | | | | | | 353 | 13,155 |
| Gross Receivables | 786,202 | 2,500 | 5,833 | 3,185,000 | 74,203 | 16,913 | 30,526 | 49,833 | 18,900 | 107,397 | 353 | 4,277,660 |
| Less: Allowance for Uncollectibles | 265,966 | | | | | | 1,527 | | | | | 267,493 |
| Net Total Receivables | \$520,236 | \$2,500 | \$5,833 | \$3,185,000 | \$74,203 | \$16,913 | \$28,999 | \$49,833 | \$18,900 | \$107,397 | \$353 | \$4,010,167 |

The receivables are expected to be collected within one year.

C. Capital Assets

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

| Governmental Activities: | Beginning | | | Ending |
|--|---------------------|--------------------|----------------|---------------------|
| | Balances | Increases | Decreases | Balances |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$5,664,130 | \$5,177 | \$0 | \$5,669,307 |
| Construction in Progress | 486,955 | 0 | | 486,955 |
| Total Capital Assets Not Being Depreciated | 6,151,085 | 5,177 | 0 | 6,156,262 |
| Capital assets being depreciated: | | | | |
| Infrastructure | 32,273,852 | 725,496 | 0 | 32,999,348 |
| Buildings | 4,719,538 | 521,118 | 0 | 5,240,656 |
| Machinery and Equipment | 5,183,575 | 828,527 | 130,263 | 5,881,839 |
| Vehicles | 4,587,745 | 260,031 | 228,141 | 4,619,635 |
| Total Capital Assets Being Depreciated | 46,764,710 | 2,335,172 | 358,404 | 48,741,478 |
| Less Accumulated Depreciation for: | | | | |
| Infrastructure | 14,115,447 | 1,684,289 | 0 | 15,799,736 |
| Buildings | 4,265,098 | 156,581 | 0 | 4,421,679 |
| Machinery and Equipment | 3,976,275 | 500,361 | 130,263 | 4,346,373 |
| Vehicles | 2,184,949 | 422,597 | 228,141 | 2,379,405 |
| Total Accumulated Depreciation | 24,541,769 | 2,763,828 | 358,404 | 26,947,193 |
| Total Capital Assets Being Depreciated, Net | 22,222,941 | (428,656) | 0 | 21,794,285 |
| Governmental Activities Capital Assets, Net | \$28,374,026 | (\$423,479) | \$0 | \$27,950,547 |

| Business-Type Activities: | Beginning Balances | Increases | Decreases | Ending Balances |
|---|-----------------------|--------------------|------------|--------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Construction in Progress | \$0 | \$0 | \$0 | \$0 |
| Total Capital Assets Not Being Depreciated | 0 | 0 | 0 | 0 |
| Capital Assets Being Depreciated: | | | | |
| Infrastructure | 7,859,337 | 1,322,747 | 0 | 9,182,084 |
| Buildings | 217,320 | 23,919 | 0 | 241,239 |
| Machinery and Equipment | 609,806 | 68,220 | 0 | 678,026 |
| Vehicles | 198,589 | | 0 | 198,589 |
| Total Capital Assets Being Depreciated | 8,885,052 | 1,414,886 | 0 | 10,299,938 |
| Less Accumulated Depreciation for: | | | | |
| Infrastructure | 4,683,974 | 332,922 | 0 | 5,016,896 |
| Buildings | 68,713 | 10,550 | 0 | 79,263 |
| Machinery and Equipment | 298,362 | 13,093 | 0 | 311,455 |
| Vehicles | 146,190 | 20,779 | 0 | 166,969 |
| Total Accumulated Depreciation | 5,197,239 | 377,344 | 0 | 5,574,583 |
| Total Capital Assets Being Depreciated, Net | 3,687,813 | 1,037,542 | 0 | 4,725,355 |
| Business-Type Activities Capital Assets, Net | \$3,687,813 | \$1,037,542 | \$0 | \$4,725,355 |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|--|--------------------|
| Governmental Activities | |
| General Administration | \$1,904,414 |
| Public Facilities | 49,725 |
| Public Safety | 440,169 |
| Public Transportation | 459 |
| Culture and Recreation | 369,061 |
| Total Depreciation Expense - Governmental Activities | \$2,763,828 |
| Business-Type Activities | |
| Gas | \$65,477 |
| Sanitation | 8,596 |
| Harbor | 303,271 |
| Total Depreciation Expense - Business-Type Activities | \$377,344 |

Construction Commitments

Significant construction activity during the year was various street, ramp, and dock construction and paving projects.

D. Interfund Receivables, Payables, and Transfers

There were no interfund balances as of September 30, 2017.

Inter-fund transfers:

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

In the year ended September 30, 2017, the government made the following one-time transfers:

| INTER-GOVERNMENTAL | | TRANSFER TO | | | | | |
|---------------------------|---------|-----------------------------|-------------------------|-------------------|-----------------|-----------|--|
| <u>FUNDS</u> | GENERAL | HOTEL/ MOTEL FACILITY | NATURE PRE- SERVE | RECREA- TIONAL | DEBT SERVICE | TOTAL | |
| TRANSFER FROM | FUND | FUND | FUND | FUND | FUND | TOTAL | |
| ADVERTISING FUND | | \$347,950 | | | | \$347,950 | |
| HOTEL/MOTEL FACILITY FUND | | | 259,853 | | | 259,853 | |
| IMPACT FEES FUND | | | | | 150,000 | 150,000 | |
| PARK DEDICATION FEES FUND | | | | 114,573 | | 114,573 | |
| HARBOR FUND | 8,000 | | | | | 8,000 | |
| TOTALS | \$8,000 | \$347,950 | \$259,853 | \$114,573 | \$150,000 | \$880,376 | |

| INTRA-GOVERNMENTAL | | TRANSFER TO | |
|---------------------------|-------------|-------------|--|
| <u>FUNDS</u> | HARBOR | | |
| TRANSFER FROM | FUND | TOTAL | |
| HOTEL/MOTEL FACILITY FUND | \$1,322,747 | \$1,322,747 | |
| TOTALS | \$1,322,747 | \$1,322,747 | |

The above transfers were for operating capital except for the debt service fund which was for debt service.

E. Leases

Operating Leases

The City had a land lease with the General Land Office under a noncancellable operating lease. Total costs for this lease was \$37,080 for the year ended September 30, 2017. The future minimum lease payments for this lease are as follows:

| <u>Year Ending Sept. 30</u> | <u>Amount</u> |
|-----------------------------|------------------|
| 2018 | \$ 18,930 |
| 2019 | 19,936 |
| 2020 | 17,633 |
| 2021 | <u>5,500</u> |
| Total | <u>\$ 61,999</u> |

Rent expenditures were \$0 for the year ended September 30, 2017. Sublease rental income was \$0 for the year ended September 30, 2017.

F. Long-Term Debt

General Obligation Bonds and Revenue Bonds

The government issues Certificates of Obligation and General Obligation Bonds to provide funds for the acquisition and construction of major capital facilities. Certificates of Obligation and General Obligation bonds have been issued for governmental activities. The Certificates of Obligation bonds are direct obligations and pledge the full faith and credit of the government. The original amount of the Certificates of Obligation and General Obligation Bonds issued was \$21,005,000.

Certificates of Obligation and General Obligation bonds currently outstanding are as follows:

| <u>Purpose</u> | <u>Rates</u> | <u>Amount</u> |
|---------------------------------------|--------------|----------------------|
| Governmental activities – Series 2017 | 2.70-4.00 | \$4,380,000 |
| Governmental activities – Series 2014 | 2.49 | \$1,400,000 |
| Governmental activities – Series 2007 | 4.00 | \$1,095,000 |
| Governmental activities – Series 2009 | 3.00-4.125 | \$2,685,000 |
| Governmental activities – Series 2012 | 1.75-2.125 | \$4,680,000 |
| Governmental activities – Series 2013 | 1.49 | \$ 395,000 Refunding |

Annual debt service requirements to maturity for general obligation bonds are as follows:

| Year Ending September 30, | Governmental Activities | |
|------------------------------|-------------------------|--------------------|
| | Principal | Interest |
| 2018 | \$1,400,000 | \$477,969 |
| 2019 | 1,510,000 | 367,958 |
| 2020 | 1,355,000 | 323,002 |
| 2021 | 1,410,000 | 277,876 |
| 2022 | 1,465,000 | 230,937 |
| 2023-2027 | 5,505,000 | 605,418 |
| 2028-2032 | 1,990,000 | 127,794 |
| TOTALS | <u>\$14,635,000</u> | <u>\$2,410,954</u> |

The pledged security for the above bonds is as follows:

| | |
|---------------------------------------|--|
| Governmental activities – Series 2017 | Ad Valorem Taxes |
| Governmental activities – Series 2014 | Ad Valorem Taxes |
| Governmental activities – Series 2007 | Ad Valorem Taxes |
| Governmental activities – Series 2009 | Ad Valorem Taxes |
| Governmental activities – Series 2012 | Ad Valorem Taxes |
| Governmental activities – Series 2013 | Ad Valorem Taxes and Hotel/Motel Taxes |

Capital Leases

The government has entered into a lease agreement as lessee for financing the acquisition of two ambulances, a fire pumper truck, and a ladder truck. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of its inception date. The pledged security for the capital lease is the equipment financed.

| ASSET | Governmental Activities | | | TOTAL |
|-----------------------------|----------------------------|-------------------------|-----------|-------------|
| | Fire Ladder Truck | Fire Pumper Truck | Ambulance | |
| COST | \$924,357 | \$539,051 | \$145,250 | \$1,608,658 |
| ACCUMULATED DEPRECIATION | (924,357) | (231,022) | (83,000) | (1,238,379) |
| NET ASSET | \$0 | \$308,029 | \$62,250 | \$370,279 |

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2017, were as follows:

| YEAR | Governmental Activities | | | Total |
|---|----------------------------|-------------------------|-----------|-----------|
| | Fire Ladder Truck | Fire Pumper Truck | Ambulance | |
| 2018 | \$116,876 | \$61,091 | \$31,145 | \$209,112 |
| 2019 | 116,876 | 61,091 | | 177,967 |
| 2020 | 116,876 | 61,091 | | 177,967 |
| 2021 | | 61,091 | | 61,091 |
| 2022 | | 61,091 | | 61,091 |
| 2023 | | 61,091 | | 61,091 |
| 2024 | | 61,091 | | 61,091 |
| Total Minimum Lease Payments | 350,628 | 427,637 | 31,145 | 809,410 |
| Less: Amount Representing Interest | 29,401 | 40,042 | 1,123 | 70,566 |
| Present Value of Net Minimum Lease Payments | \$321,227 | \$387,595 | \$30,022 | \$738,844 |

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2017, was as follows:

| | <u>Beginning</u> <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending</u> <u>Balance</u> | <u>Due Within</u> <u>One Year</u> | <u>Due After</u> <u>One Year</u> |
|----------------------------------|------------------------------------|--------------------|--------------------|---------------------------------|--------------------------------------|-------------------------------------|
| <u>Governmental Activities:</u> | | | | | | |
| General Obligation Bonds | \$11,440,000 | \$4,380,000 | \$1,185,000 | \$14,635,000 | \$1,400,000 | \$13,235,000 |
| Bond Premium - Series 2009 | 157,921 | 242,105 | 17,101 | 382,925 | | 382,925 |
| Total Bonds Payable | <u>11,597,921</u> | <u>4,622,105</u> | <u>1,202,101</u> | <u>15,017,925</u> | <u>1,400,000</u> | <u>13,617,925</u> |
| Capital Lease Purchases | 943,101 | | 204,257 | 738,844 | 183,734 | 555,110 |
| OPEB Liability | 1,153,599 | 419,991 | | 1,573,590 | | 1,573,590 |
| Net Pension Liability | 2,931,452 | 54,565 | | 2,986,017 | | 2,986,017 |
| Compensated Absences | 232,596 | 247,781 | 232,596 | 247,781 | 247,781 | 0 |
| Total Other | <u>5,260,748</u> | <u>722,337</u> | <u>436,853</u> | <u>5,546,232</u> | <u>431,515</u> | <u>5,114,717</u> |
| Total Governmental Activities | <u>16,858,669</u> | <u>5,344,442</u> | <u>1,638,954</u> | <u>20,564,157</u> | <u>1,831,515</u> | <u>18,732,642</u> |
| <u>Business-Type Activities:</u> | | | | | | |
| OPEB Liability | 119,466 | 33,903 | | 153,369 | | 153,369 |
| Net Pension Liability | 303,426 | 5,318 | | 308,744 | | 308,744 |
| Compensated Absences | 27,405 | 21,288 | 27,405 | 21,288 | 21,288 | 0 |
| Total Business-Type Activities | <u>450,297</u> | <u>60,509</u> | <u>27,405</u> | <u>483,401</u> | <u>21,288</u> | <u>462,113</u> |
| Grand Total | <u>\$17,308,966</u> | <u>\$5,404,951</u> | <u>\$1,666,359</u> | <u>\$21,047,558</u> | <u>\$1,852,803</u> | <u>\$19,194,755</u> |

The government-wide statement of net position includes \$1,852,803 as "noncurrent liabilities, due within one year". There was no interest capitalized in the Capital assets but rather was expended in the financial statements. Note: Compensated absences are considered to be short term liabilities. The governmental activities bonds Series 2013 is serviced by the Hotel Motel Special Fund, the Series 2007, 2009, 2012, 2014, and 2017 are serviced by the Debt Service Fund, the capital leases are serviced by the General Fund and the Beach fund, and the compensated absences are serviced by the General Fund. The Business-type activities compensated absences are serviced by the Gas Fund, the Sanitation Fund, and the Harbor Fund.

For a discussion of other post employee benefits please see part V E in these notes.

G. Segment information

Because the gas fund, the sanitation fund, and the harbor fund are reported as major funds in the fund financial statements, separate segment disclosures for them are not required.

V. Other Information

A. Risk management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. *However, please see Note F below.*

Changes in the balances of claims liabilities during the past two years are as follows:

| | Year ended <u>09/30/16</u> | Year ended <u>09/30/17</u> |
|---|-------------------------------|-------------------------------|
| Unpaid claims, beginning of fiscal year | \$ -0- | \$ -0- |
| Incurred claims (including IBNRs) | | |
| Claim payments | <u>-0-</u> | <u>-0-</u> |
| Unpaid claims, end of fiscal year | <u>\$ -0-</u> | <u>\$ -0-</u> |

General Liability Insurance

The City is insured for general, police officers and automobile liability. Expenditures for self-insured liabilities are accounted for in the General Fund, which will pay any liabilities incurred.

The City has joined together with other governments in the Texas Municipal League Intergovernmental Risk Pool (TML). The City pays an annual premium to TML for auto vehicle insurance coverage. The agreement with TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 to \$1,000,000 for each insurance event. The City anticipates no contingent losses.

TML has published its own financial report that can be obtained from the Texas Municipal League Intergovernmental Risk Pool, Austin, Texas.

The City carries commercial fidelity bonds for elected officials and for management.

Property and Casualty Insurance

Property, casualty, mobile equipment, boiler and machinery insurance is provided by TML.

Workers' Compensation Insurance

The City insures against workers' compensation claims through TML.

Group Health and Life Insurance

The City maintains a group health insurance plan for active employees and their eligible dependents. Costs are recorded in the fund from which the employees' compensation is paid.

Unemployment Compensation Insurance

The City self-insures for unemployment compensation claims through an agreement with the Texas Workforce Commission (TWC). Under the agreement, TWC administers all claims and is reimbursed by the City for claims incurred plus administrative charges.

B. Subsequent Events

October 19, 2017

- Approved Resolution No. 2017-R72 approving the hotel/motel tax agreement with the Chamber of Commerce and Tourist Bureau from the occupancy tax receipts for the period commencing 10/1/2017 and ending 9/30/2018; estimated disbursement to the Chamber is a total of 3% of the total Hotel Occupancy Taxes collected by the City or \$1,971,500.00; directing that such funds be transferred by the City to the Chamber monthly as tax revenues are received by the City.

November 6, 2017 – Special Meeting

- Approved Resolution No. 2017-R73, approving change order #1 for the Library Expansion Project Account #050-64320 to KJM Commercial, Inc. d/b/a Victory Building Team, in the amount of \$138,718.00.

January 5, 2017 – Special Meeting

- Approved Resolution No. 2018-R03 authorizing the purchase of a 2017 Ford 550 V-10 Truck with 1500-gallon aluminum restroom tank/pumping system from Flowmark Vacuum Trucks for a total purchase price of \$81,815.00.

January 18, 2018

- Approved Resolution No. 2018-R07 awarding RFP for Hurricane Harvey Marina Reconstruction and repairs to Bellingham Marine Industries, Inc. for a base bid of \$3,681,488.00, plus additive alternates 1-5 of \$1,107,98.00, for a total of \$4,788,886.00.

February 1, 2018 – Special Meeting

- Approved Resolution No. 2018-R12 awarding RFP to Flowmark Vacuum Trucks for a bid of \$73,700.00 for a new 2017 Ford 550 with a 1500-gallon deluxe aluminum, restroom tank/pumping system for the Beach Operations Department.

February 22, 2018

- Approved Resolution No. 2018- R19 approving the RFP for the installation and FAA Commissioning of an Automated Weather Observation System III PT (AWOS III PT) at the Mustang Beach Airport to replace existing system damaged by Hurricane Harvey to DB Transportation Services, LLC in the amount of \$159,894.00.
- Approved Resolution No. 2018-R24 awarding the RFP for providing and installing baseball field lighting at the community park from Techline Sports Lighting, LLC in the amount of \$460,000.00.

March 22, 2018

- Approved Resolution No. 2018-R33 approving an option agreement for the purchase of lots 1 through 10 in block 63 and lots 1 through 10 in block 64, Aransas Holding Company Section C from the Nueces County Water Control and Improvement District No. 4 for a purchase price of \$1,200,000.00.

April 19, 2018

- Approved Change Order No. 1 in the amount of \$1,033,536.83 for Hurricane Harvey Marina Dock Reconstruction and repairs to Bellingham Marine Industries, Inc. Original contract amount was \$4,788,886.00 plus Change Order No. 1 amount making the new contract amount of \$5,822,422.83; funds from Certificates of Obligation, Series 2018 Construction Fund 200.

C. Related Party Transactions

Council Member–Place #1 - is an officer of American Bank, which is a depositor for the City.

D. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

The City is participating in the following causes of action:

1. *Richard A Dunsmore vs Municipality of City of Port Aransas d/b/a Port Aransas Police Department and Chief of Police-Scott Burroughs (In His Official Capacity Only) and Investigator/Detective/etc-Darryl Johnson (In His Official Capacity Only)*; C.A. No 2:16-CV-132 in the US District Court, Corpus Christi Division. A charge of discrimination filed with the City of Corpus Christi Human Relations Commission by Steven Thomas, Port Aransas Police Department Dispatcher. The City is represented by TMLIRP-appointed counsel, Jim McKibben.
2. *City of Port Aransas, Texas; Charles R. Bujan, Mayor; and David Parsons, City Manager vs Julie Smith Shodrok*; Cause No. 2017CCV-61369-1; In the County Court at Law No. 1 of Nueces County, Texas. The trial court entered judgment against the City for \$50,000.00. The case is on appeal.
3. *Edwards & Richter, LLP d/b/a Virginia's on the Bay vs John D Nixon, Jr., Molly Nixon; and the City of Port Aransas, Texas*; Cause No. 2017DCV-5716-H; in the 347th JDC of Nueces County, Texas. This case arises out of the hurricane. It was filed within the past 30 days. The City is represented by TMLIRP-appointed counsel, Jim McKibben.
4. *City of Port Aransas, Texas vs Nirav P Patel, et al*; Cause No. 2017DCV-3713-B; in the 117th JDC of Nueces County, Texas. Suit for occupancy taxes. *Richard Dunsmore vs Scott Burroughs, Individually and as Chief of the Port Aransas Police Department*; Civil Action No. 2:16-CV-132. Plaintiff filed suit in June 2015 in State District Court, claiming a former roommate made false allegations against him which led to his arrest and the seizure of some personal items. He alleges that the warrant was overly-broad and that officers seized items not related to the criminal conduct alleged; and that the police department refused to return seized items in violation of his 4th Amendment rights. He also claims he has been denied access to *Brady* materials in criminal cases. He seeks damages of \$100,000.00, a declaration that his civil rights were violated, and an injunctive order requiring the return of all property. The Police Chief was served in March 2016; and the case was removed to federal court. The City and Chief have entered pleas of governmental and qualified immunity. The City estimates the likelihood that Plaintiff will be successful is less than 10%.

5. *Edwards & Richter, LLP d/b/a Virginia's on the Bay vs John D Nixon, Jr. and Molly Nixon; and the City of Port Aransas*; Cause No. 2017-DCV-5716-H. Plaintiffs allege that the Nixon's boat was improperly moored and broke loose during Hurricane Harvey causing damage to Plaintiff's docks. The City has pled sovereign immunity and believe the claims against it are barred as a matter of law. No trial date has been set.
6. *Edwards & Richter, LLP d/b/a Virginia's on the Bay vs Ken M. Rand, III and Leah Tiner aka Leah Rand; and the City of Port Aransas*; Cause No. 2017-DCV-5716-H. Plaintiffs allege that the Rand's sailboat was improperly moored and broke loose during Hurricane Harvey causing damage to Plaintiff's docks. The City has pled sovereign immunity and believe the claims against it are barred as a matter of law. No trial date has been set.

As of 9/30/2017, the client owed the firm \$31,272.71 which has since been paid.

E. Other Post Employment Benefits

Health Care Benefits - Retirees

Plan Description: The City of Port Aransas Post-retirement Healthcare Benefits Program is a single-employer defined benefit healthcare plan administered by the City's Finance department. The Post-retirement Healthcare Benefits Program was initiated in 2007 by action of the City Council. The Post-retirement Healthcare Benefits Program provides medical benefits to eligible retirees; no medical benefits are provided to spouses of retirees. Eligible retirees include (i) employees who retire at age 65 or later with at least 15 years of service, or (ii) retire at any age after 30 years of service, or (iii) retire at age 60 with at least 20 years of service. Medicare eligible retirees are covered by AARP Medicare Supplemental policies (medical and prescription drugs), while pre-65 retirees are covered by the same group medical plan applicable to active employees (a United Healthcare PPO arrangement).

Funding Policy: The City currently funds the benefits provided through the Program on a pay-as-you-go basis. Since the City does not prefund future benefits to be provided under the Program, there are no accumulated plan assets. The City pays for 100% of the cost of medical benefits for eligible retirees; covered retirees are not required to contribute. During the fiscal year ending September 30, 2017, the City paid \$74,471 in premiums for eleven current retirees receiving benefits under the Program.

Annual OPEB Cost and Net OPEB Obligation: The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year ended September 30, 2017, the amount actually contributed to the plan during the year, and changes in the City's net OPEB obligation to Post-retirement Healthcare Benefits Program:

| | |
|--|--------------------|
| Annual OPEB Cost | \$669,104 |
| Contributions Made | (215,210) |
| Increase in Net OPEB | 453,894 |
| Net OPEB Obligation, September 30, 2015 | 1,273,065 |
| Net OPEB Obligation, September 30, 2017 | <u>\$1,726,959</u> |
| Net OPEB Obligation Reported by Governmental Funds | \$1,573,590 |
| Net OPEB Obligation Reported in Business-Type Activities Funds | 153,369 |
| | <u>\$1,726,959</u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2017 and the two preceding years were as follows:

| <i>Fiscal Year Ended</i> | <i>Annual OPEB Cost</i> | <i>% of Annual OPEB Cost Contributed</i> | <i>Net OPEB Obligation</i> |
|---------------------------------|--------------------------------|---|-----------------------------------|
| 9/30/2009 | \$ 249,041 | 3.55% | \$ 240,200 |
| *9/30/2010 | n/a | n/a | n/a |
| 9/30/2011 | \$ 277,974 | 9.18% | \$ 492,655 |
| *9/30/2012 | n/a | n/a | n/a |
| 9/30/2013 | \$ 338,093 | 17.59% | \$ 771,275 |
| *9/30/2014 | n/a | n/a | n/a |
| 9/30/2015 | \$ 316,374 | 29.46% | \$1,273,065 |
| *9/30/2016 | n/a | n/a | n/a |
| 9/30/2017 | \$ 352,730 | 34.59% | \$1,726,958 |

* *GASB 45 reporting not required for these periods*

Funded Status and Funding Progress: As of October 1, 2016, the most recent valuation date, the plan *City of Port Aransas* was 0% funded (the City does not prefund these benefits). The actuarial accrued liability for benefits was \$2,948,839 million, and the actuarial value of plan assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,948,839 million. The covered payroll (annual payroll of active employees covered by the plan) was \$5,802.059 million, and the ratio of the UAAL to covered payroll was 50.82%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employers and members to that point. The actuarial assumptions and methods used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2016 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.0% discount rate for valuing the liability for benefits, and an annual healthcare cost trend rate of 6.0% in 2017, reduced by decrements to an ultimate rate of 5.0% in 2021 and later years. The UAAL is being amortized as a level dollar amount over a period of 30 years (the maximum permitted period).

Health Care Benefits - COBRA

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City provides health care benefits to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. Although premiums are paid in full by the insured for the actual months covered, the City pays a fee for the administration of the COBRA plan. This program is offered for a period of 18 months after the termination date. The expense amount to the City is considered immaterial and thus is not included in the City-wide financial statements either as an expense or as a liability.

F. Hurricane Harvey

The City of Port Aransas sustained severe wind and water damage as a result of Hurricane Harvey. The City has an insurance policy and is also receiving money from FEMA for debris removal. The City will continue to receive monies from FEMA for garbage removal, construction, and repairs to City property. At the time of the audit report, the extent of the cost of repairs and/or construction to City property is unknown. These amounts are to be received from both FEMA and insurance. The City will provide adequate disclosure in a future audit report in accordance with Generally Accepted Accounting Principles.

G. Employees Retirement System Information

EXECUTIVE SUMMARY as of December 31, 2016

| Actuarial Valuation and Measurement Date, December 31, | 2015 | 2016 |
|---|------------------|-------------------|
| Membership | | |
| Number of | | |
| - Inactive employees or beneficiaries currently receiving benefits | 40 | 47 |
| - Inactive employees entitled to but not yet receiving benefits | 59 | 61 |
| - Active employees | <u>119</u> | <u>122</u> |
| -Total | 218 | 230 |
| | | |
| Covered Payroll | \$ 5,137,298 | \$ 5,752,659 |
| | | |
| Net Pension Liability | | |
| Total Pension Liability | \$ 12,816,731 | \$ 14,056,929 |
| Plan Fiduciary Net Position | <u>9,581,848</u> | <u>10,762,163</u> |
| Net Pension Liability | \$ 3,234,883 | \$ 3,294,766 |
| | | |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 74.76% | 76.56% |
| | | |
| Net Pension Liability as a Percentage of Covered Payroll | 62.97% | 57.27% |
| | | |
| Development of the Single Discount Rate | | |
| Single Discount Rate | 6.75% | 6.75% |
| Long-Term Expected Rate of Return | 6.75% | 6.75% |
| Long-Term Municipal Bond Rate* | 3.57% | 3.78% |
| | | |
| Last year ending December 31 in the 100 year projection period for which projected benefit payments are fully funded | N/A | N/A |

*Based on the Bond Buyer 20 Bond Index of general obligation bonds as of December 31, 2015 and December 29, 2016 respectively as these are the weekly rate closest to but not later than the Measurement Dates.

SCHEDULE OF PENSION EXPENSE

| | |
|--|----------------|
| 1. Total Service Cost | \$ 826,657 |
| 2. Interest on the Total Pension Liability | 875,901 |
| 3. Changes in Current Period Benefits Including Substantively Automatic Status | 0 |
| 4. Employee Contributions (Reduction of Expense) | (345,160) |
| 5. Projected Earnings on Plan Investments (Reduction of Expense) | (646,775) |
| 6. Administrative Expense | 7,313 |
| 7. Other Changes in Fiduciary Net Position | 394 |
| 8. Recognition of Current Year Outflow (Inflow) of Resources-Liabilities | 11,543 |
| 9. Recognition of Current Year Outflow (Inflow) of Resources-Assets | (121) |
| 10. Amortization of Prior Year Outflows (Inflows) of Resources-Liabilities | (126,755) |
| 11. Amortization of Prior Year Outflows (Inflows) of Resources-Assets | <u>148,204</u> |
| 12. Total Pension Expense (Income) | \$ 751,201 |

SCHEDULE OF OUTFLOWS AND INFLOWS - CURRENT AND FUTURE EXPENSE

| A. | Recognition Period (or amortization years) | Total (Inflow) or Outflow of Resources | 2016 Recognized in current | Deferred (Inflow)/Outflow in future expense |
|--|---|--|---|---|
| Due to Liabilities: | | | | |
| Difference in expected and actual experience [actuarial (gains) or losses] | 3.9100 | \$ 45,133 | \$ 11,543 | \$ 33,590 |
| Change in assumptions [actuarial (gains) or losses] | 3.9100 | \$ 0 | \$ 0 | \$ 0 |
| | | | <u>\$ 11,543</u> | \$ 33,590 |
| Due to Assets: | | | | |
| Difference in projected and actual earnings on pension plan investments [actuarial (gains) or losses] | 5.0000 | \$ (606) | \$ (121) | \$ (485) |
| | | | <u>\$ (121)</u> | <u>\$ (485)</u> |
| Total: | | | | <u>\$ 33,105</u> |

B. Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future pension expense as follows:

| | Net deferred outflows (inflows) of Resources |
|------------|---|
| 2017 | \$ 33,587 |
| 2018 | 70,629 |
| 2019 | 137,040 |
| 2020 | (122) |
| 2021 | 0 |
| Thereafter | <u>0</u> |
| Total | \$ 241,134 |

Note to City:

GASB 68 requires 10 fiscal years of data to be provided in the Schedule of Contributions; the City will build this report over the next 10-year period. **The data in this schedule is based on the City's fiscal year-end,** not the valuation/measurement date as provided in other schedules of this report.

The Actuarially Determined Contribution (ADC) dollar amount can be calculated by multiplying the City's Full Retirement Rate (**excludes portion of rate for Supplemental Death Benefits Fund**) by the applicable payroll amount (for payroll, cities can use "gross earnings" as noted on line 1 of their TMRS-3 "Summary of Monthly Payroll Report"). The applicable months for the City's fiscal year are summed to determine the total ADC. Actual contribution amounts (employer-portion) remitted to TMRS will equal the "contributions in relation to ADC", with the deficiency/(excess) result then calculated. Covered payroll is the sum of the "gross earnings" for the applicable months of the TMRS-3 rep01is.

For additional detailed information, please reference the TMRS "GASB-Employer Reporting Guide."

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

| 1% Decrease 5.75% | Current Single Rate Assumption 6.75% | 1% Increase 7.75% |
|------------------------------|---|------------------------------|
| \$5,360,535 | \$3,294,766 | \$1,611,343 |

SUMMARY OF ACTUARIAL ASSUMPTIONS

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. These assumptions apply to both the Pension Trust and the Supplemental Death Benefits Fund as applicable.

I. Economic Assumptions

A. General Inflation - General Inflation is assumed to be 2.50% per year.

B. Discount/Crediting Rates

1. System-wide Investment Return Assumption: 6.75% per year, compounded annually, composed of an assumed 2.50% inflation rate and a 4.25% net real rate of return. This rate represents the assumed return, net of all investment and administrative expenses. This is the discount rate used to value the liabilities of the individual employers.
2. For the Supplemental Death Benefits Fund, the rate is 4.25% per year, compounded annually, and derived as a blend of 5.00% for the portion of the benefits financed by advance funding contributions and a short-term interest rate for the portion of the benefits financed by current contributions.
3. Assumed discount/crediting rate for Supplemental Disability Benefits Fund and individual employee accounts: an annual rate of 5.00% for (1) accumulating prior service credit and updated service credit after the valuation date, (2) accumulating the employee current service balances, (3) determining the amount of the monthly benefit at future dates of retirement or disability, and (4) calculating the actuarial liability of the system-wide Supplemental Disability Benefits Fund.

C. Overall Payroll Growth - 3.00% per year, which is used to calculate the contribution rates for the retirement plan of each participating city as a level percentage of payroll. This represents the expected increase in total payroll. This increase rate is solely due to the effect of wage inflation on salaries, with no allowance for future membership growth. However, for cities with a decrease in the number of contributing members from 2005 to 2014, the payroll growth is decreased by half the annual percentage decrease in the count capped at a 1.0% decrease per year and rounded down to the nearest 0.1%.

D. Individual Salary Increases -

Salary increases are assumed to occur once a year, on January 1. Therefore, the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. Salaries are assumed to increase by the following graduated service-based scale.

| Years of Service | <u>Rate (%)</u> |
|------------------|-----------------|
| 1 | 10.50% |
| 2 | 7.50% |
| 3 | 7.00% |
| 4 | 6.50% |
| 5 | 6.00% |
| 6 | 5.50% |
| 7 | 5.25% |
| 8-10 | 4.75% |
| 11 | 4.50% |
| 12-13 | 4.25% |
| 14-16 | 4.00% |
| 17-24 | 3.75% |
| 25 + | 3.50% |

E. Annuity Increase - The Consumer Price Index (CPI) is assumed to be 2.50% per year prospectively. For the City of Port Aransas annual annuity increases of 1.86% are assumed when calculating the TPL.

II. Demographic Assumptions

A. Termination Rates

1. For the first 10 years of service, the base table rates vary by gender, entry age, and length of service. For the City of Port Aransas, the base table is then multiplied by a factor of 125.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire - 63%, 2) Police - 88%, or 3) Other - 108%. A sample of the base rates follows:

Males

| Age | Service | | | | | | | | | |
|-----|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 20 | 0.2920 | 0.2623 | 0.2186 | 0.1932 | 0.1850 | 0.1673 | 0.1529 | 0.1243 | 0.1022 | 0.0816 |
| 25 | 0.2653 | 0.2269 | 0.1812 | 0.1554 | 0.1429 | 0.1267 | 0.1148 | 0.1006 | 0.0926 | 0.0757 |
| 30 | 0.2451 | 0.2052 | 0.1610 | 0.1322 | 0.1079 | 0.0998 | 0.0896 | 0.0774 | 0.0744 | 0.0621 |
| 35 | 0.2505 | 0.2070 | 0.1577 | 0.1265 | 0.1050 | 0.0994 | 0.0848 | 0.0719 | 0.0621 | 0.0567 |
| 40 | 0.2467 | 0.2060 | 0.1561 | 0.1213 | 0.1046 | 0.0943 | 0.0805 | 0.0710 | 0.0601 | 0.0577 |
| 45 | 0.2268 | 0.1934 | 0.1556 | 0.1220 | 0.1053 | 0.0926 | 0.0813 | 0.0711 | 0.0605 | 0.0575 |
| 50 | 0.2078 | 0.1731 | 0.1412 | 0.1149 | 0.1016 | 0.0887 | 0.0807 | 0.0716 | 0.0604 | 0.0578 |
| 55 | 0.2003 | 0.1668 | 0.1265 | 0.1074 | 0.0861 | 0.0864 | 0.0771 | 0.0682 | 0.0609 | 0.0560 |
| 60 | 0.1999 | 0.1542 | 0.1231 | 0.1060 | 0.0790 | 0.0868 | 0.0753 | 0.0683 | 0.0571 | 0.0549 |
| 65 | 0.2000 | 0.1463 | 0.1238 | 0.1063 | 0.0803 | 0.0867 | 0.0757 | 0.0700 | 0.0547 | 0.0551 |
| 70 | 0.2000 | 0.1477 | 0.1237 | 0.1063 | 0.0802 | 0.0867 | 0.0756 | 0.0697 | 0.0551 | 0.0551 |

Females

| Age | Service | | | | | | | | | |
|-----|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 20 | 0.3030 | 0.2790 | 0.2221 | 0.2098 | 0.1997 | 0.2021 | 0.1536 | 0.1539 | 0.1564 | 0.1574 |
| 25 | 0.2782 | 0.2409 | 0.2067 | 0.1962 | 0.1710 | 0.1663 | 0.1369 | 0.1352 | 0.1186 | 0.1125 |
| 30 | 0.2574 | 0.2188 | 0.1949 | 0.1762 | 0.1347 | 0.1348 | 0.1276 | 0.1126 | 0.0973 | 0.0804 |
| 35 | 0.2424 | 0.2118 | 0.1805 | 0.1438 | 0.1273 | 0.1238 | 0.1112 | 0.1085 | 0.1000 | 0.0769 |
| 40 | 0.2244 | 0.1993 | 0.1614 | 0.1342 | 0.1295 | 0.1097 | 0.1023 | 0.0924 | 0.0834 | 0.0733 |
| 45 | 0.2191 | 0.1853 | 0.1427 | 0.1337 | 0.1054 | 0.1017 | 0.0894 | 0.0784 | 0.0705 | 0.0725 |
| 50 | 0.2201 | 0.1793 | 0.1347 | 0.1229 | 0.0886 | 0.0881 | 0.0823 | 0.0723 | 0.0675 | 0.0617 |
| 55 | 0.2200 | 0.1738 | 0.1350 | 0.1199 | 0.0834 | 0.0806 | 0.0713 | 0.0705 | 0.0685 | 0.0551 |
| 60 | 0.2200 | 0.1523 | 0.1350 | 0.1172 | 0.0798 | 0.0843 | 0.0646 | 0.0639 | 0.0429 | 0.0379 |
| 65 | 0.2200 | 0.1431 | 0.1350 | 0.1150 | 0.0800 | 0.0857 | 0.0667 | 0.0593 | 0.0276 | 0.0280 |
| 70 | 0.2200 | 0.1447 | 0.1350 | 0.1154 | 0.0800 | 0.0854 | 0.0664 | 0.0601 | 0.0303 | 0.0298 |

2. After 10 years of service, base termination rates vary by gender and by the number of years remaining until first retirement eligibility. For City of Port Aransas, the base table is then multiplied by a factor of 125.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire - 52%, 2) Police - 79%, or 3) Other - 115%. A sample of the base rates follows:

| Years from Retirement | Male | Female |
|-----------------------|-------|--------|
| 1 | 1.72% | 2.20% |
| 2 | 2.29% | 2.97% |
| 3 | 2.71% | 3.54% |
| 4 | 3.06% | 4.01% |
| 5 | 3.35% | 4.41% |
| 6 | 3.61% | 4.77% |
| 7 | 3.85% | 5.10% |
| 8 | 4.07% | 5.40% |
| 9 | 4.28% | 5.68% |
| 10 | 4.47% | 5.94% |
| 11 | 4.65% | 6.19% |
| 12 | 4.82% | 6.43% |
| 13 | 4.98% | 6.66% |
| 14 | 5.14% | 6.87% |
| 15 | 5.29% | 7.08% |

Termination rates end at first eligibility for retirement

- B. Forfeiture Rates (Withdrawal of Member Deposits from TMRS) for vested members vary by age and employer match, and they are expressed as a percentage of the termination rates shown in (A). The withdrawal rates for cities with a 2-to-1 match are shown below. 4% is added to the rates for 1-1½-to-1 cities, and 8% is added for 1-to-1 cities.

| Age | Percent of Terminating Employees Choosing to Take a Refund |
|-----|--|
| 25 | 41.2% |
| 30 | 41.2% |
| 35 | 41.2% |
| 40 | 38.0% |
| 45 | 32.6% |
| 50 | 27.1% |
| 55 | 21.7% |

Forfeiture rates end at first eligibility for retirement.

C. Service Retirees and Beneficiary Mortality Rates

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 100.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

D. Disabled Annuitant Mortality Rates

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. In addition, a 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

E. Pre-Retirement Mortality

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 54.5% and female rates multiplied by 51.5%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

F. Annuity Purchase Rates

For determining the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) for 2014 are based on the UP-1984 Table with an age setback of two years for retirees and an age setback of eight years for beneficiaries. Beginning in 2027 the APRs will be based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries. From 2015 through 2026, the fully generational APRs will be phased into.

G. Disability Rates

| Age | Males & Females |
|-----|-----------------|
| 20 | 0.000004 |
| 25 | 0.000025 |
| 30 | 0.000099 |
| 35 | 0.000259 |
| 40 | 0.000494 |
| 45 | 0.000804 |
| 50 | 0.001188 |
| 55 | 0.001647 |
| 60 | 0.002180 |
| 65 | 0.002787 |

H. Service Retirement Rates, applied to both Active and Inactive Members

The base table rates vary by gender, entry age group, and age. For members under age 62, these base rates are then multiplied by 2 factors based on 1) employee contribution rate and employer match and 2) if the city has a recurring COLA.

| Age | Males Entry Age Groups | | | Females Entry Age Groups | | |
|-------------|---------------------------|------------|----------------|-----------------------------|------------|----------------|
| | Ages 32 & Under | Ages 33-47 | Ages 48 & Over | Ages 32 & Under | Ages 33-47 | Ages 48 & Over |
| 40-44 | 0.06 | - | - | 0.06 | - | - |
| 45-49 | 0.06 | - | - | 0.06 | - | - |
| 50-52 | 0.08 | - | - | 0.08 | - | - |
| 53 | 0.08 | 0.10 | - | 0.08 | 0.10 | - |
| 54 | 0.08 | 0.10 | - | 0.11 | 0.10 | - |
| 55-59 | 0.14 | 0.10 | - | 0.11 | 0.10 | - |
| 60 | 0.20 | 0.15 | 0.10 | 0.14 | 0.15 | 0.10 |
| 61 | 0.25 | 0.30 | 0.20 | 0.28 | 0.26 | 0.20 |
| 62 | 0.32 | 0.25 | 0.12 | 0.28 | 0.17 | 0.12 |
| 63 | 0.32 | 0.23 | 0.12 | 0.28 | 0.17 | 0.12 |
| 64 | 0.32 | 0.35 | 0.20 | 0.28 | 0.22 | 0.20 |
| 65 | 0.32 | 0.32 | 0.20 | 0.28 | 0.27 | 0.20 |
| 66-69 | 0.22 | 0.22 | 0.17 | 0.22 | 0.22 | 0.17 |
| 70-74 | 0.20 | 0.22 | 0.25 | 0.22 | 0.22 | 0.25 |
| 75 and over | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |

Note: For cities without a 20-year/any age retirement provision, the rates for entry ages 32 and under are loaded by 20% for ages below 60.

Plan Design Factors Applied to Base Retirement Rates

| Employer Match | Employee Contribution Rate | | |
|----------------|----------------------------|------|------|
| | 5% | 6% | 7% |
| 1-1 | 0.75 | 0.80 | 0.84 |
| 1.5 -1 | 0.81 | 0.86 | 0.92 |
| 2-1 | 0.86 | 0.93 | 1.00 |

Recurring COLA: 100%

No Recurring COLA: 90%

III. *Methods and Assumptions*

- A. Valuation of Assets - The actuarial value of assets is based on the market value of assets with a ten-year phase-in of actual investment return in excess of (less than) expected investment income. Offsetting unrecognized gains and losses are immediately recognized, with the shortest remaining bases recognized first and the net remaining bases continue to be recognized on their original timeframe. The actuarial value of assets is further adjusted by 33% of any difference between the initial value and a 15% corridor around the market value of assets, if necessary. For the purpose of determining the UAAL and annual required contribution associated with the Supplemental Death Trust, assets are valued at the Fund Value.
- B. Actuarial Cost Method: The actuarial cost method being used is known as the Entry Age Normal Actuarial Cost Method. The Entry Age Normal Actuarial Cost Method develops the annual cost of the Plan in two parts: that attributable to benefits accruing in the current year, known as the normal cost, and that due to service earned prior to the current year, known as the amortization of the unfunded actuarial accrued liability. The normal cost and the actuarial accrued liability are calculated individually for each member. The normal cost rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The normal cost is calculated using an entry age based on benefit service with the current city. If a member has additional time-only vesting service through service with other TMRS cities or other public agencies, they retain this for determination of benefit eligibility and decrement rates. The salary-weighted average of these rates is the total normal cost rate. The unfunded actuarial accrued liability reflects the difference between the portion of projected benefits attributable to service credited prior to the valuation date and assets already accumulated. The unfunded actuarial accrued liability is paid off in accordance with a specified amortization procedure outlined in C below.

C. Amortization Policy: For "underfunded" cities with twenty or more employees, the amortization as of the valuation date is a level percentage of payroll over a closed period using the process of "laddering". Bases that existed prior to this valuation continue to be amortized on their original schedule. Beginning January 1, 2016, all new experience losses are amortized over individual periods of not more than 25 years. Previously, some cities amortized their losses over a 30 year period. New gains (including lump sum contributions) are offset against and amortized over the same period as the current largest outstanding loss base for the specific City which in turn decreases contribution rate volatility.

Once a City reaches an "overfunded" status, all prior non-ad hoc bases are erased and the surplus for overfunded cities is amortized over a 25 year open period.

Ad hoc benefit enhancements are amortized over individual periods using a level dollar policy. The period will be based on the minimum of 15 years or the current life expectancy of the covered group.

For the December 31, 2013 actuarial valuation, there was a one-time change in the amortization policy for underfunded cities implemented in conjunction with the changes to the assumptions and cost method to minimize rate volatility associated with these changes. An initial ARC was developed using the methodology described above. For cities with a decrease in the rate compared to the rate calculated prior to changes, the amortization period for all non-ad hoc bases was shortened enough to keep the rates stable (if possible). Cities with an increase of more than 0.50% were allowed to extend the amortization periods for non-ad hoc bases up to 30 years to keep the full contribution rate from increasing. For cities with an increase of 0.50% or less, the amortization periods for all non-ad hoc bases could be extended to 25 years to keep the rate from increasing. The amortization period calculated in the prior steps was then rounded up to the nearest integer to calculate the final full contribution rate.

For the purpose of determining the annual required contribution associated with the Supplemental Death Trust, the amortization of the UAAL is done using a 25 year open period.

D. Small City Methodology - For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, 100% for employers with 11 to 15 members, and 115% for employers with less than 100 members.

There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%).

For underfunded plans, the maximum amortization period for amortizing gains and losses is decreased from current levels by 1 year for each active member less than the 20 member threshold. For example, an employer with 8 active members and a current maximum amortization period of 25 will use $(25 - (20 - 8)) = 13$ year amortization period for the gain or loss in that year's valuation. Under this policy, the lowest amortization period will be $25 - (20 - 1) = 6$ years. Once the plan is overfunded, the amortization period will revert back to the standard 25 years.

- E. Supplemental Death Benefit - The contribution rate for the Supplemental Death Benefit (SDB) is equal to the expected benefit payments during the upcoming year divided by the annualized pay of current active members and is calculated separately for actives and retirees. Due to the significant reserve in the Supplemental Death Trust, the SDB rate for retiree coverage is currently only one-third of the total term cost.

IV. Other Assumptions

1. Valuation payroll (used for determining the amortization contribution rate): An exponential average of the actual salaries paid during the prior fiscal years, with 33% weight given to the most recent year and 67% weight given to the expected payroll for the previous fiscal year, moved forward with one year's payroll growth rate and adjusted for changes in population.
2. Individual salaries used to project benefits: For members with more than three years of service, actual salaries from the past three fiscal years are used to determine the USC final average salary as of the valuation date. For future salaries, this three-year average is projected forward with two years of salary scale to create the salary for the year following the valuation. This value is then projected with normal salary scales.
3. Timing of benefit payments: Benefit payments are assumed to be made in the middle of the month. Although TMRS benefits are paid at the end of the month, eligibility for that payment is determined at the beginning of the month. A middle of month payment approximates the impact of the combination of eligibility determination and actual payment timing.
4. Percent married: 100% of the employees are assumed to be married.
5. Age difference: Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses.

6. Optional Forms: Healthy members are assumed to choose a life only benefit when they retire. Disabled members are assumed to select a 50% Joint and Survivor option when they retire.
7. Percent electing annuity on death (when eligible): For vested members not eligible for retirement, 75% of the spouses of male members and 70% of the spouses of female members are assumed to commence an immediate benefit in lieu of a deferred annuity or a refund. Those not electing an immediate benefit are assumed to take a refund. All of the spouses of married participants who die after becoming eligible for a retirement benefit are assumed to elect an annuity that commences immediately.
8. Partial Lump Sum Utilization: It is assumed that each member at retirement will withdraw 40% of their eligible account balance.
9. Inactive Population: All non-vested members of a city are assumed to take an immediate refund if they are not contributing members in another city. Vested members not contributing in another city are assumed to take a deferred retirement benefit, except for those who have terminated in the past 12 months for whom one year of forfeiture probability is assumed. The forfeiture rates for inactive members of a city who are contributing members in another city are equal to the probability of termination multiplied by the forfeiture rates shown in II(A) and II(B) respectively. These rates are applied each year until retirement eligibility. Once a member is retirement eligible, they are assumed to commence benefits based on the service retirement rates shown in II(H).
10. There will be no recoveries once disabled.
11. No surviving spouse will remarry and there will be no children's benefit.
12. Decrement timing: Decrements of all types are assumed to occur mid-year.
13. Eligibility testing: Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
14. Decrement relativity: Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
15. Incidence of Contributions: Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.
16. Benefit Service: All members are assumed to accrue 1 year of eligibility service each year.

17. The decrement rates for service related decrements are based on total TMRS eligibility service.

V. *Participant Data*

Participant data was supplied in electronic text files. There were separate files for (i) active and inactive members, and (ii) members and beneficiaries receiving benefits.

The data for active members included birthdate, gender, service with the current city and total vesting service, salary, employee contribution account balances, as well as the data used in the next calculation of the Updated Service Credit (USC). For retired members and beneficiaries, the data included date of birth, gender, spouse's date of birth (where applicable), amount of monthly benefit, date of retirement, form of payment code, and aggregate increase in the CPI that will be used in the next calculation of the cost of living adjustment.

To the extent possible we have made use of all available data fields in the calculation of the liabilities stated in this report. Actual CPI is used to model the wear-away effect or "catch-up" when a city changes its COLA provisions. Adjustments are made for members who have service both in a city with "20 and out" retirement eligibility and one that hasn't adopted it to calculate the earliest possible retirement date.

Salary supplied for the current year was based on the annualized earnings for the year preceding the valuation date.

Assumptions were made to correct for missing, bad, or inconsistent data. These had no material impact on the results presented.

Amortization Schedule

Deferred (Inflows)/Outflows of Resources

| | Remaining Recognition Period (or amortization years) | Total Remaining (Inflow) or Outflow of Resources | Measurement Year | | | | | | |
|--|--|--|------------------|---------------------|---------------------|--------------------|-------------------|-----------------|-------------|
| | | | 2016 | 2017 | 2018 | 2019 | 2020 | Thereafter | |
| Due to Liabilities: | | | | | | | | | |
| Difference in experiences (inflows) / outflows | | | | | | | | | |
| | 2016 | 3.9100 | \$ 45,133 | \$ 11,543 | \$ 11,543 | \$ 11,543 | \$ 10,504 | \$ 0 | \$ 0 |
| | 2015 | 2.7200 | (413,689) | (152,092) | (152,092) | (109,505) | 0 | 0 | 0 |
| | 2014 | 1.7720 | (5,576) | (3,146) | (2,430) | 0 | 0 | 0 | 0 |
| | | | Total | \$ (143,695) | \$ (142,979) | \$ (97,962) | \$ 10,504 | \$ 0 | \$ 0 |
| Change in assumptions (inflows) / outflows | | | | | | | | | |
| | 2015 | 2.7200 | 77,475 | 28,483 | 28,483 | 20,509 | 0 | 0 | 0 |
| | | | Total | \$ 28,483 | \$ 28,483 | \$ 20,509 | \$ 0 | \$ 0 | \$ 0 |
| Due to Assets: | | | | | | | | | |
| Excess investment returns (inflows)/ outflows | | | | | | | | | |
| | 2016 | 5.0000 | (606) | (121) | (121) | (121) | (121) | (122) | 0 |
| | 2015 | 4.0000 | 506,631 | 126,658 | 126,658 | 126,658 | 126,657 | 0 | 0 |
| | 2014 | 3.0000 | 64,637 | 21,546 | 21,546 | 21,545 | 0 | 0 | 0 |
| | | | Total | \$ 148,083 | \$ 148,083 | \$ 148,082 | \$ 126,536 | \$ (122) | \$ 0 |

REQUIRED SUPPLEMENTARY INFORMATION

A. Total pension liability

| | 2016 | 2015 | 2014 |
|---|------------|------------|------------|
| 1. Service Cost | \$826,657 | \$714,598 | \$571,442 |
| 2. Interest (on the Total Pension Liability) | 875,901 | 865,317 | 803,551 |
| 3. Changes of benefit terms | 0 | 0 | 0 |
| 4. Difference between expected and actual experience | 45,133 | (565,781) | (11,868) |
| 5. Changes of assumptions | 0 | 105,958 | 0 |
| 6. Benefit payments, including refunds of employee contributions | (507,493) | (615,455) | (489,225) |
| 7. Net change in total pension liability | 1,240,198 | 504,637 | 873,900 |
| 8. Total pension liability -- beginning | 12,816,731 | 12,312,094 | 11,438,194 |
| 9. Total pension liability - ending | 14,056,929 | 12,816,731 | 12,312,094 |

B. Plan fiduciary net position

| | | | |
|---|------------|-----------|-----------|
| 1. Contributions - employer | 702,974 | 642,335 | 560,988 |
| 2. Contributions - employee | 345,160 | 308,238 | 272,766 |
| 3. Net investment income | 647,381 | 13,638 | 481,740 |
| 4. Benefit payments, including refunds of employee contributions | (507,493) | (615,455) | (489,225) |
| 5. Administrative Expense | (7,313) | (8,306) | (5,029) |
| 6. Other | (394) | (410) | (414) |
| 7. Net change in plan fiduciary net position | 1,180,315 | 340,040 | 820,826 |
| 8. Plan fiduciary net position - beginning | 9,581,848 | 9,241,809 | 8,420,983 |
| 9. Plan fiduciary net position - ending* | 10,762,163 | 9,581,849 | 9,241,809 |

C. Net pension liability (A.9 - B.9)

| | | |
|-------------|-------------|-------------|
| \$3,294,766 | \$3,234,882 | \$3,070,285 |
|-------------|-------------|-------------|

D. Plan fiduciary net position as a percentage
of the total pension liability (B.9 / A.9)

| | | |
|--------|--------|--------|
| 76.56% | 74.76% | 75.06% |
|--------|--------|--------|

E. Covered-employee payroll (B.9 / A.9)

| | | |
|-------------|-------------|-------------|
| \$5,752,659 | \$5,137,298 | \$4,546,100 |
|-------------|-------------|-------------|

F. Net pension liability as a percentage
of covered employee payroll (C/E)

| | | |
|--------|--------|--------|
| 57.27% | 62.97% | 67.54% |
|--------|--------|--------|

SCHEDULE OF CONTRIBUTIONS
Last 10 Fiscal Years (will ultimately be displayed)

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--|-------------------|-------------------|-------------------|-------------------|
| Actuarially Determined Contribution | \$ xxx,xxx | \$ xxx,xxx | \$ xxx,xxx | \$ xxx,xxx |
| Contributions in relation to the actuarially determined contribution | \$ <u>xxx,xxx</u> | \$ <u>xxx,xxx</u> | \$ <u>xxx,xxx</u> | \$ <u>xxx,xxx</u> |
| Contribution deficiency (excess) | \$ xxx,xxx | \$ xxx,xxx | \$ xxx,xxx | \$ xxx,xxx |
| Covered payroll | \$ xxx,xxx | \$ xxx,xxx | \$ xxx,xxx | \$ xxx,xxx |
| Contributions as a percentage of covered payroll | xx.xx% | xx.xx% | xx.xx% | xx.xx% |

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Closed |
| Remaining Amortization Period | 29 years |
| Asset Valuation Method | 10 Year smoothed market; 15% soft corridor |
| Inflation | 2.5% |
| Salary Increases | 3.50% to 10.5% 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 |

Other Information:

Notes

There were no benefit changes during the year.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

CITY OF PORT ARANSAS, TEXAS
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2017

SPECIAL REVENUE

| | Airport Fund | Court Security Fund | Court Tech- nology Fund | Library Fund | Impact Fees Zone 1 Fund | Impact Fees Zone 2 Fund | Nature Preserve Funds | Park Dedica- tion Fees | Recreational Develop- ment Fund | Street Main- tenance Fund | Debt Service Fund | Total |
|--|------------------|---------------------------|----------------------------------|------------------|----------------------------------|----------------------------------|-----------------------------|---------------------------------|--|------------------------------------|-------------------------|--------------------|
| ASSETS | | | | | | | | | | | | |
| Cash and Cash Equivalents | \$437,794 | \$9,625 | \$7,370 | \$200,723 | \$218,851 | \$5,186 | \$288,533 | \$152,209 | \$830,489 | \$468,534 | \$320,670 | \$2,939,984 |
| Receivables (Net of Allowance for Uncollectibles) | 16,913 | | | | | | | | 49,833 | | 28,999 | 95,745 |
| Inventories | 15,249 | | | | | | | | | | | 15,249 |
| Total Assets | \$469,956 | \$9,625 | \$7,370 | \$200,723 | \$218,851 | \$5,186 | \$288,533 | \$152,209 | \$880,322 | \$468,534 | \$349,669 | \$3,050,978 |
| LIABILITIES AND FUND BALANCES | | | | | | | | | | | | |
| Liabilities | | | | | | | | | | | | |
| Accounts Payable | \$30,695 | | | | | | \$3,436 | | \$122,171 | | | \$156,302 |
| Accrued Wages | | | | | | | | | | | | 0 |
| Total Liabilities | 30,695 | 0 | 0 | 0 | 0 | 0 | 3,436 | 0 | 122,171 | 0 | 0 | 156,302 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | | | | | | |
| Deferred Property Taxes | | | | | | | | | | | 28,999 | 28,999 |
| Fund Balances | | | | | | | | | | | | |
| Non-Spendable | | | | | | | | | | | | |
| Inventories | 15,249 | | | | | | | | | | | 15,249 |
| Restricted | | | | | | | | | | | | 0 |
| Construction | | | | | | | | | | | | 0 |
| Culture and Recreation | 424,012 | | | 200,723 | | | 285,097 | | 758,151 | | 320,670 | 1,667,983 |
| Debt Service | | | | | | | | | | | | 320,670 |
| Public Safety | | \$9,625 | 7,370 | | | | | | | | | 16,995 |
| Committed | | | | | | | | | | | | |
| Construction | | | | | 218,851 | 5,186 | | | | | | 224,037 |
| Culture and Recreation | | | | | | | | 152,209 | | | | 152,209 |
| Public Transportation | | | | | | | | | | 468,534 | | 468,534 |
| Total Fund Balances | 439,261 | 9,625 | 7,370 | 200,723 | 218,851 | 5,186 | 285,097 | 152,209 | 758,151 | 468,534 | 320,670 | 2,865,677 |
| TOTAL LIABILITIES AND FUND BALANCES | \$469,956 | \$9,625 | \$7,370 | \$200,723 | \$218,851 | \$5,186 | \$288,533 | \$152,209 | \$880,322 | \$468,534 | \$349,669 | \$3,050,978 |

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

SPECIAL REVENUE

| | Airport Fund | Court Security Fund | Court Tech- nology Fund | Library Fund | Impact Fees Zone 1 Fund | Impact Fees Zone 2 Fund | Nature Preserve Funds | Park Dedica- tion Fees | Recreational Develop- ment Fund | Street Main- tenance Fund | Debt Service Fund | Total |
|--|-----------------|---------------------------|----------------------------------|-----------------|----------------------------------|----------------------------------|-----------------------------|---------------------------------|--|------------------------------------|-------------------------|-------------|
| REVENUES | | | | | | | | | | | | |
| Taxes | | | | | | | | | | | | |
| Property | | | | | | | | | | | \$1,206,118 | \$1,206,118 |
| Sales | | | | | | | | | 700,149 | | | 700,149 |
| Intergovernmental | 16,913 | | | 600 | | | 5,000 | | | | | 22,513 |
| Charges for Services | 168,956 | | | | 214,418 | | | 75,146 | | | | 458,520 |
| Fines and Forfeitures | | 4,020 | 5,368 | | | | | | | | | 9,388 |
| Interest | 4,149 | 97 | 47 | 342 | 2,044 | 46 | 1,906 | 2,145 | 5,870 | 4,068 | 1,770 | 22,484 |
| Miscellaneous | | | | 28,020 | | | 0 | | 30,972 | | | 58,992 |
| Total Revenues | 190,018 | 4,117 | 5,415 | 28,962 | 216,462 | 46 | 6,906 | 77,291 | 736,991 | 4,068 | 1,207,888 | 2,478,164 |
| EXPENDITURES | | | | | | | | | | | | |
| Current: | | | | | | | | | | | | |
| General Administration | | | | | | | | | | | | |
| Planning | | | | | | | | | | | | 0 |
| Public Safety | | | | | | | | | | | | |
| Municipal Court | | 979 | 4,385 | | | | | | | | | 5,364 |
| Public Transportation | | | | | | | | | | | | |
| Regional Transit | | | | | | | | | | 24,416 | | 24,416 |
| Culture and Recreation | | | | | | | | | | | | |
| Airport | 238,761 | | | | | | | | | | | 238,761 |
| Library | | | | 4,278 | | | | | | | | 4,278 |
| Nature Preserve | | | | | | | 266,285 | | | | | 266,285 |
| Park | | | | | | | | | 834,167 | | | 834,167 |
| Capital Projects - | | | | | | | | | | | | |
| Capital Outlay and Other | | | | | | | | | | | | 0 |
| Debt Service | | | | | | | | | | | | |
| Principal Retirement | | | | | | | | | | | 995,000 | 995,000 |
| Interest and Fiscal Charges | | | | | | | | | | | 282,324 | 282,324 |
| Total Expenditures | 238,761 | 979 | 4,385 | 4,278 | 0 | 0 | 266,285 | 0 | 834,167 | 24,416 | 1,277,324 | 2,650,595 |
| Excess (Deficiency) of Revenues Over (Under) | | | | | | | | | | | | |
| Expenditures | (48,743) | 3,138 | 1,030 | 24,684 | 216,462 | 46 | (259,379) | 77,291 | (97,176) | (20,348) | (69,436) | (172,431) |
| OTHER FINANCING SOURCES (USES): | | | | | | | | | | | | |
| Operating Transfers In | | | | | | | 259,853 | | 114,573 | | 150,000 | 524,426 |
| Operating Transfers Out | | | | | (150,000) | | | (114,573) | | | | (264,573) |
| Total Other Financing Sources (Uses) | 0 | 0 | 0 | 0 | (150,000) | 0 | 259,853 | (114,573) | 114,573 | 0 | 150,000 | 259,853 |
| Net Changes in Fund Balances | (48,743) | 3,138 | 1,030 | 24,684 | 66,462 | 46 | 474 | (37,282) | 17,397 | (20,348) | 80,564 | 87,422 |
| Fund Balances - Beginning | 488,004 | 6,487 | 6,340 | 176,039 | 152,389 | 5,140 | 284,623 | 189,491 | 740,754 | 488,882 | 240,106 | 2,778,255 |
| Fund Balances - Ending | \$439,261 | \$9,625 | \$7,370 | \$200,723 | \$218,851 | \$5,186 | \$285,097 | \$152,209 | \$758,151 | \$468,534 | \$320,670 | \$2,865,677 |

The notes to the financial statements are an integral part of this statement.

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
- BUDGET AND ACTUAL

CITY OF PORT ARANSAS, TEXAS
 AIRPORT FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|------------------|-----------|-----------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental | \$30,000 | \$30,000 | \$16,913 | (\$13,087) |
| Charges for Services | 166,500 | 166,500 | 168,956 | 2,456 |
| Interest | 1,000 | 1,000 | 4,149 | 3,149 |
| Total Revenues | 197,500 | 197,500 | 190,018 | (7,482) |
| EXPENDITURES | | | | |
| Current: | | | | |
| Culture and Recreation | | | | |
| Airport | 609,880 | 609,880 | 238,761 | 371,119 |
| Total Expenditures | 609,880 | 609,880 | 238,761 | 371,119 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (412,380) | (412,380) | (48,743) | 363,637 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers In | 0 | 0 | 0 | 0 |
| Operating Transfers Out | | | | 0 |
| Total Other Financing Sources (Uses) | 0 | 0 | 0 | 0 |
| Net Changes in Fund Balances | (412,380) | (412,380) | (48,743) | 363,637 |
| Fund Balances - Beginning | 488,004 | 488,004 | 488,004 | |
| Fund Balances - Ending | \$75,624 | \$75,624 | \$439,261 | \$363,637 |

CITY OF PORT ARANSAS, TEXAS
 COURT SECURITY FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|------------------|------------------|----------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Fines and Forfeitures | \$3,000 | \$3,000 | \$4,020 | \$1,020 |
| Interest | 50 | 50 | 97 | 47 |
| Total Revenues | <u>3,050</u> | <u>3,050</u> | <u>4,117</u> | <u>1,067</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public Safety | | | | |
| Municipal Court | 12,400 | 12,400 | 979 | 11,421 |
| Total Expenditures | <u>12,400</u> | <u>12,400</u> | <u>979</u> | <u>11,421</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (9,350) | (9,350) | 3,138 | 12,488 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers In | | | | 0 |
| Operating Transfers Out | | | | 0 |
| Total Other Financing Sources (Uses) | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Net Changes in Fund Balances | (9,350) | (9,350) | 3,138 | 12,488 |
| Fund Balances - Beginning | 6,487 | 6,487 | 6,487 | |
| Fund Balances - Ending | <u>(\$2,863)</u> | <u>(\$2,863)</u> | <u>\$9,625</u> | <u>\$12,488</u> |

CITY OF PORT ARANSAS, TEXAS
 COURT TECHNOLOGY FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|------------------|----------------|----------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Fines and Forfeitures | \$5,000 | \$5,000 | \$5,368 | \$368 |
| Interest | 20 | 20 | 47 | 27 |
| Total Revenues | <u>5,020</u> | <u>5,020</u> | <u>5,415</u> | <u>395</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public Safety | | | | |
| Municipal Court | 5,750 | 5,750 | 4,385 | 1,365 |
| Total Expenditures | <u>5,750</u> | <u>5,750</u> | <u>4,385</u> | <u>1,365</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (730) | (730) | 1,030 | 1,760 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers In | | | | 0 |
| Operating Transfers Out | | | | 0 |
| Total Other Financing Sources (Uses) | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Net Changes in Fund Balances | (730) | (730) | 1,030 | 1,760 |
| Fund Balances - Beginning | 6,340 | 6,340 | 6,340 | |
| Fund Balances - Ending | <u>\$5,610</u> | <u>\$5,610</u> | <u>\$7,370</u> | <u>\$1,760</u> |

CITY OF PORT ARANSAS, TEXAS
 IMPACT FEES ZONE 1
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|------------------|-----------|-----------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Charges for Services | \$200,000 | \$200,000 | \$214,418 | \$14,418 |
| Interest | 750 | 750 | 2,044 | 1,294 |
| Total Revenues | 200,750 | 200,750 | 216,462 | 15,712 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Capital Projects - | | | | |
| Capital Outlay and Other | 0 | 0 | 0 | 0 |
| Total Expenditures | 0 | 0 | 0 | 0 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 200,750 | 200,750 | 216,462 | 15,712 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers Out | (150,000) | (150,000) | (150,000) | 0 |
| Total Other Financing Sources (Uses) | (150,000) | (150,000) | (150,000) | 0 |
| Net Changes in Fund Balances | 50,750 | 50,750 | 66,462 | 15,712 |
| Fund Balances - Beginning | 152,389 | 152,389 | 152,389 | |
| Fund Balances - Ending | \$203,139 | \$203,139 | \$218,851 | \$15,712 |

CITY OF PORT ARANSAS, TEXAS
 IMPACT FEES ZONE 2
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|------------------|----------|---------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Charges for Services | \$5,365 | \$5,365 | \$0 | (\$5,365) |
| Interest | 35 | 35 | 46 | 11 |
| Total Revenues | 5,400 | 5,400 | 46 | (5,354) |
| EXPENDITURES | | | | |
| Current: | | | | |
| Capital Projects - | | | | |
| Capital Outlay and Other | 0 | 0 | 0 | 0 |
| Total Expenditures | 0 | 0 | 0 | 0 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 5,400 | 5,400 | 46 | (5,354) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers Out | | | | 0 |
| Total Other Financing Sources (Uses) | 0 | 0 | 0 | 0 |
| Net Changes in Fund Balances | 5,400 | 5,400 | 46 | (5,354) |
| Fund Balances - Beginning | 5,140 | 5,140 | 5,140 | |
| Fund Balances - Ending | \$10,540 | \$10,540 | \$5,186 | (\$5,354) |

CITY OF PORT ARANSAS, TEXAS
 NATURE PRESERVE PROJECT
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|------------------|-----------|-----------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental | \$0 | \$0 | \$5,000 | \$5,000 |
| Interest | 200 | 200 | 1,906 | 1,706 |
| Miscellaneous | 0 | 0 | 0 | 0 |
| Total Revenues | 200 | 200 | 6,906 | 6,706 |
| EXPENDITURES | | | | |
| Capital Projects - | | | | |
| Capital Outlay and Other | 377,950 | 377,950 | 266,285 | 111,665 |
| Total Expenditures | 377,950 | 377,950 | 266,285 | 111,665 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (377,750) | (377,750) | (259,379) | 118,371 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers In | 377,950 | 377,950 | 259,853 | (118,097) |
| Operating Transfers Out | | | | 0 |
| Total Other Financing Sources (Uses) | 377,950 | 377,950 | 259,853 | (118,097) |
| Net Changes in Fund Balances | 200 | 200 | 474 | 274 |
| Fund Balances - Beginning | 284,623 | 284,623 | 284,623 | |
| Fund Balances - Ending | \$284,823 | \$284,823 | \$285,097 | \$274 |

The notes to the financial statements are an integral part of this statement.

CITY OF PORT ARANSAS, TEXAS
 PARK DEDICATION FEES
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|------------------|------------------|------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Charges for Services | \$75,000 | \$75,000 | \$75,146 | \$146 |
| Interest | 500 | 500 | 2,145 | 1,645 |
| Total Revenues | <u>75,500</u> | <u>75,500</u> | <u>77,291</u> | <u>1,791</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Culture and Recreation | | | | |
| Park Dedication | 0 | 0 | 0 | 0 |
| Total Expenditures | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 75,500 | 75,500 | 77,291 | 1,791 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers Out | (120,000) | (120,000) | (114,573) | 5,427 |
| Total Other Financing Sources (Uses) | <u>(120,000)</u> | <u>(120,000)</u> | <u>(114,573)</u> | <u>5,427</u> |
| Net Changes in Fund Balances | (44,500) | (44,500) | (37,282) | 7,218 |
| Fund Balances - Beginning | 189,491 | 189,491 | 189,491 | |
| Fund Balances - Ending | <u>\$144,991</u> | <u>\$144,991</u> | <u>\$152,209</u> | <u>\$7,218</u> |

CITY OF PORT ARANSAS, TEXAS
 RECREATIONAL DEVELOPMENT FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|------------------|------------------|------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | | | | |
| Sales | \$679,900 | \$679,900 | \$700,149 | \$20,249 |
| Interest | 1,300 | 1,300 | 5,870 | 4,570 |
| Miscellaneous | 26,500 | 26,500 | 30,972 | 4,472 |
| Total Revenues | <u>707,700</u> | <u>707,700</u> | <u>736,991</u> | <u>29,291</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Culture and Recreation | | | | |
| Parks | 948,100 | 948,100 | 834,167 | 113,933 |
| Total Expenditures | <u>948,100</u> | <u>948,100</u> | <u>834,167</u> | <u>113,933</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (240,400) | (240,400) | (97,176) | 143,224 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers In | 120,000 | 120,000 | 114,573 | (5,427) |
| Total Other Financing Sources (Uses) | <u>120,000</u> | <u>120,000</u> | <u>114,573</u> | <u>(5,427)</u> |
| Net Changes in Fund Balances | (120,400) | (120,400) | 17,397 | 137,797 |
| Fund Balances - Beginning | 740,754 | 740,754 | 740,754 | |
| Fund Balances - Ending | <u>\$620,354</u> | <u>\$620,354</u> | <u>\$758,151</u> | <u>\$137,797</u> |

CITY OF PORT ARANSAS, TEXAS
 STREET MAINTENANCE FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|------------------|-----------|-----------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Interest | \$700 | \$700 | \$4,068 | \$3,368 |
| Total Revenues | 700 | 700 | 4,068 | 3,368 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public Transportation | | | | |
| Regional Transit | 45,000 | 45,000 | 24,416 | 20,584 |
| Total Expenditures | 45,000 | 45,000 | 24,416 | 20,584 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (44,300) | (44,300) | (20,348) | 23,952 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers In | 0 | 0 | 0 | 0 |
| Operating Transfers Out | 0 | (305,150) | 0 | 305,150 |
| Total Other Financing Sources (Uses) | 0 | (305,150) | 0 | 305,150 |
| Net Changes in Fund Balances | (44,300) | (349,450) | (20,348) | 329,102 |
| Fund Balances - Beginning | 488,882 | 488,882 | 488,882 | |
| Fund Balances - Ending | \$444,582 | \$139,432 | \$468,534 | \$329,102 |

CITY OF PORT ARANSAS, TEXAS
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|--|------------------|------------------|------------------|---|
| | Original | Final | | |
| <i>REVENUES</i> | | | | |
| Taxes | | | | |
| Property | \$1,139,115 | \$1,139,115 | \$1,206,118 | \$67,003 |
| Interest | 250 | 250 | 1,770 | 1,520 |
| Total Revenues | <u>1,139,365</u> | <u>1,139,365</u> | <u>1,207,888</u> | <u>68,523</u> |
| <i>EXPENDITURES</i> | | | | |
| Debt Service | | | | |
| Principal Retirement | 195,000 | 195,000 | 995,000 | (800,000) |
| Interest Retirement | 1,095,315 | 1,095,315 | 282,324 | 812,991 |
| Total Expenditures | <u>1,290,315</u> | <u>1,290,315</u> | <u>1,277,324</u> | <u>12,991</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (150,950) | (150,950) | (69,436) | 81,514 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers In | 150,000 | 150,000 | 150,000 | 0 |
| Operating Transfers Out | | | | 0 |
| Total Other Financing Sources (Uses) | <u>150,000</u> | <u>150,000</u> | <u>150,000</u> | <u>0</u> |
| Net Changes in Fund Balances | (950) | (950) | 80,564 | 81,514 |
| Fund Balances - Beginning | 240,106 | 240,106 | 240,106 | |
| Fund Balances - Ending | <u>\$239,156</u> | <u>\$239,156</u> | <u>\$320,670</u> | <u>\$81,514</u> |

SINGLE AUDIT SECTION

CITY OF PORT ARANSAS, TEXAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2017

| SOURCE AND TITLE OF GRANT | FEDERAL CFDA NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | PASS-THROUGH TO SUBRECIPIENTS | TOTAL FEDERAL EXPENDI- TURES |
|---|---------------------------|---|-------------------------------------|---------------------------------------|
| U.S. DEPARTMENT OF HOMELAND SECURITY | | | | |
| Direct Programs | | | | |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) (M) | 97.036 | | | |
| Debris Removal - Year 2017 | | 355-58808-11 (Cat. A) | NONE | <u>\$3,463,959</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | | <u><u>\$3,463,959</u></u> |

CFDA=CATALOGUE OF FEDERAL DOMESTIC ASSISTANCE NUMBER
 M=MAJOR PROGRAM
 NM=NONMAJOR PROGRAM
 See Accompanying Notes to Schedule of Federal Financial Assistance

BEYER & Co.
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Mayor and City Council
City of Port Aransas, 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 City of Port Aransas, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Port Aransas, Texas' basic financial statements and have issued our report thereon dated June 24, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Port Aransas, Texas' 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 City of Port Aransas, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Port Aransas, Texas' 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 City of Port Aransas, Texas' 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.

A handwritten signature in cursive script that reads "Wayne R. Beyer".

BEYER & COMPANY
Certified Public Accountants
June 24, 2018

BEYER & Co.
CERTIFIED PUBLIC ACCOUNTANTS

Wayne R. Beyer, C.P.A.

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Mayor and City Council
City of Port Aransas, Texas

Report on Compliance for Each Major Federal Program

We have audited the City of Port Aransas, Texas' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Port Aransas, Texas' major federal programs for the year ended September 30, 2017. The City of Port Aransas, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Port Aransas, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Port Aransas, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Port Aransas, Texas' compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Port Aransas, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance.

Report on Internal Control over Compliance

Management of the City of Port Aransas, Texas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Port Aransas, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Port Aransas, Texas' internal control over compliance.

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

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

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

Wayne R. Beyer

BEYER & COMPANY
Certified Public Accountants
June 24, 2018

CITY OF PORT ARANSAS, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NOTE A-BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Port Aransas, Texas under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Port Aransas, Texas, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Port Aransas, Texas.

NOTE B-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C-INDIRECT COST RATE

The City of Port Aransas, Texas has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D- BALANCES OF LOANS AND LOAN GUARANTEE PROGRAMS - None

CITY OF PORT ARANSAS, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Federal

There were no prior audit findings for Federal Awards.

CITY OF PORT ARANSAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the City of Port Aransas, Texas.
2. There was no significant deficiency disclosed during the audit. There was no material weakness disclosed during the audit.
3. There were no instances of noncompliance material to the financial statements of the City of Port Aransas, Texas, which would be required to be reported in accordance with Government Auditing Standards.
4. There was no significant deficiency over major Federal award programs disclosed during the audit. There was no material weakness over major Federal award programs disclosed during the audit.
5. The auditor's report on compliance for the major Federal award programs for City of Port Aransas, Texas expresses an unmodified opinion on all major Federal programs.
6. There were no audit findings that are required to be reported in accordance with the Uniform Guidance.
7. The programs tested as major programs: Disaster Grants - Public Assistance (Presidentially Declared Disasters) – CFDA 97.036.
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. City of Port Aransas did not qualify as a low-risk auditee.