

CITY OF KEMAH, TEXAS
GALVESTON COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2017

McCALL GIBSON SWEDLUND BARTFOOT PLLC
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of City Council
City of Kemah, Texas
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units and each major fund of the City of Kemah, Texas (the "City"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the preceding 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. 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 City'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 discretely presented component units and each major fund of the City as of September 30, 2017, and the respective changes in financial position for the year then ended in conformity 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 Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund, the Schedule of Changes in Net Pension Liability and Related Ratios, and the Schedule of City Contributions 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 the 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's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements and is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion, and 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

April 18, 2018

CITY OF KEMAH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Management's discussion and analysis of the City of Kemah, Texas (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2017.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) the government-wide financial statements, (2) the fund financial statements, and (3) the notes to the financial statements. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The government-wide financial statements are prepared utilizing the economic resources measurement focus and the accrual basis of accounting. The Statement of Net Position presents information on the City's assets, liabilities and, if applicable deferred inflows and outflows of resources with the difference 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 non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. streets and sidewalks, etc.), to assess the overall health or 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 of the revenues and expenses are taken into account as soon as the underlying event giving rise to the item 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.

In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities:

- * Governmental Activities - Most of the City's basic services are reported here, including police, public works, municipal courts, and general administration. Property taxes, sales taxes, franchise fees, fines and forfeitures finance most of these activities.

CITY OF KEMAH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

- * Component Units – The City includes two separate legal entities in its report – the Kemah Community Development Corporation (“KCDC”) and the Kemah Public Facilities Corporation (“KPFC”). The Kemah Public Facilities Transportation Corporation (“KPFTC”) was closed during the current year. Although legally separate, these component units are included because the City is financially accountable for them. The KCDC issues separate financial statements which are available from the City.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has two governmental fund types. The General Fund accounts for resources not accounted for in another fund, general revenues, operating costs and general expenditures. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Governmental funds are reported in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. The focus in the fund statements provides a distinctive view of the City’s governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the City and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information (“RSI”) concerning the City’s progress in funding its obligation to provide pension benefits to its employees and a budgetary comparison schedule.

CITY OF KEMAH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

OTHER INFORMATION (Continued)

The City adopts an annual unappropriated budget for its General Fund. A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the City's financial position. In the case of the governmental activities of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$17,430,091 as of September 30, 2017. As of September 30, 2016, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$15,206,977.

A portion of the City's net position reflects its net investment in capital assets (buildings, land, streets, sidewalks, and infrastructure less any debt used to acquire those assets that is still outstanding).

The following is a comparative analysis of government-wide changes in net position:

	Summary of Changes in the Statement of Net Position - Governmental Activities		
	2017	2016	Change Positive (Negative)
Current and Other Assets	\$ 6,028,107	\$ 5,287,261	\$ 740,846
Capital Assets (Net of Accumulated Depreciation)	11,849,734	9,972,363	1,877,371
Total Assets	\$ 17,877,841	\$ 15,259,624	\$ 2,618,217
Deferred Outflows of Resources	\$ 353,144	\$ 386,397	\$ (33,253)
Other Liabilities	\$ 788,983	\$ 432,153	\$ (356,830)
Deferred Inflows of Resources	\$ 11,911	\$ 6,891	\$ (5,020)
Net Position:			
Net Investment in Capital Assets	\$ 12,430,356	\$ 9,972,363	\$ 2,457,993
Restricted	1,445,499	1,430,839	14,660
Unrestricted	3,554,236	3,803,775	(249,539)
Total Net Position	\$ 17,430,091	\$ 15,206,977	\$ 2,223,114

CITY OF KEMAH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the City's operations for the years ended September 30, 2017, and September 30, 2016. The City increased its net position by \$2,223,114, accounting for a 14.6% increase in net position. This compares with an increase in net position of \$829,933 in the prior year.

	Summary of Changes in the Statement of Activities - Governmental Activities		
	2017	2016	Change Positive (Negative)
Revenues:			
Program Revenues -			
Charges for Services	\$ 655,213	\$ 617,588	\$ 37,625
Capital Grants and Contributions	303,391	49,609	253,782
General Revenues -			
Property Taxes	599,305	678,468	(79,163)
Sales Taxes	2,784,687	2,776,848	7,839
Investment Revenues	5,958	1,705	4,253
Other Revenues	3,786,934	1,918,558	1,868,376
Total Revenues	\$ 8,135,488	\$ 6,042,776	\$ 2,092,712
Expenses:			
General Government	\$ 1,524,817	\$ 1,400,420	\$ (124,397)
Public Works	1,217,701	1,183,352	(34,349)
Police Department	2,357,636	2,149,428	(208,208)
Municipal Courts	284,317	287,818	3,501
Advertising and Tourism	527,903	191,825	(336,078)
Total Expenses	\$ 5,912,374	\$ 5,212,843	\$ (699,531)
Change in Net Position	\$ 2,223,114	\$ 829,933	\$ 1,393,181
Net Position, Beginning of Year	15,206,977	14,377,044	829,933
Net Position, End of Year	\$ 17,430,091	\$ 15,206,977	\$ 2,223,114

**CITY OF KEMAH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

FINANCIAL ANALYSIS OF THE CITY'S GOVERNMENTAL FUNDS

The City's fund balance as of the fiscal year ended September 30, 2017, was \$5,554,757, an increase of \$476,315 from the prior year.

The General Fund fund balance decreased by \$104,307, primarily due to transfers to the Capital Project Fund.

The Capital Projects Fund fund balance increased by \$580,622, primarily due to transfers from the General Fund and KCDC, which exceeded current year capital outlay costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City amended the budget during the current fiscal year to adjust the amount of budgeted transfers to the Capital Projects Fund. Actual revenue was \$582,673 more than budgeted revenue. Actual expenditures were \$238,280 more than budgeted expenditures.

CAPITAL ASSETS

Capital assets as of September 30, 2017, total \$11,849,734 (net of accumulated depreciation) and include buildings, furniture, fixtures, equipment, and vehicles as well as the streets and culverts within the City.

Capital Assets At Year-End Net of Accumulated Depreciation	
Capital Assets Not Subject to Depreciation:	
Land and Land Improvements	\$ 898,968
Construction in Progress	821,752
Capital Assets Subject to Depreciation:	
Buildings and Improvements	2,272,469
Park Improvements	170,283
Vehicles and Equipment	290,808
Furniture, Software and Office Equipment	94,667
Storm Water Pump Station	895,446
Streets and Culverts	6,405,341
Total Net Capital Assets	\$ 11,849,734

CONTACTING THE CITY'S MANAGEMENT

This financial report is designed to provide a general overview of the City. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Kemah, 1401 State Highway 146, Kemah, Texas 77565.

CITY OF KEMAH, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Primary Government	Discretely Presented Component Units
	Governmental Activities	
ASSETS		
Cash and Cash Equivalents	\$ 2,294,597	\$ 760,132
Investments	3,510,946	974,555
Receivables:		
Property Taxes	32,787	
Other	155,777	
Due from Component Unit	237	
Inventory	33,763	
Land	898,968	1,403,725
Construction in Progress	821,752	
Capital Assets (Net of Accumulated Depreciation)	10,129,014	
TOTAL ASSETS	\$ 17,877,841	\$ 3,138,412
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows - Pension	\$ 353,144	\$ -0-
LIABILITIES		
Accounts Payable	\$ 475,527	\$ 1,177
Net Pension Liability	313,456	
Due to Primary Government		237
TOTAL LIABILITIES	\$ 788,983	\$ 1,414
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - Pension	\$ 11,911	\$ -0-
NET POSITION		
Net Investment in Capital Assets	\$ 12,430,356	\$ 1,403,725
Restricted for:		
Police Programs	13,879	
Court Security	51,285	
Court Technology	75,552	
Tourism	1,304,783	
Unrestricted	3,554,236	1,733,273
TOTAL NET POSITION	\$ 17,430,091	\$ 3,136,998

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

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**CITY OF KEMAH, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES			
General Government	\$ 1,524,817	\$ 285,396	\$
Public Works	1,217,701		303,391
Police Department	2,357,636	331,023	
Municipal Court	284,317	38,794	
Advertising and Tourism	527,903		
TOTAL GOVERNMENTAL ACTIVITIES	\$ 5,912,374	\$ 655,213	\$ 303,391
COMPONENT UNITS	\$ 133,105	\$ - 0 -	\$ - 0 -

GENERAL REVENUES

Property Taxes
Sales Taxes
Franchise Fees
Hotel Taxes
Mixed Beverage Taxes
Parking Revenues
Investment Revenues
Intergovernmental Revenues
Other
Transfers

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION - OCTOBER 1, 2016

NET POSITION - SEPTEMBER 30, 2017

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

Net (Expense) Revenue and Changes in Net Position	
Primary Government	
Governmental Activities	Component Units
\$ (1,239,421)	\$
(914,310)	
(2,026,613)	
(245,523)	
<u>(527,903)</u>	<u></u>
\$ (4,953,770)	\$ - 0 -
\$ - 0 -	\$ (133,105)
\$ 599,305	\$
2,784,687	928,229
245,481	
566,243	
190,711	
44,400	
5,958	1,400
144,115	
195,984	
<u>2,400,000</u>	<u>(2,400,000)</u>
\$ 7,176,884	\$ (1,470,371)
\$ 2,223,114	\$ (1,603,476)
<u>15,206,977</u>	<u>4,740,474</u>
\$ <u>17,430,091</u>	\$ <u>3,136,998</u>

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

CITY OF KEMAH, TEXAS
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2017

	General Fund	Capital Projects Fund	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,666,737	\$ 627,860	\$ 2,294,597
Investments	3,510,946		3,510,946
Receivables:			
Property Taxes	32,787		32,787
Other	155,777		155,777
Due from Component Units	237		237
Inventory	33,763		33,763
TOTAL ASSETS	\$ 5,400,247	\$ 627,860	\$ 6,028,107
LIABILITIES			
Accounts Payable	\$ 393,325	\$ 47,238	\$ 440,563
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	\$ 32,787	\$ -0-	\$ 32,787
FUND BALANCES			
Nonspendable for Inventory	\$ 33,763	\$	\$ 33,763
Restricted:			
For Police	13,879		13,879
For Capital Projects		580,622	580,622
For Court Security	51,285		51,285
For Court Technology	75,552		75,552
For Tourism	1,304,783		1,304,783
Committed for Performance Rebate Payment	3,000,000		3,000,000
Assigned for Emergencies	494,873		494,873
TOTAL FUND BALANCES	\$ 4,974,135	\$ 580,622	\$ 5,554,757
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 5,400,247	\$ 627,860	\$ 6,028,107

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

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

Total Fund Balance - Governmental Funds	\$ 5,554,757
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>The net pension liability is not a current financial resource and, therefore, is not reported as a liability in the governmental funds.</p>	(313,456)
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.</p>	11,849,734
<p>Portions of the change in net pension asset that are not immediately recognized as pension expense are recorded as deferred outflows and inflows of resources.</p>	341,233
<p>Deferred inflows of resources related to property tax revenues for the 2016 and prior tax levies became part of recognized revenue in the governmental activities of the District.</p>	32,787
<p>Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of compensated absences.</p>	<u>(34,964)</u>
Total Net Position - Governmental Activities	<u>\$ 17,430,091</u>

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

CITY OF KEMAH, TEXAS
GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Capital Projects Fund	Total
REVENUES			
Property Taxes and Penalties	\$ 598,309	\$	\$ 598,309
Sales Taxes	2,784,687		2,784,687
Franchise Fees	245,481		245,481
Hotel Taxes	566,243		566,243
Mixed Beverage Taxes	190,711		190,711
Permits and Licenses	285,396		285,396
Fines and Forfeitures	369,817		369,817
Parking Revenues	44,400		44,400
Investment Revenues	5,749	209	5,958
Grant Revenues	303,391		303,391
Intergovernmental Revenues	144,115		144,115
Other	195,969	15	195,984
TOTAL REVENUES	\$ 5,734,268	\$ 224	\$ 5,734,492
EXPENDITURES			
General Government	\$ 1,328,184	\$	\$ 1,328,184
Public Works	998,187		998,187
Police Department	2,243,061		2,243,061
Municipal Court	283,318		283,318
Advertising and Tourism	527,903		527,903
Capital Outlay		2,277,524	2,277,524
TOTAL EXPENDITURES	\$ 5,380,653	\$ 2,277,524	\$ 7,658,177
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 353,615	\$ (2,277,300)	\$ (1,923,685)
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$ (457,922)	\$ 2,857,922	\$ 2,400,000
NET CHANGE IN FUND BALANCES	\$ (104,307)	\$ 580,622	\$ 476,315
FUND BALANCES - OCTOBER 1, 2016	5,078,442		5,078,442
FUND BALANCES - SEPTEMBER 30, 2017	\$ 4,974,135	\$ 580,622	\$ 5,554,757

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

CITY OF KEMAH, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Net Change in Fund Balance - Governmental Funds	\$	476,315
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		996
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Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(656,003)
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The changes in the net pension asset as well as deferred outflows and inflows of resources are recorded as pension expense in the government-wide financial statements. Compensated absences are reported as a liability in the Statement of Net Position. Therefore, an expense is recorded in the statement of Activities.		(131,568)
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Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		<u>2,533,374</u>
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Change in Net Position - Governmental Activities	\$	<u>2,223,114</u>
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The accompanying notes to the financial statements are an integral part of this report.

**CITY OF KEMAH, TEXAS
 COMPONENT UNITS BALANCE SHEET
 SEPTEMBER 30, 2017**

	KCDC	KPFTC	Total
ASSETS			
Cash and Cash Equivalents	\$ 760,132	\$	\$ 760,132
Investments	974,555		974,555
TOTAL ASSETS	\$ 1,734,687	\$ - 0 -	\$ 1,734,687
LIABILITIES			
Accounts Payable	\$ 1,177	\$	\$ 1,177
Due to Primary Government	237		237
TOTAL LIABILITIES	\$ 1,414	\$ - 0 -	\$ 1,414
FUND BALANCES			
Unassigned	\$ 1,733,273	\$ - 0 -	\$ 1,733,273
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,734,687	\$ - 0 -	\$ 1,734,687

* The KPFC has a zero fund balance at year-end and the KPFTC was closed during the current year.

Reconciliation to the Government-wide Statement of Net Position

Fund Balance	\$ 1,733,273
Adjustment for land	1,403,725
Net Position for Discretely Presented Component Units	\$ 3,136,998

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

CITY OF KEMAH, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	KCDC	KPFTC	Total
REVENUES			
City Sales Taxes	\$ 928,229	\$	\$ 928,229
Investment Revenues	1,400		1,400
TOTAL REVENUES	\$ 929,629	\$ - 0 -	\$ 929,629
EXPENDITURES			
Service Operations:			
Administrative	\$ 60,404	\$	\$ 60,404
Operations	780		780
Advertising/Promotions	65,825		65,825
City Improvements	3,770		3,770
TOTAL EXPENDITURES	\$ 130,779	\$ - 0 -	\$ 130,779
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 798,850	\$ - 0 -	\$ 798,850
OTHER FINANCING SOURCES (USES)			
Transfers (To)from Primary Government	\$ (900,000)	\$ (1,500,000)	\$ (2,400,000)
NET CHANGE IN FUND BALANCES	(101,150)	(1,500,000)	(1,601,150)
FUND BALANCES - OCTOBER 1, 2016	1,834,423	1,500,000	3,334,423
FUND BALANCES - SEPTEMBER 30, 2017	\$ 1,733,273	\$ - 0 -	\$ 1,733,273

* The KPFC has a zero fund balance at year-end and the KPFTC was closed during the current year.

Reconciliation to the Government-wide Statement of Activities

Net Change in Fund Balance	\$ (1,601,150)
Adjustment for depreciation	(2,326)
Change in Net Position	\$ (1,603,476)

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

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CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1. CREATION OF CITY

The City of Kemah, Texas (the “City”) was incorporated on March 22, 1965, under the provisions of the State of Texas. The City operates under a Council-Mayor form of government and provides the following services as authorized by general law; public safety, maintenance and improvements to highways and streets, public improvements, and general administrative services.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The City is a political subdivision of the State of Texas governed by an elected board. The Governmental Accounting Standards Board (“GASB”) has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the City is considered a primary government and is not a component unit of any other government. Additionally, the KCDC and KPFC meet the criteria for inclusion in the City’s financial statement as component units.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the GASB. Based on these considerations, the City’s basic financial statements include the Kemah Community Development Corporation (KCDC), as a component unit of the City. The KCDC was incorporated on October 9, 1998, as a not-for-profit corporation for the specific public purpose of the promotion and development of commercial, industrial and manufacturing enterprises to promote and encourage employment and the public welfare. The KCDC may issue bonds on behalf of the City for the Corporation’s public purpose. The KCDC is managed by a Board of Directors consisting of seven members who serve two-year terms. The City Council has sole authority to appoint the Directors of KCDC. The assets are managed by the Board of Directors. The financial records are maintained by City. Copies of the financial statements for KCDC may be obtained from the City Secretary’s office.

The Kemah Public Facilities Corporation (KPFC) also meets the above criteria and is a component unit of the City. The KPFC was incorporated on October 5, 2001, as a non-profit corporation. The KPFC was created under the Texas Public Facility Act to finance, refinance or otherwise provide the costs of public facilities in the City. The KPFC is managed by a Board of Directors made up of the Mayor and Council Members of the City of Kemah. Separate financial statements are not issued on the KPFC. This fund has a zero fund balance at year-end.

The Kemah Public Facility Transportation Corporation (KPFTC) also meets the above criteria and is a component unit of the City. The KPFTC was incorporated in 2014, as a non-profit corporation and was closed during the current year with a \$1,500,000 transfer to the City’s General Fund.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of net position imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of net position that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the City’s policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the City as a whole. The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain total revenue and expense of the government-wide Statement of Activities.

Fund Financial Statements

The City's fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The City has two governmental funds and considers both to be major funds.

General Fund - To account for resources not required to be accounted for in another fund, general revenues, costs and general expenditures.

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

The City uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The City considers revenue reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

All City infrastructure assets with a useful life of at least two years and a total cost of \$5,000; infrastructure assets with a useful life of at least two years and a total cost of \$10,000 such as roads and sidewalks and other capital assets with a total cost of \$10,000 or more (including installation costs, if any, and associated professional fees) shall be capitalized and depreciated using no salvage value and the straight line method of depreciation. Estimated useful lives are as follows:

	<u>Years</u>
Buildings	40
Furniture and Fixtures	3-20
Machinery and Equipment	5-20
Vehicles	5
Roads and Sidewalks	10
Streets and Culverts	30
Infrastructure	10-45
Other Assets	10

Program Revenues

In the Statement of Activities, program revenues include fines and forfeitures, licenses and permits, and grant proceeds.

Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time, permanent employees to specified maximums. Generally, such leave may be accumulated to the following year; however, at no time may unused sick leave be paid in monetary compensation either during employment or upon termination. Vacation pay accrues and becomes payable after one year of

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Continued)

employment. Unused vacation pay can be carried over, but only up to 240 hours. Upon termination, any unused vacation time is paid. At September 30, 2017, total amounts accrued for vacation leave was \$34,964.

Budgeting

In compliance with governmental accounting principles, the City Council annually adopts an unappropriated budget for the General Fund. The budget was amended during the current fiscal year.

Pensions

For employees of the City, a pension plan has been established (see Note 8).

Inventory

Inventory is recorded at the replacement cost basis. Replacement cost is based upon the current cost to replace the individual item (See Note 5).

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Nonspendable: 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 imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the City. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The City has committed \$3,000,000 of its General Fund fund balance for the fulfillment of the performance rebate payment. See Note 13.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The City has not adopted a formal policy regarding the assignment of fund balances. The City has assigned \$494,873 for emergencies. See Note 7 for more detail.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the City considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

Revenue Recognition - Property Taxes

Property taxes considered available by the City and included in revenue included taxes collected during the year and taxes collected after year end which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the City does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition - Property Taxes (Continued)

The City's tax calendar is as follows:

Levy Date	-	October 1, as soon thereafter as practicable.
Lien Date	-	January 1.
Due Date	-	Upon receipt, but not later than January 31.
Delinquent Date	-	February 1, at which time the taxpayer is liable for penalty and interest.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. MAINTENANCE TAX

During the year ended September 30, 2017, the City levied an ad valorem maintenance tax rate of \$0.219214 per \$100 of assessed valuation, which resulted in a tax levy of \$601,588 on the adjusted assessed property valuation of approximately \$273,906,696. At the balance sheet date, the City recorded taxes receivable of \$32,787 in the General Fund.

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The City's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the City of securities eligible under the laws of Texas to secure the funds of the City, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the City's and KCDC's deposits was \$7,540,230 and the bank balance was \$5,898,321. The City was not exposed to custodial credit risk at year-end.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at September 30, 2017, as listed below:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
GENERAL FUND	\$ 1,666,737	\$ 3,510,946	\$ 5,177,683
CAPITAL PROJECTS FUND	627,860		627,860
COMPONENT UNITS	<u>760,132</u>	<u>974,555</u>	<u>1,734,687</u>
TOTAL DEPOSITS	<u>\$ 3,054,729</u>	<u>\$ 4,485,501</u>	<u>\$ 7,540,230</u>

Investments

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all City funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the City’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The City’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest City funds without express written authority from the City Council.

Texas statutes include specifications for and limitations applicable to the City and its authority to purchase investments as defined in the Public Funds Investment Act. The City has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The City’s investment policy may be more restrictive than the Public Funds Investment Act.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of September 30, 2017, the City had the following investments and maturities:

<u>Fund and Investment Type</u>	<u>Fair Value</u>	<u>Maturities Less Than 1 Year</u>	<u>Thereafter</u>
<u>GENERAL FUND</u>			
Certificates of Deposit	\$ 3,510,946	\$ 3,510,946	\$
<u>COMPONENT UNITS</u>			
Certificates of Deposit	<u>974,555</u>	<u>974,555</u>	<u> </u>
TOTAL INVESTMENTS	<u>\$ 4,485,501</u>	<u>\$ 4,485,501</u>	<u>\$ - 0 -</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The City manages credit risk by typically investing in certificates of deposit with balances below FDIC coverage or covered by pledged securities for any amounts exceeding FDIC coverage.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City manages interest rate risk by investing in certificates of deposit with maturities of less than two years.

Restrictions

All cash and investments of the Component Units are restricted for activities of each specific component unit.

NOTE 5. INVENTORY

Inventory consists of materials and supplies on hand at September 30, 2017, stated at replacement cost. Inventory in the amount of \$33,763 has been recorded as of September 30, 2017.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 6. CAPITAL ASSETS AND DEPRECIATION

The following is a summary of changes in capital assets for the year ended September 30, 2017.

	October 1, 2016	Increases	Decreases	September 30, 2017
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 898,968	\$	\$	\$ 898,968
Construction in Progress	<u>312,504</u>	<u>2,533,374</u>	<u>2,024,126</u>	<u>821,752</u>
Total Capital Assets Not Being Depreciated	<u>\$ 1,211,472</u>	<u>\$ 2,533,374</u>	<u>\$ 2,024,126</u>	<u>\$ 1,720,720</u>
Capital Assets Subject to Depreciation				
Buildings and Improvements	\$ 2,050,490	\$ 1,198,688	\$	\$ 3,249,178
Park Improvements	690,712			690,712
Vehicles and Equipment	1,602,373		16,600	1,585,773
Furniture, Software and Office Equipment	774,470			774,470
Storm Water Pump Station	1,229,410			1,229,410
Street and Culverts	<u>9,593,903</u>	<u>825,438</u>		<u>10,419,341</u>
Total Capital Assets Subject to Depreciation	<u>\$ 15,941,358</u>	<u>\$ 2,024,126</u>	<u>\$ 16,600</u>	<u>\$ 17,948,884</u>
Less Accumulated Depreciation				
Buildings and Improvements	\$ 904,453	\$ 72,256	\$	\$ 976,709
Park Improvements	431,264	89,165		520,429
Vehicles and Equipment	1,199,299	112,266	16,600	1,294,965
Furniture, Software and Office Equipment	635,126	44,677		679,803
Storm Water Pump Station	272,493	61,471		333,964
Street and Culverts	<u>3,737,832</u>	<u>276,168</u>		<u>4,014,000</u>
Total Accumulated Depreciation	<u>\$ 7,180,467</u>	<u>\$ 656,003</u>	<u>\$ 16,600</u>	<u>\$ 7,819,870</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 8,760,891</u>	<u>\$ 1,368,123</u>	<u>\$ - 0 -</u>	<u>\$ 10,129,014</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 9,972,363</u>	<u>\$ 3,901,497</u>	<u>\$ 2,024,126</u>	<u>\$ 11,849,734</u>

Depreciation categorized by department at September 30, 2017, is as follows:

General Government	\$ 93,977
Police Department	92,597
Public Works	<u>469,429</u>
Total	<u>\$ 656,003</u>

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 6. CAPITAL ASSETS AND DEPRECIATION (Continued)

The following is a summary of changes in the capital assets of the KCDC for the year ended September 30, 2017.

	October 1, 2016	Increases	Decreases	September 30, 2017
Capital Assets Not Being Depreciated				
Land and Land Improvements	<u>\$ 95,725</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 95,725</u>

The following is a summary of changes in the capital assets of the KPFC for the year ended September 30, 2017.

	October 1, 2016	Increases	Decreases	September 30, 2017
Capital Assets Not Being Depreciated				
Land and Land Improvements	<u>\$ 1,308,000</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 1,308,000</u>
Capital Assets Subject to Depreciation				
Parking Lot	<u>\$ 35,249</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 35,249</u>
Less Accumulated Depreciation				
Parking Lot	<u>\$ 32,923</u>	<u>\$ 2,326</u>	<u>\$ - 0 -</u>	<u>\$ 35,249</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 2,326</u>	<u>\$ (2,326)</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 1,310,326</u>	<u>\$ (2,326)</u>	<u>\$ - 0 -</u>	<u>\$ 1,308,000</u>

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7. FUND BALANCES - GENERAL FUND

As of October 1, 2009, the City assigned \$500,671, plus interest earnings to be used solely for emergencies that may arise in the future. As of September 30, 2017, the amount of the fund balance assigned for emergencies is \$494,873.

During the current fiscal year, the City collected \$566,243 in hotel occupancy taxes. These funds can only be used to directly enhance and promote tourism and the convention and hotel industry. The City expended \$527,903 in such endeavors and earned \$1,160 in interest on these funds. At September 30, 2017, \$1,304,783 remains restricted for tourism expenditures.

The City collects fees restricted for improving court security and court technology on certain fines in the municipal court. At year end, \$51,285 was restricted for court security and \$75,552 was restricted for court technology.

The City also occasionally receives contra-band collections from the state for seizures made in the City. These funds must be spent on items that assist the police departments' narcotics division. At year end, \$13,879 of contra-band collections was restricted for the police department.

NOTE 8. PENSION PLAN

Plan Description

The City participates as one of 881 plans in the nontraditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System ("TMRS"). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the system with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained from TMRS' website at www.TMRS.com.

All eligible employees of the city are required to participate in TMRS.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 8. PENSION PLAN (Continued)

Benefits Provided

TMRS provides retirement, disability and death benefits. Benefit provisions are adopted by the governing body of the City, within options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest. A member city may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of a calendar year.

The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS. The City has elected that members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. Members may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

At December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	36
Active employees	35
Total	84

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for the City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 8. PENSION PLAN (Continued)

Contributions (Continued)

Employees for the City were required to contribute 7% of their annual gross earnings during the current fiscal year. The contribution rates for the City were 5.23% and 6.62% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$134,608 and were equal to the required contributions.

Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumption:

Actuarial valuation date	12/31/16
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining Amortization period	27 years
Asset Valuation Method	10-year smoothed market; 15% soft corridor
Actuarial Assumptions:	
Investment return	6.75%
Projected salary increases	3.5% to 10.5% including inflation
Inflation	2.5%
Cost-of-living adjustments	0.00%

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.

The Total Pension Liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions: inflation 2.5% per year, overall payroll growth 2.3% per year and investment rate of return 6.75%, net of pension plan investment expense, including inflation. Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 8. PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. TMRS has chosen to adopt a rebalancing policy that is governed by allocation ranges rather than time periods. The ranges specified in the table below, are a function of the volatility of each asset class and the proportion of the total funds allocated to the asset class.

Asset Class	Minimum %	Target %	Maximum %
U.S. Equities	12.5%	17.5%	22.5%
International Equities	12.5%	17.5%	22.5%
Core Fixed Income	5.0%	10.0%	15.0%
Non-Core Fixed Income	15.0%	20.0%	25.0%
Real Estate	5.0%	10.0%	15.0%
Real Return	5.0%	10.0%	15.0%
Absolute Return	5.0%	10.0%	15.0%
Private Equity	0.0%	5.0%	10.0%
Cash Equivalents	0.0%	0.0%	10.0%

The goal of the rebalancing policy is to ensure that the integrity of the strategic target allocation is preserved through a disciplined process that allows investment staff the flexibility to rebalance the portfolio within TMRS approved ranges, to adjust for market movements and consider current market conditions, or valuations, in portfolio allocations.

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

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 8. PENSION PLAN (Continued)

Changes in Net Pension Liability/(Asset) for the measurement year ended December 31, 2016, are as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Position Liability/(Asset) (a)-(b)
Balances of December 31, 2015	\$ 4,069,487	\$ 3,814,362	\$ 255,125
Changes for the year:			
Service cost	268,427		268,427
Interest on total pension liability	279,741		279,741
Difference between expected and actual experience	16,704		16,704
Benefit Payments, including refunds of employee contributions	(118,791)	(118,791)	
Administrative expenses		(2,911)	2,911
Employer Contributions		107,719	(107,719)
Employee Contributions		143,984	(143,984)
Net Investment Income		257,906	(257,906)
Other		(157)	157
Balances of December 31, 2016	<u>\$ 4,515,568</u>	<u>\$ 4,202,112</u>	<u>\$ 313,456</u>

Sensitivity Analysis - The following presents the net pension liability/(asset) of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability (assets) would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	5.75%	6.75%	7.75%
Net pension liability/(asset)	<u>\$ 998,691</u>	<u>\$ 313,456</u>	<u>\$ (239,734)</u>

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 8. PENSION PLAN (Continued)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained from TMRS' website at www.TMRS.com.

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

For the year ended September 30, 2017, the City recognized pension expense of \$134,608.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -0-	\$ 11,911
Changes in actuarial assumptions	78,117	-0-
Difference between projected and actual earnings	168,101	-0-
Contributions subsequent to the measurement date	106,926	-0-
Total	353,144	11,911

\$106,926 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2017	\$ 80,184
2018	80,183
2019	72,340
2020	1,600
Thereafter	-0-
Total	234,307

NOTE 9. SUPPLEMENTAL DEATH BENEFITS PLAN

The City also participates in the cost-sharing multiple-employer defined benefit group term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 9. SUPPLEMENTAL DEATH BENEFITS PLAN (Continued)

SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

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

The City's contribution for the retirees to the TMRS SBDF for the years ended 2017, 2016 and 2015 were \$3,111, \$2,618, and \$2,292, respectively, which equaled the required contributions each year.

NOTE 10. RISK ASSESSMENT

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters. The City participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, general liability, automobile, boiler and machinery, mobile equipment, law enforcement, crime coverage, errors and omissions and workers compensation coverage. The City, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise, they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 11. GRANT PROGRAM

On December 14, 2015, the City was awarded a grant under Title 1 of the Housing and Community Development Act of 1974 from the Texas Department of Agriculture (the "Department") in the amount of \$350,000. The award was used to fund the construction and engineering of water line improvements on Kipp Avenue, from Bel Road to 10th Street.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 12. AGREEMENT FOR DEVELOPMENT AND OPERATION OF PUBLIC PARK

On December 7, 2009, the City entered into the Agreement with the County of Galveston for development and operation of a public park located in the M. Muldoon League. The City agrees to build and construct public park recreational amenities and landscaping (Improvements) as conceptualized in that one certain Master Plan dated May 11, 2007. The Improvements will also be constructed within time parameters agreed to by both parties and in accordance with mutually agreed upon plans and specifications. The Improvements constructed by City shall belong to and remain the property of City during the full term of this Agreement. The term of this agreement is 30 years as of the commencement date.

NOTE 13. 380 AGREEMENT WITH DEVELOPER

The City desires to further the public interest and welfare and to induce the investment of private resources in productive business enterprises located in certain areas of the City in order to result in new economic development in the City, generation of sales tax revenues and provide new jobs, which will have a direct and positive economic benefit to the City. To accomplish this, the City has entered into an economic development incentive agreement (the "Agreement") with Kemah Investment Partners, LLC (the "Developer") to have the City create by ordinance a new City grant program for funding this infrastructure under Chapter 380, Texas Local Government Code.

The Developer intends to build, lease and operate a new shopping center containing approximately 76,000 square feet of retail stores on a certain tract of land consisting of approximately 11.723 acres within the City. The Developer also agrees to design and construct a two-lane roadway extending from 518 East to the rear of the proposed buildings, which will be dedicated to the City upon completion.

Under the agreement, the City shall be obligated to pay a performance rebate payment, in the amount of \$3,000,000 to the Developer, after the shopping center becomes operational, which is defined in the agreement as at least ninety percent (90%) of the square footage of the shopping center is 1.) leased, 2.) open to the public for business, and 3.) has received a certificate of occupancy. In return, the Developer guarantees annual sales tax revenue from the shopping center up to the amount of the performance threshold, from the time that the shopping center becomes operational until the total sales tax revenues from the shopping center equal \$3,000,000. Once the total sales tax revenues from the shopping center equal \$3,000,000, the Developer's guarantee shall automatically terminate, and this agreement shall automatically terminate. As of September 30, 2017, the City has committed \$3,000,000 of its General Fund fund balance for anticipated payment to the Developer in fiscal year 2018, in accordance with this agreement.

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CITY OF KEMAH, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2017

CITY OF KEMAH, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes and Penalties	\$ 580,000	\$ 580,000	\$ 598,309	\$ 18,309
Sales Taxes	2,800,000	2,800,000	2,784,687	(15,313)
Franchise Fees	240,670	240,670	245,481	4,811
Hotel Taxes	600,750	600,750	566,243	(34,507)
Mixed Beverage Taxes	190,000	190,000	190,711	711
Permits and Licenses	121,300	121,300	285,396	164,096
Fines and Forfeitures	424,700	424,700	369,817	(54,883)
Investment Revenues	700	700	5,749	5,049
Parking Revenues	50,000	50,000	44,400	(5,600)
Grant Revenues			303,391	303,391
Intergovernmental Revenues	50,000	50,000	144,115	94,115
Other	93,475	93,475	195,969	102,494
TOTAL REVENUES	<u>\$ 5,151,595</u>	<u>\$ 5,151,595</u>	<u>\$ 5,734,268</u>	<u>\$ 582,673</u>
EXPENDITURES				
General Government	\$ 1,334,426	\$ 1,334,426	\$ 1,328,184	\$ 6,242
Public Works	793,962	793,962	998,187	(204,225)
Police Department	2,191,008	2,191,008	2,243,061	(52,053)
Municipal Court	208,473	208,473	283,318	(74,845)
Advertising and Tourism	614,504	614,504	527,903	86,601
TOTAL EXPENDITURES	<u>\$ 5,142,373</u>	<u>\$ 5,142,373</u>	<u>\$ 5,380,653</u>	<u>\$ (238,280)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 9,222</u>	<u>\$ 9,222</u>	<u>\$ 353,615</u>	<u>\$ 344,393</u>
OTHER FINANCING SOURCES (USES)				
Transfer In (Out)	<u>\$ (3,010,000)</u>	<u>\$ (3,531,533)</u>	<u>\$ (457,922)</u>	<u>\$ 3,073,611</u>
NET CHANGE IN FUND BALANCE	<u>\$ (3,000,778)</u>	<u>\$ (3,522,311)</u>	<u>\$ (104,307)</u>	<u>\$ 3,418,004</u>
FUND BALANCE - OCTOBER 1, 2016	<u>5,078,442</u>	<u>5,078,442</u>	<u>5,078,442</u>	
FUND BALANCE - SEPTEMBER 30, 2017	<u><u>\$ 2,077,664</u></u>	<u><u>\$ 1,556,131</u></u>	<u><u>\$ 4,974,135</u></u>	<u><u>\$ 3,418,004</u></u>

See accompanying independent auditor's report.

Measurement Date
December 31,
2014

\$ 220,535
231,348
(42,521)
(42,521)
(90,225)

\$ 319,137

3,239,823

\$ 3,558,960

\$ 66,906
129,450
193,311
(90,225)
(2,018)
(166)

\$ 297,258

3,379,208

\$ 3,676,466

\$ (117,506)

103.30%

\$ 1,843,935

(6.37)%

See accompanying independent auditor's report.

CITY OF KEMAH, TEXAS
SCHEDULE OF CITY CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2017

Fiscal Year Ending September 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2017	\$ 134,608	\$ 134,608	\$ -0-	\$2,144,497	6.3%
2016	\$ 107,717	\$ 107,717	\$ -0-	\$2,054,563	5.3%
2015	\$ 91,881	\$ 91,881	\$ -0-	\$1,909,971	4.8%

A full 10-year schedule will be displayed as it becomes available.

See accompanying independent auditor's report.

CITY OF KEMAH, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NOTE 1. NET PENSION LIABILITY - TEXAS MUNICIPAL RETIREMENT SYSTEM

Assumptions

The following methods and assumptions were used to determine contribution rates:

Valuation Date	Actuarially determined contribution rates are calculated as of December 31, and become effective in January, 13 months later.
Actuarial Cost Method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset Valuation Method	10-year, smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50%, including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rate that are specific to the City's plan of benefits. Last updated for the 2015 calculation pursuant to an experience study of the period 2010 – 2014.
Mortality	RP-2000 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:	There were no benefit changes during the year.

See accompanying independent auditor's report.

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CITY OF KEMAH, TEXAS

OTHER SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2017

CITY OF KEMAH, TEXAS
SCHEDULE OF EXPENDITURES BY DEPARTMENT
- BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Administration			Variance Positive (Negative)
	Original Budget	Final Amended Budget	Actual	
ADMINISTRATION				
Personnel	\$ 518,676	\$ 518,676	\$ 545,149	\$ (26,473)
Professional Fees:				
Legal	100,000	100,000	116,994	(16,994)
Delinquent Tax Attorney			1,775	(1,775)
Audit	25,000	25,000	22,500	2,500
Community Center	60,000	60,000	36,818	23,182
Dues and Subscriptions	6,500	6,500	4,551	1,949
Insurance	100,000	100,000	83,839	16,161
Maintenance and Repairs	35,000	35,000	24,871	10,129
Supplies and Materials	76,500	76,500	23,165	53,335
Training	21,000	21,000	16,747	4,253
Utilities	38,000	38,000	29,774	8,226
Other Operations Costs	353,750	353,750	422,001	(68,251)
TOTAL ADMINISTRATION	<u>\$ 1,334,426</u>	<u>\$ 1,334,426</u>	<u>\$ 1,328,184</u>	<u>\$ 6,242</u>

	Public Works Department			Variance Positive (Negative)
	Original Budget	Final Amended Budget	Actual	
PUBLIC WORKS				
Personnel	\$ 400,462	\$ 400,462	\$ 350,441	\$ 50,021
Supplies	21,000	21,000	17,775	3,225
Solid Waste Disposal	101,000	101,000	103,704	(2,704)
Storm Water Management	30,000	30,000	25,759	4,241
Utilities	87,800	87,800	79,636	8,164
Other Operations Costs	141,700	141,700	125,633	16,067
Capital Outlay	12,000	12,000	295,239	(283,239)
TOTAL PUBLIC WORKS	<u>\$ 793,962</u>	<u>\$ 793,962</u>	<u>\$ 998,187</u>	<u>\$ (204,225)</u>

See accompanying independent auditor's report.

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CITY OF KEMAH, TEXAS
SCHEDULE OF EXPENDITURES – BY DEPARTMENT
- BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Police Department			Variance Positive (Negative)
	Original Budget	Final Amended Budget	Actual	
POLICE DEPARTMENT				
Personnel	\$ 1,943,358	\$ 1,943,358	\$ 2,043,857	\$ (100,499)
Equipment	22,000	22,000	11,915	10,085
Maintenance	22,000	22,000	19,484	2,516
Utilities	6,000	6,000	3,460	2,540
Supplies	44,900	44,900	39,447	5,453
Training	13,500	13,500	12,791	709
Other Operations Costs	139,250	139,250	112,107	27,143
TOTAL POLICE DEPARTMENT	\$ 2,191,008	\$ 2,191,008	\$ 2,243,061	\$ (52,053)

	Municipal Court			Variance Positive (Negative)
	Original Budget	Final Amended Budget	Actual	
MUNICIPAL COURT				
Personnel	\$ 137,373	\$ 137,373	\$ 141,874	\$ (4,501)
Professional Fees:				
Legal	22,000	22,000	26,737	(4,737)
Delinquent Collection Fees			41,672	(41,672)
Dues and Subscriptions	500	500	156	344
Supplies	19,000	19,000	19,533	(533)
Training	5,500	5,500	732	4,768
Other Operations Costs	24,100	24,100	52,614	(28,514)
TOTAL MUNICIPAL COURT	\$ 208,473	\$ 208,473	\$ 283,318	\$ (74,845)

See accompanying independent auditor's report.

