

CITY OF KEMAH, TEXAS
GALVESTON COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2015

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

Report on the Financial Statements

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, 2015, 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 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 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, 2015, 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.

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

Emphasis of Matter

As discussed in Note 8 to the financial statements, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, during the year ended September 30, 2015, which requires recognition of its net pension liability and a more comprehensive measure of pension expense. Our opinion is not modified with respect to this matter.

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. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The supplementary information 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. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion, and the schedule of expenditures of federal awards 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

June 1, 2016

CITY OF KEMAH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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, 2015.

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 all of the City's assets, liabilities, and 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, 2015

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

- * Component Units – The City includes three separate legal entities in its report – the Kemah Community Development Corporation (“KCDC”), the Kemah Public Facilities Corporation (“KPFC”) and the Kemah Public Facilities Transportation Corporation (“KPFTC”). 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 one governmental fund type. The General Fund accounts for resources not accounted for in another fund, general revenues, costs and general expenditures.

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, 2015

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 \$14,377,044 as of September 30, 2015. As of September 30, 2014, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$14,558,843.

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		
	2015	2014	Change Positive (Negative)
Current and Other Assets	\$ 4,724,434	\$ 5,354,436	\$ (630,002)
Capital Assets (Net of Accumulated Depreciation)	9,732,983	9,576,918	156,065
Total Assets	\$ 14,457,417	\$ 14,931,354	\$ (473,937)
Deferred Outflows of Resources	\$ 106,742	\$ 90,444	\$ 16,298
Other Liabilities	\$ 152,190	\$ 420,434	\$ 268,244
Total Liabilities	\$ 152,190	\$ 420,434	\$ 268,244
Deferred Inflows of Resources	\$ 34,925	\$ 42,521	\$ 7,596
Net Position:			
Net Investment in Capital Assets	\$ 9,732,983	\$ 9,576,918	\$ 156,065
Restricted	1,020,327	671,746	348,581
Unrestricted	3,623,734	4,310,179	(686,445)
Total Net Position	\$ 14,377,044	\$ 14,558,843	\$ (181,799)

*

* As Adjusted, See Note 13

CITY OF KEMAH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the City's operations for the years ended September 30, 2015, and September 30, 2014. The City decreased its net position by \$181,799, accounting for a 1.2% decrease in net position. This compares with an increase in net position of \$1,960,933 in the prior year.

	Summary of Changes in the Statement of Activities - Governmental Activities		
	2015	2014	Change Positive (Negative)
Revenues:			
Program Revenues -			
Charges for Services	\$ 666,331	\$ 641,200	\$ 25,131
Capital Grants and Contributions	725,532	1,212,964	(487,432)
General Revenues -			
Property Taxes	655,430	606,359	49,071
Sales Taxes	2,730,411	2,575,351	155,060
Investment Revenues	1,158	1,017	141
Other Revenues	<u>1,417,551</u>	<u>1,670,847</u>	<u>(253,296)</u>
Total Revenues	<u>\$ 6,196,413</u>	<u>\$ 6,707,738</u>	<u>\$ (511,325)</u>
Expenses:			
General Government	\$ 1,175,976	\$ 1,095,701	\$ (80,275)
Public Works	1,135,715	1,092,930	(42,785)
Police Department	2,031,901	1,958,891	(73,010)
Municipal Courts	262,128	253,531	(8,597)
Advertising and Tourism	272,492	345,752	73,260
Intergovernmental Expense	<u>1,500,000</u>	<u> </u>	<u>(1,500,000)</u>
Total Expenses	<u>\$ 6,378,212</u>	<u>\$ 4,746,805</u>	<u>\$ (1,631,407)</u>
Change in Net Position	\$ (181,799)	\$ 1,960,933	\$ (2,142,732)
Net Position, Beginning of Year	<u>14,558,843</u>	<u>12,597,910</u>	<u>1,960,933</u>
Net Position, End of Year	<u>\$ 14,377,044</u>	<u>\$ 14,558,843</u>	<u>\$ (181,799)</u>

*

* As Adjusted, See Note 13

**CITY OF KEMAH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

FINANCIAL ANALYSIS OF THE CITY'S GOVERNMENTAL FUNDS

The City's fund balance as of the fiscal year ended September 30, 2015, was \$4,428,451, an decrease of \$336,987 from the prior year.

The General Fund fund balance decreased by \$336,987, primarily due to the transfer of \$1,500,000 to the KPFTC.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City amended the budget during the current fiscal year for the purchase of a new patrol unit and associated equipment. Actual revenue was \$1,452,131 more than budgeted revenue. Actual expenditures were \$299,312 more than budgeted expenditures.

CAPITAL ASSETS

The City's capital assets as of September 30, 2015, amount to \$9,732,983 (net of accumulated depreciation) and includes 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	\$ 760,783
Construction in Progress	108,464
Capital Assets Subject to Depreciation:	
Buildings and Improvements	1,215,193
Park Improvements	348,858
Vehicles and Equipment	344,246
Furniture, Software and Office Equipment	160,157
Storm Water Pump Station	1,018,556
Streets and Culverts	5,776,726
Total Net Capital Assets	\$ 9,732,983

Additional information on the City's capital assets can be found in Note 6 of this report.

CITY OF KEMAH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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, 2015

	Primary Government Governmental Activities	Discretely Presented Component Units
ASSETS		
Cash and Cash Equivalents	\$ 3,962,906	\$ 2,352,253
Investments	505,791	972,869
Receivables:		
Property Taxes	26,287	
Accrued Interest	43	
Due from Component Unit	87,995	
Inventory	23,906	
Net Pension Asset	117,506	
Land	760,783	1,403,725
Construction in Progress	108,464	
Capital Assets (Net of Accumulated Depreciation)	8,863,736	4,682
TOTAL ASSETS	\$ 14,457,417	\$ 4,733,529
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows - Pension	\$ 106,742	\$ -0-
LIABILITIES		
Accounts Payable	\$ 152,190	\$
Due to Primary Government		87,995
TOTAL LIABILITIES	\$ 152,190	\$ 87,995
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - Pension	\$ 34,925	\$ -0-
NET POSITION		
Net Investment in Capital Assets	\$ 9,732,983	\$ 1,408,407
Restricted for:		
Police Programs	8,643	
Court Security	47,073	
Court Technology	43,669	
Tourism	920,942	
Unrestricted	3,623,734	3,237,127
TOTAL NET POSITION	\$ 14,377,044	\$ 4,645,534

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

**CITY OF KEMAH, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES			
General Government	\$ 1,175,976	\$ 166,628	\$
Public Works	1,135,715		725,532
Police Department	2,031,901	457,812	
Municipal Court	262,128	41,891	
Advertising and Tourism	272,492		
Intergovernmental Expense	1,500,000		
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 6,378,212</u>	<u>\$ 666,331</u>	<u>\$ 725,532</u>
COMPONENT UNITS	<u>\$ 372,549</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>

GENERAL REVENUES

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

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

NET POSITION - OCTOBER 1, 2014, AS ADJUSTED

NET POSITION - SEPTEMBER 30, 2015

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

<u>Net (Expense) Revenue and Changes in Net Position</u>	
<u>Primary Government</u>	
<u>Governmental</u>	<u>Component Units</u>
<u>Activities</u>	
\$ (1,009,348)	\$
(410,183)	
(1,574,089)	
(220,237)	
(272,492)	
<u>(1,500,000)</u>	<u></u>
\$ (4,986,349)	\$ - 0 -
<u>\$ - 0 -</u>	<u>\$ (372,549)</u>

\$ 655,430	\$
2,730,411	910,137
234,286	
609,229	
194,171	
56,650	
1,158	821
200,131	1,500,000
<u>123,084</u>	<u>352</u>
\$ 4,804,550	\$ 2,411,310
\$ (181,799)	\$ 2,038,761
<u>14,558,843</u>	<u>2,606,773</u>
<u>\$ 14,377,044</u>	<u>\$ 4,645,534</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, 2015

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 3,962,906
Investments	505,791
Receivables:	
Property Taxes	26,287
Accrued Interest	43
Due from Component Units	87,995
Inventory	23,906
TOTAL ASSETS	\$ 4,606,928
 LIABILITIES	
Accounts Payable	\$ 152,190
 DEFERRED INFLOWS OF RESOURCES	
Property Taxes	\$ 26,287
 FUND BALANCE	
Nonspendable for Inventory	\$ 23,906
Restricted:	
For Police	8,643
For Court Security	47,073
For Court Technology	43,669
For Tourism	920,942
Assigned for Emergencies	505,791
Unassigned	2,878,427
TOTAL FUND BALANCE	\$ 4,428,451
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 4,606,928

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, 2015

Total Fund Balance - Governmental Fund	\$ 4,428,451
Amounts reported for governmental activities in the Statement of Net Position are different because:	
The net pension asset is not a current financial resource and, therefore, is not reported as an asset in the governmental funds.	117,506
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	9,732,983
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.	71,817
Deferred tax revenues for the 2014 and prior tax levies became part of recognized revenue in the governmental activities of the District.	<div style="border-top: 1px solid black; display: inline-block;">26,287</div>
Total Net Position - Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block;">\$ 14,377,044</div>

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 BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>General Fund</u>
REVENUES	
Property Taxes and Penalties	\$ 655,256
Sales Taxes	2,730,411
Franchise Fees	234,286
Hotel Taxes	609,229
Mixed Beverage Taxes	194,171
Permits and Licenses	166,628
Fines and Forfeitures	499,703
Parking Revenues	56,650
Investment Revenues	1,158
Grant Revenues	725,532
Intergovernmental Revenues	91,667
Other	<u>123,084</u>
TOTAL REVENUES	<u>\$ 6,087,775</u>
EXPENDITURES	
General Government	\$ 1,080,480
Public Works	1,352,416
Police Department	1,957,246
Municipal Court	262,128
Advertising and Tourism	<u>272,492</u>
TOTAL EXPENDITURES	<u>\$ 4,924,762</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 1,163,013</u>
OTHER FINANCING SOURCES (USES)	
Transfer to Component Unit	<u>\$ (1,500,000)</u>
NET CHANGE IN FUND BALANCE	\$ (336,987)
FUND BALANCE - OCTOBER 1, 2014	<u>4,765,438</u>
FUND BALANCE - SEPTEMBER 30, 2015	<u><u>\$ 4,428,451</u></u>

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 BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Net Change in Fund Balance - Governmental Fund	\$	(336,987)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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.</p>		174
<p>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.</p>		(650,951)
<p>The changes in the net pension asset as well as deferred outflows and inflow of resources are recorded as pension expense in the government-wide financial statements.</p>		(1,051)
<p>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.</p>		698,552
<p>Capital assets related to park and street improvements were funded by a component unit and transferred to the City to maintain.</p>		<u>108,464</u>
Change in Net Position - Governmental Activities	\$	<u>(181,799)</u>

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

**CITY OF KEMAH, TEXAS
 COMPONENT UNITS BALANCE SHEET
 SEPTEMBER 30, 2015**

	KCDC	KPFTC	Total
ASSETS			
Cash and Cash Equivalents	\$ 852,253	\$ 1,500,000	\$ 2,352,253
Investments	972,869		972,869
TOTAL ASSETS	\$ 1,825,122	\$ 1,500,000	\$ 3,325,122
LIABILITIES			
Due to Primary Government	\$ 87,995	\$ - 0 -	\$ 87,995
FUND BALANCES			
Assigned for 2016 Budget Deficit	\$ 1,271,350	\$	\$ 1,271,350
Unassigned	465,777	1,500,000	1,965,777
TOTAL FUND BALANCES	\$ 1,737,127	\$ 1,500,000	\$ 3,237,127
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,825,122	\$ 1,500,000	\$ 3,325,122

* The KPFC has a zero fund balance at year-end.

Reconciliation to the Government-wide Statement of Net Position

Fund Balance	\$ 3,237,127
Adjustment for land	1,403,725
Adjustment for capital assets	4,682
Net Position for Discretely Presented Component Units	\$ 4,645,534

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, 2015

	KCDC	KPFTC	Total
REVENUES			
City Sales Taxes	\$ 910,137	\$	\$ 910,137
Investment Revenues	821		821
Other	352		352
TOTAL REVENUES	\$ 911,310	\$ - 0 -	\$ 911,310
EXPENDITURES			
Service Operations:			
Administrative	\$ 102,455	\$	\$ 102,455
Operations	24,098		24,098
Advertising/Promotions	51,500		51,500
City Improvements	192,146		192,146
TOTAL EXPENDITURES	\$ 370,199	\$ - 0 -	\$ 370,199
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 541,111	\$	\$ 541,111
OTHER FINANCING SOURCES (USES)			
Transfers from Primary Government	\$ - 0 -	\$ 1,500,000	\$ 1,500,000
NET CHANGE IN FUND BALANCES	541,111	1,500,000	2,041,111
FUND BALANCES - OCTOBER 1, 2014	1,196,016		1,196,016
FUND BALANCES - SEPTEMBER 30, 2015	\$ 1,737,127	\$ 1,500,000	\$ 3,237,127

* The KPFC has a zero fund balance at year-end.

Reconciliation to the Government-wide Statement of Activities

Net Change in Fund Balance	\$ 2,041,111
Adjustment for depreciation	(2,350)
Change in Net Position	\$ 2,038,761

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, 2015

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, KPFC and KPFTC 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.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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.

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, 2015

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 one major governmental fund.

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

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, 2015

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:

	Years
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, 2015

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.

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, 2015

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 does not have any committed fund balances.

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 \$505,791 for emergencies. See Note 7 for more detail. In addition, the KCDC has assigned \$1,271,350 of its General Fund fund balance to use for the budgeted deficit for the year ending September 30, 2016.

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 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, 2015

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, 2015, the City levied an ad valorem maintenance tax rate of \$0.265545 per \$100 of assessed valuation, which resulted in a tax levy of \$657,999 on the adjusted assessed property valuation of approximately \$247,246,673. At the balance sheet date, the City recorded taxes receivable of \$26,287 in the General Fund.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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, KCDC's and KPFTC's deposits was \$7,793,819 and the bank balance was \$7,908,593. Of the bank balance, \$1,000,000 was covered by federal depository insurance and the remainder was collateralized with securities held in a third party depository in the City's, KCDC's and KPFTC's names.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at September 30, 2015, as listed below:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
GENERAL FUND	\$ 3,962,906	\$ 505,791	\$ 4,468,697
COMPONENT UNITS	<u>2,352,253</u>	<u>972,869</u>	<u>3,325,122</u>
TOTAL DEPOSITS	<u>\$ 6,315,159</u>	<u>\$ 1,478,660</u>	<u>\$ 7,793,819</u>

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

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. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of September 30, 2015, the City had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
Certificate of Deposit	\$ 505,791	\$ 505,791	\$	\$	\$
<u>COMPONENT UNITS</u>					
Certificates of Deposit	<u>972,869</u>	<u>972,869</u>	<u> </u>	<u> </u>	<u> </u>
TOTAL INVESTMENTS	<u>\$ 1,478,660</u>	<u>\$ 1,478,660</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2015, the City's only investment was certificates of deposit.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At September 30, 2015, the City's only investment was certificates of deposit.

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, 2015, stated at replacement cost. Inventory in the amount of \$23,906 has been recorded as of September 30, 2015.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 6. CAPITAL ASSETS AND DEPRECIATION

The following is a summary of changes in capital assets for the year ended September 30, 2015.

	October 1, 2014	Increases	Decreases	September 30, 2015
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 760,783	\$	\$	\$ 760,783
Construction in Progress	1,438,769	807,016	2,137,321	108,464
Total Capital Assets Not Being Depreciated	\$ 2,199,552	\$ 807,016	\$ 2,137,321	\$ 869,247
Capital Assets Subject to Depreciation				
Buildings and Improvements	\$ 2,050,490	\$	\$	\$ 2,050,490
Park Improvements	690,712			690,712
Vehicles and Equipment	1,439,850	41,029	22,684	1,458,195
Furniture, Software and Office Equipment	748,265			748,265
Storm Water Pump Station	1,229,410			1,229,410
Street and Culverts	7,157,675	2,096,292		9,253,967
Total Capital Assets Subject to Depreciation	\$ 13,316,402	\$ 2,137,321	\$ 22,684	\$ 15,431,039
Less Accumulated Depreciation				
Buildings and Improvements	\$ 766,330	\$ 68,967	\$	\$ 835,297
Park Improvements	252,689	89,165		341,854
Vehicles and Equipment	998,028	138,605	22,684	1,113,949
Furniture, Software and Office Equipment	542,317	45,791		588,108
Storm Water Pump Station	149,383	61,471		210,854
Street and Culverts	3,230,289	246,952		3,477,241
Total Accumulated Depreciation	\$ 5,939,036	\$ 650,951	\$ 22,684	\$ 6,567,303
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 7,377,366	\$ 1,486,370	\$ - 0 -	\$ 8,863,736
Total Capital Assets, Net of Accumulated Depreciation	\$ 9,576,918	\$ 2,293,386	\$ 2,137,321	\$ 9,732,983

Depreciation categorized by department at September 30, 2015, is as follows:

General Government	\$ 94,445
Police Department	115,684
Public Works	440,822
Total	\$ 650,951

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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, 2015.

	October 1, 2014	Increases	Decreases	September 30, 2015
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 95,725	\$ - 0 -	\$ - 0 -	\$ 95,725

The following is a summary of changes in the capital assets of the KPFC for the year ended September 30, 2015.

	October 1, 2014	Increases	Decreases	September 30, 2015
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 1,308,000	\$ - 0 -	\$ - 0 -	\$ 1,308,000
Capital Assets Subject to Depreciation				
Parking Lot	\$ 35,249	\$ - 0 -	\$ - 0 -	\$ 35,249
Less Accumulated Depreciation				
Parking Lot	\$ 28,217	\$ 2,350	\$ - 0 -	\$ 30,567
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 7,032	\$ (2,350)	\$ - 0 -	\$ 4,682
Total Capital Assets, Net of Accumulated Depreciation	\$ 1,315,032	\$ (2,350)	\$ - 0 -	\$ 1,312,682

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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. Interest earned to date by the City is \$5,120. Therefore, as of September 30, 2015, the amount of the fund balance assigned for emergencies is \$505,791.

During the current fiscal year, the City collected \$609,229 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 \$272,492 in such endeavors and earned \$809 in interest on these funds. At September 30, 2015, \$920,942 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, \$43,669 was restricted for court security and \$47,073 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, \$8,643 of contra-band collections was restricted for the police department.

NOTE 8. PENSION PLAN

Plan Description

The City participates as one of 860 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, 2015

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.

Employees covered by benefit terms: At December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	29
Active employees	34
Total	70

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8. PENSION PLAN (Continued)

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.

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 3.63% and 5.28% in calendar years 2014 and 2015. The City's contributions to TMRS for the year ended September 30, 2015, were \$91,881, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions: inflation 3.0% per year, overall payroll growth 3.0% per year and investment rate of return 7.0%, 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 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.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are renewed annually. No additional changes were made for the 2014 valuation.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8. PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

Discount Rate: The discount rate used to measure the Total Pension Liability was 7.0%. 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, 2015

NOTE 8. PENSION PLAN (Continued)

Changes in Net Pension Liability/(Asset) for the measurement year ended December 31, 2014, are as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Position Liability/(Asset) (a)-(b)
Balances of December 31, 2013	\$ 3,239,823	\$ 3,379,208	\$ (139,385)
Changes for the year:			
Service cost	220,535	-	220,535
Interest on total pension liability	231,348	-	231,348
Changes of benefits terms		-	-
Difference between expected and actual experience	(42,521)	-	(42,521)
Benefit Payments, including refunds of employee contributions	(90,225)	(90,225)	-
Changes in Assumptions	-	-	-
Administrative expenses	-	(2,018)	2,018
Employer Contributions	-	66,906	(66,906)
Employee Contributions	-	129,450	(129,450)
Net Investment Income	-	193,311	(193,311)
Other	-	(166)	166
Balances of December 31, 2014	<u>\$ 3,558,960</u>	<u>\$ 3,676,466</u>	<u>\$ (117,506)</u>

Sensitivity Analysis - The following presents the net pension liability/(asset) of the City, calculated using the discount rate of 7.00%, 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 (6.00%) or 1 percentage point higher (8.00%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	6.00%	7.00%	8.00%
Net pension liability/(asset)	<u>\$ 433,640</u>	<u>\$ (117,506)</u>	<u>\$ (572,767)</u>

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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, 2015, the City recognized pension expense of \$89,123.

At September 30, 2015, 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-	\$ 34,925
Difference between projected and actual earnings	34,587	-0-
Contributions subsequent to the measurement date	72,155	-0-
Total	106,742	34,925

\$72,155 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, 2016. 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:	
2015	\$ 1,051
2016	1,051
2017	1,051
2018	1,050
2019	(4,541)
Thereafter	-0-
Total	(338)

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, 2015

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 2015, 2014 and 2013 were \$2,292, \$2,150, and \$2,159, 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 PROGRAMS

On November 14, 2012, the City was awarded a Community Development Block Grant Disaster Recovery grant with the General Land Office ("GLO") to fund the West Kemah street improvements in the amount of \$1,849,119. The City has expended a total of \$1,504,417, of which \$657,523 was expended in the current fiscal year related to the West Kemah street improvements. The City has received total revenues of \$1,504,417, of which \$699,868 was received in the current fiscal year.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 11. GRANT PROGRAMS (Continued)

On May 16, 2013, the City was awarded a grant by the Texas Department and Wildlife Department to fund 75% of the total project costs of \$573,213 for the improvements to the Clear Lake and Galveston Bay boat access ramp. The grant was amended on May 14, 2014 to increase the total project amount to \$579,016. The City expended \$434,261 related to the boat ramp improvements in the prior fiscal year. The City has received total revenues of \$434,078, of which \$25,664 was received in the current fiscal year from the Texas Parks and Wildlife Department.

Subsequent to year end, 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 will be used to fund the construction and engineering of water line improvements on Kipp Avenue, from Bel Road to 10th Street.

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. PRIOR PERIOD ADJUSTMENT

The District adjusted its government-wide financial statements to record a net position asset and deferred pension plan charges as required by GASB Statement No. 68, as amended by GASB Statement No. 71, which is effective for fiscal years ending June 30, 2015, and thereafter. The effect of these adjustments is as follows:

Net Position - October 1, 2014	\$ 14,368,469
Effect of Adjustment	<u>190,374</u>
Net Position - October 1, 2014, As Adjusted	<u>\$ 14,558,843</u>

CITY OF KEMAH, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015

CITY OF KEMAH, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes and Penalties	\$ 609,419	\$ 609,419	\$ 655,256	\$ 45,837
Sales Taxes	2,450,000	2,450,000	2,730,411	280,411
Franchise Fees	220,299	220,299	234,286	13,987
Hotel Taxes	421,000	421,000	609,229	188,229
Mixed Beverage Taxes	160,000	160,000	194,171	34,171
Permits and Licenses	123,627	123,627	166,628	43,001
Fines and Forfeitures	384,200	384,200	499,703	115,503
Investment Revenues	600	600	1,158	558
Parking Revenues	54,399	54,399	56,650	2,251
Grant Revenues			725,532	725,532
Intergovernmental Revenues	100,000	100,000	91,667	(8,333)
Other	112,100	112,100	123,084	10,984
TOTAL REVENUES	\$ 4,635,644	\$ 4,635,644	\$ 6,087,775	\$ 1,452,131
EXPENDITURES				
General Government	\$ 1,231,489	\$ 1,190,443	\$ 1,080,480	\$ 109,963
Public Works	737,593	737,593	1,352,416	(614,823)
Police Department	2,008,455	2,049,501	1,957,246	92,255
Municipal Court	237,107	237,107	262,128	(25,021)
Advertising and Tourism	410,806	410,806	272,492	138,314
TOTAL EXPENDITURES	\$ 4,625,450	\$ 4,625,450	\$ 4,924,762	\$ (299,312)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 10,194	\$ 10,194	\$ 1,163,013	\$ 1,152,819
OTHER FINANCING SOURCES (USES)				
Transfer to Component Unit	\$ - 0 -	\$ - 0 -	\$ (1,500,000)	\$ (1,500,000)
NET CHANGE IN FUND BALANCE	\$ 10,194	\$ 10,194	\$ (336,987)	\$ (347,181)
FUND BALANCE - OCTOBER 1, 2014	4,765,438	4,765,438	4,765,438	
FUND BALANCE - SEPTEMBER 30, 2015	\$ 4,775,632	\$ 4,775,632	\$ 4,428,451	\$ (347,181)

See accompanying independent auditor's report.

CITY OF KEMAH, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Year Ended December 31, 2014
Total Pension Liability	
Service cost	\$ 220,535
Interest on total pension liability	231,348
Changes of benefit terms	-0-
Difference between expected and actual experience	(42,521)
Benefit payments/refunds of contributions	(90,225)
Net change in total pension liability	\$ 319,137
Total pension liability, beginning	3,239,823
Total pension liability, ending (a)	\$ 3,558,960
Plan Fiduciary Net Position	
Employer contributions	\$ 66,906
Employee contributions	129,450
Investment income net of investment expenses	193,311
Benefit payments/refund of contributions	(90,225)
Administrative expenses	(2,018)
Other	(166)
Net change in plan fiduciary net position	\$ 297,258
Plan Fiduciary net position, beginning	3,379,208
Plan Fiduciary net position, ending (b)	\$ 3,676,466
Net pension liability/(asset), ending = (a) – (b)	\$ (117,506)
Plan Fiduciary net position as a percentage of total pension liability	103.30%
Covered – employee payroll	\$ 1,843,935
Net pension liability/(asset) as a percentage of covered payroll	(6.37)%

See accompanying independent auditor's report.

CITY OF KEMAH, TEXAS
SCHEDULE OF CITY CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2015

Year Ending September 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2015	\$ 91,881	\$ 91,881	\$ -0-	\$1,909,971	4.8%

See accompanying independent auditor's report.

CITY OF KEMAH, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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	29 years
Asset Valuation Method	10-year, smoothed market; 15% soft corridor
Inflation	3.0%
Salary Increases	3.50% to 12.00%, including inflation
Investment Rate of Return	7%
Retirement Age	Experience-based table of rate that are specific to the City's plan of benefits. Last updated for the 2010 calculation pursuant to an experience study of the period 2005 – 2009
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.

Changes of Benefit Terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

See accompanying independent auditor's report.

CITY OF KEMAH, TEXAS

SUPPLEMENTARY INFORMATION REQUIRED BY

GOVERNMENT AUDITING STANDARDS

SEPTEMBER 30, 2015

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance with Government Auditing Standards

We have audited, 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, the 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 1, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 and therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questions costs to be material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is intended 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

June 1, 2016

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

Report on Compliance for Each Major Federal Program

We have audited the City of Kemah, Texas' (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each the City's major federal programs for the year ended September 30, 2015. The City's 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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's 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's compliance.

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

Opinion on Each Major Federal Program

In our opinion, the City 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, 2015.

Report on Internal Control Over Compliance

Management of the City 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's internal control over compliance with 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 OMB Circular A-133, 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's 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

June 1, 2016

CITY OF KEMAH, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Loan/Contract/Warrant Grant Award Number	Federal Expenditures
Department of Housing and Urban Development: Passed through Texas General Land Office Community Development Block Grant - Disaster Recovery	14.218	13-197-000-7337	\$ <u>657,523</u>

CITY OF KEMAH, TEXAS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards included the federal grant activity of the City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

NOTE 2. GRANT PROGRAMS

On November 14, 2012, the City was awarded a Community Development Block Grant Disaster Recovery grant with the General Land Office ("GLO") to fund the West Kemah street improvements in the amount of \$1,849,119. The City has expended a total of \$1,504,417, of which \$657,523 was expended in the current fiscal year related to the West Kemah street improvements. The City has received total revenues of \$1,504,417, of which \$699,868 was received in the current fiscal year.

On May 16, 2013, the City was awarded a grant by the Texas Department and Wildlife Department to fund 75% of the total project costs of \$573,213 for the improvements to the Clear Lake and Galveston Bay boat access ramp. The grant was amended on May 14, 2014 to increase the total project amount to \$579,016. The City expended \$434,261 related to the boat ramp improvements in the prior fiscal year. The City has received total revenues of \$434,078, of which \$25,664 was received in the current fiscal year from the Texas Parks and Wildlife Department.

CITY OF KEMAH, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Section I — Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant Deficiencies(s) identified
that are not considered to be
material weaknesses? yes None reported

Noncompliance material to financial
statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant Deficiencies(s) identified
that are not considered to be material
weakness(es)? yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance
with section 510(a) of Circular A-133 yes no

CITY OF KEMAH, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

**14.218 U.S. Department of Housing and Urban Development/Community
Development Block Grant**

Dollar threshold used to distinguish

between type A and type B programs: \$300,000

Audited Qualified as low-risk auditee? X yes no

Section II — Financial Statement Findings

Reference # 2015-001

Criteria: The Office of Management and Budget Circular A-133 Section .300(d) states that the auditee shall prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with section .310. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, even if the auditor assists in drafting the financial statements.

Condition: The accounting function does not include preparation of the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. Accordingly, the City has not established internal controls over the preparation of its financial statements. Also, during the course of performing our audit, we prepared various journal entries to present the financial statements on the government-wide basis of accounting. In addition, we prepared the capital asset and depreciation schedules and posted adjustments related to the presentation of the capital assets in the government-wide financial statements.

CITY OF KEMAH, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Section II — Financial Statement Findings (Continued)

Cause: The City does not employ an individual or consultant with the knowledge and expertise to prepare financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America.

Effect: This condition and the reliance on the auditor to perform these functions is considered to be a material weakness in the system of internal controls.

Recommendation: We recommend that the City Council consider the requirements in the context of other entities of similar size and the City's facts and circumstances.

View of Responsible Officials: The City Council is elected from the general population and do not necessarily have governmental accounting expertise. The Board engages consultants who possess industry knowledge and expertise to provide financial services, as well as legal and professional engineering services. Based on the auditor's unmodified opinion and after reading the financial statements, the Council believes the financial statements to be materially correct. The Council does not think that the addition of an employee or consultant to perform or reperform the annual financial reporting process is necessary nor would it be cost effective.

Section III— Federal Award Findings and Questioned Costs

None

CITY OF KEMAH, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

None

CITY OF KEMAH, TEXAS

OTHER SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2015

CITY OF KEMAH, TEXAS
SCHEDULE OF EXPENDITURES BY DEPARTMENT
- BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Administration			Variance Positive (Negative)
	Original Budget	Final Amended Budget	Actual	
ADMINISTRATION				
Personnel	\$ 464,331	\$ 464,331	\$ 424,250	\$ 40,081
Professional Fees:				
Legal	150,000	150,000	153,797	(3,797)
Delinquent Tax Attorney			1,591	(1,591)
Audit	25,000	25,000	24,000	1,000
Community Center	50,000	50,000	44,713	5,287
Dues and Subscriptions	9,000	9,000	3,883	5,117
Insurance	50,000	50,000	24,769	25,231
Maintenance and Repairs	28,500	28,500	32,277	(3,777)
Supplies and Materials	37,500	37,500	27,009	10,491
Training	17,000	17,000	5,835	11,165
Utilities	33,000	33,000	37,026	(4,026)
Other Operations Costs	367,158	326,112	301,330	24,782
TOTAL ADMINISTRATION	<u>\$ 1,231,489</u>	<u>\$ 1,190,443</u>	<u>\$ 1,080,480</u>	<u>\$ 109,963</u>

	Public Works Department			Variance Positive (Negative)
	Original Budget	Final Amended Budget	Actual	
PUBLIC WORKS				
Personnel	\$ 377,293	\$ 377,293	\$ 353,335	\$ 23,958
Insurance	6,500	6,500	14,827	(8,327)
Supplies	35,000	35,000	22,239	12,761
Solid Waste Disposal	101,000	101,000	101,867	(867)
Storm Water Management	20,000	20,000	13,879	6,121
Utilities	85,000	85,000	85,187	(187)
Other Operations Costs	112,800	112,800	103,559	9,241
Capital Outlay			657,523	(657,523)
TOTAL PUBLIC WORKS	<u>\$ 737,593</u>	<u>\$ 737,593</u>	<u>\$ 1,352,416</u>	<u>\$ (614,823)</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, 2015

	Police Department			
	Original	Final	Actual	Variance
	Budget	Amended Budget		Positive (Negative)
POLICE DEPARTMENT				
Personnel	\$ 1,727,805	\$ 1,727,805	\$ 1,685,065	\$ 42,740
Equipment	15,000	15,000	13,515	1,485
Insurance	30,000	30,000	24,448	5,552
Maintenance	18,000	18,000	18,030	(30)
Utilities	3,800	3,800	4,511	(711)
Supplies	68,000	68,000	49,617	18,383
Training	15,000	15,000	13,229	1,771
Other Operations Costs	130,850	130,850	107,802	23,048
Capital Outlay	<u> </u>	<u>41,046</u>	<u>41,029</u>	<u>17</u>
TOTAL POLICE DEPARTMENT	<u>\$ 2,008,455</u>	<u>\$ 2,049,501</u>	<u>\$ 1,957,246</u>	<u>\$ 92,255</u>

	Municipal Court			
	Original	Final	Actual	Variance
	Budget	Amended Budget		Positive (Negative)
MUNICIPAL COURT				
Personnel	\$ 135,651	\$ 135,651	\$ 141,290	\$ (5,639)
Professional Fees:				
Legal	28,000	28,000	20,588	7,412
Delinquent Collection Fees	100	100	41,572	(41,472)
Dues and Subscriptions	550	550	216	334
Supplies	4,700	4,700	3,472	1,228
Technology Costs	10,000	10,000	3,733	6,267
Training	4,500	4,500	1,700	2,800
Other Operations Costs	<u>53,606</u>	<u>53,606</u>	<u>49,557</u>	<u>4,049</u>
TOTAL MUNICIPAL COURT	<u>\$ 237,107</u>	<u>\$ 237,107</u>	<u>\$ 262,128</u>	<u>\$ (25,021)</u>

See accompanying independent auditor's report.

