

KEMAH COMMUNITY DEVELOPMENT CORPORATION

GALVESTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2016

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

**KEMAH COMMUNITY DEVELOPMENT CORPORATION
GALVESTON COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2016**

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McCALL GIBSON SWEDLUND BARFOOT PLLC

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kemah Community Development Corporation
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities and major fund of the Kemah Community Development Corporation (the "Corporation"), a component unit of the City of Kemah, Texas (the "City"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's financial statements as listed in the preceding table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Board of Directors
Kemah Community Development Corporation

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation as of September 30, 2016, and the respective changes in financial position and the budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Management's Discussion and Analysis has not been prepared for inclusion in these financial statements. See the Annual Financial Report of the City as of and for the fiscal year ending September 30, 2016, for Management's Discussion and Analysis of the entity as a whole.

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

February 8, 2017

KEMAH COMMUNITY DEVELOPMENT CORPORATION
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2016

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash	\$ 875,250	\$	\$ 875,250
Investments	974,068		974,068
Land		95,725	95,725
TOTAL ASSETS	<u>\$ 1,849,318</u>	<u>\$ 95,725</u>	<u>\$ 1,945,043</u>
LIABILITIES			
Due to Primary Government	\$ 14,895	\$ -0-	\$ 14,895
FUND BALANCE			
Unassigned	\$ 1,834,423	\$ (1,834,423)	\$ -0-
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,849,318</u>		
NET POSITION			
Net Investment in Capital Assets	\$ 95,725	\$ 95,725	
Unrestricted	1,834,423		1,834,423
TOTAL NET POSITION	<u>\$ 1,930,148</u>		<u>\$ 1,930,148</u>

Reconciliation to Government-Wide Statement of Net Position

Fund Balance	\$ 1,834,423
Adjustment for land	<u>95,725</u>
Net Position	<u>\$ 1,930,148</u>

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

KEMAH COMMUNITY DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	General Fund	Adjustments	Statement of Activities
REVENUES			
City Sales Taxes	\$ 925,617	\$	\$ 925,617
Investment Revenues	2,220		2,220
Miscellaneous Revenues	566		566
TOTAL REVENUES	<u>\$ 928,403</u>	<u>\$ - 0 -</u>	<u>\$ 928,403</u>
EXPENDITURES/EXPENSES			
Service Operations:			
Administration	\$ 211,038	\$	\$ 211,038
Operations	25,000		25,000
Development/Promotions	64,613		64,613
City Improvements	530,456		530,456
TOTAL EXPENDITURES/EXPENSES	<u>\$ 831,107</u>	<u>\$ - 0 -</u>	<u>\$ 831,107</u>
NET CHANGE IN FUND BALANCE	<u>\$ 97,296</u>	<u>\$ 97,296</u>	
CHANGE IN NET POSITION		(97,296)	97,296
FUND BALANCE/NET POSITION - OCTOBER 1, 2015	<u>1,737,127</u>	<u>95,725</u>	<u>1,832,852</u>
FUND BALANCE/NET POSITION - SEPTEMBER 30, 2016	<u><u>\$ 1,834,423</u></u>	<u><u>\$ 95,725</u></u>	<u><u>\$ 1,930,148</u></u>

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

KEMAH COMMUNITY DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
City Sales Taxes	\$ 850,000	\$ 925,617	\$ 75,617
Investment Revenues	500	2,220	1,720
Miscellaneous Revenues	<u> </u>	<u> </u> 566	<u> </u> 566
TOTAL REVENUES	<u>\$ 850,500</u>	<u>\$ 928,403</u>	<u>\$ 77,903</u>
EXPENDITURES			
Services Operations:			
Administration	\$ 211,500	\$ 211,038	\$ 462
Operations	40,300	25,000	15,300
Development/Promotions	80,000	64,613	15,387
City Improvements	<u>1,790,050</u>	<u>530,456</u>	<u>1,259,594</u>
TOTAL EXPENDITURES	<u>\$ 2,121,850</u>	<u>\$ 831,107</u>	<u>\$ 1,290,743</u>
NET CHANGE IN FUND BALANCE	<u>\$ (1,271,350)</u>	<u>\$ 97,296</u>	<u>\$ 1,368,646</u>
FUND BALANCE - OCTOBER 1, 2015	<u>1,737,127</u>	<u>1,737,127</u>	<u> </u>
FUND BALANCE - SEPTEMBER 30, 2016	<u>\$ 465,777</u>	<u>\$ 1,834,423</u>	<u>\$ 1,368,646</u>

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

KEMAH COMMUNITY DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 1. CREATION OF CORPORATION

The Corporation was incorporated on October 9, 1998, under the provisions of the State of Texas. The Corporation was created pursuant to the Texas Non-Profit Corporation Act and the Development Corporation Act of 1979. The Corporation is specifically governed by Section 4B of the Development Corporation Act. The Corporation was established for the specific public purpose of promotion and development of commercial, industrial and manufacturing enterprises to promote and encourage employment and the public welfare. The Corporation may issue bonds on behalf of the City for the Corporation's public purpose. The Corporation 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 the Corporation. The assets are managed by the Board of Directors. The financial records are maintained by an employee of the City.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB").

The City is a political subdivision of the State of Texas governed by an elected board. The 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 Corporation meets the criteria for inclusion in the City's financial statement as a component unit.

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:

KEMAH COMMUNITY DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- 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 assets 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 assets 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 Corporation'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 Corporation as a whole. The Corporation's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The Corporation is viewed as a special-purpose government and has the option of combining these financial statements.

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

KEMAH COMMUNITY DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

As discussed above, the Corporation's fund financial statements are combined with the government-wide statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The Corporation has one major governmental fund.

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

Basis of Accounting

The Corporation 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 Corporation 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.

Capital Assets

The Corporation owns land, which is 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.

Other Corporation assets, if any, are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation.

KEMAH COMMUNITY DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

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:

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. The Corporation does not have any nonspendable fund balances.

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. The Corporation does not have any restricted fund balances.

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 Corporation. 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 Corporation does not have any committed fund balances.

KEMAH COMMUNITY DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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 Corporation has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

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 Corporation considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

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. 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 Corporation'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 Authority of securities eligible under the laws of Texas to secure the funds of the Authority, 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 Corporation's deposits was \$1,849,318 and the bank balance was \$1,849,318. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was collateralized with securities held in a third party depository in the Corporation's name.

KEMAH COMMUNITY DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at September 30, 2016, as listed below:

	<u>Cash</u>	<u>Certificates</u>		<u>Total</u>
		<u>of Deposit</u>		
GENERAL FUND	<u>\$ 875,250</u>	<u>\$ 974,068</u>		<u>\$ 1,849,318</u>

Investments

Under Texas law, the Corporation 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 Corporation funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the Corporation'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 Corporation'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 Corporation funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the Corporation 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.

KEMAH COMMUNITY DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of September 30, 2016, the Corporation had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities Less Than 1 Year
<u>GENERAL FUND</u>		
Certificates of Deposit	<u>\$ 974,068</u>	<u>\$ 974,068</u>

NOTE 4. CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended September 30, 2016:

	Balances October 1, 2015	Net Change	Balances September 30, 2016
Land	<u>\$ 95,725</u>	<u>\$ -0-</u>	<u>\$ 95,725</u>

NOTE 5. RISK ASSESSMENT

The Corporation is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omission and natural disasters. The City participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide general liability and errors and omissions. 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.

KEMAH COMMUNITY DEVELOPMENT CORPORATION
BOARD OF DIRECTORS
SEPTEMBER 30, 2016

Mailing Address - Kemah Community Development Corporation
1401 State Highway 146
Kemah, TX 77565-3002

Corporation Telephone No. - (281) 334-1611

<u>Board Members</u>	<u>Title</u>
Robin Collins	Position 1
Matthew Wiggins, Jr.	Position 2
Kelley Dawson	Position 3
Doug Meisinger	Position 4
Kyle Burks	Position 5
Mark Kane	Position 6

See accompanying independent auditor's report.

