

**CITY OF KEMAH, TEXAS
GALVESTON COUNTY, TEXAS
ANNUAL FINANCIAL REPORT**

SEPTEMBER 30, 2018

McCALL GIBSON SWEDLUND BARTFOOT PLLC
Certified Public Accountants

**CITY OF KEMAH, TEXAS
GALVESTON COUNTY, TEXAS
ANNUAL FINANCIAL REPORT**

SEPTEMBER 30, 2018

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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units and each major fund of the City of Kemah, Texas (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the preceding table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units and each major fund of the City as of September 30, 2018, 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

Change in Accounting Principle and Restatement of Prior Period Financial Statements

As discussed in Note 11 to the financial statements, the City has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and corrected certain errors noted in the 2017 financial statements. These items resulted in a restatement of the net position as of October 1, 2017. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund, the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of City Contributions-Pensions, and the Schedule of Changes in Net Other Postemployment Benefit Liability and Related Ratios be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements and is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion, and has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

March 20, 2019

CITY OF KEMAH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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, 2018. Please read it in conjunction with the City's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The government-wide financial statements are prepared utilizing the economic resources measurement focus and the accrual basis of accounting. The Statement of Net Position presents information on the City's assets, liabilities and, if applicable deferred inflows and outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. streets and sidewalks, etc.), to assess the overall health or financial condition of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All of the revenues and expenses are taken into account as soon as the underlying event giving rise to the item occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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

CITY OF KEMAH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

- * Component Units – The City includes two separate legal entities in its report – the Kemah Community Development Corporation (“KCDC”) and the Kemah Public Facilities Corporation (“KPFC”). 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 City has two governmental fund types. The General Fund accounts for resources not accounted for in another fund, general revenues, operating costs and general expenditures. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information (“RSI”). The City adopts an annual unappropriated budget for its General Fund. A budgetary comparison schedule is included as RSI for the General Fund. In addition, the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of City of Contributions – Pensions, and the Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios are included as RSI.

CITY OF KEMAH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the City's financial position. In the case of the governmental activities of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$17,284,285 as of September 30, 2018. As of September 30, 2017, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$17,272,960.

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

	2018	2017	Change Positive (Negative)
Current and Other Assets	\$ 5,719,798	\$ 6,028,107	\$ (308,309)
Capital Assets (Net of Accumulated Depreciation)	<u>12,687,007</u>	<u>11,849,734</u>	<u>837,273</u>
Total Assets	<u>\$ 18,406,805</u>	<u>\$ 17,877,841</u>	<u>\$ 528,964</u>
Deferred Outflows of Resources	<u>\$ 187,135</u>	<u>\$ 353,144</u>	<u>\$ (166,009)</u>
Other Liabilities	<u>\$ 1,179,514</u>	<u>\$ 788,983</u>	<u>\$ (390,531)</u>
Deferred Inflows of Resources	<u>\$ 130,141</u>	<u>\$ 11,911</u>	<u>\$ (118,230)</u>
Net Position:			
Net Investment in Capital Assets	\$ 12,804,195	\$ 12,430,356	\$ 373,839
Restricted	542,401	1,445,499	(903,098)
Unrestricted	<u>3,937,689</u>	<u>3,397,105</u>	<u>540,584</u>
Total Net Position	<u>\$ 17,284,285</u>	<u>\$ 17,272,960</u>	<u>\$ 11,325</u>

* As Adjusted, See Note 11

CITY OF KEMAH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the City's operations for the years ended September 30, 2018, and September 30, 2017. The City increased its net position by \$11,325, accounting for a 0.1% increase in net position. This compares with an increase in net position of \$2,223,114 in the prior year.

**Summary of Changes in the Statement of Activities -
Governmental Activities**

	<u>2018</u>	<u>2017</u>	<u>Change Positive (Negative)</u>
Revenues:			
Program Revenues -			
Charges for Services	\$ 618,385	\$ 655,213	\$ (36,828)
Capital Grants and Contributions	26,533	303,391	(276,858)
General Revenues -			
Property Taxes	587,671	599,305	(11,634)
Sales Taxes	2,962,660	2,784,687	177,973
Investment Revenues	26,663	5,958	20,705
Other Revenues	<u>1,967,634</u>	<u>3,786,934</u>	<u>(1,819,300)</u>
Total Revenues	<u>\$ 6,189,546</u>	<u>\$ 8,135,488</u>	<u>\$ (1,945,942)</u>
Expenses:			
General Government	\$ 1,558,660	\$ 1,524,817	\$ (33,843)
Public Works	1,419,998	1,217,701	(202,297)
Police Department	2,646,705	2,357,636	(289,069)
Municipal Courts	190,267	284,317	94,050
Advertising and Tourism	<u>362,591</u>	<u>527,903</u>	<u>165,312</u>
Total Expenses	<u>\$ 6,178,221</u>	<u>\$ 5,912,374</u>	<u>\$ (265,847)</u>
Change in Net Position	<u>\$ 11,325</u>	<u>\$ 2,223,114</u>	<u>\$ (2,211,789)</u>
Net Position, Beginning of Year	<u>17,272,960</u>	<u>15,049,846</u>	<u>2,223,114</u>
Net Position, End of Year	<u>\$ 17,284,285</u>	<u>\$ 17,272,960</u>	<u>\$ 11,325</u>
* As Adjusted, See Note 11			*

CITY OF KEMAH, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

FINANCIAL ANALYSIS OF THE CITY'S GOVERNMENTAL FUNDS

The City's fund balance as of the fiscal year ended September 30, 2018, was \$1,687,210, a decrease of \$3,789,231 from the prior year.

The General Fund fund balance decreased by \$3,325,797, primarily due to the transfer of \$3,000,000 to the Developer in relation to the 380 agreement. See Note 13.

The Capital Projects Fund fund balance decreased by \$463,434, primarily due to current year capital outlay costs, which exceeded transfers from the General Fund and KCDC.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City amended the budget during the current fiscal year to reflect transfers between Governmental Funds and adjust revenue and expenditures to more accurately reflect anticipated activity. Actual revenue was \$28,857 less than budgeted revenue. Actual expenditures were \$432,354 less than budgeted expenditures. See budget to actual comparison for additional analysis.

CAPITAL ASSETS

Capital assets as of September 30, 2018, total \$12,687,007 (net of accumulated depreciation) and include buildings, furniture, fixtures, equipment, and vehicles as well as the streets and culverts within the City.

Capital Assets At Year-End Net of Accumulated Depreciation

Capital Assets Not Subject to Depreciation:		
Land and Land Improvements	\$	898,968
Construction in Progress		2,210,282
Capital Assets Subject to Depreciation:		
Buildings and Improvements		2,167,790
Park Improvements		121,306
Vehicles and Equipment		260,290
Furniture, Software and Office Equipment		62,961
Storm Water Pump Station		833,975
Streets and Culverts		<u>6,131,435</u>
Total Net Capital Assets	\$	<u>12,687,007</u>

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.

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CITY OF KEMAH, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

	Primary Government Governmental Activities	Discretely Presented Component Units
ASSETS		
Cash and Cash Equivalents	\$ 2,079,799	\$ 1,395,600
Investments	506,761	975,042
Receivables:		
Property Taxes	34,633	
Other	98,605	
Due From Developer	3,000,000	
Land	898,968	1,403,725
Construction in Progress	2,210,282	
Capital Assets (Net of Accumulated Depreciation)	<u>9,577,757</u>	
TOTAL ASSETS	<u>\$ 18,406,805</u>	<u>\$ 3,774,367</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Pension Plan Charges	\$ 176,911	\$
Deferred Other Postemployment Benefits	<u>10,224</u>	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 187,135</u>	<u>\$ -0-</u>
LIABILITIES		
Accounts Payable	\$ 1,030,922	\$
Net Pension Liability	50,871	
Net Other Postemployment Benefit Plan Liability	<u>97,721</u>	
TOTAL LIABILITIES	<u>\$ 1,179,514</u>	<u>\$ -0-</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Pension Plan Income	<u>\$ 130,141</u>	<u>\$ -0-</u>
NET POSITION		
Net Investment in Capital Assets	\$ 12,804,195	\$ 1,403,725
Restricted for:		
Police Programs	13,879	
Court Security	51,285	
Court Technology	75,552	
Tourism	401,685	
Unrestricted	<u>3,937,689</u>	<u>2,370,642</u>
TOTAL NET POSITION	<u>\$ 17,284,285</u>	<u>\$ 3,774,367</u>

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, 2018

	Expenses	Program Revenues		Capital Grants and Contributions
		Charges for Services		
GOVERNMENTAL ACTIVITIES				
General Government	\$ 1,558,660	\$ 306,338		\$
Public Works	1,419,998			
Police and Fire Department	2,646,705	299,968		26,533
Municipal Court	190,267	12,079		
Advertising and Tourism	362,591			
TOTAL GOVERNMENTAL ACTIVITIES	\$ 6,178,221	\$ 618,385		\$ 26,533
COMPONENT UNITS	\$ 93,362	\$ - 0 -		\$ - 0 -

GENERAL REVENUES

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

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION - OCTOBER 1, 2017, AS ADJUSTED

NET POSITION - SEPTEMBER 30, 2018

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

Net (Expense) Revenue and Changes in Net Position

Primary Government

<u>Governmental Activities</u>	<u>Component Units</u>
------------------------------------	------------------------

\$ (1,252,322)	\$
(1,419,998)	
(2,320,204)	
(178,188)	
(362,591)	
<hr/>	<hr/>
\$ (5,533,303)	\$ - 0 -
<hr/>	<hr/>
\$ - 0 -	\$ (93,362)
<hr/>	<hr/>

\$ 587,671	\$
2,962,660	993,867
253,622	
680,411	
228,290	
26,663	36,864
103,879	
401,432	
<hr/>	<hr/>
300,000	(300,000)
<hr/>	<hr/>
\$ 5,544,628	\$ 730,731
<hr/>	<hr/>
\$ 11,325	\$ 637,369
<hr/>	<hr/>
17,272,960	3,136,998
<hr/>	<hr/>
\$ 17,284,285	\$ 3,774,367
<hr/>	<hr/>

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

CITY OF KEMAH, TEXAS
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2018

	General Fund	Capital Projects Fund	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,256,871	\$ 822,928	\$ 2,079,799
Investments	506,761		506,761
Receivables:			
Property Taxes	34,633		34,633
Other	98,605		98,605
TOTAL ASSETS	<u>\$ 1,896,870</u>	<u>\$ 822,928</u>	<u>\$ 2,719,798</u>
LIABILITIES			
Accounts Payable	\$ 292,215	\$ 705,740	\$ 997,955
DEFERRED INFLOWS OF RESOURCES			
Property Taxes	\$ 34,633	\$ -0-	\$ 34,633
FUND BALANCES			
Restricted:			
For Police	\$ 13,879	\$ 117,188	\$ 13,879
For Capital Projects			117,188
For Court Security	51,285		51,285
For Court Technology	75,552		75,552
For Tourism	401,685		401,685
Assigned for Emergencies	506,697		506,697
Unassigned	<u>520,924</u>		<u>520,924</u>
TOTAL FUND BALANCES	<u>\$ 1,570,022</u>	<u>\$ 117,188</u>	<u>\$ 1,687,210</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 1,896,870</u>	<u>\$ 822,928</u>	<u>\$ 2,719,798</u>

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, 2018

Total Fund Balance - Governmental Funds	\$ 1,687,210
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Portions of the change in net pension liability and net other postemployment benefit plan liability that are not immediately recognized as pension expense are recorded as deferred outflows of resources. 56,994

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 12,687,007

Advances to Developers which will be repaid in a future year are recorded as a long-term receivable in the Statement of Net Position. 3,000,000

Deferred inflows of resources related to property tax revenues for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the District. 34,633

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accured Compensated Balances	\$ (32,967)
Net Pension Liability	(50,871)
Net Other Post Employment Benefit Liability	<u>(97,721)</u>
	<u>(181,559)</u>

Total Net Position - Governmental Activities	<u>\$ 17,284,285</u>
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The accompanying notes to the financial statements are an integral part of this report.

CITY OF KEMAH, TEXAS
GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	General Fund	Capital Projects Fund	Total
REVENUES			
Property Taxes and Penalties	\$ 585,825	\$	\$ 585,825
Sales Taxes	2,962,660		2,962,660
Franchise Fees	253,622		253,622
Hotel Taxes	680,411		680,411
Mixed Beverage Taxes	228,290		228,290
Permits and Licenses	306,338		306,338
Fines and Forfeitures	312,047		312,047
Investment Revenues	25,542	1,121	26,663
Grant Revenues	26,533		26,533
Intergovernmental Revenues	103,879		103,879
Other	<u>401,432</u>		<u>401,432</u>
TOTAL REVENUES	<u>\$ 5,886,579</u>	<u>\$ 1,121</u>	<u>\$ 5,887,700</u>
EXPENDITURES			
General Government	\$ 1,360,542	\$	\$ 1,360,542
Public Works	966,684		966,684
Police and Fire Department	2,489,302		2,489,302
Municipal Court	189,268		189,268
Advertising and Tourism	362,591		362,591
Grant Expenditures	18,063		18,063
Capital Outlay	<u>1,764,555</u>		<u>1,764,555</u>
TOTAL EXPENDITURES	<u>\$ 5,386,450</u>	<u>\$ 1,764,555</u>	<u>\$ 7,151,005</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 500,129</u>	<u>\$ (1,763,434)</u>	<u>\$ (1,263,305)</u>
OTHER FINANCING SOURCES (USES)			
Contributions from Other Governmental Unit	\$ 174,074	\$	\$ 174,074
Transfer to Developer	(3,000,000)		(3,000,000)
Transfers In (Out)	<u>(1,000,000)</u>	<u>1,300,000</u>	<u>300,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ (3,825,926)</u>	<u>\$ 1,300,000</u>	<u>\$ (2,525,926)</u>
NET CHANGE IN FUND BALANCES	<u>\$ (3,325,797)</u>	<u>\$ (463,434)</u>	<u>\$ (3,789,231)</u>
FUND BALANCES - OCTOBER 1, 2017, AS ADJUSTED	<u>4,895,819</u>	<u>580,622</u>	<u>5,476,441</u>
FUND BALANCES - SEPTEMBER 30, 2018	<u>\$ 1,570,022</u>	<u>\$ 117,188</u>	<u>\$ 1,687,210</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 BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Net Change in Fund Balance - Governmental Funds \$ (3,789,231)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.

1,846

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.

(625,992)

The changes in the net pension asset as well as deferred outflows and inflows of resources are recorded as pension expense in the government-wide financial statements. Compensated absences are reported as a liability in the Statement of Net Position. Therefore, an expense is recorded in the statement of Activities.

(79,166)

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.

1,677,942

Governmental funds report payments to a developer as other financing uses. However, in the Statement of Net Position, the developer advance is recorded as a long-term receivable.

3,000,000

Contributions related to capital improvements that were funded by another Governmental entity are recorded as other financing sources.

(174,074)

Change in Net Position - Governmental Activities

\$ 11,325

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

CITY OF KEMAH, TEXAS
COMPONENT UNIT BALANCE SHEET
SEPTEMBER 30, 2018

	KCDC
ASSETS	
Cash and Cash Equivalents	\$ 1,395,600
Investments	<u>975,042</u>
TOTAL ASSETS	<u>\$ 2,370,642</u>
TOTAL LIABILITIES	<u>\$ - 0 -</u>
FUND BALANCE	
Unassigned	<u>\$ 2,370,642</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,370,642</u>

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

Reconciliation to the Government-wide Statement of Net Position

Fund Balance	\$ 2,370,642
Adjustment for land - KPFC	1,308,000
Adjustment for land - KCDC	<u>95,725</u>
Net Position for Discretely Presented Component Units	<u>\$ 3,774,367</u>

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 BALANCE - COMPONENT UNIT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>KCDC</u>
REVENUES	
City Sales Taxes	\$ 993,867
Investment Revenues	<u>36,864</u>
TOTAL REVENUES	<u>\$ 1,030,731</u>
EXPENDITURES	
Service Operations:	
Administrative	\$ 58,450
Operations	<u>5,965</u>
Advertising/Promotions	<u>28,947</u>
TOTAL EXPENDITURES	<u>\$ 93,362</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 937,369</u>
OTHER FINANCING SOURCES (USES)	
Transfers (To)from Primary Government	<u>\$ (300,000)</u>
NET CHANGE IN FUND BALANCE	637,369
FUND BALANCE - OCTOBER 1, 2017	<u>1,733,273</u>
FUND BALANCE - SEPTEMBER 30, 2018	<u>\$ 2,370,642</u>

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

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, 2018

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 an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the City is considered a primary government and is not a component unit of any other government. Additionally, the KCDC and KPFC meet the criteria for inclusion in the City’s financial statement as component units.

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

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

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

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

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

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

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

Government-Wide Financial Statements

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

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

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Basis of Accounting

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

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

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

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

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

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

Program Revenues

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

Compensated Absences

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

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Continued)

employment. Unused vacation pay can be carried over, but only up to 240 hours. Upon termination, any unused vacation time is paid. At September 30, 2018, total amounts accrued for vacation leave was \$32,967.

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.

Pension and Other Postemployment Benefits

Employees of the City participate in the TMRS defined benefit pension plan and the TMRS Group Term Life Insurance program. Further information is provided in Notes 7 and 8.

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, 2018

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. The City 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.

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. See Note 6 for more detail.

Unassigned: all other spendable amounts in the General Fund.

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

Revenue Recognition - Property Taxes

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

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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, 2018, the City levied an ad valorem maintenance tax rate of \$0.193 per \$100 of assessed valuation, which resulted in a tax levy of \$589,066 on the adjusted assessed property valuation of approximately \$304,898,697. At the balance sheet date, the City recorded taxes receivable of \$34,633 in the General Fund.

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the City of securities eligible under the laws of Texas to secure the funds of the City, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the City's and KCDC's deposits was \$4,957,202 and the bank balance was \$5,040,917. The City was not exposed to custodial credit risk at year-end.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at September 30, 2018, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 1,256,871	\$ 506,761	\$ 1,763,632
CAPITAL PROJECTS FUND	822,928		822,928
COMPONENT UNIT	1,395,600	975,042	2,370,642
TOTAL DEPOSITS	\$ 3,475,399	\$ 1,481,803	\$ 4,957,202

Investments

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

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

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

As of September 30, 2018, the City had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities	
		Less Than 1 Year	Thereafter
GENERAL FUND			
Certificates of Deposit	\$ 506,761	\$ 506,761	\$
COMPONENT UNIT			
Certificates of Deposit	975,042	975,042	
TOTAL INVESTMENTS	\$1,481,803	\$1,481,803	\$ - 0 -

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

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

Restrictions

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

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5. CAPITAL ASSETS AND DEPRECIATION

The following is a summary of changes in capital assets for the year ended September 30, 2018.

	October 1, 2017	Increases	Decreases	September 30, 2018
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 898,968	\$	\$	\$ 898,968
Construction in Progress	<u>821,752</u>	<u>1,463,265</u>	<u>74,735</u>	<u>2,210,282</u>
Total Capital Assets Not Being Depreciated	<u><u>\$ 1,720,720</u></u>	<u><u>\$ 1,463,265</u></u>	<u><u>\$ 74,735</u></u>	<u><u>\$ 3,109,250</u></u>
Capital Assets Subject to Depreciation				
Buildings and Improvements	\$ 3,249,178	\$	\$	\$ 3,249,178
Park Improvements	690,712			690,712
Vehicles and Equipment	1,585,773	74,735		1,660,508
Furniture, Software and Office Equipment	774,470			774,470
Storm Water Pump Station	1,229,410			1,229,410
Street and Culverts	<u>10,419,341</u>	<u>_____</u>	<u>_____</u>	<u>10,419,341</u>
Total Capital Assets Subject to Depreciation	<u><u>\$ 17,948,884</u></u>	<u><u>\$ 74,735</u></u>	<u><u>\$ - 0 -</u></u>	<u><u>\$ 18,023,619</u></u>
Less Accumulated Depreciation				
Buildings and Improvements	\$ 976,709	\$ 104,679	\$	\$ 1,081,388
Park Improvements	520,429	48,977		569,406
Vehicles and Equipment	1,294,965	105,253		1,400,218
Furniture, Software and Office Equipment	679,803	31,706		711,509
Storm Water Pump Station	333,964	61,471		395,435
Street and Culverts	<u>4,014,000</u>	<u>273,906</u>		<u>4,287,906</u>
Total Accumulated Depreciation	<u><u>\$ 7,819,870</u></u>	<u><u>\$ 625,992</u></u>	<u><u>\$ - 0 -</u></u>	<u><u>\$ 8,445,862</u></u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u><u>\$ 10,129,014</u></u>	<u><u>\$ (551,257)</u></u>	<u><u>\$ - 0 -</u></u>	<u><u>\$ 9,577,757</u></u>
Total Capital Assets, Net of Accumulated Depreciation	<u><u>\$ 11,849,734</u></u>	<u><u>\$ 912,008</u></u>	<u><u>\$ 74,735</u></u>	<u><u>\$ 12,687,007</u></u>

Depreciation categorized by department at September 30, 2018, is as follows:

General Government	\$ 120,170
Police Department	74,517
Public Works	<u>431,305</u>
Total	<u><u>\$ 625,992</u></u>

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5. 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, 2018.

	October 1, 2017	Increases	Decreases	September 30, 2018
Capital Assets Not Being Depreciated				
Land and Land Improvements	<u>\$ 95,725</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 95,725</u>

The following is a summary of changes in the capital assets of the KPFC for the year ended September 30, 2018.

	October 1, 2017	Increases	Decreases	September 30, 2018
Capital Assets Not Being Depreciated				
Land and Land Improvements	<u>\$ 1,308,000</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 1,308,000</u>
Capital Assets Subject to Depreciation				
Parking Lot	<u>\$ 35,249</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 35,249</u>
Less Accumulated Depreciation				
Parking Lot	<u>\$ 35,249</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 35,249</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 1,308,000</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 1,308,000</u>

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 6. FUND BALANCES - GENERAL FUND

As of October 1, 2009, the City assigned \$500,671, plus interest earnings to be used solely for emergencies that may arise in the future. As of September 30, 2018, the amount of the fund balance assigned for emergencies is \$506,697.

During the current fiscal year, the City collected \$680,411 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 \$362,591 in such endeavors and earned \$615 in interest on these funds. At September 30, 2018, \$401,685 remains restricted for tourism expenditures.

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

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

NOTE 7. PENSION PLAN

Plan Description

The City participates as one of 883 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, 2018

NOTE 7. 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.

Vesting and Retirement Eligibility

The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS. TMRS members vest after five years of service. If a vested member leaves covered employment before reaching retirement eligibility, the member may leave their deposits with TMRS, earn interest on the deposits, and upon reaching age 60, apply for and receive a monthly retirement payment. 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, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	35
Active employees	<u>36</u>
Total	<u>85</u>

Contributions

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

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7. PENSION PLAN (Continued)

Contributions (Continued)

Employees for the City were required to contribute 7% of their annual gross earnings during the current fiscal year. The contribution rates for the City were 6.62% and 7.12% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$158,582 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions: inflation 2.5% per year, overall payroll growth 2.4% per year and an investment rate of return 6.75%, net of pension plan investment expense, including inflation. Salary increases were based on a graduated service-based scale. Mortality rates for active members, retirees, and beneficiaries were based on the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustments, with male rates multiplied by 109% and female rates multiplied by 103%. For disabled annuitants, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustments, with male rates multiplied by 109% and female rates multiplied by 103%, with a three-year set-forward for both males and females. In addition, a 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled. The rates for both are projected on a fully generational basis by scale BB to account for future mortality improvements, with disabled annuitants subject to a 3% floor.

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. 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. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. 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.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7. PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

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 the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimate of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equities	17.50%	4.55%
International Equities	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	<u>5.00%</u>	7.50%
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified 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, 2018**

NOTE 7. PENSION PLAN (Continued)

Changes in Net Pension Liability/(Asset):

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Position Liability/(Asset) (a)-(b)
Balances of December 31, 2016	\$ 4,515,568	\$ 4,202,112	\$ 313,456
Changes for the year:			
Service cost	288,131		288,131
Interest on total pension liability	310,163		310,163
Difference between expected and actual experience	12,012		12,012
Benefit Payments, including refunds of employee contributions	(129,247)	(129,247)	
Administrative expenses		(3,018)	3,018
Employer Contributions		142,557	(142,557)
Employee Contributions		150,741	(150,741)
Net Investment Income		582,763	(582,763)
Other		(152)	152
Balances of December 31, 2017	\$ 4,996,627	\$ 4,945,756	\$ 50,871

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

1% Decrease	Current Discount Rate	1% Increase
5.75%	6.75%	7.75%

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7. 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, 2018, the City recognized pension expense of \$158,582.

At September 30, 2018, 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	\$ 2,688	\$ -0-
Changes in actuarial assumptions	51,273	-0-
Difference between projected and actual earnings	-0-	130,141
Contributions subsequent to the measurement date	<u>122,950</u>	<u>-0-</u>
Total	<u>176,911</u>	<u>130,141</u>

\$122,950 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, 2019. 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:

2018	\$ 23,377
2019	15,534
2020	(55,266)
2021	(59,825)
Thereafter	<u>-0-</u>
Total	<u>(76,180)</u>

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8. OTHER POST EMPLOYMENT BENEFITS

Plan Description – Group Term Life Insurance Program

The City also participates in the cost-sharing multiple-employer defined benefit group term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The 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 SDBF by adopting and 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). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500. The SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 and as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single-employer, defined benefit OPEB plan. TMRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information. This report is available at TMRS' website at www.TMRS.com.

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 career. The contribution rates for the City were 0.17%, 0.15% and 0.13% for the calendar years ended December 31, 2018, 2017, and 2016, respectively. The City's contribution for the retirees to the TMRS SBDF for the fiscal years ended September 30, 2018, 2017 and 2016 were \$3,743, \$3,111 and \$2,618, respectively, which equaled the required contributions each year. At December 31, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	<u>14</u>
Inactive employees entitled but not yet receiving benefits	<u>7</u>
Active employees	<u>36</u>
Total	<u>57</u>

Actuarial Methods and Assumptions Used for GASB Calculations

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 - December 31, 2014.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8. OTHER POST EMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions Used for GASB Calculations (Continued)

The assumptions are summarized below:

Inflation - 2.5% per year

Salary Increases - 3.5% to 10.5% including inflation

Investment Rate of Return (Discount Rate) - 3.31% based on Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017

Retirees' Share of benefit related costs - \$-0-

Administrative expenses - All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

Mortality rates were based on the following:

Service retirees - RP2000 Combined Mortality Table with Blue collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Disabled retirees - same as service retirees with a 3-year set-forward and subject to the 3% floor.

Discount Rate

The total OPEB liability was determined by an actuarial valuation as of the measurement date, calculated based on the discount rate and actuarial assumptions discussed below. The discount rate reflects the long-term rate of return funding valuation assumption of 3.31%. The TMRS SDBF is treated as an unfunded OPEB plan because the SDBF covers both actives and retirees and the assets are not segregated for these groups. Under GASB 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.31% based on an index of tax exempt 20-year municipal bond rates rated as AA or higher is used as of the measurement date of December 31, 2017. As of December 31, 2017, the discount rate used in the development of the Total OPEB Liability was 3.31% compared to 3.78% as of December 31, 2016. The Total OPEB Liability as of December 31, 2017 was "rolled back" to December 31, 2016 for the purpose of developing a beginning Total OPEB Liability.

Change in Total OPEB Liability for measurement year ended December 31, 2017 are as follows:

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8. OTHER POST EMPLOYMENT BENEFITS (Continued)

Changes in Total OPEB Liability:

	Total OPEB Liability
Balances of December 31, 2016	\$ 81,926
Changes for the year:	
Service cost	4,307
Interest on total OPEB liability	3,170
Benefits Payments	(431)
Changes in assumption or other inputs	<u>8,749</u>
Balances of December 31, 2017	<u>\$ 97,721</u>

Sensitivity Analysis - The following presents the net pension liability of the City, calculated using the discount rate of 3.31%, as well as what the City net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.31%) or 1 percentage point higher (4.31%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	2.31%	3.31%	4.31%
Total OPEB Liability	<u>\$ 120,891</u>	<u>\$ 97,721</u>	<u>\$ 80,305</u>

As of September 30, 2018, the deferred inflows and outflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -0-	\$ -0-
Change of Assumptions	7,288	-0-
Contributions subsequent to the measurement date	<u>2,936</u>	<u>-0-</u>
	<u>\$ 10,224</u>	<u>\$ 0-</u>

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8. OTHER POST EMPLOYMENT BENEFITS (Continued)

Deferred Outflows of Resources, by year, to be recognized in future OPEB expense (excluding city-provided contributions made subsequent to the measurement date):

Year ended December 31:		
2018	\$	1,461
2019		1,461
2020		1,461
2021		1,461
2022		1,444
Thereafter		<u>-0-</u>
Total		<u>7,288</u>

NOTE 9. 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 10. GRANT PROGRAM

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

NOTE 11. PRIOR PERIOD ADJUSTMENT

During the current fiscal year, the City determined that amounts included in accounts payable were understated. In order to accurately reflect amounts payable to others, restatement of the beginning fund balance in the General Fund, the current year beginning and the prior year ending net position in the Statement of Activities was required. The effect of this change was a decrease of \$78,316.

In addition, as of October 1, 2017, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard requires governments to calculate and report the cost and obligations associated with other postemployment benefits other than pensions in their financial statements, including additional note disclosures and required supplementary information. The effect of this change was a decrease of \$78,815.

CITY OF KEMAH, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 12. AGREEMENT FOR DEVELOPMENT AND OPERATION OF PUBLIC PARK

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

NOTE 13. 380 AGREEMENT WITH DEVELOPER

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

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

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

CITY OF KEMAH, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2018

CITY OF KEMAH, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes and Penalties	\$ 580,000	\$ 580,000	\$ 585,825	\$ 5,825
Sales Taxes	2,783,500	2,827,500	2,962,660	135,160
Franchise Fees	230,224	230,224	253,622	23,398
Hotel Taxes	577,400	577,400	680,411	103,011
Mixed Beverage Taxes	225,000	225,000	228,290	3,290
Permits and Licenses	310,300	310,300	306,338	(3,962)
Fines and Forfeitures	398,700	443,310	312,047	(131,263)
Investment Revenues	700	700	25,542	24,842
Grant Revenues		26,433	26,533	100
Intergovernmental Revenues	100,000	100,000	103,879	3,879
Other	<u>247,103</u>	<u>594,569</u>	<u>401,432</u>	<u>(193,137)</u>
TOTAL REVENUES	<u>\$ 5,452,927</u>	<u>\$ 5,915,436</u>	<u>\$ 5,886,579</u>	<u>\$ (28,857)</u>
EXPENDITURES				
General Government	\$ 1,462,367	\$ 1,462,367	\$ 1,360,542	\$ 101,825
Public Works	769,420	1,092,426	966,684	125,742
Police and Fire Department	2,468,601	2,536,665	2,489,302	47,363
Municipal Court	161,553	206,553	189,268	17,285
Advertising and Tourism	409,360	494,360	362,591	131,769
Grant Expenditures		<u>26,433</u>	<u>18,063</u>	<u>8,370</u>
TOTAL EXPENDITURES	<u>\$ 5,271,301</u>	<u>\$ 5,818,804</u>	<u>\$ 5,386,450</u>	<u>\$ 432,354</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 181,626</u>	<u>\$ 96,632</u>	<u>\$ 500,129</u>	<u>\$ 403,497</u>
OTHER FINANCING SOURCES (USES)				
Contributions from Other Governmental Entity	\$	\$	\$ 174,074	\$ 174,074
Transfer to Developer			(3,000,000)	(3,000,000)
Transfers In (Out)		(1,075,000)	(1,000,000)	75,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ - 0 -</u>	<u>\$ (1,075,000)</u>	<u>\$ (3,825,926)</u>	<u>\$ (2,750,926)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 181,626</u>	<u>\$ (978,368)</u>	<u>\$ (3,325,797)</u>	<u>\$ (2,347,429)</u>
FUND BALANCE - OCTOBER 1, 2017	<u>4,895,819</u>	<u>4,895,819</u>	<u>4,895,819</u>	
FUND BALANCE - SEPTEMBER 30, 2018	<u>\$ 5,077,445</u>	<u>\$ 3,917,451</u>	<u>\$ 1,570,022</u>	<u>\$ (2,347,429)</u>

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, 2018

	Measurement Date December 31, 2017	Measurement Date December 31, 2016
Total Pension Liability		
Service cost	\$ 288,131	\$ 268,427
Interest on total pension liability	310,163	279,741
Difference between expected and actual experience	12,012	16,704
Changes of assumptions	-0-	-0-
Benefit payments/refunds of contributions	<u>(129,247)</u>	<u>(118,791)</u>
Net change in total pension liability	\$ 481,059	\$ 446,081
Total pension liability, beginning	<u>4,515,568</u>	<u>4,069,487</u>
Total pension liability, ending (a)	<u>\$ 4,996,627</u>	<u>\$ 4,515,568</u>
Plan Fiduciary Net Position		
Employer contributions	\$ 142,557	\$ 107,719
Employee contributions	150,741	143,984
Investment income net of investment expenses	582,763	257,906
Benefit payments/refund of contributions	(129,247)	(118,791)
Administrative expenses	(3,018)	(2,911)
Other	<u>(152)</u>	<u>(157)</u>
Net change in plan fiduciary net position	\$ 743,644	\$ 387,750
Plan Fiduciary net position, beginning	<u>4,202,112</u>	<u>3,814,362</u>
Plan Fiduciary net position, ending (b)	<u>\$ 4,945,756</u>	<u>\$ 4,202,112</u>
Net pension liability/(asset), ending = (a) – (b)	<u>\$ 50,871</u>	<u>\$ 313,456</u>
Plan Fiduciary net position as a percentage of total pension liability	98.98%	93.06%
Covered – employee payroll	\$ 2,153,445	\$ 2,056,914
Net pension liability/(asset) as a percentage of covered payroll	2.36%	15.24%

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

See accompanying independent auditor's report.

Measurement Date December 31, 2015	Measurement Date December 31, 2014
\$ 230,065	\$ 220,535
253,802	231,348
(8,654)	(42,521)
131,805	(42,521)
<u>(96,491)</u>	<u>(90,225)</u>
\$ 510,527	\$ 319,137
<u>3,558,960</u>	<u>3,239,823</u>
<u>\$ 4,069,487</u>	<u>\$ 3,558,960</u>
 \$ 99,882	\$ 66,906
132,547	129,450
5,425	193,311
(96,491)	(90,225)
(3,304)	(2,018)
<u>(163)</u>	<u>(166)</u>
\$ 137,896	\$ 297,258
<u>3,676,466</u>	<u>3,379,208</u>
<u>\$ 3,814,362</u>	<u>\$ 3,676,466</u>
<u>\$ 255,125</u>	<u>\$ (117,506)</u>
93.73%	103.30%
 \$ 1,893,535	\$ 1,843,935
13.47%	(6.37)%

See accompanying independent auditor's report.

CITY OF KEMAH, TEXAS
SCHEDULE OF CITY CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
LAST TEN FISCAL YEARS*

Fiscal Year Ending September 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2018	\$ 158,582	\$ 158,582	\$ -0-	\$2,265,071	7.0%
2017	\$ 134,608	\$ 134,608	\$ -0-	\$2,144,497	6.3%
2016	\$ 107,717	\$ 107,717	\$ -0-	\$2,054,563	5.3%
2015	\$ 91,881	\$ 91,881	\$ -0-	\$1,909,971	4.8%

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

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	26 years
Asset Valuation Method	10-year, smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50%, including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rate that are specific to the City's plan of benefits. Last updated for the 2015 calculation pursuant to an experience study of the period 2010 – 2014.
Mortality	RP-2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information:	There were no benefit changes during the year.

See accompanying independent auditor's report.

CITY OF KEMAH, TEXAS
SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS
LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Measurement Date December 31, 2017
Change in Total OPEB Liability	
Service cost	\$ 4,307
Interest on total OPEB liability	3,170
Changes in assumptions or other inputs	8,749
Benefit payments*	<u>(431)</u>
Net change in total OPEB liability	\$ 15,795
Total OPEB liability, beginning	<u>81,926</u>
Total OPEB liability, ending	<u>\$ 97,721</u>
Pensionable covered payroll	\$2,153,445
Total OPEB liability as a % of covered payroll	4.54%

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

*Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the City's yearly contribution for retirees.

See accompanying independent auditor's report.

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CITY OF KEMAH, TEXAS

OTHER SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2018

CITY OF KEMAH, TEXAS
SCHEDULE OF EXPENDITURES BY DEPARTMENT
- BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Administration				Variance Positive (Negative)	
	Original Budget	Final Amended Budget	Actual	Administration		
	Original Budget	Final Amended Budget	Actual			
ADMINISTRATION						
Personnel	\$ 658,585	\$ 658,585	\$ 628,180	\$ 30,405		
Professional Fees:						
Legal	100,000	100,000	75,597	24,403		
Delinquent Tax Attorney			2,028	(2,028)		
Audit	26,000	26,000	23,500	2,500		
Community Center	20,000	20,000	23,653	(3,653)		
Dues and Subscriptions	5,500	5,500	4,346	1,154		
Insurance	140,000	140,000	65,317	74,683		
Maintenance and Repairs	15,000	15,000	22,338	(7,338)		
Supplies and Materials	65,300	65,300	21,293	44,007		
Training	20,500	20,500	16,163	4,337		
Utilities	38,000	38,000	28,089	9,911		
Other Operations Costs	<u>373,482</u>	<u>373,482</u>	<u>450,038</u>	<u>(76,556)</u>		
TOTAL ADMINISTRATION	<u>\$ 1,462,367</u>	<u>\$ 1,462,367</u>	<u>\$ 1,360,542</u>	<u>\$ 101,825</u>		
	Public Works Department					
	Original Budget	Final Amended Budget	Actual	Public Works Department		
	Original Budget	Final Amended Budget	Actual	Original Budget		
PUBLIC WORKS						
Personnel	\$ 392,720	\$ 392,720	\$ 363,570	\$ 29,150		
Supplies	20,500	20,500	17,176	3,324		
Solid Waste Disposal	105,000	105,000	107,251	(2,251)		
Storm Water Management	30,000	30,000	732	29,268		
Utilities	87,000	87,000	87,973	(973)		
Other Operations Costs	<u>134,200</u>	<u>134,200</u>	<u>147,388</u>	<u>(13,188)</u>		
Capital Outlay		<u>323,006</u>	<u>242,594</u>	<u>80,412</u>		
TOTAL PUBLIC WORKS	<u>\$ 769,420</u>	<u>\$ 1,092,426</u>	<u>\$ 966,684</u>	<u>\$ 125,742</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, 2018

	Police and Fire Department			Variance Positive (Negative)
	Original Budget	Final Amended Budget	Actual	
POLICE AND FIRE DEPARTMENT				
Personnel - Police	\$ 2,131,823	\$ 2,131,823	\$ 2,083,694	\$ 48,129
Personnel - Fire	106,828	106,828	100,300	6,528
Equipment	18,000	18,000	11,702	6,298
Maintenance	17,500	17,500	28,214	(10,714)
Utilities	6,000	6,000		6,000
Supplies	41,950	41,950	62,146	(20,196)
Training	15,000	15,000	18,046	(3,046)
Other Operations Costs	131,500	131,500	117,136	14,364
Capital Outlay		68,064	68,064	
TOTAL POLICE AND FIRE DEPARTMENT	<u>\$ 2,468,601</u>	<u>\$ 2,536,665</u>	<u>\$ 2,489,302</u>	<u>\$ 47,363</u>
	Municipal Court			
	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
MUNICIPAL COURT				
Personnel	\$ 84,853	\$ 84,853	\$ 86,658	\$ (1,805)
Professional Fees:				
Legal	23,000	23,000	25,122	(2,122)
Delinquent Collection Fees		45,000	33,663	11,337
Dues and Subscriptions	500	500	186	314
Supplies	17,600	17,600	1,969	15,631
Training	3,000	3,000	3,121	(121)
Other Operations Costs	32,600	32,600	38,549	(5,949)
TOTAL MUNICIPAL COURT	<u>\$ 161,553</u>	<u>\$ 206,553</u>	<u>\$ 189,268</u>	<u>\$ 17,285</u>

See accompanying independent auditor's report.

