

ANNUAL FINANCIAL REPORT

of the

**CITY OF CLEAR LAKE SHORES,
TEXAS**

**For the Year Ended
September 30, 2016**

CITY OF CLEAR LAKE SHORES, TEXAS

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September 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Clear Lake Shores, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and each major fund of the City of Clear Lake Shores, 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 City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 City'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.

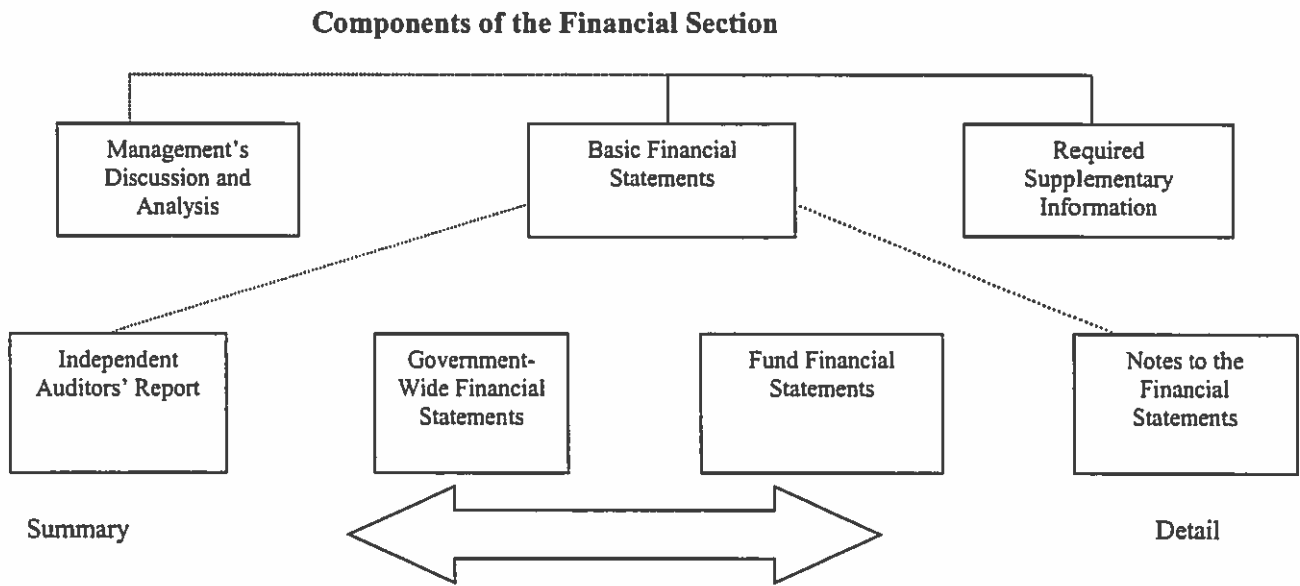
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

CITY OF CLEAR LAKE SHORES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2016

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Clear Lake Shores, Texas (the "City") for the year ending September 30, 2016. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred outflows/inflows 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, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

CITY OF CLEAR LAKE SHORES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

The City adopts an annual appropriated budget for its general fund and each of the special revenue funds. A budgetary comparison schedule has been provided for each of these funds to demonstrate compliance with their respective budgets.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes budgetary comparison schedules for the general fund and special revenue funds, a schedule of changes in net pension liability and related ratios and schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows by \$12,101,552 as of year end in the primary government. The largest portion of the City's net position, 68 percent, reflects its investments in capital assets (e.g., land, City Hall, streets, and equipment), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt, if applicable, must be provided from other sources since the assets themselves cannot be used to liquidate these liabilities.

CITY OF CLEAR LAKE SHORES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

Statement of Activities

The following table provides a summary of the City's changes in net position:

	Governmental		Component Unit	
	2016	2015	2016	2015
Revenues				
Program revenues:				
Charges for services	\$ 540,266	\$ 584,406	\$ -	\$ -
Operating grants and contributions	-	-	100,000	-
Capital grants and contributions	766,889	-	-	-
General revenues:				
Property taxes	-	134	-	-
Sales taxes	1,830,931	1,803,343	257,469	253,397
Franchise and local taxes	166,967	170,298	-	-
Investment earnings	17,066	3,467	1,954	241
Gain (Loss) on sale of asset	-	2,900	(766,889)	-
Other revenues	48,925	98,273	-	10,068
Total Revenues	<u>3,371,044</u>	<u>2,662,821</u>	<u>(407,466)</u>	<u>263,706</u>
Expenses				
General government	683,851	514,494	30,921	77,778
Police	821,704	791,293	-	-
Municipal court	182,814	168,666	-	-
Public safety	49,817	52,914	-	-
Public works	625,536	552,343	-	-
Roads and drainage	25,235	128,397	-	-
Total Expenses	<u>2,388,957</u>	<u>2,208,107</u>	<u>30,921</u>	<u>77,778</u>
Change in Net Position	982,087	454,714	(438,387)	185,928
Beginning net position	<u>11,119,465</u>	<u>10,664,751</u>	<u>1,187,245</u>	<u>1,001,317</u>
Ending Net Position	<u>\$ 12,101,552</u>	<u>\$ 11,119,465</u>	<u>\$ 748,858</u>	<u>\$ 1,187,245</u>

For the year ended September 30, 2016, revenues from governmental activities totaled \$3,371,044, an increase of \$708,223 or twenty seven percent compared to the prior year. The majority of this change is due to an increase in sales tax and transfer of property from the EDC. Sales tax increased as a result of improved economic conditions.

As of the end of the fiscal year, expenses for governmental activities totaled \$2,388,957, which represents an increase from 2015 of \$180,850, or eight percent. Expenses were higher than the prior year primarily due to purchase of equipment for the police department and additional repairs and maintenance expenses for the public works department.

CITY OF CLEAR LAKE SHORES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2016

LONG-TERM DEBT

At the end of the current year, the City had total long-term liabilities of \$343,464 that consisted of a net pension liability and compensated absences.

More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected and appointed officials considered many factors when setting the fiscal year 2016/2017 budget and tax rate. As in past years, the general fund's largest revenue source is sales tax receipts. In 2007, the City voted to increase the sales tax rate in a continued effort to reduce property taxes and, as a result, the City has been able to reduce the tax rate to zero in every year beginning with the 2008 tax year.

Other than operating expenditures, the City's major budgeted expenditures for fiscal year 2016/2017 are in the area of infrastructure (drainage and improvements).

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to George K. Jones, City Administrator, City Hall, 1006 South Shore Drive, Clear Lake Shores, Texas, 77565; telephone 281.334.2799, ext. 200.

BASIC FINANCIAL STATEMENTS

CITY OF CLEAR LAKE SHORES, TEXAS

STATEMENT OF NET POSITION

September 30, 2016

	Primary Government Governmental Activities	Component Unit
<u>Assets</u>		
Cash and cash equivalents	\$ 4,102,906	\$ 557,577
Receivables, net	347,148	-
Prepays	44,660	2,000
Due from primary government	-	140,644
	4,494,714	700,221
Capital assets:		
Non-depreciable	2,293,340	5,190
Net depreciable capital assets	5,931,803	43,747
	8,225,143	48,937
Total Assets	12,719,857	749,158
<u>Deferred Outflows of Resources</u>		
Deferred outflows - pensions	160,362	-
<u>Liabilities</u>		
Accounts payable and accrued liabilities	294,559	300
Due to component unit	140,644	-
	435,203	300
Noncurrent liabilities:		
Long-term liabilities due within one year	16,778	-
Long-term liabilities due in more than one year	326,686	-
	343,464	-
Total Liabilities	778,667	300
<u>Net Position</u>		
Net investment in capital assets	8,225,143	48,937
Restricted:		
Enabling legislation	128,324	-
Roads and drainage	915,729	-
Plaza Ten 06	25,104	-
Unrestricted	2,807,252	699,921
Total Net Position	\$ 12,101,552	\$ 748,858

See Notes to Financial Statements.

<u>Primary Government Governmental Activities</u>	<u>Net (Expense) Revenue and Changes in Net Position Component Unit</u>
\$ 83,038	\$ -
(402,930)	-
(182,814)	-
(49,817)	-
(504,044)	-
(25,235)	-
<u>(1,081,802)</u>	<u>-</u>
<u>(1,081,802)</u>	<u>-</u>
-	69,079
<u>-</u>	<u>69,079</u>
1,830,931	257,469
166,967	-
17,066	1,954
-	(766,889)
48,925	-
<u>2,063,889</u>	<u>(507,466)</u>
982,087	(438,387)
11,119,465	1,187,245
<u>\$ 12,101,552</u>	<u>\$ 748,858</u>

**Total
Governmental
Funds**

\$ 4,102,906
347,148
44,660
40,644
\$ 4,535,358

\$ 294,559
40,644
140,644
475,847

3,120

44,660

128,324

915,729

25,104

135,768

2,806,806

4,056,391

\$ 4,535,358

CITY OF CLEAR LAKE SHORES, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

September 30, 2016

Total fund balances for governmental funds	\$	4,056,391
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.		
Capital assets - non depreciable		2,293,340
Capital assets - net depreciable		5,931,803
Deferred outflows related to pension activity are not reported in the government funds.		
		160,362
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		
		3,120
Some liabilities, are not reported as liabilities in the governmental funds.		
Non current liabilities due within one year		(16,778)
Non current liabilities due in more than one year		(326,686)
	Net Position of Governmental Activities	<u>\$ 12,101,552</u>

See Notes to Financial Statements.

**Total
Governmental
Funds**

1,830,931
166,967
92,129
418,774
29,363
17,066
49,406
2,604,636

583,965
791,637
176,625
47,744
360,347
452,229
416,533
2,829,080

(224,444)

512,925
(512,925)

-
(224,444)

4,280,835
\$ 4,056,391

CITY OF CLEAR LAKE SHORES, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2016

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

Net changes in fund balances - total governmental funds	\$	(224,444)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital purchases		855,418
Capital contributions		807,252
Depreciation expense		(430,877)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		(481)
<p>Net pension liability and deferred outflows and deferred inflows related to the net pension liability are reported in the governmental funds.</p>		
Net pension liability		(103,092)
Deferred outflows - pension		78,653
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Compensated absences		(342)
Change in Net Position of Governmental Activities	\$	<u>982,087</u>

See Notes to Financial Statements.

CITY OF CLEAR LAKE SHORES, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Clear Lake Shores, Texas (the "City") was incorporated November 13, 1962. The City Council is the principal legislative body of the City.

The City provides the following services: public safety to include police, fire, and emergency medical services; as well as parks, recreation, public improvements, and general administration.

The City is an independent political subdivision of the State of Texas, governed by an elected council and a mayor, and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The component units, as listed below, although legally separate, are considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Unit

Clear Lake Shores Economic Development Corporation

Clear Lake Shores Economic Development Corporation (EDC) has been included in the reporting entity as a discretely presented component unit. The City formed the EDC, which was created by voters approving an additional sales tax. State law allows the City to collect sales tax to assist in the promotion and development activities of the City. The EDC was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City. The Board of Directors is appointed by, and serves at the discretion of, the City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net position of the EDC shall be conveyed to the City. Separate financial statements of the EDC may be obtained from the City.

CITY OF CLEAR LAKE SHORES, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2016

The *special revenue funds* are used to account for proceeds of specific revenue sources that are legally restricted or assigned by City Council to expenditures for specified purposes. The special revenue funds include the roads and drainage fund, capital equipment fund, and the blended component unit, the Plaza Ten 06 Corporation. The roads and drainage special revenue fund is considered a major fund for reporting purposes.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability

CITY OF CLEAR LAKE SHORES, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2016

interest cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives of assets are not capitalized.

Property, infrastructure, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Furniture and equipment	4 to 10 years
Infrastructure	20 to 50 years
Buildings and improvements	10 to 50 years

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has four items that qualify for reporting in this category on the government-wide Statement of Net Position. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience and for the changes in actual assumptions to the City's defined benefit pension plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. Deferred outflows of resources are recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has no items that qualify for reporting in this category in the government-wide Statement of Net Position. At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

7. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick, and compensatory time. Employees may elect to receive payments for accrued vacation time in advance with approval. Unpaid amounts accumulated may be paid to employees upon termination of employment. All eligible time is accrued when incurred in the government-wide financial statements.

CITY OF CLEAR LAKE SHORES, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2016

an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

12. Estimates

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

13. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Effective October 1, 2007, a new sales tax rate took effect allowing the City to adopt a property tax rate of zero.

CITY OF CLEAR LAKE SHORES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

The TexPool investment pool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, the investment pool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less and weighted average lives of 120 days or less, investments held are highly rated by nationally recognized statistical rating organizations, have no more than 5% of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

B. Receivables

The following comprise receivable balances at year end:

	<u>General</u>
Property taxes	\$ 3,120
Sales taxes	325,149
Other taxes	18,879
	<u>\$ 347,148</u>

CITY OF CLEAR LAKE SHORES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

A summary of changes in capital assets for the EDC at year end is as follows:

Component Unit	EDC Component Unit			Ending Balance
	Beginning Balance	Increases	(Decreases)	
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 5,190	\$ -	\$ 5,190
Total capital assets not being depreciated	-	5,190	-	5,190
Other capital assets:				
Improvements other than buildings	-	46,872	-	46,872
Infrastructure	807,252	-	807,252	-
Total other capital assets	807,252	46,872	807,252	46,872
Less accumulated depreciation for:				
Improvements other than buildings	-	(3,125)	-	(3,125)
Infrastructure	(40,363)	-	40,363	-
Total accumulated depreciation	(40,363)	(3,125)	40,363	(3,125)
Other capital assets, net	766,889	43,747	766,889	43,747
Component Unit capital assets, net	\$ 766,889	\$ 48,937	\$ 766,889	\$ 48,937

D. Long-Term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended September 30, 2016. In general, the City uses the general fund to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Governmental Activities:					
Net pension liability	\$ 221,730	\$ 103,092	\$ -	\$ 324,822	\$ -
Compensated absences	18,300	16,812	16,470	18,642	16,700
Total Governmental Activities	\$ 240,030	\$ 119,904	\$ 16,470	\$ 343,464	\$ 16,700
			Due in More Than One Year	\$ 326,686	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds.

The City is not obligated in any manner for special assessment debt.

CITY OF CLEAR LAKE SHORES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

C. Pension Plans

1. Texas Municipal Retirement System

Plan Description

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension 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 TMRS with a six-member Board of Trustees (the "Board"). 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 that can be obtained at www.tmr.com.

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the 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 percent of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	2016	2015
Employee deposit rate	6.00%	6.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

CITY OF CLEAR LAKE SHORES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

projected on a fully generational basis by scale BB to account for future mortality improvements subject to the three percent floor.

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed 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 7.00 percent to 6.75 percent. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation
Domestic Equity	17.50%
International Equity	17.50%
Core Fixed Income	10.00%
Non-Core Fixed Income	20.00%
Real Return	10.00%
Real Estate	10.00%
Absolute Return	10.00%
Private Equity	5.00%
Total	100.00%

Discount Rate

The discount rate used to measure the TPL was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in 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

CITY OF CLEAR LAKE SHORES, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2016

At September 30, 2016, 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
Differences between expected and actual economic experience	\$ 19,823	\$ -
Changes in actuarial assumptions	10,951	-
Difference between projected and actual investment earnings	68,616	-
Contributions subsequent to the measurement date	60,972	-
Total	\$ 160,362	\$ -

\$60,972 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 NPL for the fiscal year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended September 30	Pension Expense
2017	\$ 27,322
2018	27,322
2019	25,414
2020	19,332
2021	-
Thereafter	-
Total	\$ 99,390

2. Deferred Compensation Plan

The City offers its employees a deferred compensation plan (the "Plan") created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Plan's trust arrangements are established to protect deferred compensation amounts of employees under the Plan from any other use than intended under the Plan (eventual payment to employees deferring the compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under Plan provisions are disbursed monthly by the City to a third-party administrator. The third-party administrator handles all funds in the Plan and makes investment decisions and disburses funds to employees in accordance with Plan provisions.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CLEAR LAKE SHORES, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2016
With Comparative Totals for the Year Ended September 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>	<u>2015 Actual</u>
	<u>Original Budget</u>	<u>Final Budget as Amended</u>			
Revenues					
Taxes:					
Property	\$ -	\$ -	\$ -	\$ -	\$ 7
Sales	1,503,000	1,503,000	1,573,462	70,462	1,549,946
Franchise and local	166,350	166,350	166,967	617	170,298
Licenses and permits	79,225	99,200	92,129	(7,071)	104,927
Fines and forfeitures	353,200	369,500	418,774	49,274	440,383
Charges for services	29,600	29,300	29,363	63	39,096
Investment earnings	3,000	4,700	4,151	(549)	1,073
Other revenue	28,650	43,050	43,094	44	94,379
Total Revenues	<u>2,163,025</u>	<u>2,215,100</u>	<u>2,327,940</u>	<u>112,840</u>	<u>2,400,109</u>
Expenditures					
Current:					
General government	701,584	593,924	580,411	13,513	511,531
Police	811,572	856,788	791,637	65,151	737,779
Municipal court	287,828	207,535	176,625	30,910	165,926
Public safety	43,845	48,145	47,744	401	51,804
Public works	396,498	417,743	360,347	57,396	315,362
Capital outlay	81,000	86,000	78,315	7,685	-
Total Expenditures	<u>2,322,327</u>	<u>2,210,135</u>	<u>2,035,079</u>	<u>175,056</u>	<u>1,782,402</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(159,302)</u>	<u>4,965</u>	<u>292,861</u>	<u>287,896</u>	<u>617,707</u>
Other Financing Sources (Uses)					
Transfers (out)	(180,000)	(612,925)	(512,925)	100,000	(494,050)
Total Other Financing (Uses)	<u>(180,000)</u>	<u>(612,925)</u>	<u>(512,925)</u>	<u>100,000</u>	<u>(494,050)</u>
Net Change in Fund Balance	<u>\$ (339,302)</u>	<u>\$ (607,960)</u>	<u>(220,064)</u>	<u>\$ 387,896</u>	<u>\$ 123,657</u>

Notes to Required Supplementary Information:

- Annual budgets are adopted on a basis consistent with generally accepted accounting principals (GAAP).
- The schedule above only includes activity for the general fund. Reconciliation to net change in fund balance on page 22:

Interest income	8,065
Net Change in Fund Balance	<u>\$ (211,999)</u>

CITY OF CLEAR LAKE SHORES, TEXAS

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

ROADS AND DRAINAGE FUND

For the Year Ended September 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget as Amended		
Revenues				
Sales taxes	\$ 245,833	\$ 245,833	\$ 257,469	\$ 11,636
Investment earnings	500	500	4,466	3,966
Total Revenues	246,333	246,333	261,935	15,602
Expenditures				
Roads and drainage	1,090,000	1,090,000	452,229	637,771
Total Expenditures	1,090,000	1,090,000	452,229	637,771
(Deficiency) of Revenues (Under) Expenditures	(843,667)	(843,667)	(190,294)	653,373
Other Financing Sources (Uses)				
Transfers in	100,000	100,000	100,000	-
Total Other Financing Sources	100,000	100,000	100,000	-
Net Change in Fund Balance	\$ (743,667)	\$ (743,667)	(90,294)	\$ 653,373
Beginning fund balance			1,006,023	
Ending Fund Balance			\$ 915,729	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

CITY OF CLEAR LAKE SHORES, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
CAPITAL EQUIPMENT FUND*
For the Year Ended September 30, 2016

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Investment earnings	\$ 100	\$ 273	\$ 173
Other revenue	-	1,357	1,357
Total Revenues	100	1,630	1,530
Excess of Revenues Over Expenditures	100	1,630	1,530
<u>Other Financing Sources (Uses)</u>			
Transfers in	80,000	80,000	-
Total Other Financing Sources	80,000	80,000	-
Net Change in Fund Balance	\$ 80,100	81,630	\$ 1,530
Beginning fund balance		54,138	
Ending Fund Balance		\$ 135,768	

* Capital equipment fund was formerly referred to as the vehicle acquisition fund.

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

CITY OF CLEAR LAKE SHORES, TEXAS

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

PLAZA TEN 06 CORPORATION

For the Year Ended September 30, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>			
Investment earnings	\$ 10	\$ 111	\$ 101
Other revenue	5,000	4,955	(45)
Total Revenues	5,010	5,066	56
<u>Expenditures</u>			
General government	6,100	3,554	2,546
Capital outlay	-	338,218	(338,218)
Total Expenditures	6,100	341,772	(335,672)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,090)	(336,706)	335,616
<u>Other Financing Sources (Uses)</u>			
Transfers in	332,925	332,925	-
Total Other Financing Sources	332,925	332,925	-
Net Change in Fund Balance	\$ 331,835	(3,781)	\$ (335,616)
Beginning fund balance		28,885	
Ending Fund Balance		\$ 25,104	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

CITY OF CLEAR LAKE SHORES, TEXAS

SCHEDULE OF CONTRIBUTIONS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2016

	Fiscal Year*	
	2015	2016
Actuarially determined contribution	\$ 75,670	\$ 82,106
Contributions in relation to the actuarially determined contribution	75,670	82,834
Contribution deficiency (excess)	\$ -	\$ (728)
Covered employee payroll	\$ 714,704	760,646
Contributions as a percentage of covered employee payroll	10.59%	10.89%

* Only two years of information is currently available. The City will build this schedule over the next eight year period.

Notes to Required Supplementary Information:

1. Valuation Date:

rates are calculated as of December 31 and become effective in January, 13

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	2.5%
Salary increases	3.50% to 10.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

3. Other Information:

There were no benefit changes during the year.

COMBINING SCHEDULES

CITY OF CLEAR LAKE SHORES, TEXAS

COMBINING SCHEDULE - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

SUBFUNDS OF THE GENERAL FUND

For the Year Ended September 30, 2016

	General	Rainy Day	Total General Fund
<u>Revenues</u>			
Sales taxes	\$ 1,573,462	\$ -	\$ 1,573,462
Franchise fees and local taxes	166,967	-	166,967
Licenses and permits	92,129	-	92,129
Fines and forfeitures	418,774	-	418,774
Charges for services	29,363	-	29,363
Investment earnings	4,151	8,065	12,216
Other revenue	43,094	-	43,094
Total Revenues	2,327,940	8,065	2,336,005
<u>Expenditures</u>			
Current:			
General government	580,411	-	580,411
Police	791,637	-	791,637
Municipal court	176,625	-	176,625
Public safety	47,744	-	47,744
Public works	360,347	-	360,347
Total Expenditures	2,035,079	-	2,035,079
Excess of Revenues Over Expenditures	292,861	8,065	300,926
<u>Other Financing Sources (Uses)</u>			
Transfers in (out)	(512,925)	-	(512,925)
Total Other Financing (Uses)	(512,925)	-	(512,925)
Net Change in Fund Balances	(220,064)	8,065	(211,999)
Beginning fund balances	1,440,675	1,751,114	3,191,789
Ending Fund Balances	\$ 1,220,611	\$ 1,759,179	\$ 2,979,790