

# **CITY OF KEMP, TEXAS**

Financial Statements  
(With Auditor's Report Thereon)

September 30, 2018



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## **Independent Auditor's Report**

To the Honorable Mayor  
and Members of the City Council  
**City of Kemp**  
Kemp, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kemp, Texas, 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 table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## 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 business-type activities, each major fund, and the aggregate remaining fund information of the City of Kemp, Texas, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, on pages 3 through 7 and 38 through 39, 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.

A handwritten signature in cursive script that reads "Evans & Knauth, PLLC".

Evans & Knauth, PLLC  
Frisco, Texas  
April 10, 2019

**CITY OF KEMP, TEXAS**  
Management's Discussion and Analysis  
September 30, 2018

As management of the City of Kemp, we offer readers of the City of Kemp's financial statements this narrative overview and analysis of the financial activities of the City of Kemp for the year ended September 30, 2018. All amounts, unless otherwise indicated, are expressed in actual dollars.

**FINANCIAL HIGHLIGHTS**

- The assets of the City of Kemp exceeded its liabilities at the close of the most recent fiscal year by \$3,460,609 (net position).
- The City's total net position decreased by \$313,281.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$800,103.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**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 *Statement of Net Position* presents information on all of the City's assets and liabilities, with the difference between the two 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.

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change 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 (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets, and parks and recreation. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate economic development corporation and a legally separate municipal development district for which the City is financially accountable. Financial information for these component units are reported separately from the financial information presented for the primary government. The economic development corporation and municipal development district do not issue separate financial statements.

The government-wide financial statements can be found on pages 10-13 of this report.

**CITY OF KEMP, TEXAS**  
Management's Discussion and Analysis  
September 30, 2018

**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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories – governmental funds and proprietary funds.

**Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains three individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the general fund and the debt service fund, both of which are considered to be major funds. Data from the other fund is combined into a single aggregated presentation.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 14-16 of this report.

**Proprietary Funds.** The City maintains one type of proprietary fund. The *enterprise fund* is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer fund which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-36 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's General fund Budget Comparison Schedule. Required supplementary information can be found on page 38 of this report.

This report also presents an individual fund schedule in connection with the water and sewer fund. This individual fund schedule can be found on page 39 of this report.

**CITY OF KEMP, TEXAS**  
Management's Discussion and Analysis  
September 30, 2018

**GOVERNMENT – WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$3,460,609 as of September 30, 2018.

A portion of the City's net position (67.5%) reflects its investments in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service 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 must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

<b>City of Kemp - Net Position</b>						
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current & Other Assets	\$ 1,017,690	1,001,000	341,602	333,098	1,359,292	1,334,098
Capital Assets	727,518	792,659	3,152,964	3,294,972	3,880,482	4,087,631
Total Assets	<u>1,745,208</u>	<u>1,793,659</u>	<u>3,494,566</u>	<u>3,628,070</u>	<u>5,239,774</u>	<u>5,421,729</u>
Deferred Outflows of Resources	13,122	25,538	9,600	25,521	22,722	51,059
Long Term Liabilities	468,400	640,810	1,083,425	874,925	1,551,825	1,515,735
Other Liabilities	89,236	92,679	122,998	79,942	212,234	172,621
Total Liabilities	<u>557,636</u>	<u>733,489</u>	<u>1,206,423</u>	<u>954,867</u>	<u>1,764,059</u>	<u>1,688,356</u>
Deferred Inflows of Resources	15,758	-	22,070	10,542	37,828	10,542
Net Position:						
Net Invested in Capital Assets	262,755	155,486	2,074,464	2,424,972	2,337,219	2,580,458
Restricted	561,523	539,111	-	-	561,523	539,111
Unrestricted	360,658	391,111	201,209	263,210	561,867	654,321
Total Net Position	<u>\$ 1,184,936</u>	<u>1,085,708</u>	<u>2,275,673</u>	<u>2,688,182</u>	<u>3,460,609</u>	<u>3,773,890</u>

An additional portion of the City's net position, \$561,523, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$561,867, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for the government as a whole.



**CITY OF KEMP, TEXAS**  
Management's Discussion and Analysis  
September 30, 2018

**Analysis of the City's Operations.** The following table provides a summary of the City's operations for the year ended September 30, 2018.

<b>City of Kemp - Changes in Net Position</b>						
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 450,575	574,560	1,017,776	853,022	1,468,351	1,427,582
Grants & Contributions	48,309	5,201	-	-	48,309	5,201
General Revenues:						
Property Tax	373,868	379,841	-	-	373,868	379,841
Other Tax	307,261	298,198	-	-	307,261	298,198
Miscellaneous	16,679	45,670	355	212	17,034	45,882
Total Revenues	<u>1,196,692</u>	<u>1,303,470</u>	<u>1,018,131</u>	<u>853,234</u>	<u>2,214,823</u>	<u>2,156,704</u>
<b>Expenses</b>						
General Government Activities	1,057,617	1,161,970	-	-	1,057,617	1,161,970
Business-Type Activities	-	-	1,500,487	1,069,077	1,500,487	1,069,077
Total Expenses	<u>1,057,617</u>	<u>1,161,970</u>	<u>1,500,487</u>	<u>1,069,077</u>	<u>2,558,104</u>	<u>2,231,047</u>
Increase/(Decrease) in Net Position Before Transfers	139,075	141,500	(482,356)	(215,843)	(343,281)	(74,343)
Transfers	<u>(39,847)</u>	<u>-</u>	<u>69,847</u>	<u>-</u>	<u>30,000</u>	<u>-</u>
Change in Net Position	99,228	141,500	(412,509)	(215,843)	(313,281)	(74,343)
Net Position - Beginning	1,085,708	944,208	2,688,182	2,904,025	3,773,890	3,848,233
Net Position - Ending	<u>\$ 1,184,936</u>	<u>1,085,708</u>	<u>2,275,673</u>	<u>2,688,182</u>	<u>3,460,609</u>	<u>3,773,890</u>

The following key elements influenced the changes in net position from the prior year:

**Governmental Activities:**

Revenues exceeded expenditures by \$99,228.

**Business-Type Activities:**

Business-type activities decreased the City's net position by \$412,509. Operating results were \$266,513 less than the prior year. The decrease is a result of a litigation settlement.

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the City's *governmental funds* is to provide information on near term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$800,103. Of the current combined ending fund balance, \$238,580 is unassigned and \$561,523 is restricted.

The general fund is the main operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$238,580. Total unassigned fund balance represents 23% of total general fund expenditures.

**CITY OF KEMP, TEXAS**  
Management's Discussion and Analysis  
September 30, 2018

The fund balance of the City's general fund decreased \$81,209 during the current fiscal year.

The debt service fund has a total fund balance of \$518,645. The net increase in fund balance during the current year in the debt service fund was \$64,160.

**Proprietary Funds.** The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Enterprise Fund at the end of the year amounted to \$201,209. Net position decreased in 2018 by \$412,509. The factors concerning the finances of this fund have already been addressed in the analysis of the City's operations.

### **General Fund Budgetary Highlights**

During the fiscal year budgeted estimates exceeded actual revenues and actual expenditures. The budget estimated a decrease in fund balance (prior to transfers) of \$80,001, while the actual result was an increase in fund balance (prior to transfers) was \$156,740.

### **Capital Assets & Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of September 30, 2018 amounts to \$3,880,482 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure. The change in capital assets during the year was a result of purchases of \$63,740 and depreciation expense of \$270,889.

Additional information on the City's capital assets can be found on pages 28-29 of this report.

**Long-Term Debt.** At the end of the current fiscal year, the City had long-term debt outstanding of \$1,551,825.

The City's long-term debt increased by \$36,090, primarily due to a litigation liability of \$407,500 offsetting the scheduled principal payments on outstanding debt of \$371,410.

Additional information on the City's long-term debt can be found on pages 30-32 of this report.

### **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Secretary, 304 S. Main, Kemp, Texas 75143.

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## **BASIC FINANCIAL STATEMENTS**

**CITY OF KEMP, TEXAS**

## Statement of Net Position

September 30, 2018

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash & Cash Equivalents	\$ 446,696	486,566	933,262
Receivables (Net of Allowance for Uncollectibles)	96,154	91,006	187,160
Grants Receivable	11,639	-	11,639
Due from Primary Government	-	-	-
Internal Balances	361,032	(361,032)	-
Inventories	-	71,531	71,531
Prepaid Expenses	29,000	-	29,000
Net Pension Asset	73,169	53,531	126,700
Capital Assets:			
Non-Depreciable	26,249	35,200	61,449
Depreciable (Net of Accumulated Depreciation)	701,269	3,117,764	3,819,033
Total Assets	<u>1,745,208</u>	<u>3,494,566</u>	<u>5,239,774</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflow Related to TMRS	13,122	9,600	22,722
Total Deferred Outflows of Resources	<u>13,122</u>	<u>9,600</u>	<u>22,722</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable & Other Current Liabilities	44,152	67,429	111,581
Accrued Payroll	1,263	1,556	2,819
Accrued Interest	3,529	960	4,489
Due to Component Unit	40,292	-	40,292
Customer Deposits	-	53,053	53,053
Noncurrent Liabilities:			
Due Within One Year	176,758	135,833	312,591
Due in More than One Year	291,642	947,592	1,239,234
Total Liabilities	<u>557,636</u>	<u>1,206,423</u>	<u>1,764,059</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflow Related to TMRS	15,758	11,528	27,286
Deferred Inflow - Other	-	10,542	10,542
Total Deferred Inflows of Resources	<u>15,758</u>	<u>22,070</u>	<u>37,828</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	262,755	2,074,464	2,337,219
Restricted for:			
Debt Service	518,645	-	518,645
Public Safety	10,961	-	10,961
Streets	31,917	-	31,917
Economic Development	-	-	-
Municipal Development	-	-	-
Unrestricted	360,658	201,209	561,867
Total Net Position	<u>\$ 1,184,936</u>	<u>2,275,673</u>	<u>3,460,609</u>

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

Component Units	
Economic Development Corporation	Municipal Development District
387,789	173,988
7,808	4,827
-	-
40,292	-
-	-
-	-
29,000	-
-	-
166,968	-
71,724	40,797
<u>703,581</u>	<u>219,612</u>
-	-
<u>-</u>	<u>-</u>
-	-
-	-
-	-
-	-
-	12,000
-	288,000
<u>-</u>	<u>300,000</u>
-	-
<u>-</u>	<u>-</u>
238,692	(259,203)
-	-
-	-
-	-
464,889	-
-	178,815
-	-
<u>703,581</u>	<u>(80,388)</u>

**CITY OF KEMP**  
Statement of Activities  
For the Year Ended September 31, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
<b>Primary Government</b>				
Governmental Activities:				
General Government	\$ 294,804	118,086	-	-
Public Safety	554,833	332,489	5,330	-
Streets	182,880	-	-	42,979
Parks & Recreation	766	-	-	-
Interest & Fiscal Charges	24,334	-	-	-
Total Governmental Activities	<u>1,057,617</u>	<u>450,575</u>	<u>5,330</u>	<u>42,979</u>
Business-Type Activities:				
Water & Sewer	<u>1,500,487</u>	<u>1,017,776</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities	<u>1,500,487</u>	<u>1,017,776</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 2,558,104</u>	<u>1,468,351</u>	<u>5,330</u>	<u>42,979</u>
<b>Component Units</b>				
Economic Development Corp.	\$ 46,182	-	-	-
Municipal Development District	225,558	-	-	-
Total Component Units	<u>\$ 271,740</u>	<u>-</u>	<u>-</u>	<u>-</u>

General Revenues:  
Property Taxes  
Sales Taxes  
Franchise Taxes  
Investment Earnings  
Miscellaneous  
Transfers  
Total General Revenues & Transfers

Change in Net Position

Net Position - Beginning

Net Position - Ending

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

Net (Expense)/Revenue & Change in Net Position				
Primary Government			Component Units	
Governmental Activities	Business Activities	Total	Economic Development Corporation	Municipal Development District
(176,718)	-	(176,718)	-	-
(217,014)	-	(217,014)	-	-
(139,901)	-	(139,901)	-	-
(766)	-	(766)	-	-
(24,334)	-	(24,334)	-	-
(558,733)	-	(558,733)	-	-
-	(482,711)	(482,711)	-	-
-	(482,711)	(482,711)	-	-
(558,733)	(482,711)	(1,041,444)	-	-
			(46,182)	-
			-	(225,558)
			(46,182)	(225,558)
373,868	-	373,868	-	-
240,550	-	240,550	95,800	55,987
66,711	-	66,711	-	-
769	355	1,124	-	-
15,910	-	15,910	-	46,782
(39,847)	69,847	30,000	-	(30,000)
657,961	70,202	728,163	95,800	72,769
99,228	(412,509)	(313,281)	49,618	(152,789)
1,085,708	2,688,182	3,773,890	653,963	72,401
1,184,936	2,275,673	3,460,609	703,581	(80,388)



**CITY OF KEMP, TEXAS**

## Balance Sheet

## Governmental Funds

September 30, 2018

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash & Cash Equivalents	\$ 297,373	145,558	3,765	446,696
Receivables (Net of Allowance for Uncollectibles)	96,154	-	-	96,154
Grants Receivable	11,639	-	-	11,639
Due from Other Funds	-	373,087	-	373,087
Prepaid Expenses	29,000	-	-	29,000
Total Assets	<u>\$ 434,166</u>	<u>518,645</u>	<u>3,765</u>	<u>956,576</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 44,152	-	-	44,152
Accrued Payroll Payable	1,263	-	-	1,263
Due to Other Funds	12,055	-	-	12,055
Due to Component Unit	40,292	-	-	40,292
Total Liabilities	<u>97,762</u>	<u>-</u>	<u>-</u>	<u>97,762</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Property Taxes	58,711	-	-	58,711
Total Deferred Inflows of Resources	<u>58,711</u>	<u>-</u>	<u>-</u>	<u>58,711</u>
<b>FUND BALANCES</b>				
Restricted:				
Debt Service	-	518,645	-	518,645
Public Safety	7,196	-	3,765	10,961
Streets	31,917	-	-	31,917
Unassigned	238,580	-	-	238,580
Total Fund Balances	<u>277,693</u>	<u>518,645</u>	<u>3,765</u>	<u>800,103</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 434,166</u>	<u>518,645</u>	<u>3,765</u>	<u>956,576</u>

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

**CITY OF KEMP, TEXAS**  
Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Position  
For the Fiscal Year Ended September 30, 2018

<b>Total Fund Balances - Governmental Funds</b>	\$ 800,103
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$2,032,576 and the accumulated depreciation was \$(1,239,917). In addition, long-term liabilities of \$(637,173) are not due and payable in the current period, and therefore, are not reported liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to decrease net assets.	155,486
Current year capital outlays of \$22,560 and long-term debt principal payments of \$172,410 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements.	194,970
The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(87,701)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, reclassifying the proceeds of financing sources as an increase in notes payable, recognizing accrued interest on debt, and recognizing the liabilities associated with compensated absences. The net effect of these reclassifications is to increase net position.	51,545
Included in the non-current assets is the recognition of the City's net pension asset required by GASB 68 in the amount of \$73,169, a deferred resource inflow in the amount of \$(15,758), and a deferred resource outflow in the amount of \$13,122. The net effect of these adjustments is an increase to net position.	<u>70,533</u>
<b>Net Position of Governmental Activities</b>	<u><u>\$ 1,184,936</u></u>

**CITY OF KEMP, TEXAS**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended September 30, 2018

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Property	\$ 373,868	-	-	373,868
Sales	240,550	-	-	240,550
Franchise	66,711	-	-	66,711
Licenses & Permits	19,982	-	-	19,982
Fines & Forfeitures	332,334	-	155	332,489
Charges for Services	98,104	-	-	98,104
Grants & Contributions	42,979	-	-	42,979
Investment Earnings	475	294	-	769
Miscellaneous	15,910	-	-	15,910
Intergovernmental	5,330	-	-	5,330
Total Revenues	<u>1,196,243</u>	<u>294</u>	<u>155</u>	<u>1,196,692</u>
<b>EXPENDITURES</b>				
Current:				
General Government	294,191	-	165	294,356
Public Safety	496,912	-	-	496,912
Streets	162,566	-	-	162,566
Parks & Recreation	766	-	-	766
Capital Outlay	22,560	-	-	22,560
Debt Service:				
Principal Retirement	47,410	125,000	-	172,410
Interest & Fiscal Charges	15,098	9,236	-	24,334
Total Expenditures	<u>1,039,503</u>	<u>134,236</u>	<u>165</u>	<u>1,173,904</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>156,740</u>	<u>(133,942)</u>	<u>(10)</u>	<u>22,788</u>
<b>OTHER FINANCING SOURCES/(USES)</b>				
Transfers In	30,000	198,102	-	228,102
Transfers Out	(267,949)	-	-	(267,949)
Total Other Financing Sources/(Uses)	<u>(237,949)</u>	<u>198,102</u>	<u>-</u>	<u>(39,847)</u>
Net Change in Fund Balances	(81,209)	64,160	(10)	(17,059)
Fund Balance - Beginning	<u>358,902</u>	<u>454,485</u>	<u>3,775</u>	<u>817,162</u>
Fund Balance - Ending	<u>\$ 277,693</u>	<u>518,645</u>	<u>3,765</u>	<u>800,103</u>

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

**CITY OF KEMP, TEXAS**  
Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended September 30, 2018

<b>Total Net Change in Fund Balance - Governmental Funds</b>	\$ (17,059)
--------------------------------------------------------------	-------------

Current year capital outlays of \$22,560 and long-term debt principal payments of \$172,410 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements.

194,970

The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.

(87,701)

The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/17 caused the change in the ending net position to increase in the amount of \$12,287. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling \$(8,100). The City's reported TMRS net pension expense had to be recorded. The net pension expense decreased the change in net position by \$(13,205).

9,018

<b>Change in Net Position of Governmental Activities</b>	<u><u>\$ 99,228</u></u>
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**CITY OF KEMP, TEXAS**

## Statement of Net Position

Proprietary Fund

September 30, 2018

Business-Type  
Activities**ASSETS**

## Current Assets:

Cash & Cash Equivalents	\$ 486,566
Receivables (Net of Allowance for Uncollectibles)	91,006
Due From Other Funds	12,055
Inventory	71,531
Total Current Assets	<u>661,158</u>

## Noncurrent Assets:

Capital Assets (Net of Accumulated Depreciation)	3,152,964
Net Pension Asset	53,531
Total Noncurrent Assets	<u>3,206,495</u>

Total Assets	<u><u>3,867,653</u></u>
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**DEFERRED OUTFLOWS OF RESOURCES**

## Deferred Outflows Related to TMRS

Total Deferred Outflows of Resources	<u>9,600</u>
	<u><u>9,600</u></u>

**LIABILITIES**

## Current Liabilities:

Accounts Payable	67,429
Accrued Payroll Payable	1,556
Due to Other Funds	373,087
Accrued Interest Payable	960
Customer Deposits	53,053
Long-Term Debt, Current Portion	135,833
Total Current Liabilities	<u>631,918</u>

## Noncurrent Liabilities:

Compensated Absences	4,925
Long-Term Debt	942,667
Total Noncurrent Liabilities	<u>947,592</u>

Total Liabilities	<u><u>1,579,510</u></u>
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**DEFERRED INFLOWS OF RESOURCES**

## Deferred Inflows Related to TMRS

Unavailable Revenue	11,528
Total Deferred Inflows of Resources	<u>10,542</u>
	<u><u>22,070</u></u>

**NET POSITION**

Net Invested in Capital Assets	2,074,464
Unrestricted	201,209
Total Net Position	<u>\$ 2,275,673</u>

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

**CITY OF KEMP, TEXAS**  
Statement of Revenues, Expenses and Change in Net Position  
Proprietary Fund  
For the Fiscal Year Ended September 30, 2018

	Business-Type Activities
<b>OPERATING REVENUES</b>	
Water Service	\$ 502,755
Sewer Service	231,514
Tap Fees	7,850
Miscellaneous	275,657
Total Operating Revenues	<u>1,017,776</u>
<b>OPERATING EXPENSES</b>	
Personnel Services	409,535
Professional Services	35,919
Water Production	178,567
Water Distribution	100,865
Sewer	143,389
Employee Development	4,254
Utilities & Communication	37,263
Insurance & Bonding	11,585
Depreciation	183,188
Total Operating Expenses	<u>1,104,565</u>
Operating Income/(Loss)	<u>(86,789)</u>
<b>NONOPERATING REVENUES/(EXPENSES)</b>	
Interest on Investments	355
Interest & Fiscal Charges	(28,422)
Litigation Settlement	(367,500)
Total Nonoperating Revenues/(Expenses)	<u>(395,567)</u>
Income/(Loss) Before Transfers	(482,356)
Transfers In/Out	<u>69,847</u>
Change in Net Position	(412,509)
Net Position - Beginning	<u>2,688,182</u>
Net Position - Ending	<u><u>\$ 2,275,673</u></u>

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

**CITY OF KEMP, TEXAS**  
Statement of Cash Flows  
Proprietary Fund  
For the Fiscal Year Ended September 30, 2018

	<u>Business-Type Activities</u>
<b>Cash Flows from Operating Activities</b>	
Receipts from Customers & Users	\$ 1,017,749
Payments to Suppliers	(607,980)
Payments to Employees	(286,871)
Net Cash Provided/(Used) by Operating Activities	<u>122,898</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Repayment of Advances from Other Funds	254,801
Litigation Payments, Net	(110,000)
Transfers (to)/from Other Funds	69,847
Net Cash Provided/(Used) by Noncapital Financing Activities	<u>214,648</u>
<b>Cash Flows from Capital &amp; Related Financing Activities</b>	
Acquisition & Construction of Capital Assets	(41,180)
Principal Paid on Debt	(49,000)
Interest & Fiscal Charges Paid	(28,422)
Net Cash Provided/(Used) by Capital & Related Financing Activities	<u>(118,602)</u>
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	<u>355</u>
Net Cash Provided/(Used) by Investing Activities	<u>355</u>
Net Increase/(Decrease) in Cash & Cash Equivalents	219,299
Cash & Cash Equivalents - Beginning	<u>267,267</u>
Cash & Cash Equivalents - Ending	<u><u>\$ 486,566</u></u>
<b>Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities</b>	
Operating Income/(Loss)	\$ (86,789)
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:	
Depreciation	183,188
(Increase)/Decrease in Accounts Receivable	(27)
(Increase)/Decrease in Inventory	(32,085)
(Increase)/Decrease in Net Pension Asset	(11,894)
(Increase)/Decrease in Deferred Outflows of Resources	15,921
Increase/(Decrease) in Accounts Payable	47,255
Increase/(Decrease) in Customer Deposits	(4,199)
Increase/(Decrease) in Deferred Inflows of Resources	11,528
Total Adjustments	<u>209,687</u>
Net Cash Provided/(Used) by Operating Activities	<u><u>\$ 122,898</u></u>

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

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2018

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Kemp, Texas, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**Reporting Entity**

The City of Kemp, Texas (the "City") was incorporated in 1922. The accompanying financial statements present the City and its component units (traditionally separate reporting entities), for which the City is considered to be financially accountable. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units.

*Discretely Presented Component Units* – The Corporation and District described below are included in the City's reporting entity because the City appoints the governing body and the Corporation and District are fiscally dependent on the City. The Corporation and District are reported as discretely presented component units since the governing body is not substantively the same as the governing body of the City, and they provide services to the citizens of Kemp and the surrounding area as opposed to only the primary government. To emphasize that they are legally separate from the City, they are reported in separate columns in the financial statements. Separate financial statements for the Corporation and District are not issued.

The *Kemp Economic Development Corporation* (the "Corporation") is responsible for collecting and disbursing the one-half percent sales tax to be used for economic development within the City. The members of the Corporation's board are appointed by the City. The Corporation is presented as a governmental fund and has a September 30 year end.

The *Kemp Municipal Development District* (the "District") is responsible for collecting and disbursing the one-quarter percent sales tax to be used for municipal development within the City. The Mayor and City Council act as members of the District's board. The District is presented as a governmental fund and has a September 30 year end.

Governmental accounting standards require reasonable separation between the Primary Government (including its blended components units) and its discretely presented component units, both in the financial statements and in the related notes and required supplementary information. Because the discretely presented component units, although legally separate, have been and are operated as if each is part of the primary government, there are limited instances where special note reference or separation will be required. If no separate note reference or categorization is made, the user should assume that information presented is equally applicable.



**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2018

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Government-Wide & Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting & Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. 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.

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 government 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.

Property 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* accounts for the accumulation of resources for the payment of general debt principal, interest and related costs. The revenue source is principally ad valorem taxes levied by the City.

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2018

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Measurement Focus, Basis of Accounting & Financial Statement Presentation** *(continued)*

The City reports the following major proprietary fund:

The *enterprise fund* accounts for the operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability. The City's enterprise fund is for water and sewer operations.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the city's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Assets, Liabilities, Deferred Inflows & Net Position/Fund Balance**

Deposits & Investments

For purposes of the statement of cash flows the City's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Short-Term Interfund Receivables & Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventory

All inventories are value at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2018

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Assets, Liabilities, Deferred Inflows & Net Position/Fund Balance** *(continued)*

Capital Assets *(continued)*

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of interest earned on the invested proceeds over the same period.

Property, plant, equipment and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-30
Improvements	10-50
Machinery & Equipment	5-15
Infrastructure	20-30

Deferred Inflows of Resources

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 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. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2018

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Assets, Liabilities, Deferred Inflows & Net Position/Fund Balance** *(continued)*

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the government-wide financial statements. Net position is classified in the following categories:

*Net Investment in Capital Assets* – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

*Restricted Net Position* – This amount is restricted by creditors, grantors, contributors or law and regulations of other governments.

*Unrestricted Net Position* – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

Fund Equity

The governmental fund financial statements present fund balance classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-Spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amount for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the City’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by an official to which the City Council delegates this authority.
- Unassigned: This classification includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources - committed, assigned, and unassigned, in order as needed.

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2018

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Assets, Liabilities, Deferred Inflows & Net Position/Fund Balance** *(continued)*

As of September 30, 2018, fund balances are composed of the following:

	General Fund	Debt Service	Other Governmental	Total
Restricted:				
Debt Service	\$ -	518,645	-	518,645
Public Safety	7,196	-	3,765	10,961
Streets	31,917	-	-	31,917
Unassigned	238,580	-	-	238,580
Total Fund Balances	<u>\$ 277,693</u>	<u>518,645</u>	<u>3,765</u>	<u>800,103</u>

**STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY**

**Budgetary Information**

Annual budgets for the general, economic development corporation and water and sewer funds are adopted on the budgetary basis of accounting. All annual appropriations lapse at fiscal year end. The legal level of budgetary control is the fund level.

**DEPOSITS & INVESTMENTS**

The City may invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. agencies, certificates of deposits, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds and other investments specifically allowed by the Public Funds Investment Act of 1987 (Article 842a-2 Vernon's Civil Statutes).

At September 30, 2018, the City's carrying amounts of deposits was \$933,262 and the bank balance of the City's deposits was \$968,910. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining \$718,910 was covered by collateral held by the pledging financial institutions trust department or agent in the City's name.

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy addresses the following risks:

Credit Risk is the risk that a security issuer may default on an interest or principal payment. It is the government's policy to limit its investments to those investments rated at least AAAM.

Custodial Credit Risk is the risk that, in the event of the failure of a depository financial institution or counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover its deposits, value of its investments, or collateral securities that are in the possession of an outside party. The PFIA, the government's investment policy, and Government Code Chapter 2257 "Collateral for Public Funds" contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments. The government's funds are deposited and invested under terms of a depository contract with amounts greater than the FDIC insurance coverage protected by approved pledged securities held on behalf of the government. Public funds investment pools created to function as money market mutual funds must mark their portfolios to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. The government's policy manages custodial credit risk by requiring securities purchased by a broker-dealer for the government to be held in a Safekeeping account in the government's name. The policy also requires that security transactions be conducted on a delivery-versus-payment basis.

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2018

**DEPOSITS & INVESTMENTS** *(continued)*

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. It is the government's policy to not allow for a concentration of credit risk. Investments issued by the U. S. Government and investments in investment pools are excluded from the 5 percent disclosure requirement. The government is not exposed to concentration of credit risk.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for the government's investment in external investment pools is less than 60 days.

Foreign Currency Risk is the potential for loss due to fluctuations in exchange rates. The government's policy does not allow for any direct foreign investments, and therefore the government is not exposed to foreign currency risk.

**RECEIVABLES**

Receivables at September 30, 2018 consist of the following:

	General	Water & Sewer	Total
<b>Receivables:</b>			
Property Taxes	\$ 61,801	-	61,801
Sales Taxes	19,520	-	19,520
Franchise Taxes	15,147	-	15,147
Miscellaneous	2,776	-	2,776
Utility Bills	-	119,329	119,329
Gross Receivables	99,244	119,329	218,573
Less: Allowance for Uncollectibles	(3,090)	(28,323)	(31,413)
Net Total Receivables	<u>\$ 96,154</u>	<u>91,006</u>	<u>187,160</u>

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property. Appraised values are established by the Kaufman County Appraisal District as market value and assessed at 100% of appraised value. Property taxes attach as an enforceable lien on property as of January 1. The Kaufman County Tax Assessor/Collector bills and collects the City's property taxes, which are due October 1. Full payment can be made prior to the next January 31 to avoid penalty and interest charges. Over time substantially all property taxes are collected.

**INTER-FUND RECEIVABLES, PAYABLES, & TRANSFERS**

The composition of inter-fund balances as of September 30, 2018, is as follows:

Due to/from Other Funds:

Receivable Fund	Payable Fund	Amount
Water and Sewer	General	\$ 12,055
Debt Service Fund	Water and Sewer	373,087
EDC	General	40,292
		<u>\$ 425,434</u>



**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2018

**CAPITAL ASSETS** *(continued)*

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities**

General Government	\$ 2,793
Public Safety	63,782
Streets	21,126
Total Depreciation Expense - Governmental Activities	<u>\$ 87,701</u>

**Business-Type Activities**

Water & Sewer	\$ 183,188
Total Depreciation Expense - Business-Type Activities	<u>\$ 183,188</u>

The water system improvements project is a commitment of the City's enterprise fund. This project is being funded by grant proceeds and a match from the City.

Capital asset activity for the EDC for the year ended September 30, 2018 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<b>EDC</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 166,968	-	-	166,968
Total Capital Assets Not Being Depreciated	<u>166,968</u>	<u>-</u>	<u>-</u>	<u>166,968</u>
Capital Assets Being Depreciated:				
Buildings & Structures	95,060	9,852	-	104,912
Leasehold Improvements	-	27,500	-	27,500
Machinery & Equipment	883	-	-	883
Infrastructure	12,750	-	-	12,750
Total Capital Assets Being Depreciated	<u>108,693</u>	<u>37,352</u>	<u>-</u>	<u>146,045</u>
Less Accumulated Depreciation for:				
Buildings & Structures	(55,024)	(6,107)	-	(61,131)
Leasehold Improvements	-	(458)	-	(458)
Machinery & Equipment	(884)	-	-	(884)
Infrastructure	(10,590)	(1,258)	-	(11,848)
Total Accumulated Depreciation	<u>(66,498)</u>	<u>(7,823)</u>	<u>-</u>	<u>(74,321)</u>
Total Capital Assets, Being Depreciated, Net	<u>42,195</u>	<u>29,529</u>	<u>-</u>	<u>71,724</u>
Governmental Activities Capital Assets, Net	<u>\$ 209,163</u>	<u>29,529</u>	<u>-</u>	<u>238,692</u>

Capital asset activity for the MDD for the year ended September 30, 2018 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<b>MDD</b>				
Capital Assets Being Depreciated:				
Buildings & Structures	\$ 160,198	-	(141,298)	18,900
Leasehold Improvements	-	27,500	-	27,500
Total Capital Assets Being Depreciated	<u>160,198</u>	<u>27,500</u>	<u>(141,298)</u>	<u>46,400</u>
Less Accumulated Depreciation for:				
Buildings & Structures	(20,482)	(9,895)	25,232	(5,145)
Leasehold Improvements	-	(458)	-	(458)
Total Accumulated Depreciation	<u>(20,482)</u>	<u>(10,353)</u>	<u>25,232</u>	<u>(5,603)</u>
Total Capital Assets, Being Depreciated, Net	<u>139,716</u>	<u>17,147</u>	<u>(116,066)</u>	<u>40,797</u>
Governmental Activities Capital Assets, Net	<u>\$ 139,716</u>	<u>17,147</u>	<u>(116,066)</u>	<u>40,797</u>



**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2018

**DETAILED NOTES ON ALL FUNDS** *(continued)*

**Long-Term Debt**

Long-term liability activity for the year ended September 30, 2018 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General Obligation Refunding Bonds	\$ 255,000	-	(125,000)	130,000	130,000
Notes Payable	382,173	-	(47,410)	334,763	46,758
Compensated Absences	3,637	16,929	(16,929)	3,637	-
Total	<u>\$ 640,810</u>	<u>16,929</u>	<u>(189,339)</u>	<u>468,400</u>	<u>176,758</u>

The bonds and notes will be repaid by the debt service fund. Compensated absences will be liquidated by the operating funds.

Bonds payable at September 30, 2018 are comprised of the following issues for the debt service fund:

2008 Certificates of Obligation. Interest payable February 15 and August 15 at a 4.59% interest rate.	<u>\$ 130,000</u>
----------------------------------------------------------------------------------------------------------	-------------------

In June 2015, the City borrowed \$43,287 from Government Capital Corporation to purchase a Chevy Tahoe for the Police Department. This loan is being paid in five annual installments including interest computed at 3.932%. The final payment is due July 1, 2020.

In August 2015, the City borrowed \$43,286 from Government Capital Corporation to purchase a Chevy Tahoe for the Police Department. This loan is being paid in five annual installments including interest computed at 3.932%. The final payment is due July 1, 2020.

In April 2017, the City financed \$332,933 from PNC Equipment to purchase a 2018 Pierce International Fire Truck. This loan is being paid in ten annual installments of \$40,985 (including interest). The final payment is due April 25, 2027.

The annual requirements to amortize the debt outstanding for the debt service fund as of September 30, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 176,758	16,531	193,289
2020	41,732	11,697	53,429
2021	31,210	9,776	40,986
2022	32,448	8,537	40,985
2023	33,736	7,249	40,985
2024-2027	148,879	15,062	163,941
	<u>\$ 464,763</u>	<u>68,852</u>	<u>533,615</u>

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2018

**LONG-TERM DEBT** *(continued)*

During the year ended September 30, 2018, the following changes occurred in long-term liabilities reported in the Water and Sewer Fund.

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Business-Type Activities</b>					
Certificates of Obligation	\$ 870,000	-	(49,000)	821,000	50,000
Litigation Liability	-	407,500	(150,000)	257,500	85,833
Compensated Absences	4,925	6,900	(6,900)	4,925	-
Total	<u>\$ 874,925</u>	<u>414,400</u>	<u>(205,900)</u>	<u>1,083,425</u>	<u>135,833</u>

Bonds payable at September 30, 2018 are comprised of the following issues for the Water and Sewer fund:

2011 Certificates of Obligation. Interest payable February 15 and August 15 at a 4.41% interest rate.	\$ 118,000
2013 Certificates of Obligation. Interest payable February 15 and August 15 at a 3.18% interest rate.	<u>703,000</u>
	<u>\$ 821,000</u>

**Litigation Liability**

The City was named as a defendant in a lawsuit against West Cedar Creek Municipal Utility District, regarding an alleged breach of contract related to the transfer of the City's water and wastewater systems. On June 29, 2018, the City signed an agreement totaling \$407,500, \$150,000 was paid upon settlement, with the remaining \$257,500 to be paid in three equal installments on June 30<sup>th</sup> of the succeeding years. The City received \$40,000 from TML, their insurance provider, to be offset against the settlement liability. The settlement bears no interest.

The annual requirements to amortize the debt outstanding for the Water and Sewer fund as of September 30, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 135,833	26,699	162,532
2020	136,833	24,988	161,821
2021	139,834	23,098	162,932
2022	55,000	21,191	76,191
2023	57,000	19,232	76,232
2024-2028	281,000	65,674	346,674
2029-2033	<u>273,000</u>	<u>22,232</u>	<u>295,232</u>
	<u>\$1,078,500</u>	<u>203,114</u>	<u>1,281,614</u>

During the year ended September 30, 2018, the following changes occurred in long-term liabilities reported in the MDD.

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>MDD</b>					
General Obligation Refunding Bonds	\$ 311,000	-	(11,000)	300,000	12,000
Total	<u>\$ 311,000</u>	<u>-</u>	<u>(11,000)</u>	<u>300,000</u>	<u>12,000</u>

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2018

**LONG-TERM DEBT** *(continued)*

Bonds payable at September 30, 2018 are comprised of the following issues for the MDD:

2016 Certificates of Obligation. Interest payable  
February 15 and August 15 at a 3.95% interest rate. \$ 300,000

The annual requirements to amortize the bonded debt outstanding for the MDD as of September 30, 2018 are as follows:

	Principal	Interest	Total
2019	\$ 12,000	11,850	23,850
2020	12,000	11,376	23,376
2021	13,000	10,902	23,902
2022	13,000	10,389	23,389
2023	14,000	9,875	23,875
2024-2028	77,000	40,804	117,804
2029-2033	93,000	24,332	117,332
2034-2036	66,000	5,293	71,293
	<u>\$ 300,000</u>	<u>124,821</u>	<u>424,821</u>

**LEASES**

On April 14, 2015, the City entered into a 48-month postage meter lease agreement with Pitney Bowes. Payments are made monthly at a rate of \$45.

On July 1, 2016, the City entered into a 48-month copier lease agreement with Konica Minolta. Payments are made monthly at a rate of \$247.

On January 1, 2018, the City entered into a 12-month lease agreement with Lamar for billboard advertising. Payments are made monthly at a rate of \$389.

On January 22, 2018, the City entered into a 60-month lease agreement with First National Bank of Kemp for office space. The office space is occupied by the Kemp Police Department and the Economic Development Corporation (EDC). The lease term began August 1, 2018 after completion of the build-out. An upfront fee of \$115,000 was required, which includes a portion of the buildout and the 60-month lease rental. A \$1,000 monthly fee was assessed, and is considered prepaid, and expended with each passing month. The City has a renewal option of one additional 60-month term at \$1,000 per month.

Future minimum lease payments for the fiscal years ending September 30 are as follows:

2019	\$ 16,666
2020	14,512
2021	12,000
2022	12,000
2023	10,000
Total	<u>\$ 65,178</u>

**RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2018

**COMMITMENTS**

On August 2, 1968, the City of Kemp entered into a contract with Tarrant Regional Water District (District) to take raw water from its Cedar Creek Reservoir for domestic and municipal use. According to the terms of the contract, the City is to withdraw 130 acre feet (42,360,630 gallons) at no charge and is to pay all in excess of that amount at the rate of \$.08 per thousand gallons on the next 600 acre feet. Such rate is subject to an annual cost adjustment. As of September 30, 2018, the rate was 1.25905 cents per thousand gallons.

Actual payments for the year ended September 30, 2018 were \$56,359.

**RETIREMENT SYSTEM**

**Plan Description**

The City of Kemp participates as one of 860 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 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 includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained from the TMRS website at [www.tmrs.com](http://www.tmrs.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. Member 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.

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:

	Plan Year 2018	Plan Year 2017
Employee Deposit Rate	5.0%	5.0%
Matching Ratio (city to employee)	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	0% of CPI	0% of CPI

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2018

**RETIREMENT SYSTEM** *(continued)*

**Employees Covered by Benefit Terms** - At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	8
Inactive Employees Entitled to but Not Yet Receiving Benefits	25
Active Employees	19
	<u>52</u>

**Contributions** - Under the state law governing TMRS, the contribution rate for each government is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that government. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The required contribution rates for fiscal year 2018 were determined as part of the December 31, 2017 actuarial valuations. Employees were required to contribute 5.00% of their annual gross earnings during the fiscal year. The City contribution rates were determined to be 4.32% and 3.18% in calendar year 2018 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2018 were \$26,427 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 an actuarial valuation as of that date.

	Increase/(Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2016	\$ 673,174	\$ 750,788	\$ (77,614)
Changes for the Year:			
Service Cost	67,771	-	67,771
Interest	46,799	-	46,799
Change of Benefit Terms	-	-	-
Difference Between Expected & Actual Experience	(9,390)	-	(9,390)
Changes of Assumptions	-	-	-
Contributions - Employer	-	19,808	(19,808)
Contributions - Employee	-	31,145	(31,145)
Net Investment Income	-	103,879	(103,879)
Benefit Payments, Including Refunds of Employee Contributions	(27,477)	(27,477)	-
Administrative Expenses	-	(539)	539
Other Changes	-	(27)	27
Net Changes	<u>77,703</u>	<u>126,789</u>	<u>(49,086)</u>
Balance at 12/31/2017	<u>\$ 750,877</u>	<u>\$ 877,577</u>	<u>\$ (126,700)</u>

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2018

**RETIREMENT SYSTEM** *(continued)*

**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 have been 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 in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability/(Asset)	\$ (26,129)	\$ (126,700)	\$ (209,243)

**Pension Expense, Deferred Outflows and Inflows of Resources** - For the year ended September 30, 2018, the City recognized pension expense in the amount of \$33,594. 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
Differences Between Expected & Actual Economic Experience (net of current year amortization)	\$ 1,452	6,553
Changes in Actuarial Assumptions	-	-
Difference Between Projected & Actual Investment Earnings (net of current year amortization)	-	20,733
Contributions Subsequent to the Measurement Date	21,270	-
Total	<u>\$ 22,722</u>	<u>27,286</u>

\$21,270 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 for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending	
<u>September 30</u>	
2019	\$ (203)
2020	(3,479)
2021	(11,511)
2022	(10,641)
2023	-
Thereafter	-

**TAX ABATEMENTS**

The City entered into an agreement in October of 2009 with First National Bank of Kemp, to issue an ad valorem property tax rebate for a period of ten years, in exchange for the construction of a new banking facility within city limits. The 2017 rebate of 75% was paid during 2018 in the amount of \$9,506. There are two years remaining on the rebate, with details as follows:

Rebate Period	Rebate %	Repayment Year
2018	70%	2019
2019	65%	2020

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2018

**UNFAVORABLE BUDGET VARIANCES**

For the year ended September 30, 2018, City had expenditures in excess of budgeted amounts in the following categories: general government and the water sewer fund.

General government expenditures were over budget by \$20,812, of which \$9,892 relates to a retirement buy-back that is unique to this year. On a whole the City is underbudget within their general fund.

The water sewer fund had multiple categories that were over expended: personnel services, professional services, sewer, employee development, utilities and communication, litigation settlement, and depreciation. Personnel services are over budget by \$53,507, of which \$51,201 is related directly to wages. An additional \$25,448 in audited adjustments were not accounted for, this relates to an additional \$9,893 for retirement buy-back (also noted in the general government) as well as \$15,555 related to the GASB 68 adjustment. Sewer repairs and maintenance were over expended by \$13,211, with an additional \$24,356 in sludge removal payables, noted during the audit. This accounts for \$37,567 of the \$43,774 variance. Utilities and communication were over expended by \$7,763, of which \$5,144 relates to electricity, while \$2,619 relates to phone. The phone bill was nearly 75% more than the budget. The litigation settlement was a unique situation that was not budgeted for. This will not be a recurring event. The budget deficit for depreciation is \$183,188 which is a result of the City not budgeting for depreciation expense. The overall water sewer operating expenses are \$2,784 over budget, without the consideration of depreciation, and the one-time litigation settlement.

**EVALUATION OF SUBSEQUENT EVENTS**

The City has evaluated subsequent events through April 10, 2019, the date which the financial statements were available to be issued.

## **REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF KEMP, TEXAS**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual - General Fund  
For the Fiscal Year Ended September 30, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes:				
Property	\$ 388,500	388,500	373,868	(14,632)
Sales	250,000	250,000	240,550	(9,450)
Franchise	77,000	77,000	66,711	(10,289)
Licenses & Permits	10,800	10,800	19,982	9,182
Fines & Forfeitures	342,000	342,000	332,334	(9,666)
Charges for Services	95,000	95,000	98,104	3,104
Grants & Contributions	-	-	42,979	42,979
Investment Earnings	500	500	475	(25)
Miscellaneous	45,170	45,170	15,910	(29,260)
Intergovernmental	-	-	5,330	5,330
Total Revenues	<u>1,208,970</u>	<u>1,208,970</u>	<u>1,196,243</u>	<u>(12,727)</u>
<b>EXPENDITURES</b>				
Current:				
General Government	273,379	273,379	294,191	(20,812)
Public Safety:				
Police Protection	387,339	387,339	381,390	5,949
Code Enforcement	2,700	2,700	1,020	1,680
Animal Control	2,000	2,000	1,512	488
Municipal Court	271,186	271,186	92,626	178,560
Fire Protection	22,000	22,000	20,364	1,636
Total Public Safety	<u>685,225</u>	<u>685,225</u>	<u>496,912</u>	<u>188,313</u>
Streets	216,107	216,107	162,566	53,541
Parks & Recreation	2,700	2,700	766	1,934
Capital Outlay	22,560	22,560	22,560	-
Debt Service	89,000	89,000	62,508	26,492
Total Expenditures	<u>1,288,971</u>	<u>1,288,971</u>	<u>1,039,503</u>	<u>249,468</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>(80,001)</u>	<u>(80,001)</u>	<u>156,740</u>	<u>236,741</u>
<b>OTHER FINANCING SOURCES/(USES)</b>				
Transfers In	-	-	30,000	30,000
Transfers Out	<u>(357,000)</u>	<u>(357,000)</u>	<u>(267,949)</u>	<u>89,051</u>
Total Other Financing Sources/(Uses)	<u>(357,000)</u>	<u>(357,000)</u>	<u>(237,949)</u>	<u>119,051</u>
Net Change in Fund Balances	(437,001)	(437,001)	(81,209)	355,792
Fund Balance - Beginning	<u>358,902</u>	<u>358,902</u>	<u>358,902</u>	<u>-</u>
Fund Balance - Ending	<u>\$ (78,099)</u>	<u>(78,099)</u>	<u>277,693</u>	<u>355,792</u>

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

# CITY OF KEMP, TEXAS

## Statement of Revenues, Expenses and Changes in Net Position Budget and Actual - Enterprise Fund - Water and Sewer For the Fiscal Year Ended September 30, 2018

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>OPERATING REVENUES</b>				
Water Service	\$ 533,743	533,743	502,755	(30,988)
Sewer Service	245,550	245,550	231,514	(14,036)
Tap Fees	10,000	10,000	7,850	(2,150)
Miscellaneous	241,500	241,500	275,657	34,157
Total Operating Revenues	<u>1,030,793</u>	<u>1,030,793</u>	<u>1,017,776</u>	<u>(13,017)</u>
<b>OPERATING EXPENSES</b>				
Personnel Services	356,028	356,028	409,535	(53,507)
Professional Services	31,500	31,500	35,919	(4,419)
Water Production	278,800	278,800	178,567	100,233
Water Distribution	107,550	107,550	100,865	6,685
Sewer	99,615	99,615	143,389	(43,774)
Employee Development	2,600	2,600	4,254	(1,654)
Utilities & Communication	29,500	29,500	37,263	(7,763)
Insurance & Bonding	13,000	13,000	11,585	1,415
Litigation Settlement	-	-	367,500	(367,500)
Depreciation	-	-	183,188	(183,188)
Total Operating Expenses	<u>918,593</u>	<u>918,593</u>	<u>1,472,065</u>	<u>(553,472)</u>
Operating Income/(Loss)	<u>112,200</u>	<u>112,200</u>	<u>(454,289)</u>	<u>(566,489)</u>
<b>NONOPERATING REVENUES/(EXPENSES)</b>				
Interest on Investments	200	200	355	155
Interest & Fiscal Charges	-	-	(28,422)	(28,422)
Total Nonoperating Revenues/(Expenses)	<u>200</u>	<u>200</u>	<u>(28,067)</u>	<u>(28,267)</u>
Income/(Loss) Before Transfers	112,400	112,400	(482,356)	(594,756)
Transfers In/(Out)	<u>-</u>	<u>-</u>	<u>69,847</u>	<u>69,847</u>
Change in Net Position	112,400	112,400	(412,509)	(524,909)
Net Position - Beginning	<u>2,688,182</u>	<u>2,688,182</u>	<u>2,688,182</u>	<u>-</u>
Net Position - Ending	<u>\$ 2,800,582</u>	<u>2,800,582</u>	<u>2,275,673</u>	<u>(524,909)</u>

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

**CITY OF KEMP, TEXAS**  
Schedule of Changes in Net Pension Liability and Related Ratios  
For the Year Ended September 30, 2018

	Plan Year Ended December 31, 2017	2016
<b>Total Pension Liability</b>		
Service cost	\$ 67,771	\$ 53,920
Interest (on the total pension liability)	46,799	41,701
Changes of benefit terms	-	-
Difference between expected and actual experience	(9,390)	5,322
Change of assumptions	-	-
Benefit payments, including refunds of employee contributions	(27,477)	(37,198)
<b>Net Change in Total Pension Liability</b>	77,703	63,745
<b>Total Pension Liability - Beginning</b>	673,174	609,429
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 750,877</u>	<u>\$ 673,174</u>
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	\$ 19,808	\$ 1,225
Contributions - employee	31,145	23,566
Net investment income	103,879	48,263
Benefit payments, including refunds of employee contributions	(27,477)	(37,198)
Administrative expense	(539)	(546)
Other	(27)	(29)
<b>Net Change in Plan Fiduciary Net Position</b>	126,789	35,281
<b>Plan Fiduciary Net Position - Beginning</b>	750,788	715,507
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 877,577</u>	<u>\$ 750,788</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	<u>\$ (126,700)</u>	<u>\$ (77,614)</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	116.87%	111.53%
<b>Covered Employee Payroll</b>	\$ 622,893	\$ 471,329
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	-20.34%	-16.47%

**CITY OF KEMP, TEXAS**  
Schedule of Changes in Net Pension Liability and Related Ratios  
For the Year Ended September 30, 2018

<u>2015</u>	<u>2014</u>
\$ 23,944	\$ 14,394
37,739	34,762
35,062	-
15,058	(13,514)
20,993	-
<u>(30,920)</u>	<u>(34,994)</u>
101,876	648
507,553	506,905
<u>\$ 609,429</u>	<u>\$ 507,553</u>
\$ (3)	\$ -
17,030	11,062
1,075	40,756
(30,920)	(34,994)
(655)	(426)
<u>(32)</u>	<u>(35)</u>
(13,505)	16,363
729,012	712,649
<u>\$ 715,507</u>	<u>\$ 729,012</u>
<u>\$ (106,078)</u>	<u>\$ (221,459)</u>
117.41%	143.63%
\$ 340,592	\$ 221,239
-31.15%	-100.10%

**CITY OF KEMP, TEXAS**  
Schedule of Contributions  
For the Year Ended September 30, 2018

	2018	2017
Actuarially determined contribution	\$ 26,427	\$ 14,368
Contributions in relation to actuarially determined contribution	<u>(26,427)</u>	<u>(14,368)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
 Covered employee payroll	 \$ 654,538	 \$ 574,293
Contributions as a percentage of covered employee payroll	4.04%	2.50%

**CITY OF KEMP, TEXAS**  
Schedule of Contributions  
For the Year Ended September 30, 2018

2016	2015
\$ 878	\$ -
(878)	-
<u>\$ -</u>	<u>\$ -</u>
\$ 449,638	\$ 289,693
0.20%	0.00%

**CITY OF KEMP, TEXAS**  
Notes to Schedule of Contributions  
For the Year Ended September 30, 2018

**Valuation Date:** Actuarially determined contribution rates are calculated as of December 31, and become effective in January 13 months later.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on 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.

**Other Information:** There were no benefit changes during the year.