

CITY OF KEMP, TEXAS

Financial Statements
(With Auditor's Report Thereon)

September 30, 2019

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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, 2019, 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

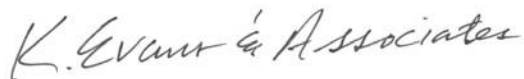
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kemp, Texas, as of September 30, 2019, 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.

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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.



K. Evans & Associates, CPA's
Frisco, Texas
April 15, 2020

CITY OF KEMP, TEXAS
Management's Discussion and Analysis September
30, 2019

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, 2019. 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 \$3,562,779 (net position).
- The City's total net position increased by \$102,170.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,404,931.

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.

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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.

CITY OF KEMP, TEXAS
Management's Discussion and Analysis September
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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.

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 \$3,562,779 as of September 30, 2019.

A portion of the City's net position (36.1%) 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.

	Governmental		Business-Type		Total	
	Activities		Activities			
	2019	2018	2019	2018	2019	2018
Current & Other Assets	\$ 2,589,812	1,017,690	(54,386)	341,602	2,535,426	1,359,292
Capital Assets	<u>866,139</u>	<u>727,518</u>	<u>3,548,998</u>	<u>3,152,964</u>	<u>4,415,137</u>	<u>3,880,482</u>
Total Assets	<u>3,455,951</u>	<u>1,745,208</u>	<u>3,494,612</u>	<u>3,494,566</u>	<u>6,950,563</u>	<u>5,239,774</u>
Deferred Outflows of Resources	<u>73,433</u>	<u>13,122</u>	<u>53,723</u>	<u>9,600</u>	<u>127,156</u>	<u>22,722</u>
Long Term Liabilities	1,882,774	468,400	1,278,045	1,083,425	3,160,819	1,551,825
Other Liabilities	<u>142,214</u>	<u>89,236</u>	<u>188,597</u>	<u>122,998</u>	<u>330,811</u>	<u>212,234</u>
Total Liabilities	<u>2,024,988</u>	<u>557,636</u>	<u>1,466,642</u>	<u>1,206,423</u>	<u>3,491,630</u>	<u>1,764,059</u>
Deferred Inflows of Resources	<u>2,146</u>	<u>15,758</u>	<u>21,164</u>	<u>22,070</u>	<u>23,310</u>	<u>37,828</u>
Net Position:						<u>37,828</u>
Net Invested in Capital Assets	(996,771)	262,755	2,283,331	2,074,464	1,286,560	2,337,219
Restricted	2,078,282	561,523	-	-	2,078,282	561,523
Unrestricted	<u>420,739</u>	<u>360,658</u>	<u>(222,802)</u>	<u>201,209</u>	<u>197,937</u>	<u>561,867</u>
Total Net Position	<u>\$ 1,502,250</u>	<u>1,184,936</u>	<u>2,060,529</u>	<u>2,275,673</u>	<u>3,562,779</u>	<u>3,460,609</u>

An additional portion of the City's net position, \$2,078,282, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$197,937, 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
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Analysis of the City's Operations. The following table provides a summary of the City's operations for the year ended September 30, 2019.

	City of Kemp - Changes in Net Position					
	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues:						
Charges for Services	\$ 531,648	450,575	985,561	1,017,776	1,517,209	1,468,351
Grants & Contributions	219,152	48,309	-	-	219,152	48,309
General Revenues:						
Property Tax	407,087	373,868	-	-	407,087	373,868
Other Tax	315,516	307,261	-	-	315,516	307,261
Miscellaneous	<u>26,307</u>	<u>16,679</u>	<u>497</u>	<u>355</u>	<u>26,804</u>	<u>17,034</u>
Total Revenues	<u>1,499,710</u>	<u>1,196,692</u>	<u>986,058</u>	<u>1,018,131</u>	<u>2,485,768</u>	<u>2,214,823</u>
Expenses						
General Government Activities	1,214,215	1,057,617	-	-	1,214,215	1,057,617
Business-Type Activities	-	-	<u>1,192,383</u>	<u>1,500,487</u>	<u>1,192,383</u>	<u>1,500,487</u>
Total Expenses	<u>1,214,215</u>	<u>1,057,617</u>	<u>1,192,383</u>	<u>1,500,487</u>	<u>2,406,598</u>	<u>2,558,104</u>
Increase/(Decrease) in Net Position Before Transfers	285,495	139,075	(206,325)	(482,356)	79,170	(343,281)
Transfers	<u>31,819</u>	<u>(39,847)</u>	<u>(8,819)</u>	<u>69,847</u>	<u>23,000</u>	<u>30,000</u>
Change in Net Position	317,314	99,228	(215,144)	(412,509)	102,170	(313,281)
Net Position - Beginning	<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>
Net Position - Ending	<u>\$ 1,502,250</u>	<u>1,184,936</u>	<u>2,060,529</u>	<u>2,275,673</u>	<u>3,562,779</u>	<u>3,460,609</u>

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

Governmental Activities:

Revenues exceeded expenditures by \$317,314. The primary increase resulted from grant contributions.

Business-Type Activities:

Business-type activities decreased the City's net position by \$215,144. Operating results were \$276,031 more than the prior year. This change remains consistent with general operation. During the prior year, there was a decrease as a result of a litigation settlement.

CITY OF KEMP, TEXAS
Management's Discussion and Analysis September
30, 2019

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with financerelevant 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 \$2,404,931. Of the current combined ending fund balance, \$326,649 is unassigned and \$2,078,282 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 \$326,649. Total unassigned fund balance represents 24% of total general fund expenditures.

The fund balance of the City's general fund increased \$1,590,875 during the current fiscal year, as a result of debt proceeds totaling \$1,577,432.

The debt service fund has a total fund balance of \$531,905. The net increase in fund balance during the current year in the debt service fund was \$13,260.

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 \$(222,802). Net position decreased in 2019 by \$215,144. 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 actual revenues and expenditures exceeded budgeted estimates. The budget estimated an increase in fund balance (prior to transfers) of \$118,442, while the actual result was an increase in fund balance (prior to transfers) of \$132,363.

Capital Assets & Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2019 amounts to \$4,415,137 (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 continuing construction projects of \$797,801 and depreciation expense of \$265,733.

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

CITY OF KEMP, TEXAS
Management's Discussion and Analysis September
30, 2019

Long-Term Debt. At the end of the current fiscal year, the City had long-term debt outstanding of \$3,128,577.

The City's long-term debt increased by \$1,585,314, primarily due new debt issuances of \$1,900,432 offsetting the scheduled principal payments on outstanding debt of \$315,118.

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

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash & Cash Equivalents	\$ 2,000,286	218,960	2,219,246
Receivables (Net of Allowance for Uncollectibles)	91,327	82,056	
			173,383
Grants Receivable	14,745	-	14,745
Due from Component Unit	22,728	-	22,728
Due from Primary Government	-	-	-
Internal Balances	437,726	(437,726)	-
Inventories	-	82,324	82,324
Prepaid Expenses	23,000	-	23,000
Capital Assets:			
Non-Depreciable	245,030	614,220	
			859,250
Depreciable (Net of Accumulated Depreciation)	621,109	2,934,778	3,555,887
Total Assets	3,455,951	3,494,612	6,950,563
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to TMRS	73,433	53,723	
			127,156
Total Deferred Outflows of Resources	73,433	53,723	
			127,156
LIABILITIES			
Current Liabilities:			
Accounts Payable & Other Current Liabilities	89,298	129,592	
			218,890
Accrued Payroll	1,263	1,556	2,819
Accrued Interest	11,361	960	12,321
Due to Component Unit	40,292	-	40,292
Due to Primary Government	-	-	-
Customer Deposits	-	56,489	56,489
Noncurrent Liabilities:			
Due Within One Year	47,432	197,833	
			245,265
Due in More than One Year	1,825,155	1,072,759	2,897,914
Net Pension Liability	10,187	7,453	17,640
Total Liabilities	2,024,988	1,466,642	3,491,630
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to TMRS	2,146	1,570	3,716
Deferred Inflow - Other	-	19,594	19,594
Total Deferred Inflows of Resources	2,146	21,164	23,310
NET POSITION			
Net Investment in Capital Assets	(996,771)	2,283,331	1,286,560
Restricted for:			

Debt Service	531,905	-	531,905
Public Safety	16,960	-	16,960
Streets	1,529,417	-	1,529,417
Economic Development	-	-	-
Municipal Development	-	-	-
Unrestricted	420,739	(222,802)	197,937
Total Net Position	<u>\$ 1,502,250</u>	<u>2,060,529</u>	<u>3,562,779</u>

September 30, 2019

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

Economic Development Corporation	Municipal Development District	<u> </u>	<u> </u>	<u> </u>
		<u> </u>	<u> </u>	<u> </u>
		<u> </u>	<u> </u>	<u> </u>
		<u> </u>	<u> </u>	<u> </u>
-	-	<u> </u>	<u> </u>	<u> </u>
-	-	<u> </u>	<u> </u>	<u> </u>
		<u> </u>	<u> </u>	<u> </u>
-	-	<u> </u>	<u> </u>	<u> </u>
-	-	<u> </u>	<u> </u>	<u> </u>
-	-	<u> </u>	<u> </u>	<u> </u>
-	22,728	<u> </u>	<u> </u>	<u> </u>
-	-	<u> </u>	<u> </u>	<u> </u>
-	12,000	<u> </u>	<u> </u>	<u> </u>
-	276,000	<u> </u>	<u> </u>	<u> </u>
-	-	<u> </u>	<u> </u>	<u> </u>
-	<u>310,728</u>	<u> </u>	<u> </u>	<u> </u>
		<u> </u>	<u> </u>	<u> </u>
-	-	<u> </u>	<u> </u>	<u> </u>
-	-	<u> </u>	<u> </u>	<u> </u>

-	-		
228,348	(251,213)		
-	-		
-	-		
515,156	-		
-	194,765		
-	-		
<u>743,504</u>			
	(56,448)		
Component Units			
		444,056	
			212,666
		7,808	
			4,827
		-	-
		-	-
		40,292	-
		-	-
		-	-
		23,000	-
		166,968	-
		<u>61,380</u>	
		743,504	<u>36,787</u>
			<u>2</u>
			<u>54,280</u>

CITY OF KEMP
Statement of Activities
For the Year Ended September 31, 2019

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants & Contributions	Capital Grants & Contributions
Primary Government				
Governmental Activities:				
General Government	\$ 350,572	150,822	-	-
Public Safety	607,207	380,826	5,316	-
Streets	194,421	-	-	213,836
Parks & Recreation	1,160	-	-	-
Interest & Fiscal Charges	60,855	-	-	-
Total Governmental Activities	1,214,215	531,648	5,316	213,836
Business-Type Activities:				
Water & Sewer	1,192,383	985,561	-	-
Total Business-Type Activities	1,192,383	985,561	-	-
Total Primary Government	\$ 2,406,598	1,517,209	5,316	213,836
Component Units				
Economic Development Corp.	\$ 64,687	-	-	-
Municipal Development District	49,030	-	-	-
Total Component Units	\$ 113,717	-	-	-

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
(199,750)	-	(199,750)	-	-
(221,065)	-	(221,065)	-	-
19,415	-	19,415	-	-
(1,160)	-	(1,160)	-	-
(60,855)	-	(60,855)	-	-
(463,415)	-	(463,415)	-	-
-	(206,822)	(206,822)	-	-
-	(206,822)	(206,822)	-	-
(463,415)	(206,822)	(670,237)	-	-
			(64,687)	-
			-	(49,030)
			(64,687)	(49,030)
407,087	-	407,087	-	-
246,377	-	246,377	99,984	82,865
69,139	-	69,139	-	-
1,216	497	1,713	-	-
25,091	-	25,091	4,626	13,105
31,819	(8,819)	23,000	-	(23,000)
780,729	(8,322)	772,407	104,610	72,970
317,314	(215,144)	102,170	39,923	23,940
1,184,936	2,275,673	3,460,609	703,581	(80,388)
1,502,250	2,060,529	3,562,779	743,504	(56,448)

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
For the Fiscal Year Ended September 30, 2019

Total Fund Balances - Governmental Funds	\$ 2,404,931
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 \$2,055,136 and the accumulated depreciation was \$(1,327,618). In addition, long-term liabilities of \$(464,763) 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.	262,755 411,903
Current year capital outlays of \$232,618 and long-term debt principal payments of \$179,285 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.	(82,747)
The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	
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.	(1,555,692)
Included in the non-current liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of \$(10,187), a deferred resource inflow in the amount of \$(2,146), and a deferred resource outflow in the amount of \$73,433. The net effect of these adjustments is an increase to net position. Net Position of Governmental Activities	<u>61,100</u> <u>\$ 1,502,250</u>

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended September 30, 2019

General	Debt Service	Nonmajor Governmental	Total Governmental
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CITY OF KEMP, TEXAS

	Fund	Fund	Funds	Funds
REVENUES				
Taxes:				
Property	\$ 411,770	-	-	411,770
Sales	246,377	-	-	246,377
Franchise	69,139	-	-	69,139
Licenses & Permits	57,933	-	-	57,933
Fines & Forfeitures	379,681	-	1,145	380,826
Charges for Services	92,889	-	-	92,889
Grants & Contributions	213,836	-	-	213,836
Investment Earnings	888	328	-	1,216
Miscellaneous	25,091	-	-	25,091
Intergovernmental	5,316	-	-	5,316
Total Revenues	<u>1,502,920</u>	328	1,145	<u>1,504,393</u>
EXPENDITURES				
Current:				
General Government	339,289	-	-	339,289
Public Safety	531,811	-	452	532,263
Streets	171,178	-	-	171,178
Parks & Recreation	1,160	-	-	1,160
Capital Outlay	232,618	-	-	232,618
Debt Service:				
Principal Retirement	49,285	130,000	-	179,285
Interest & Fiscal Charges	13,216	7,807	-	21,023
Bond Issuance Cost	32,000	-	-	32,000
Total Expenditures	<u>1,370,557</u>	137,807	452	<u>1,508,816</u>
Excess/(Deficiency) of Revenues				
Over/(Under) Expenditures	<u>132,363</u>	<u>(137,479)</u>	<u>693</u>	<u>(4,423)</u>
OTHER FINANCING SOURCES/(USES)				
Transfers In	31,819	150,739	-	182,558
Transfers Out	(150,739)	-	-	(150,739)
Debt Proceeds	<u>1,577,432</u>	<u>-</u>	<u>-</u>	<u>1,577,432</u>
Total Other Financing Sources/(Uses)	<u>1,458,512</u>	<u>150,739</u>	<u>-</u>	<u>1,609,251</u>
Net Change in Fund Balances	1,590,875	13,260	693	1,604,828
Fund Balance - Beginning	<u>277,693</u>	<u>518,645</u>	<u>3,765</u>	800,103
Fund Balance - Ending	<u>\$ 1,868,568</u>	<u>531,905</u>	<u>4,458</u>	<u>2,404,931</u>

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, 2019

CITY OF KEMP, TEXAS**Total Net Change in Fund Balance - Governmental Funds**

\$ 1,604,828

411,903

Current year capital outlays of \$232,618 and long-term debt principal payments of \$179,285 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. (82,747)

The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. (11,250)

The current year loss on disposal of capital outlays, should be shown as a reduction in capital assets and related accumulated depreciation. The net effect is to decrease net assets. (1,577,432)

Current year financing sources are considered revenues in the fund financial statements, but they should be shown as increases in non-current liabilities in the government-wide financial statements. The net effect is to decrease net assets.

Payment of compensated absences is reported as an expenditure in the governmental funds when actually paid. However, on the government-wide statement of changes in net position compensated absences are expensed as they are accrued. Change in the compensated absences liability. (6,040)

The change in deferred revenue must be eliminated to convert from the modified accrual basis of accounting. (4,683)

Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. Change in accrued interest. (7,832)

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 12/31/18 caused the change in the ending net position to increase in the amount of \$16,017. 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 \$(12,283). The City's reported TMRS net pension expense had to be recorded. The net pension expense decreased the change in net position by \$(13,167). (9,433)

Change in Net Position of Governmental Activities\$ 317,314

CITY OF KEMP, TEXAS
Statement of Net Position
Proprietary Fund
September 30, 2019

	Business-Type
ASSETS	
Current Assets:	
Cash & Cash Equivalents	\$ 218,960
Receivables (Net of Allowance for Uncollectibles)	82,056
Due From Other Funds	12,055
Inventory	82,324
	Activities
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to TMRS	53,723
Total Deferred Outflows of Resources	53,723
LIABILITIES	
Current Liabilities:	
Accounts Payable	129,592
Accrued Payroll Payable	1,556
Due to Other Funds	449,781
Accrued Interest Payable	960
Customer Deposits	56,489
Long-Term Debt, Current Portion	197,833
Total Current Assets	395,395
Noncurrent Assets:	
Capital Assets (Net of Accumulated Depreciation)	3,548,998
Total Noncurrent Assets	3,548,998
Total Assets	3,944,393
NET POSITION	
Net Invested in Capital Assets	2,283,331
Unrestricted	(222,802)
Total Net Position	\$ 2,060,529

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

CITY OF KEMP, TEXAS

Total Current Liabilities	<u>836,211</u>
Noncurrent Liabilities:	
Compensated Absences	4,925
Long-Term Debt	1,067,834
Net Pension Liability	<u>7,453</u>
Total Noncurrent Liabilities	<u>1,080,212</u>
 Total Liabilities	 <u>1,916,423</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to TMRS	1,570
Unavailable Revenue	<u>19,594</u>
 Total Deferred Inflows of Resources	 <u>21,164</u>

Statement of Revenues, Expenses and Change in Net Position
Proprietary Fund
For the Fiscal Year Ended September 30, 2019

	<u>Business-Type Activities</u>
OPERATING REVENUES	
Water Service	\$ 461,640
Sewer Service	231,654
Surcharge	245,426
Tap Fees	8,500
Miscellaneous	<u>38,341</u>
Total Operating Revenues	<u>985,561</u>
 OPERATING EXPENSES	
Personnel Services	385,150
Professional Services	18,642
Water Production	206,011
Water Distribution	169,911
Sewer	122,939
Employee Development	3,575
Utilities & Communication	39,384
 Insurance & Bonding	 <u>14,081</u>
Depreciation	<u>182,986</u>
Total Operating Expenses	<u>1,142,679</u>
 Operating Income/(Loss)	 <u>(157,118)</u>
 NONOPERATING REVENUES/(EXPENSES)	
Interest on Investments	497
Interest & Fiscal Charges	(26,704)
Debt Issuance Costs	<u>(23,000)</u>
Total Nonoperating Revenues/(Expenses)	<u>(49,207)</u>

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

CITY OF KEMP, TEXAS

Income/(Loss) Before Transfers	(206,325)
Transfers In/Out	<u>(8,819)</u>
Change in Net Position	(215,144)
Net Position - Beginning	<u>2,275,673</u>
Net Position - Ending	<u>\$ 2,060,529</u>

Statement of Cash Flows
 Proprietary Fund
 For the Fiscal Year Ended September 30, 2019

Business-Type

Depreciation	182,986
(Increase)/Decrease in Accounts Receivable	8,950
(Increase)/Decrease in Inventory	(10,793)
(Increase)/Decrease in Net Pension Asset	53,531
(Increase)/Decrease in Deferred Outflows of Resources	(44,123)
Increase/(Decrease) in Accounts Payable	62,163
Increase/(Decrease) in Customer Deposits	3,436
Increase/(Decrease) in Net Pension Liability	7,453
Increase/(Decrease) in Deferred Inflows of Resources	<u>(906)</u>
Total Adjustments	<u>262,697</u>

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

CITY OF KEMP, TEXAS

Net Cash Provided/(Used) by Operating Activities	<u>\$ 105,579</u>
	Activities
Cash Flows from Operating Activities	
Receipts from Customers & Users	\$ 994,511
Payments to Suppliers	(613,199)
Payments to Employees	<u>(275,733)</u>
Net Cash Provided/(Used) by Operating Activities Cash	<u>105,579</u>
Flows from Noncapital Financing Activities	
Repayment of Advances from Other Funds	76,694
Litigation Payments, Net	(85,833)
Transfers (to)/from Other Funds	<u>(8,819)</u>
Net Cash Provided/(Used) by Noncapital Financing Activities	<u>(17,958)</u>
Cash Flows from Capital & Related Financing Activities	
Acquisition & Construction of Capital Assets	(579,020)
Proceeds from Issuance of Debt	323,000
Principal Paid on Debt	(50,000)
Interest & Fiscal Charges Paid	<u>(49,704)</u>
Net Cash Provided/(Used) by Capital & Related Financing Activities	<u>(355,724)</u>
Cash Flows from Investing Activities	
Interest on Investments	<u>497</u>
Net Cash Provided/(Used) by Investing Activities	<u>497</u>
Net Increase/(Decrease) in Cash & Cash Equivalents	(267,606)
Cash & Cash Equivalents - Beginning	<u>486,566</u>
Cash & Cash Equivalents - Ending	<u>\$ 218,960</u>

Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities

Operating Income/(Loss)	\$ (157,118)
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:	

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

CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2019

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, 2019

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.

CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2019

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:

Assets	Years
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.

CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

(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.

CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- 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.

(continued)

As of September 30, 2019, fund balances are composed of the following:

	General Fund	Debt Service	Other <u>Governmental</u>	<u>Total</u>
Restricted:				
Debt Service	\$ -	531,905	-	531,905
Public Safety	12,502	-	4,458	16,960
Streets	1,529,417	-	-	1,529,417
Unassigned	326,649	-	-	<u>326,649</u>
Total Fund Balances	<u>\$ 1,868,568</u>	<u>531,905</u>	<u>4,458</u>	<u>2,404,931</u>

STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY

Budgetary Information

CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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, 2019, the City's carrying amounts of deposits was \$2,219,246 and the bank balance of the City's deposits was \$2,262,715. Of the bank balance, \$250,000 was covered by federal depository insurance, \$999,440 was covered by collateral held by the pledging financial institutions trust department or agent in the City's name, and the remaining \$1,013,275 was considered uninsured.

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, 2019

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, 2019 consist of the following:

	General	Water & Sewer	Total
	_____	_____	_____
Receivables:			
Property Taxes	\$ 57,118	-	57,118
Sales Taxes	19,520	-	19,520
Franchise Taxes	15,147	-	15,147
Miscellaneous	2,632	-	2,632
Utility Bills	-	<u>119,499</u>	<u>119,499</u>
Gross Receivables	<u>94,417</u>	119,499	213,916
Less: Allowance for Uncollectibles	<u>(3,090)</u>	<u>(37,443)</u>	<u>(40,533)</u>
Net Total Receivables	<u>\$ 91,327</u>	<u>82,056</u>	<u>173,383</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

CITY OF KEMP, TEXAS
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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, 2019, is as follows:

Due to/from Other Funds:

Receivable Fund	Payable Fund	Amount
Water & Sewer	General	\$ 12,055
Debt Service	Water and Sewer	449,781
Debt Service	MDD	22,728
General	Debt Service	9,999
EDC	General	<u>40,292</u>
		<u>\$ 534,855</u>

INTER-FUND RECEIVABLES, PAYABLES, & TRANSFERS (continued)

Inter-fund Transfers:

	Transfers In		
	General Fund	Debt Service	Total
Transfers Out:			
General Fund	\$ -	150,739	150,739
Water & Sewer	8,819		8,819
MDD	<u>23,000</u>		<u>23,000</u>
Total	<u>\$ 31,819</u>	<u>150,739</u>	<u>182,558</u>

CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019 was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 3,689	-	-	3,689
Construction in Progress	<u>22,560</u>	<u>218,781</u>	-	<u>241,341</u>

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Total Capital Assets Not Being Depreciated	26,249	218,781	-	<u>245,030</u>
Capital Assets Being Depreciated:				
Buildings & Structures	97,642	-	-	
Machinery & Equipment	742,791	13,837	(15,000)	
Infrastructure	1,188,454	-	-	97,642
				741,628
				<u>1,188,454</u>
Total Capital Assets Being Depreciated	<u>2,028,887</u>	<u>13,837</u>	<u>(15,000)</u>	<u>2,027,724</u>
Less Accumulated Depreciation for:				
Buildings & Structures	(78,882)	(4,252)	-	(83,134)
Machinery & Equipment	(383,627)	(57,369)	3,750	(437,246)
Infrastructure	(865,109)	<u>(21,126)</u>	-	<u>(</u>
				<u>886,235)</u>
Total Accumulated Depreciation	<u>(1,327,618)</u>	<u>(82,747)</u>	<u>3,750</u>	<u>(1,406,615)</u>
Total Capital Assets, Being Depreciated, Net	<u>701,269</u>	<u>(68,910)</u>	<u>(11,250)</u>	<u>621,109</u>
Governmental Activities Capital Assets, Net	<u>\$ 727,518</u>	<u>149,871</u>	<u>(11,250)</u>	<u>866,139</u>

	<u>Primary Government</u>			
	<u>Beginning</u>		<u>Retirements</u>	<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>		<u>Balance</u>
Business-Type Activities				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 35,200	579,020	-	<u>614,220</u>
Total Capital Assets Not Being Depreciated	<u>35,200</u>	<u>579,020</u>	<u>-</u>	<u>614,220</u>
Capital Assets Being Depreciated:				<u>614,220</u>
Improvements	7,762,152		-	
Machinery & Equipment	256,346	-	-	
Total Capital Assets Being Depreciated	<u>8,018,498</u>	<u>(</u>	<u>-</u>	<u>7,762,152</u>
Less Accumulated Depreciation for:				<u>256,346</u>
Improvements		176,970)		<u>8,018,498</u>
Machinery & Equipment	(4,658,276)	<u>(6,016)</u>	-	
	(242,458)			(4,835,246)
				<u>(248,474)</u>
Total Accumulated Depreciation	<u>(4,900,734)</u>	<u>(182,986)</u>	<u>-</u>	<u>(5,083,720)</u>
Total Capital Assets, Being Depreciated, Net	<u>3,117,764</u>	<u>(182,986)</u>	<u>-</u>	<u>2,934,778</u>
Business-Type Activities Capital Assets, Net	<u>\$ 3,152,964</u>	<u>396,034</u>	<u>-</u>	<u>3,548,998</u>

CAPITAL ASSETS (continued)

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

Governmental Activities

CITY OF KEMP, TEXAS
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General Government	\$ 2,790
Public Safety	
	57,563
Streets	
	<u>22,394</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 82,747</u>

Business-Type Activities

Water & Sewer	\$
	<u>182,986</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 182,986</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, 2019 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
	_____	_____	_____	_____
EDC				
Capital Assets Not Being Depreciated:				
Land	\$ 166,968	-	-	
				<u>166,968</u>
Total Capital Assets Not Being Depreciated	<u>166,968</u>	-	-	<u>166,968</u>
Capital Assets Being Depreciated:				
Buildings & Structures	104,912		-	
Leasehold Improvements	27,500	-	-	
Machinery & Equipment	883	-	-	104,912
Infrastructure	12,750	-	-	27,500
Total Capital Assets Being Depreciated			-	883
Less Accumulated Depreciation for:	<u>146,045</u>	(6,846)		<u>12,750</u>
Buildings & Structures		(2,750)	-	<u>146,045</u>
Leasehold Improvements	(61,131)	-		
Machinery & Equipment	(458)	(748)	-	
Infrastructure	(883)		-	(67,977)
	(11,849)			(3,208)
				(883)
				<u>(12,597)</u>
Total Accumulated Depreciation	<u>(74,321)</u>	<u>(10,344)</u>	-	<u>(84,665)</u>
Total Capital Assets, Being Depreciated, Net	<u>7 1,724</u>	<u>(10,344)</u>	-	<u>61,380</u>
Governmental Activities Capital Assets, Net	<u>\$ 238,692</u>	<u>(10,344)</u>	-	<u>228,348</u>

Capital asset activity for the MDD for the year ended September 30, 2019 was as follows:

CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2019

	Beginning Balance	Additions	Retirements	Ending Balance
MDD				
Capital Assets Being Depreciated:				
Buildings & Structures	\$ 18,900	-	-	18,900
Leasehold Improvements	<u>27,500</u>	-	-	<u>27,500</u>
Total Capital Assets Being Depreciated	<u>46,400</u>	<u>-</u>	<u>-</u>	<u>46,400</u>
Less Accumulated Depreciation for:				
Buildings & Structures		(1,260)	-	
Leasehold Improvements	(5,145)	<u>(2,750)</u>	-	(6,405)
	<u>(458)</u>			<u>(3,208)</u>
Total Accumulated Depreciation	<u>(5,603)</u>	<u>(4,010)</u>	<u>-</u>	<u>(9,613)</u>
Total Capital Assets, Being Depreciated, Net	<u>40,797</u>	<u>(4,010)</u>	<u>-</u>	<u>36,787</u>
Governmental Activities Capital Assets, Net	<u>\$ 40,797</u>	<u>(4,010)</u>	<u>-</u>	<u>36,787</u>

LONG-TERM DEBT

Long-term liability activity for the year ended September 30, 2019 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities					
General Obligation Refunding Bonds	\$ 130,000	1,532,000	(130,000)	1,532,000	-
Notes Payable	334,763	45,432	(49,285)	330,910	47,432
Compensated Absences	<u>3,637</u>	<u>1,1608</u>	<u>(5,568)</u>	<u>9,677</u>	<u>-</u>
Total	<u>\$ 468,400</u>	<u>1,589,040</u>	<u>(184,853)</u>	<u>1,872,587</u>	<u>47,432</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, 2019 are comprised of the following issues for the debt service fund:

2019 Certificates of Obligation. Interest payable
February 1 and August 1 at a 4.05% interest rate. \$ 1,532,000

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.

CITY OF KEMP, TEXAS
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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 loan was paid off early on August 28, 2019.

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.

In September 2019, the City borrowed \$45,432 from Government Capital Corporation to purchase a Ford Interceptor for the Police Department. This loan is being paid in five annual installments including interest computed at 4.97%. The final payment is due September 10, 2024.

The annual requirements to amortize the debt outstanding for the debt service fund as of September 30, 2019 are as follows:

	Principal	Interest	Total
2020	\$ 47,432	74,431	121,863
2021	94,846	73,671	168,517
2022	98,513	69,775	168,288
2023	102,252	65,728	167,980
2024	107,064	61,527	168,591
2025-2029	464,803	244,904	709,707
2030-2034	427,000	158,720	585,720
2035-2039	<u>521,000</u>	<u>65,000</u>	<u>586,000</u>
	<u>\$ 1,862,910</u>	<u>813,756</u>	<u>2,676,666</u>

LONG-TERM DEBT (continued)

During the year ended September 30, 2019, the following changes occurred in long-term liabilities reported in the Water and Sewer Fund.

	Beginning Balance	Additions	<u>Retirements</u>	Ending Balance	Due Within One Year
Business-Type Activities					
Certificates of Obligation	\$ 821,000	-	(50,000)	771,000	51,000
Limited Tax Note	-	323,000	-	323,000	61,000
Litigation Liability	257,500	-	(85,833)	171,667	85,833
Compensated Absences	<u>4,925</u>	<u>8,519</u>	<u>(8,519)</u>	<u>4,925</u>	<u>-</u>
Total	<u>\$ 1,083,425</u>	<u>331,519</u>	<u>(144,352)</u>	<u>1,270,592</u>	<u>197,833</u>

Bonds payable at September 30, 2019 are comprised of the following issues for the Water and Sewer fund:

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2011 Certificates of Obligation. Interest payable February 15 and August 15 at a 4.41% interest rate.	\$
2013 Certificates of Obligation. Interest payable February 15 and August 15 at a 3.18% interest rate.	105,000
	<u>666,000</u>
	<u>\$ 771,000</u>

On October 30, 2018, the City issued a \$323,000 Limited Tax Note. This note is being paid in five annual installments including interest computed at 2.970%. The final payment is due November 1, 2023.

Litigation Liability

During 2018, 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 30th of the succeeding years. The settlement bears no interest.

The annual requirements to amortize the debt outstanding for the Water and Sewer fund as of September 30, 2019 are as follows:

	Principal	Interest	Total
2020	\$ 1,978,833	33,675	2,312,508
2021	202,834	29,944	232,778
2022	120,000	26,136	146,136
2023	123,000	22,232	145,232
2024	128,000	18,231	146,231
2025-2029	273,000	56,318	329,318
2030-2033	<u>221,000</u>	<u>14,367</u>	<u>235,367</u>
	<u>1,265,667</u>	<u>200,903</u>	<u>1,466,570</u>

During the year ended September 30, 2019, the following changes occurred in long-term liabilities reported in the MDD.

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
MDD					
General Obligation Refunding Bonds	\$ 300,000	-	(12,000)	288,000	12,000
Total	<u>\$ 300,000</u>	<u>-</u>	<u>(12,000)</u>	<u>288,000</u>	<u>12,000</u>

LONG-TERM DEBT (continued)

Bonds payable at September 30, 2019 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.	\$ 288,000
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Notes to the Financial Statements
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The annual requirements to amortize the bonded debt outstanding for the MDD as of September 30, 2019 are as follows:

	Principal	Interest	Total		
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	14,000	9,322	23,322	2025-2029	
80,000	37,762	117,762			
2030-2034	97,000	20,659	117,659		
2035-2036	45,000	2,686	47,686		
	<u>\$ 288,000</u>	<u>112,971</u>	<u>400,971</u>		

LEASES

On April 14, 2015, the City entered into a 60-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:

2020	\$ 14,512				
2021	12,000				
2022	12,000				
2023	<u>10,000</u>	Total			
	<u>\$ 48,512</u>				

RISK MANAGEMENT

CITY OF KEMP, TEXAS
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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.

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, 2019, the rate was 1.25905 cents per thousand gallons.

Actual payments for the year ended September 30, 2019 were \$48,151.

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.

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:

CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2019

	Plan Year 2019	Plan Year 2018
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

RETIREMENT SYSTEM (continued)

Employees Covered by Benefit Terms - At the December 31, 2018 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
	52

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 2019 were determined as part of the December 31, 2018 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 5.04% and 4.32% in calendar year 2019 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2019 were \$35,347 and were equal to the required contributions.

Net Pension Liability - The city's Net Pension Liability (NPL) was measured as of December 31, 2018, 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)

CITY OF KEMP, TEXAS
Notes to the Financial Statements
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	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2017	\$ 750,877	\$ 877,577	\$ (126,700)
Changes for the Year:			
Service Cost	73,341	-	73,341
Interest	52,016	-	52,016
Change of Benefit Terms	-	-	-
Difference Between Expected & Actual Experience	74,377	-	74,377
Changes of Assumptions	-	-	-
Contributions - Employer	-	32,494	(32,494)
Contributions - Employee	-	49,690	(49,690)
Net Investment Income	-	(26,255)	26,255
Benefit Payments, Including Refunds of Employee Contributions	(33,887)	(33,887)	-
Administrative Expenses	-	(508)	508
Other Changes	-	(27)	27
Net Changes	165,847	21,507	144,340
Balance at 12/31/2018	\$ 916,724	\$ 899,084	\$ 17,640

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)	\$ 139,580	\$ 17,640	\$ (82,554)

Pension Expense, Deferred Outflows and Inflows of Resources - For the year ended September 30, 2019, the City recognized pension expense in the amount of \$55,295. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Inflows of Resources	Deferred of Resources
Differences Between Expected & Actual Economic Experience (net of current year amortization)	\$ 52,943	3,716
Changes in Actuarial Assumptions	-	-
Difference Between Projected & Actual Investment Earnings (net of current year amortization)	46,478	-
Contributions Subsequent to the Measurement Date	27,735	-
Total	\$ 127,156	3,716

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\$27,735 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, 2020. 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>			
2020	\$	3 5,053	
2021		27,021	2022 16,532
2023		17,099	
2024		-	
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 2018 rebate of 70% was paid during 2019 in the amount of \$8,058. There is one year remaining on the rebate, with details as follows:

<u>Rebate Period</u>	<u>Rebate %</u>	<u>Repayment Year</u>
2019	65%	2020

UNFAVORABLE BUDGET VARIANCES

For the year ended September 30, 2019, City had expenditures in excess of budgeted amounts in the following categories: municipal court, debt service, capital outlay (related to streets) and the water sewer fund.

Municipal Court expenditures were over budget by \$34,340, of which \$22,681 relates to revenues that exceeded the budget. The City did not budget specifically for Capital Outlay. During the current year, all of the capital outlay relates to Streets, which caused the total Streets expenditures to be over budget by \$162,773. However, the City recognized grant revenue related to the streets project of \$213,836, which was also not accounted for on the budget. The City did not budget for debt payments, which are split between police, and fire, as well as new issuance costs of \$32,000. Overall, actual expenditures exceed budgeted estimates of \$237,345, but on a whole the City is underbudget within their general fund.

The water sewer fund had multiple categories that were over expended: personnel services, water distribution, sewer, employee development, utilities and communication, insurance and bonding, and depreciation. Personnel services are over budget by \$56,698, of which \$38,772 is related directly to wages. An additional \$6,903 relates to the GASB 68 audit adjustment. Water distribution was over expended by \$32,361, of which \$47,449 resulted from a reclassing audit journal entry, for additional water previously coded to the water sewer plant construction costs. Sewer repairs and maintenance were over expended by \$20,298. Utilities and communication were over expended by \$8,884, of which \$6,952 relates to electricity, while \$1,932 relates to phone. Employee development and insurance and bonding were over expended by

CITY OF KEMP, TEXAS
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September 30, 2019

\$925 and \$1,081, respectively. The budget deficit for depreciation is \$182,986, which is a result of the City not budgeting for depreciation expense. The overall water sewer operating expenses are \$11,686 over budget.

EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through April 15, 2020, 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, 2019

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 425,034	425,034	411,770	(13,264)
Sales	251,000	251,000	246,377	(4,623)
Franchise	77,000	77,000	69,139	(7,861)
Licenses & Permits	21,800	21,800	57,933	36,133
Fines & Forfeitures	357,000	357,000	379,681	22,681
Charges for Services	95,000	95,000	92,889	(2,111)
Grants & Contributions	-	-	213,836	213,836
Investment Earnings	500	500	888	388
Miscellaneous	24,320	24,320	25,091	771
Intergovernmental	-	-	5,316	<u>5,316</u>
 Total Revenues	 <u>1,251,654</u>	 <u>1,251,654</u>	 <u>1,502,920</u>	 <u>251,266</u>
EXPENDITURES				
Current:				
General Government	358,377	358,377	339,289	19,088
Public Safety:				
Police Protection	381,221	381,221	350,504	30,717
Code Enforcement	2,050	2,050	555	1,495
Animal Control	2,000	2,000	807	1,193
Municipal Court	125,541	125,541	159,881	(34,340)
Fire Protection	<u>22,000</u>	<u>22,000</u>	<u>20,064</u>	<u>1,936</u>
Total Public Safety	<u>532,812</u>	<u>532,812</u>	<u>531,811</u>	<u>1,001</u>
Streets	241,023	<u>532,812</u>		69,845
Parks & Recreation	1,000	241,023	171,178	(160)
Capital Outlay	-	1,000	1,160	(232,618)
Debt Service	-	-	232,618	<u>(94,501)</u>
			94,501	
 Total Expenditures	 <u>1,133,212</u>	 <u>1,133,212</u>	 <u>1,370,557</u>	 <u>(237,345)</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	118,442	<u>118,442</u>	132,363	<u>13,921</u>
OTHER FINANCING SOURCES/(USES)				
Transfers In	-	-	31,819	31,819
Transfers Out	(393,093)	(393,093)	(150,739)	242,354
Debt Proceeds	-	-	<u>1,577,432</u>	
 Total Other Financing Sources/(Uses)	 <u>(393,093)</u>	 <u>(393,093)</u>	 <u>1,458,512</u>	 <u>274,173</u>

Net Change in Fund Balances	(274,651)	(274,651)	1,590,875	288,094
Fund Balance - Beginning	<u>277,693</u>	<u>277,693</u>	<u>277,693</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 3,042</u>	<u>3,042</u>	<u>1,868,568</u>	<u>288,094</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, 2019

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
OPERATING REVENUES				
Water Service	\$ 533,743	533,743	461,640	(72,103)
Sewer Service	245,550	245,550	231,654	(13,896)
Surcharge	212,400	212,400	245,426	33,026
Tap Fees	10,000	10,000	8,500	(1,500)
Miscellaneous	29,100	29,100	38,341	9,241
Total Operating Revenues	<u>1,030,793</u>	<u>1,030,793</u>	985,561	<u>(45,232)</u>
OPERATING EXPENSES				
Personnel Services	328,452	328,452	385,150	(56,698)
Professional Services	25,500	25,500	18,642	6,858
Water Production	275,800	275,800	206,011	69,789
Water Distribution	137,550	137,550	169,911	(32,361)
Sewer	102,641	102,641	122,939	(20,298)
Employee Development	2,650	2,650	3,575	(925)
Utilities & Communication	30,500	30,500	39,384	(8,884)
Insurance & Bonding	13,000	13,000	14,081	(1,081)
Capital Outlay	214,900	214,900	-	214,900
Depreciation	-	-	182,986	(182,986)
Total Operating Expenses	<u>1,130,993</u>	<u>1,130,993</u>	<u>1,142,679</u>	<u>(11,686)</u>
Operating Income/(Loss)	<u>(100,200)</u>	<u>(100,200)</u>	<u>(157,118)</u>	<u>(56,918)</u>
NONOPERATING REVENUES/(EXPENSES)				
Interest on Investments	200	200	497	297
Interest & Fiscal Charges	-	-	(26,704)	(26,704)
Debt Issuance Costs	-	-	(23,000)	(23,000)
Total Nonoperating Revenues/(Expenses)	200	200	(49,207)	(49,407)
Income/(Loss) Before Transfers	(100,000)	(100,000)	(206,325)	(106,325)
Transfers In/(Out)	<u>-</u>	<u>-</u>	<u>(8,819)</u>	<u>(8,819)</u>

	CITY OF KEMP, TEXAS			
Change in Net Position	(100,000)	(100,000)	(215,144)	(115,144)
Net Position - Beginning	<u>2,275,673</u>	<u>2,275,673</u>	<u>2,275,673</u>	<u>-</u>
Net Position - Ending	<u>\$ 2,175,673</u>	<u>2,175,673</u>	<u>2,060,529</u>	<u>(115,144)</u>

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

Schedule of Changes in Net Pension Liability and Related Ratios

For the Year Ended September 30, 2019

	Net Pension Liability as a Percentage of Covered Employee Payroll	
	Plan Year Ended December 31,	
	2018	2017
Total Pension Liability		
Service cost		
Interest (on the total pension liability)		
Changes of benefit terms	\$ 73,341	\$ 67,771
Difference between expected and actual experience	52,016	46,799
Change of assumptions	-	-
Benefit payments, including refunds of employee contributions	74,377	(9,390)
Net Change in Total Pension Liability	<u>-</u>	<u>-</u>
Total Pension Liability - Beginning	<u>(33,887)</u>	<u>(27,477)</u>
Total Pension Liability - Ending (a)	165,847	77,703
	<u>750,877</u>	<u>673,174</u>
	<u>\$ 916,724</u>	<u>\$ 750,877</u>
Plan Fiduciary Net Position		
Contributions - employer		
Contributions - employee	\$ 32,494	\$ 19,808
Net investment income	49,690	31,145
Benefit payments, including refunds of employee contributions	(26,255)	103,879
Administrative expense	(33,887)	(27,477)
Other	(508)	(539)
Net Change in Plan Fiduciary Net Position	<u>(27)</u>	<u>(27)</u>
Plan Fiduciary Net Position - Beginning	21,507	126,789
Plan Fiduciary Net Position - Ending (b)	<u>877,577</u>	<u>750,788</u>
	<u>\$ 899,084</u>	<u>\$ 877,577</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 17,640</u>	<u>\$ (126,700)</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	98.08%	116.87%
Covered Employee Payroll	\$ 668,563	\$ 622,893
	2.64%	-20.34%

2016	2015	2014
		\$ 53,920
		\$ 23,944
		\$ 14,394
		41,701
		37,739
		34,762
		-
		35,062
		-
		5,322
		15,058
		(13,514)
		-
		20,993
		-
		<u>(37,198)</u>
		<u>(30,920)</u>
		<u>(34,994)</u>
		63,745
		101,876
		648
		<u>609,429</u>
		<u>507,553</u>
		<u>506,905</u>
\$ 1,225	\$ (3)	\$ <u>673,174</u>
23,566	17,030	\$ 11,062
48,263	1,075	40,756
(37,198)	(30,920)	
		(34,994)
(546)	(655)	(426)
(29)	(32)	(35)
<u>35,281</u>	<u>(13,505)</u>	<u>16,363</u>
<u>715,507</u>	<u>729,012</u>	<u>712,649</u>
\$ <u>750,788</u>	\$ <u>715,507</u>	\$ <u>729,012</u>
\$ <u>(77,614)</u>	\$ <u>(106,078)</u>	\$ <u>(221,459)</u>
111.53%	117.41%	143.63%
\$ 471,329	\$ 340,592	\$ 221,239
-16.47%	-31.15%	-100.10%

CITY OF KEMP, TEXAS

Schedule of Contributions For the Year
Ended September 30, 2019

	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 35,347	\$ 26,427
	<hr/>	<hr/>
		<u>(26,427) \$</u>
		=
		\$ 654,538
		4.04%
Contributions in relation to actuarially determined contribution	(35,347)	
Contribution deficiency (excess)	\$ _____ -	
Covered employee payroll	\$ 726,501	
Contributions as a percentage of covered employee payroll	4.87%	

2017		2016		2015
\$ 14,368	\$ 878	\$		-
<u>(14,368)</u>	<u>(878)</u>		\$	
<u>-\$</u>	<u>-\$</u>			<u>-</u>
<hr/>				
\$ 574,293	\$ 449,638	\$		289,693
2.50%	0.20%			0.00%

CITY OF KEMP, TEXAS
Notes to Schedule of Contributions
For the Year Ended September 30, 2019

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.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and the business-type activities of the City of Kemp, Texas (the City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 15, 2020.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

K. Evans & Associates

Frisco, TX
April 15, 2020

