

**CITY OF KEMP, TEXAS**

Financial Statements  
(With Auditor's Report Thereon)

September 30, 2021

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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, 2021, 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, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, on pages 3 through 7 and 40 through 41, 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*

K. Evans & Associates, CPA's  
Frisco, Texas  
July 11, 2022

**CITY OF KEMP, TEXAS**  
Management's Discussion and Analysis  
September 30, 2021

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, 2021. 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 \$3,525,655 (net position).
- The City's total net position decreased by \$92,777.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,177,933.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-Wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The *Statement of Net Position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

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

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

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

**CITY OF KEMP, TEXAS**  
Management's Discussion and Analysis  
September 30, 2021

**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 21-37 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 40 of this report.

This report also presents an individual fund schedule in connection with the water and sewer fund. This individual fund schedule can be found on page 41 of this report.

**CITY OF KEMP, TEXAS**  
Management's Discussion and Analysis  
September 30, 2021

**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 \$3,525,655 as of September 30, 2021.

A portion of the City's net position (55%) 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.

**City of Kemp - Net Position**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2021	2020	2021	2020	2021	2020
Current & Other Assets	\$ 1,414,769	\$ 1,325,512	\$ 626,358	\$ (333,028)	\$ 2,041,127	\$ 992,484
Capital Assets	2,447,916	2,302,830	4,368,201	3,423,239	6,816,117	5,726,069
Total Assets	<u>3,862,685</u>	<u>3,628,342</u>	<u>4,994,559</u>	<u>3,090,211</u>	<u>8,857,244</u>	<u>6,718,553</u>
Deferred Outflows of Resources	36,812	37,162	26,932	27,188	63,744	64,350
Long Term Liabilities	1,834,189	1,824,289	3,174,169	1,042,564	5,008,358	2,866,853
Other Liabilities	189,309	153,431	150,460	84,656	339,769	238,087
Total Liabilities	<u>2,023,498</u>	<u>1,977,720</u>	<u>3,324,629</u>	<u>1,127,220</u>	<u>5,348,127</u>	<u>3,104,940</u>
Deferred Inflows of Resources	21,679	23,064	25,527	36,467	47,206	59,531
Net Position:						
Net Invested in Capital Assets	694,144	446,945	1,250,710	2,355,405	1,944,854	2,802,350
Restricted	1,446,527	1,045,519	-	-	1,446,527	1,045,519
Unrestricted	(286,351)	172,256	420,625	(401,693)	134,274	(229,437)
Total Net Position	<u>\$ 1,854,320</u>	<u>\$ 1,664,720</u>	<u>\$ 1,671,335</u>	<u>\$ 1,953,712</u>	<u>\$ 3,525,655</u>	<u>\$ 3,618,432</u>

An additional portion of the City's net position, \$1,446,527, represents resources that are subject to external restriction on how they may be used. The remaining balance of \$134,274 represent unrestricted funds.

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

**CITY OF KEMP, TEXAS**  
Management's Discussion and Analysis  
September 30, 2021

**Analysis of the City's Operations.** The following table provides a summary of the City's operations for the year ended September 30, 2021.

	<b>City of Kemp - Changes in Net Position</b>					
	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 488,815	\$ 473,859	\$ 1,083,271	\$ 1,053,994	\$ 1,572,086	\$ 1,527,853
Grants & Contributions	262,538	100,473	-	-	262,538	100,473
General Revenues:						
Property Tax	544,062	516,789	-	-	544,062	516,789
Other Tax	379,546	362,194	-	-	379,546	362,194
Miscellaneous	42,878	24,108	528	89	43,406	24,197
Total Revenues	<u>1,717,839</u>	<u>1,477,423</u>	<u>1,083,799</u>	<u>1,054,083</u>	<u>2,801,638</u>	<u>2,531,506</u>
<b>Expenses</b>						
General Government Activities	1,410,193	1,314,953	-	-	1,410,193	1,314,953
Business-Type Activities	-	-	1,182,703	1,160,900	1,182,703	1,160,900
Total Expenses	<u>1,410,193</u>	<u>1,314,953</u>	<u>1,182,703</u>	<u>1,160,900</u>	<u>2,592,896</u>	<u>2,475,853</u>
Increase/(Decrease) in Net Position Before Transfers	307,646	162,470	(98,904)	(106,817)	208,742	55,653
Transfers	(118,046)	-	(183,473)	-	(301,519)	-
Change in Net Position	189,600	162,470	(282,377)	(106,817)	(92,777)	55,653
Net Position - Beginning	<u>1,664,720</u>	<u>1,502,250</u>	<u>1,953,712</u>	<u>2,060,529</u>	<u>3,618,432</u>	<u>3,562,779</u>
Net Position - Ending	<u>\$ 1,854,320</u>	<u>\$ 1,664,720</u>	<u>\$ 1,671,335</u>	<u>\$ 1,953,712</u>	<u>\$ 3,525,655</u>	<u>\$ 3,618,432</u>

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

Governmental Activities:

Revenues exceeded expenditures by \$189,600. The primary increase resulted from grant contributions.

Business-Type Activities:

Business-type activities decreased the City's net position by \$282,377. Operating results were \$7,913 less than the prior year. This change remains consistent with general operation.

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

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

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,177,933. Of the current combined ending fund balance, (\$268,594) is unassigned and \$1,446,527 is restricted.



**CITY OF KEMP, TEXAS**  
Management's Discussion and Analysis  
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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 (\$268,594).

The fund balance of the City's general fund decreased \$369,396 during the current fiscal year, as a result of \$312,344 capital outlay.

The debt service fund has a total fund balance of \$1,343,847. The net increase in fund balance during the current year in the debt service fund was \$428,497.

**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 \$420,625. Net position decreased in 2021 by \$282,377. The factors concerning the finances of this fund have already been addressed in the analysis of the City's operations.

### **General Fund Budgetary Highlights**

During the fiscal year budgeted revenue estimate exceeded actual revenues but actual expenditures exceeded budgeted expenditure estimates. The budget estimated an increase in fund balance (prior to transfers) of \$410,253, while the actual result was a increase in fund balance (prior to transfers) of \$303,399.

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

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of September 30, 2021 amounts to \$6,816,117 (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 \$1,305,501, vehicle of \$45,432, machinery and equipment of \$89,901 and depreciation expense of \$350,786.

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

**Long-Term Debt.** At the end of the current fiscal year, the City had long-term debt outstanding balance of \$4,871,263.

The City's long-term debt increased by \$1,947,544, primarily due new bond debt of \$2,337,491 offsetting the scheduled principal payments on outstanding debt of \$389,947.

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

### **REQUEST FOR INFORMATION**

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

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## **BASIC FINANCIAL STATEMENTS**

**CITY OF KEMP, TEXAS**  
Statement of Net Position  
September 30, 2021

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash & Cash Equivalents	\$ 563,601	\$ 1,363,915	\$ 1,927,516
Receivables (Net of Allowance for Uncollectables)	96,682	106,659	203,341
Due from Component Unit	68,927	-	68,927
Due from Primary Government	-	-	-
Internal Balances	678,953	(901,476)	(222,523)
Inventories	-	57,260	57,260
Prepaid Expenses	6,606	-	6,606
Net Pension Asset	-	-	-
Capital Assets:			
Non-Depreciable	336,101	1,706,738	2,042,839
Depreciable (Net of Accumulated Depreciation)	<u>2,111,815</u>	<u>2,661,463</u>	<u>4,773,278</u>
Total Assets	<u><u>3,862,685</u></u>	<u><u>4,994,559</u></u>	<u><u>8,857,244</u></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflow Related to TMRS	<u>36,812</u>	<u>26,932</u>	<u>63,744</u>
Total Deferred Outflows of Resources	<u><u>\$ 36,812</u></u>	<u><u>\$ 26,932</u></u>	<u><u>\$ 63,744</u></u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable & Other Current Liabilities	\$ 115,544	\$ 96,574	\$ 212,118
Accrued Payroll	6,698	5,079	11,777
Accrued Interest	9,775	960	10,735
Due to Component Unit	57,292	-	57,292
Due to Primary Government	-	-	-
Customer Deposits	-	47,847	47,847
Noncurrent Liabilities:			
Due Within One Year	106,206	209,000	315,206
Due in More than One Year	1,657,243	2,913,416	4,570,659
Net Pension Liability	<u>70,740</u>	<u>51,753</u>	<u>122,493</u>
Total Liabilities	<u><u>2,023,498</u></u>	<u><u>3,324,629</u></u>	<u><u>5,348,127</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflow Related to TMRS	21,679	15,861	37,540
Deferred Inflow - Other	<u>-</u>	<u>9,666</u>	<u>9,666</u>
Total Deferred Inflows of Resources	<u><u>21,679</u></u>	<u><u>25,527</u></u>	<u><u>47,206</u></u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	694,144	1,250,710	1,944,854
Restricted for:			
Debt Service	1,343,847	-	1,343,847
Public Safety	20,424	-	20,424
Streets	82,256	-	82,256
Economic Development	-	-	-
Municipal Development	-	-	-
Unrestricted	<u>(286,351)</u>	<u>420,625</u>	<u>134,274</u>
Total Net Position	<u><u>\$ 1,854,320</u></u>	<u><u>\$ 1,671,335</u></u>	<u><u>\$ 3,525,655</u></u>

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

Component Units	
Economic Development Corporation	Municipal Development District
\$ 607,372	\$ 233,054
(8,772)	31,433
-	-
40,292	-
-	-
-	-
11,000	-
-	-
166,968	-
42,122	28,767
<u>858,982</u>	<u>293,254</u>
-	-
<u>\$ -</u>	<u>\$ -</u>
\$ 2,338	\$ -
31,836	-
-	-
-	-
-	68,926
-	-
-	13,000
-	251,000
-	-
<u>34,174</u>	<u>332,926</u>
-	-
-	-
-	-
209,090	(235,233)
-	-
-	-
-	-
615,718	-
-	195,561
-	-
<u>\$ 824,808</u>	<u>\$ (39,672)</u>

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

**CITY OF KEMP, TEXAS**

Statement of Activities

September 30, 2021

<b>Functions/Programs</b>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants &amp; Contributions</u>	<u>Capital Grants &amp; Contributions</u>
<b>Primary Government</b>				
Governmental Activities:				
General Government	\$ 403,408	\$ 145,967	\$ -	\$ -
Public Safety	646,746	342,848	5,402	-
Streets	284,588	-	-	257,136
Parks & Recreation	348	-	-	-
Interest & Fiscal Charges	75,103	-	-	-
Total Governmental Activities	<u>1,410,193</u>	<u>488,815</u>	<u>5,402</u>	<u>257,136</u>
Business-Type Activities:				
Water & Sewer	<u>1,182,703</u>	<u>1,083,271</u>	-	-
Total Business-Type Activities	<u>1,182,703</u>	<u>1,083,271</u>	-	-
Total Primary Government	<u>\$ 2,592,896</u>	<u>1,572,086</u>	<u>5,402</u>	<u>257,136</u>
<b>Component Units</b>				
Economic Development Corp.	\$ 45,951	-	-	-
Municipal Development District	<u>89,104</u>	-	-	-
Total Component Units	<u>\$ 135,055</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

Change in Net Position

Net Position - Beginning

Net Position - Ending

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

Net (Expense)/Revenue & Change in Net Position

Primary Government			Component Units	
Governmental Activities	Business Activities	Total	Economic Development Corporation	Municipal Development District
\$ (257,441)	\$ -	\$ (257,441)	\$ -	\$ -
(298,496)	-	(298,496)	-	-
(27,452)	-	(27,452)	-	-
(348)	-	(348)	-	-
(75,103)	-	(75,103)	-	-
(658,840)	-	(658,840)	-	-
-	(99,432)	(99,432)	-	-
-	(99,432)	(99,432)	-	-
(658,840)	(99,432)	(758,272)	-	-
			(45,951)	-
			-	(89,104)
			(45,951)	(89,104)
544,062	-	544,062	-	-
297,626	-	297,626	117,110	77,444
81,920	-	81,920	-	-
858	528	1,386	-	-
42,020	-	42,020	-	52,460
(118,046)	(183,473)	(301,519)	-	-
848,440	(182,945)	665,495	117,110	129,904
189,600	(282,377)	(92,777)	71,159	40,800
1,664,720	1,953,712	3,618,432	753,649	(80,472)
\$ 1,854,320	1,671,335	3,525,655	824,808	\$ (39,672)

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

**CITY OF KEMP, TEXAS**

## Balance Sheet

## Governmental Funds

September 30, 2021

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash & Cash Equivalents	\$ 485,368	\$ 74,533	\$ 3,700	\$ 563,601
Receivables (Net of Allowance for Uncollectables)	96,682	-	-	96,682
Due from Other Funds	49,725	1,200,387	-	1,250,112
Due from Component Unit	-	68,927	-	68,927
Prepaid Expenses	6,606	-	-	6,606
Total Assets	<u>\$ 638,381</u>	<u>\$ 1,343,847</u>	<u>\$ 3,700</u>	<u>\$ 1,985,928</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 115,544	\$ -	\$ -	\$ 115,544
Accrued Payroll Payable	6,698	-	-	6,698
Due to Other Funds	571,159	-	-	571,159
Due to Component Unit	57,292	-	-	57,292
Total Liabilities	<u>750,693</u>	<u>-</u>	<u>-</u>	<u>750,693</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Property Taxes	57,302	-	-	57,302
Total Deferred Inflows of Resources	<u>57,302</u>	<u>-</u>	<u>-</u>	<u>57,302</u>
<b>FUND BALANCES</b>				
Restricted:				
Debt Service	-	1,343,847	-	1,343,847
Public Safety	16,724	-	3,700	20,424
Streets	82,256	-	-	82,256
Unassigned	(268,594)	-	-	(268,594)
Total Fund Balances	<u>(169,614)</u>	<u>1,343,847</u>	<u>3,700</u>	<u>1,177,933</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 638,381</u>	<u>\$ 1,343,847</u>	<u>\$ 3,700</u>	<u>\$ 1,985,928</u>

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



**CITY OF KEMP, TEXAS**  
 Reconciliation of the Balance Sheet of Governmental Funds  
 to the Statement of Net Position  
 September 30, 2021

**Total Fund Balances - Governmental Funds** \$ 1,177,933

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 \$3,832,806 and the accumulated depreciation was \$(1,529,976). In addition, long-term liabilities of \$(1,855,885) 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. 446,945

Current year capital outlays of \$312,344 and long-term debt principal payments of \$102,113 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. 414,457

The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. (167,258)

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 \$57,302, reclassifying the proceeds of financing sources as an increase in notes payable \$0, recognizing accrued interest on debt \$9,775, and recognizing the liabilities associated with compensated absences \$9,677. The net effect of these reclassifications is to increase net position. 37,850

Included in the non-current liabilities is the recognition of the City's net pension asset (liability) required by GASB 68 in the amount of (\$70,740), a deferred resource inflow in the amount of \$(21,679), and a deferred resource outflow in the amount of \$36,812. The net effect of these adjustments in an decrease to net position. (55,607)

**Net Position of Governmental Activities** \$ 1,854,320

**CITY OF KEMP, TEXAS**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended September 30, 2021

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Property	\$ 549,989	\$ -	\$ -	\$ 549,989
Sales	297,626	-	-	297,626
Franchise	81,920	-	-	81,920
Licenses & Permits	45,445	-	-	45,445
Fines & Forfeitures	342,390	-	458	342,848
Charges for Services	100,522	-	-	100,522
Grants & Contributions	257,136	-	-	257,136
Investment Earnings	643	215	-	858
Miscellaneous	42,020	-	-	42,020
Intergovernmental	5,402	-	-	5,402
Total Revenues	<u>1,723,093</u>	<u>215</u>	<u>458</u>	<u>1,723,766</u>
<b>EXPENDITURES</b>				
Current:				
General Government	374,323	-	-	374,323
Public Safety	509,581	-	819	510,400
Streets	171,785	-	-	171,785
Parks & Recreation	348	-	-	348
Capital Outlay	312,344	-	-	312,344
Debt Service:				
Principal Retirement	102,113	(2)	-	102,111
Interest & Fiscal Charges	75,743	(74)	-	75,669
Total Expenditures	<u>1,546,237</u>	<u>(76)</u>	<u>819</u>	<u>1,546,980</u>
Excess/(Deficiency) of Revenues				
Over/(Under) Expenditures	<u>176,856</u>	<u>291</u>	<u>(361)</u>	<u>176,786</u>
<b>OTHER FINANCING SOURCES/ (USES)</b>				
Transfers In	-	428,206	-	428,206
Transfers Out	(546,252)	-	-	(546,252)
Total Other Financing Sources/(Uses)	<u>(546,252)</u>	<u>428,206</u>	<u>-</u>	<u>(118,046)</u>
Net Change in Fund Balances	(369,396)	428,497	(361)	58,740
Fund Balance - Beginning	<u>199,782</u>	<u>915,350</u>	<u>4,061</u>	<u>1,119,193</u>
Fund Balance - Ending	<u>\$ (169,614)</u>	<u>\$ 1,343,847</u>	<u>\$ 3,700</u>	<u>\$ 1,177,933</u>

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

**CITY OF KEMP, TEXAS**  
 Reconciliation of Statement of Revenues, Expenditures in  
 Fund Balances of Governmental Funds to the Statement of Activities  
 For the Fiscal Year Ended September 30, 2021

<b>Total Net Change in Fund Balance - Governmental Funds</b>	<b>\$ 58,740</b>
Current year capital outlays of \$312,344 and long-term debt principal payments of \$102,113 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.	414,457
The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(167,258)
The change in deferred revenue must be eliminated to convert from the modified accrual basis of accounting.	(5,927)
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.	566
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions were made after the measurement date of 12/31/20. 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. The City's reported TMRS net pension expense had to be recorded. The net effect of these changes was a decrease in net position by \$(110,978).	(110,978)
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 189,600</u></b>

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

**CITY OF KEMP, TEXAS**  
Statement of Net Position  
Proprietary Fund  
September 30, 2021

	Business-Type Activities
<b>ASSETS</b>	
Current Assets:	
Cash & Cash Equivalents	\$ 1,363,915
Receivables (Net of Allowance for Uncollectables)	106,659
Due From Other Funds	12,525
Inventory	57,260
Total Current Assets	1,540,359
Noncurrent Assets:	
Capital Assets (Net of Accumulated Depreciation)	4,368,201
Net Pension Asset	-
Total Noncurrent Assets	4,368,201
Total Assets	\$ 5,908,560
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Outflows Related to TMRS	26,932
Total Deferred Outflows of Resources	26,932
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	\$ 96,574
Accrued Payroll Payable	5,079
Due to Other Funds	914,001
Accrued Interest Payable	960
Customer Deposits	47,847
Long-Term Debt, Current Portion	209,000
Total Current Liabilities	1,273,461
Noncurrent Liabilities:	
Compensated Absences	4,925
Long-Term Debt	2,908,491
Net Pension Liability	51,753
Total Noncurrent Liabilities	2,965,169
Total Liabilities	4,238,630
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Inflows Related to TMRS	15,861
Unavailable Revenue	9,666
Total Deferred Inflows of Resources	25,527
<b>NET POSITION</b>	
Net Invested in Capital Assets	1,250,710
Unrestricted	420,625
Total Net Position	\$ 1,671,335

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  
Proprietary Fund  
For the Fiscal Year Ended September 30, 2021

	<u>Business-Type Activities</u>
<b>OPERATING REVENUES</b>	
Water Service	\$ 540,491
Sewer Service	230,233
Surcharge	251,908
Tap Fees	26,800
Miscellaneous	33,839
Total Operating Revenues	<u>1,083,271</u>
<b>OPERATING EXPENSES</b>	
Personnel Services	438,145
Professional Services	52,619
Water Production	184,090
Water Distribution	102,863
Sewer	121,858
Employee Development	3,598
Utilities & Communication	45,342
Insurance & Bonding	11,972
Depreciation	183,528
Total Operating Expenses	<u>1,144,015</u>
Operating Income/(Loss)	<u>(60,744)</u>
<b>NONOPERATING REVENUES / (EXPENSES)</b>	
Interest on Investments	528
Interest & Fiscal Charges	(38,688)
Total Nonoperating Revenues/(Expenses)	<u>(38,160)</u>
Income/(Loss) Before Transfers	(98,904)
Transfers In	42,018
Transfers Out	(225,491)
Total Other Financing Sources/(Uses)	<u>(183,473)</u>
Change in Net Position	(282,377)
Net Position - Beginning	<u>1,953,712</u>
Net Position - Ending	<u>\$ 1,671,335</u>

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

**CITY OF KEMP, TEXAS**  
Statement of Cash Flows  
Proprietary Fund  
For the Fiscal Year Ended September 30, 2021

	<u>Business-Type Activities</u>
<b>Cash Flows from Operating Activities</b>	
Receipts from Customers & Users	\$ 1,069,104
Payments to Suppliers	(552,356)
Payments to Employees	(271,063)
Net Cash Provided by/(Used in) Operating Activities	<u>245,685</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Repayment of Advances from Other Funds	232,302
Litigation Payments, Net	(85,834)
Transfers (to)/from Other Funds	(183,473)
Net Cash Provided by/(Used in) Noncapital Financing Activities	<u>(37,005)</u>
<b>Cash Flows from Capital &amp; Related Financing Activities</b>	
Acquisition & Construction of Capital Assets	(1,128,490)
Proceeds from Issuance of Debt	2,337,491
Principal Paid on Debt	(202,000)
Interest & Fiscal Charges Paid	(38,688)
Net Cash Provided by/(Used in) Capital & Related Financing Activities	<u>968,313</u>
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	528
Net Cash Provided by/(Used in) Investing Activities	<u>528</u>
Net Increase/(Decrease) in Cash & Cash Equivalents	1,177,521
Cash & Cash Equivalents - Beginning	<u>186,394</u>
Cash & Cash Equivalents - Ending	<u><u>\$ 1,363,915</u></u>
<b>Reconciliation of Operating Income/(Loss) to Net Cash Provided by/(Used in) Operating Activities</b>	
Operating Income/(Loss)	\$ (60,744)
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided by/(Used in) Operating Activities:	
Depreciation	183,528
(Increase)/Decrease in Accounts Receivable	(14,167)
(Increase)/Decrease in Net Pension Asset	30,195
(Increase)/Decrease in Deferred Outflows of Resources	256
Increase/(Decrease) in Accounts Payable	75,368
Increase/(Decrease) in Customer Deposits	(9,564)
Increase/(Decrease) in Net Pension Liability	51,753
Increase/(Decrease) in Deferred Inflows of Resources	(10,940)
Total Adjustments	<u>306,429</u>
Net Cash Provided by/(Used in) Operating Activities	<u><u>\$ 245,685</u></u>

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

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2021

**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, 2021

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

**Government-Wide & Fund Financial Statements**

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

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

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



**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2021

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

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

The City reports the following major proprietary fund:

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

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

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

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

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

Deposits & Investments

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

Short-Term Interfund Receivables & Payables

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

Inventory

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

Capital Assets

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

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2021

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

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

Capital Assets *(continued)*

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

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

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

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

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

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Compensated Absences

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

Long-Term Obligations

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

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

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2021

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

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

Net Position

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

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

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

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

Fund Equity

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

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

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

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2021

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

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

As of September 30, 2021, fund balances are composed of the following:

	General Fund	Debt Service	Other Governmental	Total
Restricted:				
Debt Service	\$ -	\$ 1,343,847	\$ -	\$ 1,343,847
Public Safety	16,724	-	3,700	20,424
Streets	82,256	-	-	82,256
Unassigned	(268,594)	-	-	(268,594)
Total Fund Balances	<u>\$ (169,614)</u>	<u>\$ 1,343,847</u>	<u>\$ 3,700</u>	<u>\$ 1,177,933</u>

**STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY**

**Budgetary Information**

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

**DEPOSITS & INVESTMENTS**

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

At September 30, 2021, the City's carrying amounts of deposits was \$2,769,562 and the bank balance of the City's deposits was \$2,847,049. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining \$2,597,049 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, 2021

**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, 2021 consist of the following:

	<u>General</u>	<u>Water &amp; Sewer</u>	<u>Total</u>
<b>Receivables:</b>			
Property Taxes	\$ 60,392	\$ -	\$ 60,392
Sales Taxes	5,090	-	5,090
Franchise Taxes	15,147	-	15,147
Miscellaneous	19,143	-	19,143
Utility Bills	-	136,023	136,023
Gross Receivables	99,772	136,023	235,795
Less: Allowance for Uncollectables	(3,090)	(29,364)	(32,454)
Net Total Receivables	<u>\$ 96,682</u>	<u>\$ 106,659</u>	<u>\$ 203,341</u>

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

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

The composition of inter-fund balances as of September 30, 2021, is as follows:  
Due to/from Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water & Sewer	General	\$ 12,055
Debt Service	Water and Sewer	914,001
Debt Service	MDD	68,927
Debt Service	General	240,954
EDC	General	40,292
Debt Service	Capital Assets	45,432

**CITY OF KEMP, TEXAS**  
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**INTER-FUND RECEIVABLES, PAYABLES, & TRANSFERS** (continued)

Inter-fund Transfers:

	Transfers In			Total
	General Fund	Debt Service	Water Sewer	
Transfers Out:				
General Fund	\$ 42,018	\$ 428,206	-	\$ 470,224
Water & Sewer				-
MDD	-			-
Total	<u>\$ 42,018</u>	<u>\$ 428,206</u>	<u>\$ -</u>	<u>\$ 470,224</u>

**CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2021 was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 3,689	\$ -	\$ -	\$ 3,689
Construction in Progress	65,500	266,912	-	332,412
Total Capital Assets Not Being Depreciated	<u>69,189</u>	<u>266,912</u>	<u>-</u>	<u>336,101</u>
Capital Assets Being Depreciated:				
Buildings & Structures	97,642	-	-	97,642
Machinery & Equipment	871,367	45,432	(86,574)	830,225
Infrastructure	2,794,608	-	-	2,794,608
Total Capital Assets Being Depreciated	<u>3,763,617</u>	<u>45,432</u>	<u>(86,574)</u>	<u>3,722,475</u>
Less Accumulated Depreciation for:				
Buildings & Structures	(87,386)	(1,694)	-	(89,080)
Machinery & Equipment	(498,200)	(64,133)	86,574	(475,759)
Infrastructure	(944,390)	(101,431)	-	(1,045,821)
Total Accumulated Depreciation	<u>(1,529,976)</u>	<u>(167,258)</u>	<u>86,574</u>	<u>(1,610,660)</u>
Total Capital Assets, Being Depreciated, Net	<u>2,233,641</u>	<u>(121,826)</u>	<u>-</u>	<u>2,111,815</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,302,830</u>	<u>\$ 145,086</u>	<u>\$ -</u>	<u>\$ 2,447,916</u>

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
<b>Business-Type Activities</b>				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 668,149	\$ 1,038,589	\$ -	\$ 1,706,738
Total Capital Assets Not Being Depreciated	<u>668,149</u>	<u>1,038,589</u>	<u>-</u>	<u>1,706,738</u>
Capital Assets Being Depreciated:				
Improvements	7,762,152	-	-	7,762,152
Machinery & Equipment	256,346	89,901	-	346,247
Total Capital Assets Being Depreciated	<u>8,018,498</u>	<u>89,901</u>	<u>-</u>	<u>8,108,399</u>
Less Accumulated Depreciation for:				
Improvements	(5,010,476)	(175,230)	-	(5,185,706)
Machinery & Equipment	(252,932)	(8,298)	-	(261,230)
Total Accumulated Depreciation	<u>(5,263,408)</u>	<u>(183,528)</u>	<u>-</u>	<u>(5,446,936)</u>
Total Capital Assets, Being Depreciated, Net	<u>2,755,090</u>	<u>(93,627)</u>	<u>-</u>	<u>2,661,463</u>
Business-Type Activities Capital Assets, Net	<u>\$ 3,423,239</u>	<u>\$ 944,962</u>	<u>\$ -</u>	<u>\$ 4,368,201</u>

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
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**CAPITAL ASSETS** *(continued)*

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

**Governmental Activities**

General Government	\$ 231
Public Safety	64,212
Streets	102,815
Total Depreciation Expense - Governmental Activities	<u>\$ 167,258</u>

**Business-Type Activities**

Water & Sewer	\$ 183,528
Total Depreciation Expense - Business-Type Activities	<u>\$ 183,528</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, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>EDC</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 166,968	\$ -	\$ -	\$ 166,968
Total Capital Assets Not Being Depreciated	<u>166,968</u>	<u>-</u>	<u>-</u>	<u>166,968</u>
Capital Assets Being Depreciated:				
Buildings & Structures	104,912	-	-	104,912
Leasehold Improvements	27,500	-	-	27,500
Machinery & Equipment	883	-	-	883
Infrastructure	12,750	-	-	12,750
Total Capital Assets Being Depreciated	<u>146,045</u>	<u>-</u>	<u>-</u>	<u>146,045</u>
Less Accumulated Depreciation for:				
Buildings & Structures	(74,823)	(6,846)	-	(81,669)
Leasehold Improvements	(5,958)	(2,750)	-	(8,708)
Machinery & Equipment	(883)	-	-	(883)
Infrastructure	(12,630)	(33)	-	(12,663)
Total Accumulated Depreciation	<u>(94,294)</u>	<u>(9,629)</u>	<u>-</u>	<u>(103,923)</u>
Total Capital Assets, Being Depreciated, Net	<u>51,751</u>	<u>(9,629)</u>	<u>-</u>	<u>42,122</u>
Governmental Activities Capital Assets, Net	<u>\$ 218,719</u>	<u>\$ (9,629)</u>	<u>\$ -</u>	<u>\$ 209,090</u>

Capital asset activity for the MDD for the year ended September 30, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>MDD</b>				
Capital Assets Being Depreciated:				
Buildings & Structures	\$ 18,900	\$ -	\$ -	\$ 18,900
Leasehold Improvements	27,500	-	-	27,500
Total Capital Assets Being Depreciated	<u>46,400</u>	<u>-</u>	<u>-</u>	<u>46,400</u>
Less Accumulated Depreciation for:				
Buildings & Structures	(7,665)	(1,260)	-	(8,925)
Leasehold Improvements	(5,958)	(2,750)	-	(8,708)
Total Accumulated Depreciation	<u>(13,623)</u>	<u>(4,010)</u>	<u>-</u>	<u>(17,633)</u>
Total Capital Assets, Being Depreciated, Net	<u>32,777</u>	<u>(4,010)</u>	<u>-</u>	<u>28,767</u>
Governmental Activities Capital Assets, Net	<u>\$ 32,777</u>	<u>\$ (4,010)</u>	<u>\$ -</u>	<u>\$ 28,767</u>

**CITY OF KEMP, TEXAS**  
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**LONG-TERM DEBT**

Long-term liability activity for the year ended September 30, 2021 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General Obligation Refunding Bonds	\$ 1,532,000	\$ -	\$ (55,000)	\$ 1,477,000	\$ 57,000
Notes Payable	323,885	-	(47,113)	276,772	49,206
Compensated Absences	9,677	-	-	9,677	-
Total	<u>\$ 1,865,562</u>	<u>\$ -</u>	<u>\$ (102,113)</u>	<u>\$ 1,763,449</u>	<u>\$ 106,206</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, 2021 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.	<u>\$ 1,477,000</u>
--	---------------------

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

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

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.

In September 2020, the City borrowed \$40,407 from Government Capital Corporation to purchase a Ford F150XL special Service package 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 15, 2024.

The annual requirements to amortize the debt outstanding for the debt service fund as of September 30, 2021 are as follows:

	Principal	Interest	Total
2022	\$ 106,205	\$ 71,422	\$ 177,627
2023	110,326	66,993	177,319
2024	115,541	62,390	177,931
2025	110,365	57,569	167,934
2026	104,915	53,048	157,963
2027-2031	419,420	208,317	627,737
2032-2036	462,000	123,444	585,444
2037-2039	325,000	26,688	351,688
	<u>\$1,753,772</u>	<u>\$ 669,871</u>	<u>\$2,423,643</u>



**CITY OF KEMP, TEXAS**  
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**LONG-TERM DEBT** (continued)

During the year ended September 30, 2021, the following changes occurred in long-term liabilities reported in the Water and Sewer Fund.

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Business-Type Activities</b>					
Certificates of Obligation	\$ 720,000	\$ 2,337,491	\$ (139,000)	\$ 2,918,491	\$ 144,000
Limited Tax Note	262,000	-	(63,000)	199,000	65,000
Litigation Liability	85,834	-	(85,834)	-	-
Total	<u>\$ 1,067,834</u>	<u>\$ 2,337,491</u>	<u>\$ (287,834)</u>	<u>\$ 3,117,491</u>	<u>\$ 209,000</u>

Bonds payable at September 30, 2021 are comprised of the following issues for the Water and Sewer fund:

2011 Certificates of Obligation at a 4.41% interest rate.	\$ 78,000
2013 Certificates of Obligation at a 3.18% interest rate.	588,000
USDA Series 2021 & 2021A	2,252,491
	<u>\$ 2,918,491</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 30<sup>th</sup> of the succeeding years. The settlement bears no interest. Final payment of \$85,833 due on June 30, 2021.

The annual requirements to amortize the debt outstanding for the Water and Sewer fund as of September 30, 2021 are as follows:

	Principal	Interest	Total
2022	\$ 146,000	\$ 185,918	\$ 331,918
2023	147,000	103,652	250,652
2024	152,000	100,066	252,066
2025	155,000	96,295	251,295
2026	158,000	92,474	250,474
2027-2031	758,000	411,427	1,169,427
2032-2036	661,000	330,562	991,562
2037-2039	352,000	172,603	524,603
2040-2060	588,491	288,566	877,057
	<u>\$3,117,491</u>	<u>\$1,781,563</u>	<u>\$4,899,054</u>

During the year ended September 30, 2021, the following changes occurred in long-term liabilities reported in the MDD.

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>MDD</b>					
General Obligation Refunding Bonds	\$ 276,000	\$ -	\$ (12,000)	\$ 264,000	\$ 13,000
Total	<u>\$ 276,000</u>	<u>\$ -</u>	<u>\$ (12,000)</u>	<u>\$ 264,000</u>	<u>\$ 13,000</u>

**CITY OF KEMP, TEXAS**  
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**LONG-TERM DEBT** (continued)

Bonds payable at September 30, 2021 are comprised of the following issues for the MDD:

2016 Certificates of Obligation at a 3.95% interest rate. \$ 264,000

The annual requirements to amortize the bonded debt outstanding for the MDD as of September 30, 2021 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 13,000	10,389	\$ 23,389
2023	14,000	9,875	23,875
2024	14,000	9,322	23,322
2025	15,000	8,769	23,769
2026	15,000	8,177	23,177
2027-2031	87,000	31,324	118,324
2032-2036	106,000	12,836	118,836
2037-2039	-	-	
	<u>\$ 264,000</u>	<u>\$ 90,692</u>	<u>\$ 354,692</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 \$61.

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. Copier lease agreement was renewed on April 20, 2021 for 48-months at a monthly rate of \$272.

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:

2022	\$ 18,068
2023	13,992
2024	3,992
2025	1,933
Total	<u>\$ 37,985</u>

**RISK MANAGEMENT**

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

**CITY OF KEMP, TEXAS**  
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**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, 2021, the rate was 1.25905 cents per thousand gallons.

Actual payments for the year ended September 30, 2021 were \$30,256.

**RETIREMENT SYSTEM- PENSION PLAN**

**Plan Description**

The City of Kemp participates as one of 888 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 that can be obtained at [www.tmr.com](http://www.tmr.com).

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

**Benefits Provided** - TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. 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:

	<u>Plan Year 2021</u>	<u>Plan Year 2020</u>
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	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2021

**RETIREMENT SYSTEM- PENSION PLAN** *(continued)*

**Employees Covered by Benefit Terms** - At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	10
Inactive Employees Entitled to but Not Yet Receiving Benefits	25
Active Employees	<u>18</u>
	53

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

Employees of the City of Kemp were required to contribute 5.00% of their annual gross earnings during the fiscal year. The City contribution rates were determined to be 5.79% and 5.04% in calendar year 2021 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2021 were \$43,252 and were equal to the required contributions.

**Net Pension Liability** - The city's Net Pension Liability (NPL) was measured as of December 31, 2020, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**Actuarial Assumptions** – The Total Pension Liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

- Inflation – 2.5% per year
- Overall payroll growth – 2.75% per year, adjusted down for population declines, if any
- Investment Rate of Return – 6.75%, net of pension plan investment expense, including inflation.

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees, and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

**CITY OF KEMP, TEXAS**  
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**RETIREMENT SYSTEM- PENSION PLAN – Net Pension Liability (continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative), and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Public Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%
	<u>100.00%</u>	

**Discount Rate** – The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

***Changes in the Net Pension Liability***

	Increase/(Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2019	\$ 1,008,546	\$ 1,080,014	\$ (71,468)
Changes for the Year:			
Service Cost	117,454	-	117,454
Interest	81,680	-	81,680
Change of Benefit Terms	164,323	-	164,323
Difference Between Expected & Actual Experience	(5,197)	-	(5,197)
Changes of Assumptions	-	-	-
Contributions - Employer	-	44,820	(44,820)
Contributions - Employee	-	38,712	(38,712)
Net Investment Income	-	81,318	(81,318)
Benefit Payments, Including Refunds of Employee Contributions	(43,052)	(43,052)	-
Administrative Expenses	-	(530)	530
Other Changes	-	(21)	21
Net Changes	<u>315,208</u>	<u>121,247</u>	<u>193,961</u>
Balance at 12/31/2020	<u>\$ 1,323,754</u>	<u>\$ 1,201,261</u>	<u>\$ 122,493</u>

**CITY OF KEMP, TEXAS**  
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**RETIREMENT SYSTEM- PENSION PLAN – Net Pension Liability** (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)	\$ 319,161	\$ 122,493	\$ (37,983)

**Pension Plan Fiduciary Net Position** – Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmr.com](http://www.tmr.com).

**Pension Expense, Deferred Outflows and Inflows of Resources** - For the year ended September 30, 2021, the City recognized pension expense in the amount of \$257,818. At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected & Actual Economic Experience (net of current year amortization)	\$ 10,075	5,033
Changes in Actuarial Assumptions	-	2,669
Difference Between Projected & Actual Investment Earnings (net of current year amortization)	-	29,838
Contributions Subsequent to the Measurement Date	53,669	-
Total	\$ 63,744	37,540

\$32,841 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, 2021. 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>		
2022	\$	(5,066)
2023		(2,854)
2024		(17,860)
2025		(1,685)
2026		-
Thereafter	\$	-

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
September 30, 2021

**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 2019 rebate of 65% was paid during 2019 in the amount of \$9,372. This is the last payment for the rebate.

**UNFAVORABLE BUDGET VARIANCES**

For the year ended September 30, 2021, City had expenditures in excess of budgeted amounts in the following categories: general government, debt service, capital outlay (related to streets) and the water sewer fund.

General government expenditures were over budget by \$54,886, because of an overall increase in administrative and operating expenditure compared to prior year. 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 \$1,560,052. However, the City recognized grant revenue related to the streets project of \$95,176, 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. Overall, actual expenditures exceed budgeted estimates by \$1,372,594, and on a whole the City is overbudget within their general fund.

The water sewer fund had multiple categories that were over expended: personnel services, professional services, water production, employee development, utilities and communication, and depreciation. Personnel services are over budget by \$30,133, because of an overall increase in wages. An additional \$4,190 relates to the GASB 68 audit adjustment. Water production was over expended by \$11,683, of which \$8,354 resulted from an adjusting audit journal entry, for additional water line repair and maintenance. Employee development were over expended by \$2040. Utilities and communication were over expended by \$8,725, of which \$1,079 relates to electricity, while \$3,362 relates to phone. The budget deficit for depreciation is \$179,688, which is a result of the City not budgeting for depreciation expense. The overall water sewer operating expenses are \$73,291 over budget.

**EVALUATION OF SUBSEQUENT EVENTS**

The City has evaluated subsequent events through July 11, 2022, the date which the financial statements were available to be issued.

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**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, 2021

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes:				
Property	\$ 590,424	590,424	\$ 549,989	\$ (40,435)
Sales	391,000	391,000	297,626	(93,374)
Franchise	100,600	100,600	81,920	(18,680)
Licenses & Permits	27,400	27,400	45,445	18,045
Fines & Forfeitures	560,000	560,000	342,390	(217,610)
Charges for Services	153,000	153,000	100,522	(52,478)
Grants & Contributions	-	-	257,136	257,136
Investment Earnings	1,000	1,000	643	(357)
Miscellaneous	23,820	23,820	42,020	18,200
Intergovernmental	-	-	5,402	5,402
Total Revenues	<u>1,847,244</u>	<u>1,847,244</u>	<u>1,723,093</u>	<u>(124,151)</u>
<b>EXPENDITURES</b>				
Current:				
General Government	357,035	357,035	374,323	(17,288)
Public Safety:				
Police Protection	421,608	421,608	295,909	125,699
Code Enforcement	1,850	1,850	105	1,745
Animal Control	1,150	1,150	0	1,150
Municipal Court	313,145	313,145	161,266	151,879
Fire Protection	67,985	67,985	52,301	15,684
Total Public Safety	<u>805,738</u>	<u>805,738</u>	<u>509,581</u>	<u>296,157</u>
Streets	273,218	273,218	171,785	101,433
Parks & Recreation	1,000	1,000	348	652
Capital Outlay	-	-	312,344	(312,344)
Debt Service	-	-	177,856	(177,856)
Total Expenditures	<u>1,436,991</u>	<u>1,436,991</u>	<u>1,546,237</u>	<u>(109,246)</u>
Excess/(Deficiency) of Revenues				
Over/(Under) Expenditures	<u>410,253</u>	<u>410,253</u>	<u>176,856</u>	<u>(233,397)</u>
<b>OTHER FINANCING SOURCES/(USES)</b>				
Transfers In	-	-	-	-
Transfers Out	(510,253)	(510,253)	(546,252)	(35,999)
Debt Proceeds	-	-	-	-
Total Other Financing Sources/(Uses)	<u>(510,253)</u>	<u>(510,253)</u>	<u>(546,252)</u>	<u>(35,999)</u>
Net Change in Fund Balances	(100,000)	(100,000)	(369,396)	(269,396)
Fund Balance - Beginning	<u>199,782</u>	<u>199,782</u>	<u>199,782</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 99,782</u>	<u>\$ 99,782</u>	<u>\$ (169,614)</u>	<u>\$ (269,396)</u>

**CITY OF KEMP, TEXAS**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual – Water and Sewer  
For the Fiscal Year Ended September 30, 2021

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>OPERATING REVENUES</b>				
Water Service	\$ 533,743	\$ 533,743	\$ 540,491	\$ 6,748
Sewer Service	235,000	235,000	230,233	(4,767)
Surcharge	263,950	263,950	251,908	(12,042)
Tap Fees	27,500	27,500	26,800	(700)
Miscellaneous	29,700	29,700	33,839	4,139
Total Operating Revenues	<u>1,089,893</u>	<u>1,089,893</u>	<u>1,083,271</u>	<u>(6,622)</u>
<b>OPERATING EXPENSES</b>				
Personnel Services	349,908	349,908	438,145	(88,237)
Professional Services	53,250	53,250	52,619	631
Water Production	286,685	286,685	184,090	102,595
Water Distribution	114,450	114,450	102,863	11,587
Sewer	109,750	109,750	121,858	(12,108)
Employee Development	1,450	1,450	3,598	(2,148)
Utilities & Communication	45,000	45,000	45,342	(342)
Insurance & Bonding	17,000	17,000	11,972	5,028
Depreciation	-	-	183,528	(183,528)
Total Operating Expenses	<u>977,493</u>	<u>977,493</u>	<u>1,144,015</u>	<u>(166,522)</u>
Operating Income/(Loss)	<u>112,400</u>	<u>112,400</u>	<u>(60,744)</u>	<u>(173,144)</u>
<b>NONOPERATING REVENUES/ (EXPENSES)</b>				
Interest on Investments	-	-	528	528
Interest & Fiscal Charges	-	-	(38,688)	(38,688)
Total Nonoperating Revenues/(Expenses)	<u>-</u>	<u>-</u>	<u>(38,160)</u>	<u>(38,160)</u>
Income/(Loss) Before Transfers	112,400	112,400	(98,904)	(211,304)
Transfers In/(Out)	<u>(212,400)</u>	<u>(212,400)</u>	<u>(183,473)</u>	<u>28,927</u>
Change in Net Position	(100,000)	(100,000)	(282,377)	(182,377)
Net Position - Beginning	<u>1,953,712</u>	<u>1,953,712</u>	<u>1,953,712</u>	<u>-</u>
Net Position - Ending	<u>\$ 1,853,712</u>	<u>\$ 1,853,712</u>	<u>\$ 1,671,335</u>	<u>\$ (182,377)</u>

**CITY OF KEMP, TEXAS**  
Schedule of Changes in Net Pension Liability and Related Ratios  
For the Year Ended September 30, 2021

	<u>Plan Year Ended</u> 2020	<u>December 31,</u> 2019
<b>Total Pension Liability</b>		
Service cost	\$ 117,454	\$ 83,551
Interest (on the total pension liability)	81,680	63,173
Changes of benefit terms	164,323	-
Difference between expected and actual experience	(5,197)	(3,276)
Change of assumptions	-	(6,427)
Benefit payments, including refunds of employee contributions	<u>(43,052)</u>	<u>(45,199)</u>
<b>Net Change in Total Pension Liability</b>	315,208	91,822
<b>Total Pension Liability - Beginning</b>	1,008,546	916,724
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 1,323,754</u>	<u>\$ 1,008,546</u>
 <b>Plan Fiduciary Net Position</b>		
Contributions - employer	44,820	40,551
Contributions - employee	38,712	47,931
Net investment income	81,318	138,456
Benefit payments, including refunds of employee contributions	(43,052)	(45,199)
Administrative expense	(530)	(785)
Other	<u>(21)</u>	<u>(24)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	121,247	180,930
<b>Plan Fiduciary Net Position - Beginning</b>	<u>1,080,014</u>	<u>899,084</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 1,201,261</u>	<u>\$ 1,080,014</u>
 <b>Net Pension Liability - Ending (a) - (b)</b>	<u>\$ 122,493</u>	<u>\$ (71,468)</u>
 <b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	90.75%	107.09%
 <b>Covered Employee Payroll</b>	774,250	758,178
 <b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	15.82%	-9.43%

2018	2017	2016	2015
\$ 73,341	\$ 67,771	\$ 53,920	\$ 23,944
52,016	46,799	41,701	37,739
-	-	-	35,062
74,377	(9,390)	5,322	15,058
-	-	-	20,993
<u>(33,887)</u>	<u>(27,477)</u>	<u>(37,198)</u>	<u>(30,920)</u>
165,847	77,703	63,745	101,876
750,877	673,174	609,429	507,553
<u>\$ 916,724</u>	<u>\$ 750,877</u>	<u>\$ 673,174</u>	<u>\$ 609,429</u>
\$ 32,494	\$ 19,808	\$ 1,225	\$ (3)
49,690	31,145	23,566	17,030
(26,255)	103,879	48,263	1,075
(33,887)	(27,477)	(37,198)	(30,920)
(508)	(539)	(546)	(655)
(27)	(27)	(29)	(32)
<u>21,507</u>	<u>126,789</u>	<u>35,281</u>	<u>(13,505)</u>
877,577	750,788	715,507	729,012
<u>\$ 899,084</u>	<u>\$ 877,577</u>	<u>\$ 750,788</u>	<u>\$ 715,507</u>
<u>\$ 17,640</u>	<u>\$ (126,700)</u>	<u>\$ (77,614)</u>	<u>\$ (106,078)</u>
98.08%	116.87%	111.53%	117.41%
\$ 668,563	\$ 622,893	\$ 471,329	\$ 340,592
2.64%	-20.34%	-16.47%	-31.15%

**CITY OF KEMP, TEXAS**  
Schedule of Contributions  
For the Year Ended September 30, 2021

	<u>2021</u>	<u>2020</u>
Actuarially determined contribution	\$ 65,483	\$ 42,997
Contributions in relation to actuarially determined contribution	<u>(65,483)</u>	<u>(42,997)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 766,046	\$ 781,741
Contributions as a percentage of covered employee payroll	8.55%	5.50%

<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
\$ 35,347	\$ 26,427	\$ 14,368	\$ 878
<u>(35,347)</u>	<u>(26,427)</u>	<u>(14,368)</u>	<u>(878)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 726,501	\$ 654,538	\$ 574,293	\$ 449,638
4.87%	4.04%	2.50%	0.20%

**CITY OF KEMP, TEXAS**  
Notes to Schedule of Contribution  
For the Year Ended September 30, 2021

**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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 11, 2022.

**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.

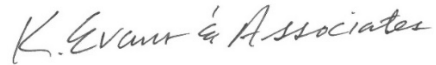
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

**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, CPA's  
Frisco, TX  
July 11, 2022