

CITY OF KEMP TEXAS

Financial Statements
(With Auditor's Report Thereon)

September 30, 2022

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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council

City of Kemp, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kemp Texas (the "City"), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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's, as of September 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City's and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As described in Note Leases to the financial statements, during the year ended September 30, 2022, the City's adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 4-10 and 43-51 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Vail + Park, P.C." The signature is written in a cursive, flowing style.

Richardson, Texas

July 18, 2023

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CITY OF KEMP TEXAS
Management's Discussion and Analysis
September 30, 2022

As management of the City of Kemp we offer readers of the City of Kemp financial statements this narrative overview and analysis of the financial activities of the City of Kemp for the year ended September 30, 2022. 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 \$ \$4,044,511 (net position).

- The City's total net position increased by \$380,462.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$708,299.

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, 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 13-14 of this report.

CITY OF KEMP TEXAS
Management's Discussion and Analysis
September 30, 2022

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 15 & 18 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 19-21 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 23-42 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 45 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 46 of this report.

CITY OF KEMP TEXAS
Management's Discussion and Analysis
September 30, 2022

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 \$4,044,511 as of September 30, 2022.

A portion of the City's net position 45.6% 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 services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Kemp - Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current & Other Assets	\$ 1,141,464	\$ 1,414,769	\$ 2,079,181	\$ 626,358	\$ 3,220,645	\$ 2,041,127
Capital Assets	2,422,791	2,447,916	6,064,696	4,368,201	8,487,487	6,816,117
Total Assets	<u>3,564,255</u>	<u>3,862,685</u>	<u>8,143,877</u>	<u>4,994,559</u>	<u>11,708,132</u>	<u>8,857,244</u>
Deferred Outflows of Resources	42,124	36,812	30,240	26,932	72,364	63,744
Long Term Liabilities	1,732,920	1,834,189	4,995,465	3,174,169	6,728,385	5,008,358
Other Liabilities	399,385	189,309	528,760	150,460	928,145	339,769
Total Liabilities	<u>2,132,305</u>	<u>2,023,498</u>	<u>5,524,225</u>	<u>3,324,629</u>	<u>7,656,530</u>	<u>5,348,127</u>
Deferred Inflows of Resources	46,220	21,679	33,236	25,527	79,456	47,206
Net Position:						
Net Invested in Capital Assets	743,543	694,144	1,101,418	1,250,710	1,844,961	1,944,854
Restricted	449,263	1,446,527	-	-	449,263	1,446,527
Unrestricted	235,048	(286,351)	1,515,238	420,625	1,750,286	134,274
Total Net Position	<u>\$ 1,427,854</u>	<u>\$ 1,854,320</u>	<u>\$ 2,616,656</u>	<u>\$ 1,671,335</u>	<u>\$ 4,044,510</u>	<u>\$ 3,525,655</u>

An additional portion of the City's net position, \$448,342, represents resources that are subject to external restriction on how they may be used. The remaining balance of \$1,751,208 represents 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, 2022

Analysis of the City's Operations. The following table provides a summary of the City's operations for the year ended September 30, 2022.

City of Kemp - Changes in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues						
Program Revenues:						
Charges for Services	\$ 619,306	\$ 488,815	\$ 1,093,901	\$ 1,083,271	\$ 1,713,207	\$ 1,572,086
Grants & Contributions	311,949	262,538	-	-	311,949	262,538
General Revenues:						
Property Tax	666,178	544,062	-	-	666,178	544,062
Other Tax	426,275	379,546	-	-	426,275	379,546
Miscellaneous	18,741	42,878	761	528	19,502	43,406
Total Revenues	<u>2,042,449</u>	<u>1,717,839</u>	<u>1,094,662</u>	<u>1,083,799</u>	<u>3,137,111</u>	<u>2,801,638</u>
Expenses						
General Government Activities	1,547,177	1,410,193	-	-	1,547,177	1,410,193
Business-Type Activities	-	-	1,209,473	1,182,703	1,209,473	1,182,703
Total Expenses	<u>1,547,177</u>	<u>1,410,193</u>	<u>1,209,473</u>	<u>1,182,703</u>	<u>2,756,650</u>	<u>2,592,896</u>
Increase/(Decrease) in Net Position Before Transfers	495,272	307,646	(114,811)	(98,904)	380,461	208,742
Transfers	<u>(146,131)</u>	<u>(118,046)</u>	<u>146,131</u>	<u>(183,473)</u>	<u>-</u>	<u>(301,519)</u>
Change in Net Position	349,141	189,600	31,320	(282,377)	380,461	(92,777)
Net Position - Beginning, As Restated	<u>1,078,713</u>	<u>1,664,720</u>	<u>2,585,336</u>	<u>1,953,712</u>	<u>3,664,049</u>	<u>3,618,432</u>
Net Position - Ending	<u>\$ 1,427,854</u>	<u>\$ 1,854,320</u>	<u>\$ 2,616,656</u>	<u>\$ 1,671,335</u>	<u>\$ 4,044,510</u>	<u>\$ 3,525,655</u>

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

Governmental Activities:

Revenues exceeded expenditures by \$459,273. The primary increase resulted from charges for services and property tax.

Business-Type Activities:

Business-type activities increased the City's net position by \$31,320. Operating results were \$15,907 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 \$708,299. Of the current combined ending fund balance, \$259,034 is unassigned, \$172,945 is assigned, and \$276,320 is restricted.

The general fund is the main operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$259,034.

CITY OF KEMP TEXAS
Management's Discussion and Analysis
September 30, 2022

The fund balance of the City's general fund decreased \$176,813 during the current fiscal year, as a result of \$157,344 capital outlay.

The debt service fund has a total fund balance of \$275,397. The net increase in fund balance during the current year in the debt service fund was \$131,937.

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

The unrestricted net position of the Enterprise Fund at the end of the year amounted to \$1,515,238. Net position increased in 2022 by \$31,320. 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 estimates exceeded actual revenues but actual expenditures exceeded budgeted expenditure estimates. The budget estimated an increase in fund balance (prior to transfers) of \$674,394, while the actual result was a increase in fund balance (prior to transfers) of \$176,813.

Capital Assets & Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2022 amounts to \$8,489,487 (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 \$1,948,180, vehicles of \$39,756, machinery and equipment of \$54,185 and depreciation expense of \$370,751.

Additional information on the City's capital assets can be found on pages 31-32 of this report.

Long-Term Debt. At the end of the current fiscal year, the City had long-term debt outstanding balance of \$6,993,173.

The City's long-term debt increased by \$1,848,233, primarily due to new bond debt of \$2,094,543 offsetting the scheduled principal payments on outstanding debt of \$323,280.

Additional information on the City's long-term debt can be found on pages 33-35 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

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City of Kemp, Texas
Statement of Net Position
September 30, 2022

				Component Units	
	Governmental	Business-Type		Economic	Municipal
	Activities	Activities	Total	Development	Development
				Corporation	District
ASSETS					
Cash & Cash Equivalents	\$ 914,095	\$ 1,910,704	\$ 2,824,799	\$ 494,108	\$ 180,471
Receivables (Net of Allowance for Uncollectables)	133,833	99,162	232,995	24,418	13,985
Due from Component Unit	91,286	-	91,286	-	-
Due from Primary Government	-	-	-	31,541	-
Internal Balances	-	12,055	12,055	-	-
Inventories	-	57,260	57,260	-	-
Prepaid Expenses	2,250	-	2,250	2,250	-
Capital Assets:					
Non-Depreciable/Amortization	453,689	3,537,330	3,991,019	166,968	401,399
Depreciable (Net of Accumulated Depreciation/Amortization)	1,969,102	2,527,366	4,496,468	122,463	46,224
Total Assets	<u>3,564,255</u>	<u>8,143,877</u>	<u>11,708,132</u>	<u>841,748</u>	<u>642,079</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Outflow Related to TMRS	42,124	30,240	72,364	-	-
Total Deferred Outflows of Resources	<u>42,124</u>	<u>30,240</u>	<u>72,364</u>	<u>-</u>	<u>-</u>
LIABILITIES					
Current Liabilities:					
Accounts Payable &					
Other Current Liabilities	135,719	448,838	584,557	34,174	76,137
Accrued Payroll	15,499	12,866	28,365	-	-
Accrued Interest	18,312	9,709	28,021	-	-
Deferred Revenues	186,259	9,666	195,925	-	-
Due to Component Unit	31,541	-	31,541	-	-
Due to Business Activities	12,055	-	12,055	-	-
Due to Primary Government	-	-	-	-	91,286
Customer Deposits	-	47,681	47,681	-	-
Noncurrent Liabilities:					
Due Within One Year	110,326	222,925	333,251	16,809	14,000
Due in More than One Year	1,578,599	4,740,353	6,318,952	73,160	237,000
Net Pension Liability	43,995	32,187	76,182	-	-
Total Liabilities	<u>2,132,305</u>	<u>5,524,225</u>	<u>7,656,530</u>	<u>124,143</u>	<u>418,423</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflow Related to TMRS	46,220	33,236	79,456	-	-
Total Deferred Inflows of Resources	<u>46,220</u>	<u>33,236</u>	<u>79,456</u>	<u>-</u>	<u>-</u>
NET POSITION					
Net Investment in Capital Assets	743,543	1,101,418	1,844,961	199,462	196,623
Restricted for:					
Debt Service	275,396	-	275,396	-	-
Public Safety	923	-	923	-	-
Assigned:					
Public Safety	27,471	-	27,471	-	-
Streets	145,473	-	145,473	-	-
Economic Development	-	-	-	518,143	-
Municipal Development	-	-	-	-	27,033
Unrestricted	235,048	1,515,238	1,750,286	-	-
Total Net Position	<u>\$ 1,427,854</u>	<u>\$ 2,616,656</u>	<u>\$ 4,044,510</u>	<u>\$ 717,605</u>	<u>\$ 223,656</u>

City of Kemp, Texas
Statement of Activities
for the fiscal year ended September 30, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense)/Revenue & Change in Net Position				
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government			Component Units	
					Governmental Activities	Business Activities	Total	Economic Development Corporation	Municipal Development District
Primary Government									
Governmental Activities:									
General Government	\$ 398,367	\$ 183,829	\$ -	\$ -	\$ (214,538)	\$ -	\$ (214,538)	\$ -	\$ -
Public Safety	626,466	435,477	64,054	-	(126,935)	-	(126,935)	-	-
Streets	440,394	-	-	247,895	(192,499)	-	(192,499)	-	-
Parks & Recreation	710	-	-	-	(710)	-	(710)	-	-
Interest & Fiscal Charges	81,240	-	-	-	(81,240)	-	(81,240)	-	-
Total Governmental Activities	<u>1,547,177</u>	<u>619,306</u>	<u>64,054</u>	<u>247,895</u>	<u>(615,922)</u>	<u>-</u>	<u>(615,922)</u>	<u>-</u>	<u>-</u>
Business-Type Activities:									
Water & Sewer	<u>1,209,473</u>	<u>1,093,901</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(115,572)</u>	<u>(115,572)</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities	<u>1,209,473</u>	<u>1,093,901</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(115,572)</u>	<u>(115,572)</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>2,756,650</u>	<u>1,713,207</u>	<u>64,054</u>	<u>247,895</u>	<u>(615,922)</u>	<u>(115,572)</u>	<u>(731,494)</u>	<u>-</u>	<u>-</u>
Component Units									
Economic Development Corp.	275,593	-	-	-				(275,593)	-
Municipal Development District	<u>64,050</u>	<u>-</u>	<u>-</u>	<u>-</u>				<u>-</u>	<u>(64,050)</u>
Total Component Units	<u>339,643</u>	<u>-</u>	<u>-</u>	<u>-</u>				<u>(275,593)</u>	<u>(64,050)</u>
General Revenues:									
Property Taxes					666,178	-	666,178	-	-
Sales Taxes					342,493	-	342,493	136,998	74,584
Franchise Taxes					83,782	-	83,782	-	-
Investment Earnings					1,268	761	2,029	-	-
Miscellaneous					17,473	-	17,473	-	248,117
Transfers					<u>(146,131)</u>	<u>146,131</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total General Revenues & Transfers					<u>965,063</u>	<u>146,892</u>	<u>1,111,955</u>	<u>136,998</u>	<u>322,701</u>
Change in Net Position					349,141	31,320	380,461	(138,595)	258,651
Net Position - Beginning, As Restated					<u>1,078,713</u>	<u>2,585,336</u>	<u>3,664,049</u>	<u>856,200</u>	<u>(34,995)</u>
Net Position - Ending					<u>\$ 1,427,854</u>	<u>\$ 2,616,656</u>	<u>\$ 4,044,510</u>	<u>\$ 717,605</u>	<u>\$ 223,656</u>

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

City of Kemp, Texas
Balance Sheet
Governmental Funds
September 30, 2022

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash & Cash Equivalents	\$ 729,062	\$ 184,110	\$ 923	\$ 914,095
Receivables (Net of Allowance for Uncollectables)	133,833	-	-	133,833
Due from Other Funds	13,451	-	-	13,451
Due from Component Unit	-	91,286	-	91,286
Prepaid Expenses	2,250	-	-	2,250
Total Assets	<u>878,596</u>	<u>275,396</u>	<u>923</u>	<u>1,154,915</u>
LIABILITIES				
Accounts Payable	135,719	-	-	135,719
Accrued Payroll	15,499	-	-	15,499
Deferred Revenue	186,259	-	-	186,259
Due to Other Funds	25,507	-	-	25,507
Due to Component Unit	31,541	-	-	31,541
Total Liabilities	<u>394,525</u>	<u>-</u>	<u>-</u>	<u>394,525</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	52,092	-	-	52,092
Total Deferred Inflows of Resources	<u>52,092</u>	<u>-</u>	<u>-</u>	<u>52,092</u>
FUND BALANCES				
Restricted:				
Debt Service	-	275,396	-	275,396
Public Safety	-	-	923	923
Assigned:				
Public Safety	27,471	-	-	27,471
Streets	145,473	-	-	145,473
Unassigned	259,035	-	-	259,035
Total Fund Balances	<u>431,979</u>	<u>275,396</u>	<u>923</u>	<u>708,298</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 878,596</u>	<u>\$ 275,396</u>	<u>\$ 923</u>	<u>\$ 1,154,915</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, 2022

Total Fund Balances - Governmental Funds \$ 708,298

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 \$4,058,576 and the accumulated depreciation was \$(1,610,660). In addition, long-term liabilities of \$(1,753,772) 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.

694,144

Current year capital outlays of \$157,344 and long-term debt principal payments of \$114,280 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.

271,624

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

(182,469)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue as revenue \$52,092, reclassifying the proceeds of financing sources as an increase in notes payable \$39,756 recognizing accrued interest on debt \$18,312, and recognizing the liabilities associated with compensated absences \$9,677. The net effect of these reclassifications is to increase net position.

(15,652)

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 (\$43,995), a deferred resource inflow in the amount of \$(45,430), and a deferred resource outflow in the amount of \$41,334. The net effect of these adjustments is a decrease to net position.

(48,091)

Net Position of Governmental Activities **\$ 1,427,854**

City of Kemp, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended September 30, 2022

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 206,624	\$ 464,766	\$ -	\$ 671,390
Sales	342,493	-	-	342,493
Franchise	83,782	-	-	83,782
Licenses & Permits	74,821	-	-	74,821
Fines & Forfeitures	435,477	-	-	435,477
Charges for Services	109,008	-	-	109,008
Grants & Contributions	247,895	-	-	247,895
Investment Earnings	982	285	-	1,267
Miscellaneous	17,473	-	-	17,473
Intergovernmental	64,054	-	-	64,054
Total Revenues	<u>1,582,609</u>	<u>465,051</u>	<u>-</u>	<u>2,047,660</u>
EXPENDITURES				
Current:				
General Government	392,370	-	-	392,370
Public Safety	555,201	-	2,777	557,978
Streets	339,926	-	-	339,926
Parks & Recreation	710	-	-	710
Capital Outlay	157,344	-	-	157,344
Debt Service:				
Principal Retirement	57,280	57,000	-	114,280
Interest & Fiscal Charges	12,869	59,834	-	72,703
Total Expenditures	<u>1,515,700</u>	<u>116,834</u>	<u>2,777</u>	<u>1,635,311</u>
Excess/(Deficiency) of Revenues				
Over/(Under) Expenditures	<u>66,909</u>	<u>348,217</u>	<u>(2,777)</u>	<u>412,349</u>
OTHER FINANCING SOURCES/(USES)				
Proceeds from debt issuance	39,756	-	-	39,756
Transfers In	155,863	-	-	155,863
Transfers Out	(85,715)	(216,281)	-	(301,996)
Total Other Financing Sources/(Uses)	<u>109,904</u>	<u>(216,281)</u>	<u>-</u>	<u>(106,376)</u>
		-		
Net Change in Fund Balances	176,813	131,936	(2,777)	305,973
Fund Balance - Beginning, As Restated	<u>255,166</u>	<u>143,460</u>	<u>3,700</u>	<u>402,326</u>
Fund Balance - Ending	<u>\$ 431,979</u>	<u>\$ 275,396</u>	<u>\$ 923</u>	<u>\$ 708,298</u>

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

CITY OF KEMP, TEXAS
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended September 30, 2022

Total Net Change in Fund Balance - Governmental Funds	\$ 305,973
Current year capital outlays of \$157,344 and long-term debt principal payments of \$114,280 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.	271,624
The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(182,469)
Current year financing sources are considered revenues in the fund financial statements, but they should be shown as increases in non-current liabilities in the government-wide financial statements. The net effect is to decrease net assets.	(39,756)
The change in deferred revenue must be eliminated to convert from the modified accrual basis of accounting.	(5,210)
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.	(8,537)
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 12/31/21. 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 \$7,516.	7,516
Change in Net Position of Governmental Activities	<u><u>\$ 349,141</u></u>

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, 2022

	Business-Type Activities
ASSETS	
Current Assets:	
Cash & Cash Equivalents	\$ 1,910,704
Receivables (Net of Allowance for Uncollectables)	99,162
Due From Other Funds	12,055
Inventory	57,260
Total Current Assets	<u>2,079,181</u>
Noncurrent Assets:	
Capital Assets (Net of Accumulated Depreciation)	<u>6,064,696</u>
Total Noncurrent Assets	<u>6,064,696</u>
Total Assets	<u><u>8,143,877</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to TMRS	<u>30,240</u>
Total Deferred Outflows of Resources	<u><u>30,240</u></u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	448,838
Accrued Payroll Payable	12,866
Accrued Interest Payable	9,709
Deferred Revenue	9,666
Customer Deposits	47,681
Long-Term Debt, Current Portion	<u>222,925</u>
Total Current Liabilities	<u>751,685</u>
Noncurrent Liabilities:	
Long-Term Debt	4,740,353
Net Pension Liability	<u>32,187</u>
Total Noncurrent Liabilities	<u>4,772,540</u>
Total Liabilities	<u><u>5,524,225</u></u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to TMRS	<u>33,236</u>
Total Deferred Inflows of Resources	<u><u>33,236</u></u>
NET POSITION	
Net Investment in Capital Assets	1,101,418
Unrestricted	<u>1,515,238</u>
Total Net Position	<u><u>\$ 2,616,656</u></u>

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

City of Kemp, Texas
Statement of Revenue, Expenses and Changes in Net Position
Proprietary Fund
For the Fiscal Year Ended September 30, 2022

	Business-Type Activities
OPERATING REVENUES	
Water Service	\$ 497,072
Sewer Service	259,840
Surcharge	259,040
Tap Fees	33,230
Miscellaneous	44,719
Total Operating Revenues	<u>1,093,901</u>
OPERATING EXPENSES	
Personnel Services	364,665
Professional Services	55,114
Water Production	194,088
Water Distribution	141,925
Sewer	93,744
Employee Development	4,403
Utilities & Communication	54,474
Insurance & Bonding	12,385
Depreciation	188,282
Total Operating Expenses	<u>1,109,080</u>
Operating Income/(Loss)	<u>(15,179)</u>
NONOPERATING REVENUES/(EXPENSES)	
Interest on Investments	761
Interest & Fiscal Charges	(100,393)
Total Nonoperating Revenues/(Expenses)	<u>(99,632)</u>
Income/(Loss) Before Transfers	(114,811)
Transfers In	146,131
Total Other Financing Sources/(Uses)	<u>146,131</u>
Change in Net Position	31,320
Net Position - Beginning, As Restated	<u>2,585,336</u>
Net Position - Ending	<u><u>\$ 2,616,656</u></u>

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

City of Kemp, Texas
Statement of Cash Flow
Proprietary Fund
For the fiscal year ended September 30, 2022

	Business-Type Activities
Cash Flows from Operating Activities	
Receipts from Customers & Users	\$ 1,101,398
Payments to Suppliers	(299,120)
Payments to Employees	(272,217)
Net Cash Provided by/(Used in) Operating Activities	<u>530,061</u>
Cash Flows from Noncapital Financing Activities	
Advances from Other Funds	146,601
Net Cash Provided by/(Used in) Noncapital Financing Activities	<u>146,601</u>
Cash Flows from Capital & Related Financing Activities	
Acquisition & Construction of Capital Assets	(1,830,592)
Proceeds from Issuance of Debt	2,000,602
Principal Paid on Debt	(209,000)
Interest & Fiscal Charges Paid	(91,644)
Net Cash Provided by/(Used in) Capital & Related Financing Activities	<u>(130,634)</u>
Cash Flows from Investing Activities	
Interest on short term investments	761
Net Cash Provided by/(Used in) Investing Activities	<u>761</u>
Net Increase/(Decrease) in Cash & Cash Equivalents	546,789
Cash & Cash Equivalents - Beginning	<u>1,363,915</u>
Cash & Cash Equivalents - Ending	<u><u>\$ 1,910,704</u></u>
Reconciliation of Operating Income/(Loss) to Net Cash Provided by/(Used in) Operating Activities	
Operating Income/(Loss)	(15,179.00)
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided by/(Used in)	
Depreciation	188,282
(Increase)/Decrease in Accounts Receivable	7,497
(Increase)/Decrease in Deferred Outflows of Resources	(3,308)
Increase/(Decrease) in Accounts Payable	352,264
Increase/(Decrease) in Accrued Payroll	2,862
Increase/(Decrease) in Customer Deposits	(166)
Increase/(Decrease) in Net Pension Liability	(19,566)
Increase/(Decrease) in Deferred Inflows of Resources	17,375
Total Adjustments	<u>545,240</u>
Net Cash Provided by/(Used in) Operating Activities	<u><u>\$ 530,061</u></u>

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

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CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2022

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 *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.

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, 2022

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.

The *Nonmajor Governmental Fund* accounts for the City's police services, which generally accounts for financial resources allocated for the local police department.

CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2022

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, 2022

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
Leased Assets	10

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position and/or balance sheet 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 assets that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting in this category.

- Unavailable revenue – These deferred inflows are reported on the governmental funds balance sheet as the funds are not received soon enough after the year end to pay liabilities for the current period. These deferred inflows are reclassified to revenue on the governmental-wide financial statements.
- Changes in actuarial assumptions used to determine liabilities for the pension plan – This difference is deferred and amortized over the estimated average remaining service lives of all members determined as of the measurement date.
- Difference in projected and actual investment earnings on pension plans' assets – This difference is deferred and amortized over a closed five-year period."

Deferred Outflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Difference in expected and actual experience for the pension plans –This difference is deferred and recognized over the estimated average remaining service lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension liability for the pension plans-This difference is deferred and amortized over the estimated average remaining service lives of all members determined as of the measurement date.
- Pension plans' employer contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.

CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

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.

CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

- 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.

As of September 30, 2022, fund balances are composed of the following:

	General Fund	Debt Service	Other Governmental	Total
Restricted:				
Debt Service	\$ -	\$ 275,397	\$ -	\$ 275,397
Public Safety	-	-	923	923
Assigned:				
Public Safety	27,471	-	-	27,471
Streets	145,474	-	-	145,474
Unassigned	259,034	-	-	259,034
Total Fund Balances	<u>\$ 431,979</u>	<u>\$ 275,397</u>	<u>\$ 923</u>	<u>\$ 708,299</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, 2022, the City's carrying amounts of deposits was \$ 2,818,591 and the bank balance of the City's deposits was \$2,865,527. Of the bank balance, \$250,000 was covered by federal depository insurance, the remaining are fully collateralized by securities held by the City in the City's name.

As of September 30, 2022, the City has not incurred any losses on amounts held in depository accounts in excess of FDIC limits.

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 AAA.

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

CITY OF KEMP, TEXAS
Notes to the Financial Statements
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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.

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 the 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, 2022 consist of the following:

	General	Water & Sewer	Total
Receivables:			
Property Taxes	\$ 55,182	\$ -	\$ 55,182
Sales Taxes	61,045	-	61,045
Franchise Taxes	18,064	-	18,064
Miscellaneous	2,632	-	2,632
Utility Bills	-	111,839	111,839
Gross Receivables	136,923	111,839	248,762
Less: Allowance for Uncollectables	(3,090)	(12,677)	(15,767)
Net Total Receivables	<u>\$ 133,833</u>	<u>\$ 99,162</u>	<u>\$ 232,995</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 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, 2022, 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	MDD	91,287
EDC	General	31,542

CITY OF KEMP, TEXAS
Notes to the Financial Statements
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INTER-FUND RECEIVABLES, PAYABLES, & TRANSFERS *(continued)*

Inter-fund Transfers:

	Transfers In		
	General Fund	Debt Service	Total
Transfers Out:			
Debt Service	\$ 70,148	\$ -	\$ 70,148
Water & Sewer	-	146,131	146,131
Total	<u>\$ 70,148</u>	<u>\$ 146,131</u>	<u>\$ 216,279</u>

CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2022 was as follows:

	Primary Government		
	Beginning Balance	Additions	Ending Balance
Governmental Activities			
Capital Assets Not Being Depreciated/Amortized:			
Land	\$ 3,689	\$ -	\$ 3,689
Construction in Progress	332,412	117,588	450,000
Total Capital Assets Not Being Depreciated/Amortized	<u>336,101</u>	<u>117,588</u>	<u>453,689</u>
Capital Assets Being Depreciated/Amortized:			
Buildings & Structures	97,642	-	97,642
Machinery & Equipment	830,225	39,756	869,981
Infrastructure	2,794,608	-	2,794,608
Total Capital Assets Being Depreciated/Amortized	<u>3,722,475</u>	<u>39,756</u>	<u>3,762,231</u>
Less Accumulated Depreciated/Amortized for:			
Buildings & Structures	(89,080)	(1,462)	(90,542)
Machinery & Equipment	(475,759)	(81,171)	(556,930)
Infrastructure	(1,045,821)	(99,836)	(1,145,657)
Total Accumulated Depreciated/Amortized	<u>(1,610,660)</u>	<u>(182,469)</u>	<u>(1,793,129)</u>
Total Capital Assets, Being Depreciated/Amortized, Net	<u>2,111,815</u>	<u>(142,713)</u>	<u>1,969,102</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,447,916</u>	<u>\$ (25,125)</u>	<u>\$ 2,422,791</u>

	Primary Government		
	Beginning Balance	Additions	Ending Balance
Business-Type Activities			
Capital Assets Not Being Depreciated:			
Construction in Progress	\$ 1,706,738	\$ 1,830,592	\$ 3,537,330
Total Capital Assets Not Being Depreciated	<u>1,706,738</u>	<u>1,830,592</u>	<u>3,537,330</u>
Capital Assets Being Depreciated:			
Improvements	7,762,152	-	7,762,152
Machinery & Equipment	346,247	54,185	400,432
Total Capital Assets Being Depreciated	<u>8,108,399</u>	<u>54,185</u>	<u>8,162,584</u>
Less Accumulated Depreciation for:			
Improvements	(5,185,707)	(175,230)	(5,360,937)
Machinery & Equipment	(261,229)	(13,052)	(274,281)
Total Accumulated Depreciation	<u>(5,446,936)</u>	<u>(188,282)</u>	<u>(5,635,218)</u>
Total Capital Assets, Being Depreciated, Net	<u>2,661,463</u>	<u>(134,097)</u>	<u>2,527,366</u>
Business-Type Activities Capital Assets, Net	<u>\$ 4,368,201</u>	<u>\$ 1,696,495</u>	<u>\$ 6,064,696</u>

CITY OF KEMP, TEXAS
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CAPITAL ASSETS (continued)

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

Governmental Activities

General Government	\$ 7,951
Public Safety	73,298
Streets	101,220
Total Depreciation Expense - Governmental Activities	<u>\$ 182,469</u>

Business-Type Activities

Water & Sewer	\$ 188,282
Total Depreciation Expense - Business-Type Activities	<u>\$ 188,282</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, 2022 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
EDC				
Capital Assets Not Being Depreciated/Amortized:				
Land	\$ 166,968	\$ -	\$ -	\$ 166,968
Total Capital Assets Not Being Depreciated/Amortized	166,968	-	-	166,968
Capital Assets Being Depreciated/Amortized:				
Buildings & Structures	104,912	-	-	104,912
Leasehold Improvements	27,500	-	-	27,500
Machinery & Equipment	883	-	-	883
Infrastructure	12,750	-	-	12,750
Leased Building	-	106,638	-	106,638
Total Capital Assets Being Depreciated/Amortized	146,045	106,638	-	252,683
Less Accumulated Depreciated/Amortized for:				
Buildings & Structures	(81,669)	(6,846)	-	(88,515)
Leasehold Improvements	(8,708)	(2,750)	-	(11,458)
Machinery & Equipment	(883)	-	-	(883)
Infrastructure	(12,663)	(33)	-	(12,696)
Leased Building	-	(16,668)	-	(16,668)
Total Accumulated Depreciated/Amortized	(103,923)	(26,297)	-	(130,220)
Total Capital Assets, Being Depreciated/Amortized, Net	42,122	80,341	-	122,463
Governmental Activities Capital Assets, Net	<u>\$ 209,090</u>	<u>\$ 80,341</u>	<u>\$ -</u>	<u>\$ 289,431</u>

Capital asset activity for the MDD for the year ended September 30, 2022 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
MDD				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ -	\$ 401,399	\$ -	\$ 401,399
Total Capital Assets Not Being Depreciated	-	401,399	-	401,399
Capital Assets Being Depreciated:				
Buildings & Structures	18,900	23,000	-	41,900
Leasehold Improvements	27,500	-	-	27,500
Total Capital Assets Being Depreciated	46,400	23,000	-	69,400
Less Accumulated Depreciation for:				
Buildings & Structures	(8,925)	(2,793)	-	(11,718)
Leasehold Improvements	(8,708)	(2,750)	-	(11,458)
Total Accumulated Depreciation	(17,633)	(5,543)	-	(23,176)
Total Capital Assets, Being Depreciated, Net	28,767	17,457	-	46,224
Governmental Activities Capital Assets, Net	<u>\$ 28,767</u>	<u>\$ 418,856</u>	<u>\$ -</u>	<u>\$ 447,623</u>

CITY OF KEMP, TEXAS
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LONG-TERM DEBT

Long-term liability activity for the year ended September 30, 2022 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities					
General Obligation Refunding Bonds	\$ 1,477,000	\$ -	\$ (57,000)	\$ 1,420,000	\$ 59,000
Notes Payable	276,772	39,756	(57,280)	259,248	51,326
Compensated Absences	9,677	9,420	(9,420)	9,677	-
Total	<u>\$ 1,763,449</u>	<u>\$ 49,176</u>	<u>\$ (123,700)</u>	<u>\$ 1,688,925</u>	<u>\$ 110,326</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, 2022 are comprised of the following issues for the debt service fund:

2019 Certificates of Obligation. Interest payable February 1 and Principal and Interest payable August 1 at a 4.05% interest	<u>\$ 1,420,000</u>
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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.

In April 2022, the City borrowed \$39,756 to purchase a 2022 Chevrolet for the Admin Department. This loan is being paid in five annual installments including interest computed at 4%. The final payment is due April 29, 2027.

The annual requirements to amortize the debt outstanding for the debt service fund as of September 30, 2022 are as follows:

	Principal	Interest	Total
2023	\$ 110,326	\$ 68,583	\$ 178,909
2024	107,466	63,980	171,446
2025	110,365	59,159	169,524
2026	104,915	54,638	159,553
2027	149,176	50,419	199,595
2028-2032	395,000	191,362	586,362
2033-2037	481,000	104,732	585,732
2038-2039	221,000	13,526	234,526
	<u>\$ 1,679,248</u>	<u>\$ 606,399</u>	<u>\$ 2,285,647</u>

CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2022

LONG-TERM DEBT *(continued)*

During the year ended September 30, 2022, 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
Business-Type Activities					
Certificates of Obligation	\$ 2,918,491	\$ 2,000,602	\$ (144,000)	\$ 4,775,093	\$ 147,000
Limited Tax Note	199,000	-	(65,000)	134,000	66,000
JohnDeer RDO Equipment Note	-	54,185	-	54,185	9,925
Total	<u>\$ 3,117,491</u>	<u>\$ 2,054,787</u>	<u>\$ (209,000)</u>	<u>\$ 4,963,278</u>	<u>\$ 222,925</u>

Bonds payable at September 30, 2022 are comprised of the following issues for the Water and Sewer fund:

2011 Certificates of Obligation at a 4.41% interest rate.	\$ 64,000
2013 Certificates of Obligation at a 3.18% interest rate.	547,000
USDA Series 2021 at a 1.75% interest rate.	4,015,093
USDA Series 2021A at a 1.75% interest rate.	149,000
	<u>\$ 4,775,093</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.

On March 20, 2018, the City was approved a USDA Rural Development bond in the aggregate principal amount of \$4,144,000. On January 6, 2021, the bond statement was closed with an interest rate of 1.75% and a 40-year term. The final payment is due January 6, 2061. During the fiscal year ended September 30, 2022, the City received \$2,142,000 in disbursements deposits from USDA, and as of September 30, 2022, the City received the whole principal amount of \$4,144,000 deposits.

On December 16, 2020, the City was approved another USDA Rural Development bond in the aggregate principal amount of \$856,000. On January 6, 2021, the bond statement was closed with an interest rate of 1.75% and a 40-year term. The final payment is due January 6, 2061. During the fiscal year ended September 30, 2022, the City received \$69,000 in disbursements deposits from USDA, and as of September 30, 2022, the City received a total principal amount of \$179,000 deposits.

In July 2022, the City borrowed \$54,185 to purchase JohnDeer RDO Equipment. This loan is being paid in five annual installments including interest computed at 4.398%. The final payment is due August 10, 2027.

The annual requirements to amortize the debt outstanding for the Water and Sewer fund as of September 30, 2022 are as follows:

	Principal	Interest	Total
2023	\$ 156,925	\$ 106,035	\$ 262,960
2024	162,361	102,013	264,374
2025	165,817	97,786	263,603
2026	169,293	93,489	262,782
2027	156,789	89,461	246,250
2028-2032	775,000	394,377	1,169,377
2033-2037	615,000	318,240	933,240
2038-2039	358,000	166,443	524,443
2040-2060	2,404,093	567,875	2,971,968
	<u>\$ 4,963,278</u>	<u>\$ 1,935,717</u>	<u>\$ 6,898,995</u>

CITY OF KEMP, TEXAS
Notes to the Financial Statements
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LONG-TERM DEBT *(continued)*

During the year ended September 30, 2022, the following changes occurred in long-term liabilities reported in the MDD.

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
MDD					
General Obligation Refunding Bonds	\$ 264,000	\$ -	\$ (13,000)	\$ 251,000	\$ 14,000
Total	<u>\$ 264,000</u>	<u>\$ -</u>	<u>\$ (13,000)</u>	<u>\$ 251,000</u>	<u>\$ 14,000</u>

Bonds payable at September 30, 2022 are comprised of the following issues for the MDD:

2016 Certificates of Obligation at a 3.60% interest rate. \$ 251,000

On August 01, 2016, the City issued \$322,000 certificates of obligation, series 2016. This certificate of obligation is being paid in 20 annual installments including interest computed at 3.60%. The final payment is due August 15, 2036.

The annual requirements to amortize the bonded debt outstanding for the MDD as of September 30, 2022 are as follows:

	Principal	Interest	Total
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
2026	16,000	7,584	23,584
2028-2032	90,000	23,740	113,740
2033-2037	87,000	12,836	99,836
2038-2039	-	-	-
	<u>\$ 251,000</u>	<u>\$ 80,303</u>	<u>\$ 331,303</u>

CITY OF KEMP, TEXAS
Notes to the Financial Statements
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LEASES

Effective October 1, 2021, the City implemented GASB Statement No. 87, Leases, which required the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

The City recognizes a lease liability and an intangible right-to-use lease asset (Leased building) in the government-wide financial statements.

At implementation of GASB Statement No. 87 and the commencement of leases beginning after October 1, 2021, the City initially measured the lease liability at the present value of payments expected to be made during the remaining lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease right-to-use asset was initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease right-to use asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term and (3) lease payments.

The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the non-cancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a re-measurement of its lease and will remeasure the lease assets and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the Statement of Net Position.

The Lease rate, term and ending lease liability are as follows:

	<u>Interest Rate</u>	<u>Payable at Commencement</u>	<u>Lease Terms in Years</u>	<u>Ending Balance</u>
EDC Activities :				
Leases	0.84%	<u>106,638</u>	10	<u>89,970</u>
Total EDC activities				<u><u>89,970</u></u>

The annual requirements to amortize leases payable outstanding as of September 30, 2022

	EDC Activities	
	<u>Interest</u>	<u>Principal</u>
2023	\$ 691	\$ 16,809
2024	549	16,951
2025	406	17,094
2026	262	17,238
2027	117	17,383
2028	<u>6</u>	<u>4,496</u>
Total	<u>\$ 1,342</u>	<u>\$ 89,970</u>

CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2022

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.

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 a rate is subject to an annual cost adjustment. As of September 30, 2022, the rate was 1.25905 cents per thousand gallons.

Actual payments for the year ended September 30, 2022 were \$0 since the City had a credit using up with Tarrant Regional.

RETIREMENT SYSTEM- PENSION PLAN

Plan Description

The City of Kemp participates as one of 901 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.tmrs.com.

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

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Member may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

	Plan Year 2021	Plan Year 2020
Employee Deposit Rate	7.0%	5.0%
Matching Ratio (city to employee)	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating Transfers	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

CITY OF KEMP, TEXAS
Notes to the Financial Statements
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RETIREMENT SYSTEM- PENSION PLAN *(continued)*

Employees Covered by Benefit Terms - At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	11
Inactive Employees Entitled to but Not Yet Receiving Benefits	27
Active Employees	<u>18</u>
	56

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 10.29% and 5.79% in calendar year 2021 and 2020, respectively. The City's contributions to TMRS for the year ended December 30 2021 were \$73,056 and were equal to the required contributions.

Net Pension Liability - The city's Net Pension Liability (NPL) was measured as of December 31, 2021, 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, 2021 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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September 30, 2022

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 weighing 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 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.00%	7.55%
Core Fixed Income	6.00%	2.00%
Non-Core Fixed Income	20.00%	5.68%
Real Return	12.00%	7.22%
Real Estate	12.00%	6.85%
Absolute Return	5.00%	5.35%
Private Equity	10.00%	10.00%
	100.00%	

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	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2020	\$ 1,323,754	\$ 1,201,261	\$ 122,493
Changes for the Year:			
Service Cost	116,829	-	116,829
Interest	91,943	-	91,943
Change of Benefit Terms	-	-	-
Difference Between Expected & Actual Experience	24,059	-	24,059
Changes of Assumptions	-	-	-
Contributions - Employer	-	71,160	(71,160)
Contributions - Employee	-	53,104	(53,104)
Net Investment Income	-	155,597	(155,597)
Benefit Payments, Including Refunds of Employee Contributions	(40,102)	(40,102)	-
Administrative Expenses	-	(725)	725
Other Changes	-	5	(5)
Net Changes	192,729	239,039	(46,310)
Balance at 12/31/2021	\$ 1,516,483	\$ 1,440,300	\$ 76,183

CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2022

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)	\$ 300,339	\$ 76,182	\$ (107,315)

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.

Pension Expense, Deferred Outflows and Inflows of Resources - For the year ended September 30, 2022, the City recognized pension expense in the amount of \$257,818. At September 30, 2022, 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)	\$ 14,036	
Changes in Actuarial Assumptions	-	790
Difference Between Projected & Actual Investment Earnings (net of current year amortization)	-	78,666
Contributions Subsequent to the Measurement Date	58,328	-
Total	<u>\$ 72,364</u>	<u>\$ 79,456</u>

\$58,328 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending September 30	
2022	\$ (10,285)
2023	(25,291)
2024	(14,945)
2025	(14,899)
2026	-
Thereafter	-
Total	<u>\$ (65,420)</u>

CITY OF KEMP, TEXAS
Notes to the Financial Statements
September 30, 2022

PRIOR PERIOD ADJUSTMENTS

During the fiscal year ended September 30, 2022, the City Management discovered the following prior period adjustments:

	General	Debt	Nonmajor	
	Fund	Service	Governmental	Total Amount
<u>Governmental Activities Description</u>				
Fund Balance, as Originally Reported	(169,614)	1,343,847	3,700	1,177,933
Decreases in inter fund activities	424,780	(1,200,387)	-	(775,607)
Fund Balance, as Restated	255,166	143,460	3,700	402,326
<u>Governmental Activities- Government-wide</u>	<u>Amount</u>			
Net Position, as Originally Reported	1,854,320			
Decreases in inter fund activities	(775,607)			
Net Position, as Restated	1,078,713			
<u>Economic Development Corporation Description</u>	<u>Amount</u>			
Net Position, as Originally Reported	824,808			
Increases in sales tax receivable	31,392			
Net Position, as Restated	856,200			
<u>Municipal Development District Description</u>	<u>Amount</u>			
Net Position, as Originally Reported	(39,672)			
Increases in sales tax receivable	4,677			
Net Position, as Restated	(34,995)			
<u>Business-Type Activities Description</u>	<u>Amount</u>			
Net Position, as Originally Reported	1,671,335			
Increases in inter fund activities	914,001			
Net Position, as Restated	2,585,336			

EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through July 18, 2023, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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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, 2022

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 674,867	674,867	\$ 206,624	\$ (468,243)
Sales	438,000	438,000	342,493	(95,507)
Franchise	100,600	100,600	83,782	(16,818)
Licenses & Permits	33,800	33,800	74,821	41,021
Fines & Forfeitures	592,000	592,000	435,477	(156,523)
Charges for Services	163,000	163,000	109,008	(53,992)
Grants & Contributions	-	-	247,895	247,895
Investment Earnings	1,000	1,000	982	(18)
Miscellaneous	132,690	132,690	17,473	(115,217)
Intergovernmental	-	-	64,054	64,054
Total Revenues	<u>2,135,957</u>	<u>2,135,957</u>	<u>1,582,609</u>	<u>(553,348)</u>
EXPENDITURES				
Current:				
General Government	425,737	425,737	392,370	33,367
Public Safety:				
Police Protection	401,358	401,358	326,400	74,958
Code Enforcement	1,850	1,850	1,000	850
Animal Control	1,150	1,150	450	700
Municipal Court	316,795	316,795	283,829	32,966
Fire Protection	77,105	77,105	21,354	55,751
Total Public Safety	<u>798,258</u>	<u>798,258</u>	<u>633,033</u>	<u>165,225</u>
Streets	236,568	236,568	222,338	14,230
Parks & Recreation	1,000	1,000	710	290
Capital Outlay	-	-	157,344	(157,344)
Debt Service	-	-	70,149	(70,149)
Total Expenditures	<u>1,461,563</u>	<u>1,461,563</u>	<u>1,475,944</u>	<u>(14,381)</u>
Excess/(Deficiency) of Revenues				
Over/(Under) Expenditures	<u>674,394</u>	<u>674,394</u>	<u>106,665</u>	<u>(567,729)</u>
OTHER FINANCING SOURCES/(USES)				
Transfers In	-	-	155,863	155,863
Transfers Out	(674,394)	(674,394)	(85,715)	588,679
Debt Proceeds	-	-	-	-
Total Other Financing Sources/(Uses)	<u>(674,394)</u>	<u>(674,394)</u>	<u>70,148</u>	<u>744,542</u>
Net Change in Fund Balances	-	-	176,813	176,813
Fund Balance - Beginning, As Restated	<u>255,166</u>	<u>255,166</u>	<u>255,166</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 255,166</u>	<u>\$ 255,166</u>	<u>\$ 431,979</u>	<u>\$ 176,813</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, 2022

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
OPERATING REVENUES				
Water Service	\$ 533,743	\$ 533,743	\$ 497,072	\$ (36,671)
Sewer Service	235,000	235,000	259,840	24,840
Surcharge	263,950	263,950	259,040	(4,910)
Tap Fees	29,000	29,000	33,230	4,230
Miscellaneous	31,000	31,000	44,719	13,719
Total Operating Revenues	<u>1,092,693</u>	<u>1,092,693</u>	<u>1,093,901</u>	<u>1,208</u>
OPERATING EXPENSES				
Personnel Services	369,514	369,514	364,665	4,849
Professional Services	60,088	60,088	55,114	4,974
Water Production	208,188	208,188	194,088	14,100
Water Distribution	142,723	142,723	141,925	798
Sewer	144,015	144,015	93,744	50,271
Employee Development	4,333	4,333	4,403	(70)
Utilities & Communication	51,500	51,500	54,474	(2,974)
Insurance & Bonding	17,000	17,000	12,385	4,615
Depreciation	-	-	188,282	(188,282)
Total Operating Expenses	<u>997,361</u>	<u>997,361</u>	<u>1,109,080</u>	<u>(111,719)</u>
Operating Income/(Loss)	<u>95,332</u>	<u>95,332</u>	<u>(15,179)</u>	<u>(110,511)</u>
NONOPERATING REVENUES/(EXPENSES)				
Interest on Investments	-	-	761	761
Interest & Fiscal Charges	-	-	(100,393)	(100,393)
Total Nonoperating Revenues/(Expenses)	<u>-</u>	<u>-</u>	<u>(99,632)</u>	<u>(99,632)</u>
Income/(Loss) Before Transfers	<u>95,332</u>	<u>95,332</u>	<u>(114,811)</u>	<u>(210,143)</u>
Transfers In/(Out)	<u>-</u>	<u>-</u>	<u>146,131</u>	<u>146,131</u>
Change in Net Position	<u>95,332</u>	<u>95,332</u>	<u>31,320</u>	<u>(64,012)</u>
Net Position - Beginning, As Restated	<u>2,585,336</u>	<u>2,585,336</u>	<u>2,585,336</u>	<u>-</u>
Net Position - Ending	<u>\$ 2,680,668</u>	<u>\$ 2,680,668</u>	<u>\$ 2,616,656</u>	<u>\$ (64,012)</u>

CITY OF KEMP, TEXAS
Schedule of Changes in Net Pension Liability and Related Ratios
For the Year Ended September 30, 2022

	Plan Year Ended	December 31,
	2021	2020
Total Pension Liability		
Service cost	\$ 116,829	\$ 117,454
Interest (on the total pension liability)	91,943	81,680
Changes of benefit terms	-	164,323
Difference between expected and actual experience	24,059	(5,197)
Change of assumptions	-	-
Benefit payments, including refunds of employee contributions	(40,102)	(43,052)
Net Change in Total Pension Liability	192,729	315,208
Total Pension Liability - Beginning	1,323,754	1,008,546
Total Pension Liability - Ending (a)	<u>\$ 1,516,483</u>	<u>\$ 1,323,754</u>
Plan Fiduciary Net Position		
Contributions - employer	71,160	44,820
Contributions - employee	53,104	38,712
Net investment income	155,597	81,318
Benefit payments, including refunds of employee contributions	(40,102)	(43,052)
Administrative expense	(725)	(530)
Other	5	(21)
Net Change in Plan Fiduciary Net Position	239,039	121,247
Plan Fiduciary Net Position - Beginning	1,201,261	1,080,014
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,440,300</u>	<u>\$ 1,201,261</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 76,183</u>	<u>\$ 122,493</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	94.98%	90.75%
Covered Employee Payroll	758,627	774,250
Net Pension Liability as a Percentage of Covered Employee Payroll	10.04%	15.82%

2019	2018	2017	2016	2015	2014
\$ 83,551	\$ 73,341	\$ 67,771	\$ 53,920	\$ 23,944	\$ 14,394
63,173	52,016	46,799	41,701	37,739	34,762
-	-	-	-	35,062	-
(3,276)	74,377	(9,390)	5,322	15,058	(13,514)
(6,427)	-	-	-	20,993	-
(45,199)	(33,887)	(27,477)	(37,198)	(30,920)	(34,994)
91,822	165,847	77,703	63,745	101,876	648
916,724	750,877	673,174	609,429	507,553	506,905
<u>\$ 1,008,546</u>	<u>\$ 916,724</u>	<u>\$ 750,877</u>	<u>\$ 673,174</u>	<u>\$ 609,429</u>	<u>\$ 507,553</u>
40,551	\$ 32,494	\$ 19,808	\$ 1,225	\$ (3)	\$ -
47,931	49,690	31,145	23,566	17,030	11,062
138,456	(26,255)	103,879	48,263	1,075	40,756
(45,199)	(33,887)	(27,477)	(37,198)	(30,920)	(34,994)
(785)	(508)	(539)	(546)	(655)	(426)
(24)	(27)	(27)	(29)	(32)	(35)
180,930	21,507	126,789	35,281	(13,505)	16,363
899,084	877,577	750,788	715,507	729,012	712,649
<u>\$ 1,080,014</u>	<u>\$ 899,084</u>	<u>\$ 877,577</u>	<u>\$ 750,788</u>	<u>\$ 715,507</u>	<u>\$ 729,012</u>
<u>\$ (71,468)</u>	<u>\$ 17,640</u>	<u>\$ (126,700)</u>	<u>\$ (77,614)</u>	<u>\$ (106,078)</u>	<u>\$ (221,459)</u>
107.09%	98.08%	116.87%	111.53%	117.41%	143.63%
758,178	\$ 668,563	\$ 622,893	\$ 471,329	\$ 340,592	\$ 221,239
-9.43%	2.64%	-20.34%	-16.47%	-31.15%	-100.10%

CITY OF KEMP, TEXAS
Schedule of Contributions
For the Year Ended September 30, 2022

	<u>2022</u>	<u>2021</u>
Actuarially determined contribution	\$ 77,715	\$ 65,483
Contributions in relation to actuarially determined contribution	<u>(77,715)</u>	<u>(65,483)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
 Covered employee payroll	 \$ 768,162	 \$ 766,046
 Contributions as a percentage of covered employee payroll	 10.12%	 8.55%

<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
\$ 42,997	\$ 35,347	\$ 26,427	\$ 14,368	\$ 878
<u>(42,997)</u>	<u>(35,347)</u>	<u>(26,427)</u>	<u>(14,368)</u>	<u>(878)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 781,741	\$ 726,501	\$ 654,538	\$ 574,293	\$ 449,638
5.50%	4.87%	4.04%	2.50%	0.20%

CITY OF KEMP, TEXAS
Notes to Schedule of Contribution
For the Year Ended September 30, 2022

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.

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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, 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, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kemp, Texas (the "City"), as of and for the year ended September 30, 2022, 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 18, 2023.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses.

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.

A handwritten signature in black ink that reads "Vail + Park, P.C." The signature is written in a cursive, flowing style.

Richardson, Texas

July 18, 2023

