

ANNUAL FINANCIAL STATEMENTS

City Of Kemp, Texas

*For the Year Ended September 30, 2024*

**TABLE OF CONTENTS**

**Independent Auditor’s Report** ..... 1

Management’s Discussion and Analysis ..... 4

Basic Financial Statements:

    Government-Wide Financial Statements:

        Statement of Net Position ..... 11

        Statement of Activities ..... 12

    Fund Financial Statements:

        Balance Sheet – Governmental Funds ..... 13

        Reconciliation of the Balance Sheet of Governmental Funds to the  
            Statement of Net Position ..... 14

        Statement of Revenues, Expenditures and Changes in Fund Balances –  
            Governmental Funds ..... 15

        Reconciliation of the Statement of Revenues, Expenditures and Changes in  
            Fund Balances of Governmental Funds to the Statement of Activities ..... 16

        Statement of Net Position – Proprietary Fund ..... 17

        Statement of Revenues, Expenses and Changes in Fund Net Position  
            Proprietary Fund ..... 18

        Statement of Cash Flows – Proprietary Fund ..... 19

Notes to the Financial Statements ..... 20

**Required Supplementary Information:**

    Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual –  
        General Fund ..... 43

    Statement of Revenues, Expenses and Changes in Net Position – Budget and Actual –  
        Enterprise Fund – Water and Sewer ..... 44

    Schedule of Changes in Net Pension Liability and Related Ratios ..... 45

    Schedule of Contributions ..... 47

    Notes to Schedule of Contributions ..... 49

    Schedule of Changes in Total OPEB Liability and Related Ratios ..... 50

**Other Supplementary Information:**

Combining Statements as Supplementary Information-Nonmajor Governmental Funds:

    Combining Balance Sheet - Nonmajor Governmental Funds ..... 52

    Combining Statement of Revenues, Expenditures, and Changes in  
        Fund Balances - Nonmajor Governmental Funds ..... 53

**Compliance and Internal Controls Section:**

Independent Auditors’ 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 ..... 54

Independent Auditors’ Report on Compliance for Each Major Program and on Internal Control  
Over Compliance Required by Uniform Guidance ..... 56

Schedule of Expenditures of Federal Awards ..... 58

Notes to the Schedule of Expenditures of Federal Awards ..... 59

Schedule of Findings and Responses ..... 60

Schedule of Audit Findings and Questioned Costs ..... 61

Summary Schedule of Prior Audit Findings ..... 62

## 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 unit, 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, 2024, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2024, 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 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.

### *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 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 on pages 4-8, budgetary comparison information on pages 43-44, and net pension liability, contributions information, and Schedule of Changes in Total OPEB Liability and Related Ratios on pages 45-50 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.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual nonmajor governmental funds financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor governmental funds financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2025, 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.

Vail + Park, P.C.

Frisco, Texas  
May 30, 2025

**CITY OF KEMP TEXAS**  
Management's Discussion and Analysis  
September 30, 2024

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, 2024. 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 \$5,924,929 (net position).

- The City's total net position increased by \$1,179,893.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$570,763.

**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 the component unit is reported separately from the financial information presented to the primary government. The economic development corporation does not issue separate financial statements.

The government-wide financial statements can be found on pages 11-12 of this report.

**CITY OF KEMP TEXAS**  
Management's Discussion and Analysis  
September 30, 2024

**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 four 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 funds are 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 13-16 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 17-19 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 20-40 of this report.

**Budgetary Comparison Schedule.** 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. General fund Budget Comparison Schedule can be found on page 41 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 42 of this report.

**CITY OF KEMP TEXAS**  
Management's Discussion and Analysis  
September 30, 2024

**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 \$5,869,031 as of September 30, 2024.

A portion of the City's net position 75.1% reflects its investments in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide 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.

	<b>City of Kemp - Net Position</b>					
	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Current & Other Assets	\$ 838,712	\$ 1,030,705	\$ 1,175,477	\$ 750,125	\$ 2,014,189	\$ 1,780,830
Capital Assets	2,701,466	2,712,948	9,250,372	8,609,654	11,951,838	11,322,602
Total Assets	<u>3,540,178</u>	<u>3,743,653</u>	<u>10,425,849</u>	<u>9,359,779</u>	<u>13,966,027</u>	<u>13,103,432</u>
Deferred Outflows of Resources	40,735	101,936	29,801	74,577	70,536	176,513
Long Term Liabilities	1,891,639	1,978,714	5,941,205	5,530,931	7,832,844	7,509,645
Other Liabilities	188,276	307,271	139,598	773,837	327,874	1,081,108
Total Liabilities	<u>2,079,915</u>	<u>2,285,985</u>	<u>6,080,803</u>	<u>6,304,768</u>	<u>8,160,718</u>	<u>8,590,753</u>
Deferred Inflows of Resources	3,935	-	2,879	-	6,814	-
Net Position:						
Net Invested in Capital Assets	1,017,010	906,644	3,392,380	3,190,301	4,409,390	4,096,945
Restricted	130,269	558,716	-	-	130,269	558,716
Unrestricted	349,784	94,244	979,588	(60,713)	1,329,372	33,531
Total Net Position	<u>\$ 1,497,063</u>	<u>\$ 1,559,604</u>	<u>\$ 4,371,968</u>	<u>\$ 3,129,588</u>	<u>\$ 5,869,031</u>	<u>\$ 4,689,192</u>

An additional portion of the City's net position, \$130,269, represents resources that are subject to external restriction on how they may be used. The remaining balance of \$1,329,372 represents the unrestricted net position.

**CITY OF KEMP TEXAS**  
Management's Discussion and Analysis  
September 30, 2024

**Analysis of the City's Operations.** The following table provides a summary of the City's operations for the years ended September 30, 2024 and 2023.

	<b>City of Kemp - Changes in Net Position</b>					
	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 369,537	\$ 470,278	\$ 1,106,421	\$ 1,117,857	\$ 1,475,958	\$ 1,588,135
Grants & Contributions	15,193	148,246	1,272,539	200,087	1,287,732	348,333
General Revenues:						
Property Tax	524,532	851,080	-	-	524,532	851,080
Other Tax	682,101	540,873	-	-	682,101	540,873
Miscellaneous	49,541	45,185	15,098	1,939	64,639	47,124
Total Revenues	<u>1,640,904</u>	<u>2,055,662</u>	<u>2,394,058</u>	<u>1,319,883</u>	<u>4,034,962</u>	<u>3,375,545</u>
<b>Expenses</b>						
General Government Activities	1,505,557	1,883,880	-	-	1,505,557	1,883,880
Business-Type Activities	-	-	1,349,566	1,251,649	1,349,566	1,251,649
Total Expenses	<u>1,505,557</u>	<u>1,883,880</u>	<u>1,349,566</u>	<u>1,251,649</u>	<u>2,855,123</u>	<u>3,135,529</u>
Increase/(Decrease) in Net Position Before Transfers	135,347	171,782	1,044,492	68,234	1,179,839	240,016
Transfers	<u>(197,888)</u>	<u>(157,535)</u>	<u>197,888</u>	<u>157,535</u>	<u>-</u>	<u>-</u>
Change in Net Position	(62,541)	14,247	1,242,380	225,769	1,179,839	240,016
Net Position - Beginning	<u>1,559,604</u>	<u>1,545,357</u>	<u>3,129,588</u>	<u>2,903,819</u>	<u>4,689,192</u>	<u>4,449,176</u>
Net Position - Ending	<u>\$ 1,497,063</u>	<u>\$ 1,559,604</u>	<u>\$ 4,371,968</u>	<u>\$ 3,129,588</u>	<u>\$ 5,869,031</u>	<u>\$ 4,689,192</u>

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

**Governmental Activities:**

Revenues exceeded expenditures by \$135,347. The change was primary from the decrease in general government activities, public safety activities, and streets activities.

**Business-Type Activities:**

Business-type activities increased the City's net position by \$1,242,380 in fiscal year 2024. Operating results were \$1,040,228 more than the prior fiscal year. This change mainly resulted from Capital Grants.

**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. 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 \$570,763. Of the current combined ending fund balance, \$ 416,207 is restricted.

The general fund is the main operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$154,556.

The fund balance of the City's general fund increased \$174,790 during the current fiscal year, as a result of increased property taxes and decreased general government expenditures.

**CITY OF KEMP TEXAS**  
Management's Discussion and Analysis  
September 30, 2024

**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 \$979,588. Net position increased in 2024 by \$1,242,380. 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 and budgeted expenditures estimates exceeded actual expenditures. The budget estimated an increase in fund balance of \$1,489, while the actual result was a increase in fund balance of \$174,790.

**Capital Assets & Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of September 30, 2024 amounts to \$11,951,838 (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 \$818,704, infrastructure and building of \$134,649, SBITA Assets of \$125,014, and depreciation expense of \$449,131.

Additional information on the City's capital assets can be found on pages 28-30 of this report.

**Long-Term Debt.** At the end of the current fiscal year, the City had a long-term debt outstanding balance of \$7,635,890. It primarily included \$4,662,093 from USDA Series 2021 and 2021A, which are being used in construction in progress from water treatment improvements (a major element of water pollution control and the plan to complete is in October 2024).

The City's long-term debt increased by \$390,336, primarily due to issuance of a new limited tax note in the amount of \$668,000, offset by principal payments during fiscal year 2024.

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

**REQUEST FOR INFORMATION**

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

This page left blank intentionally.

## **BASIC FINANCIAL STATEMENTS**

**City of Kemp, Texas**  
**Statement of Net Position**  
**September 30, 2024**

	Governmental Activities	Business-Type Activities	Total	Component Unit Economic Development Corporation
<b>ASSETS</b>				
Cash & cash equivalents	\$ 660,452	\$ 1,011,422	\$ 1,671,874	403,247
Receivables (net of allowance for uncollectables)	190,315	96,854	287,169	24,418
Internal balances	(12,055)	12,055	-	-
Inventories	-	55,146	55,146	-
Capital Assets:				
Non-depreciable/amortization	3,689	7,087,037	7,090,726	166,968
Depreciable (net of accumulated depreciation/amortization)	2,697,777	2,163,335	4,861,112	78,432
Total Assets	<u>3,540,178</u>	<u>10,425,849</u>	<u>13,966,027</u>	<u>673,065</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflow related to pension	39,825	29,136	68,961	-
Deferred outflow related to OPEB	910	665	1,575	-
Total Deferred Outflows of Resources	<u>40,735</u>	<u>29,801</u>	<u>70,536</u>	<u>-</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable & other current liabilities	7,723	55,330	63,053	-
Accrued payroll	10,662	16,739	27,401	31,836
Accrued interest	12,312	9,709	22,021	-
Deferred revenues	157,579	9,666	167,245	-
Customer deposits	-	48,154	48,154	-
Noncurrent liabilities:				
Due within one year	164,122	262,817	426,939	17,094
Due in more than one year	1,613,776	5,595,175	7,208,951	39,116
Net pension liability	84,486	61,810	146,296	-
Total OPEB liability	29,255	21,403	50,658	-
Total Liabilities	<u>2,079,915</u>	<u>6,080,803</u>	<u>8,160,718</u>	<u>88,046</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflow related to OPEB	3,935	2,879	6,814	-
Total Deferred Inflows of Resources	<u>3,935</u>	<u>2,879</u>	<u>6,814</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	1,017,010	3,392,380	4,409,390	189,190
Restricted for:				
Debt service	128,744	-	128,744	-
Economic development	-	-	-	395,829
Unrestricted	349,784	979,588	1,329,372	-
Total Net Position	<u>\$ 1,497,063</u>	<u>\$ 4,371,968</u>	<u>\$ 5,869,031</u>	<u>\$ 585,019</u>

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

**City of Kemp, Texas**  
**Statement of Activities**  
**Fiscal year ended September 30, 2024**

Functions/Programs	Program Revenues				Net (Expense)/Revenue & Change in Net Position			Component Unit Economic Development Corporation
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government			
					Governmental Activities	Business Activities	Total	
<b>Primary Government</b>								
Governmental Activities:								
General government	\$ 415,006	\$ 184,439	\$ -	\$ -	\$ (230,567)	\$ -	\$ (230,567)	\$ -
Public safety	566,766	168,574	11,578	-	(386,614)	-	(386,614)	-
Streets	352,631	-	-	3,615	(349,016)	-	(349,016)	-
Parks & recreation	20,583	16,524	-	-	(4,059)	-	(4,059)	-
Municipal development	12,251	-	-	-	(12,251)	-	(12,251)	-
Interest & fiscal charges	138,321	-	-	-	(138,321)	-	(138,321)	-
Total Governmental Activities	<u>1,505,557</u>	<u>369,537</u>	<u>11,578</u>	<u>3,615</u>	<u>(1,120,827)</u>	<u>-</u>	<u>(1,120,827)</u>	<u>-</u>
Business-Type Activities:								
Water & sewer	1,349,566	1,106,421	-	1,272,539	-	1,029,394	1,029,394	-
Total Business-Type Activities	<u>1,349,566</u>	<u>1,106,421</u>	<u>-</u>	<u>1,272,539</u>	<u>-</u>	<u>1,029,394</u>	<u>1,029,394</u>	<u>-</u>
Total Primary Government	<u>2,855,123</u>	<u>1,475,958</u>	<u>11,578</u>	<u>1,276,154</u>	<u>(1,120,827)</u>	<u>1,029,394</u>	<u>(91,433)</u>	<u>-</u>
<b>Component Unit</b>								
Economic Development Corp.	\$ 187,445	\$ -	\$ -	\$ -				(187,445)
Total Component Unit	<u>187,445</u>	<u>-</u>	<u>-</u>	<u>-</u>				<u>(187,445)</u>
General Revenues:								
Property taxes					524,532	-	524,532	-
Sales taxes					596,580	-	596,580	150,979
Franchise taxes					85,521	-	85,521	-
Investment earnings					6,166	15,098	21,264	-
Miscellaneous					43,375	-	43,375	106,638
Transfers					(197,888)	197,888	-	-
Total General Revenues & Transfers					<u>1,058,286</u>	<u>212,986</u>	<u>1,271,272</u>	<u>257,617</u>
Change in Net Position					(62,541)	1,242,380	1,179,839	70,172
Net Position - Beginning					1,559,604	3,129,588	4,689,192	514,847
Net Position - Ending					<u>\$ 1,497,063</u>	<u>\$ 4,371,968</u>	<u>\$ 5,869,031</u>	<u>\$ 585,019</u>

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

**City of Kemp, Texas**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2024**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash & cash equivalents	\$ 356,684	\$ 303,769	\$ 660,453
Receivables (net of allowance for uncollectables)	161,114	29,201	190,315
Due from other funds	<u>60,227</u>	<u>135,259</u>	<u>195,486</u>
Total Assets	<u><u>578,025</u></u>	<u><u>468,229</u></u>	<u><u>1,046,254</u></u>
<b>LIABILITIES</b>			
Accounts payable	6,825	898	7,723
Accrued payroll	10,662	-	10,662
Deferred revenue	157,579	-	157,579
Due to other funds	<u>207,541</u>	<u>-</u>	<u>207,541</u>
Total Liabilities	<u><u>382,607</u></u>	<u><u>898</u></u>	<u><u>383,505</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - property taxes	<u>40,862</u>	<u>51,124</u>	<u>91,986</u>
Total Deferred Inflows of Resources	<u><u>40,862</u></u>	<u><u>51,124</u></u>	<u><u>91,986</u></u>
<b>FUND BALANCES</b>			
Restricted:			
Debt service	-	128,744	128,744
Public Safety	-	1,525	1,525
Municipal development	-	285,938	285,938
Unassigned	<u>154,556</u>	<u>-</u>	<u>154,556</u>
Total Fund Balances	<u><u>154,556</u></u>	<u><u>416,207</u></u>	<u><u>570,763</u></u>
 Total Liabilities, Deferred Inflows & Fund Balances	 <u><u>\$ 578,025</u></u>	 <u><u>\$ 468,229</u></u>	 <u><u>\$ 1,046,254</u></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, 2024**

<b>Total Fund Balances - Governmental Funds</b>	\$ 570,763
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 \$4,754,733 and the accumulated depreciation was \$(2,041,785). In addition, long-term liabilities of \$(1,806,304) 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 increase net assets.	906,644
Current year capital outlays of \$259,663 and long-term debt principal payments of \$121,848 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.	381,511
The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(271,145)
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 \$91,986, recognizing accrued interest on debt \$12,312, recognizing the liabilities associated with compensated absences \$19,897, and SBITA Liability of \$73,545. The net effect of these reclassifications is to decrease net position.	(13,768)
Included in the non-current liabilities is the recognition of the City's total OPEB asset (liability) required by GASB 75 in the amount of (\$29,255), a deferred outflows of resources in the amount of \$856, and a deferred inflows of resources in the amount of (\$3882). The net effect of these adjustments in an decrease to net position.	(32,281)
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 (\$84,486), a deferred outflows of resources in the amount of \$39,825. The net effect of these adjustments in an decrease to net position.	(44,661)
	\$ 1,497,063
<b>Net Position of Governmental Activities</b>	<b><u><u>\$ 1,497,063</u></u></b>

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

**City of Kemp, Texas**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended September 30, 2024**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Taxes:			
Property	\$ 495,962	\$ -	\$ 495,962
Sales	377,445	219,135	596,580
Franchise	85,521	-	85,521
Licenses & permits	49,098	-	49,098
Fines & forfeitures	185,098	-	185,098
Charges for services	135,341	-	135,341
Grants & contributions	3,615	-	3,615
Investment earnings	2,882	3,284	6,166
Intergovernmental	11,578	-	11,578
Miscellaneous	22,029	21,346	43,375
Total Revenues	<u>1,368,569</u>	<u>243,765</u>	<u>1,612,334</u>
<b>EXPENDITURES</b>			
Current:			
General government	361,529	-	361,529
Public safety	472,506	-	472,506
Streets	202,857	-	202,857
Parks & recreation	20,583	-	20,583
Municipal development	-	12,251	12,251
Capital outlay	259,663	-	259,663
Debt Service:			-
Principal retirement	45,848	76,000	121,848
Interest & fiscal charges	7,269	63,507	70,776
Total Expenditures	<u>1,370,255</u>	<u>151,758</u>	<u>1,522,013</u>
Excess/(Deficiency) of Revenues			
Over/(Under) Expenditures	<u>(1,686)</u>	<u>92,007</u>	<u>90,321</u>
<b>OTHER FINANCING SOURCES/(USES)</b>			
Transfers in	754,998	25,000	779,998
Transfers out	(578,522)	(399,364)	(977,886)
Total Other Financing Sources/(Uses)	<u>176,476</u>	<u>(374,364)</u>	<u>(197,888)</u>
Net Change in Fund Balances	174,790	(282,357)	(107,567)
Fund Balance - Beginning	<u>(20,234)</u>	<u>698,564</u>	<u>678,330</u>
Fund Balance - Ending	<u>\$ 154,556</u>	<u>\$ 416,207</u>	<u>\$ 570,763</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, 2024**

**Total Net Change in Fund Balance - Governmental Funds** \$ (107,567)

Current year capital outlays of \$259,663 and long-term debt principal payments of \$121,848 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.

381,511

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

(271,145)

The change in unavailable revenue must be eliminated to convert from the modified accrual basis of accounting.

28,570

Accrued interest expense and SBITA Liability on long-term debt are reported in the government-wide statement of activities and changes in net position, but do not require the use of current financial resources; therefore, those were not reported as expenditures in governmental funds.

(67,545)

The implementation of GASB 75 required that certain expenditures be de-expended and recorded as deferred outflows of resources. These contributions were made after the measurement date of December 31, 2023. 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 OPEB expense had to be recorded. The net effect of these changes was a decrease in net position by \$32,281.

(32,281)

The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred outflows of resources. These contributions were made after the measurement date of December 31, 2023. 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 increase in net position by \$5,916.

5,916

**Change in Net Position of Governmental Activities**

\$ (62,541)

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, 2024**

	Business-Type Activities
<b>ASSETS</b>	
Current Assets:	
Cash & cash equivalents	\$ 1,011,422
Receivables (net of allowance for uncollectables)	96,854
Due from other funds	12,055
Inventory	55,146
Total Current Assets	1,175,477
Noncurrent Assets:	
Capital assets (net of accumulated depreciation)	9,250,372
Total Noncurrent Assets	9,250,372
Total Assets	10,425,849
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pension	29,136
Deferred inflows related to OPEB	665
Total Deferred Outflows of Resources	29,801
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	55,330
Accrued payroll payable	16,739
Accrued interest payable	9,709
Deferred revenue	9,666
Customer deposits	48,154
Long-term debt, current portion	262,817
Total Current Liabilities	402,415
Noncurrent Liabilities:	
Long-term debt	5,595,175
Net pension liability	61,810
Total OPEB liability	21,403
Total Noncurrent Liabilities	5,678,388
Total Liabilities	6,080,803
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pension	-
Deferred inflows related to OPEB	2,879
Total Deferred Inflows of Resources	2,879
<b>NET POSITION</b>	
Net investment in capital assets	3,392,380
Unrestricted	979,588
Total Net Position	\$ 4,371,968

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

**City of Kemp, Texas**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Fund**  
**For the Fiscal Year Ended September 30, 2024**

	Business-Type Activities
<b>OPERATING REVENUES</b>	
Water service	\$ 533,738
Sewer service	236,844
Surcharge	269,135
Tap fees	13,000
Grant revenue	1,272,539
Miscellaneous	53,704
Total Operating Revenues	2,378,960
<b>OPERATING EXPENSES</b>	
Personnel services	482,716
Professional services	73,472
Water production	179,519
Water distribution	111,253
Sewer	89,777
Employee development	3,844
Utilities & communication	58,044
Insurance & bonding	17,934
Depreciation	177,986
Total Operating Expenses	1,194,545
Operating Income	1,184,415
<b>NONOPERATING REVENUES/(EXPENSES)</b>	
Interest on investments	15,098
Interest & fiscal charges	(155,021)
Total Nonoperating Revenues/(Expenses)	(139,923)
Income/(Loss) Before Transfers	1,044,492
Transfers in	1,337,502
Transfers out	(1,139,614)
Total Other Financing Sources/(Uses)	197,888
Change in Net Position	1,242,380
Net Position - Beginning	3,129,588
Net Position - Ending	\$ 4,371,968

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

**City of Kemp, Texas**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the fiscal year ended September 30, 2024**

	Business-Type Activities
<b>Cash Flows from Operating Activities</b>	
Receipts from customers & users	\$ 2,377,885
Payments to suppliers	(1,218,158)
Payments to employees	(349,564)
Net Cash Provided by/(Used in) Operating Activities	810,163
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers (to)/from other funds	197,888
Net Cash Provided by/(Used in) Noncapital Financing Activities	197,888
<b>Cash Flows from Capital &amp; Related Financing Activities</b>	
Acquisition & construction of capital assets	(818,704)
Proceeds from issuance of debt	668,000
Principal paid on debt	(229,361)
Interest & fiscal charges paid	(155,021)
Net Cash Provided by/(Used in) Capital & Related Financing Activities	(535,086)
<b>Cash Flows from Investing Activities</b>	
Interest on short term investments	15,098
Net Cash Provided by/(Used in) Investing Activities	15,098
Net Increase/(Decrease) in Cash & Cash Equivalents	488,064
Cash & Cash Equivalents - Beginning	523,358
Cash & Cash Equivalents - Ending	\$ 1,011,422
<b>Reconciliation of Operating Income/(Loss) to Net Cash Provided by/(Used in) Operating Activities</b>	
Operating Income	\$ 1,184,415
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided by/(Used in)	
Depreciation	177,986
(Increase)/decrease in accounts receivable	(1,075)
(Increase)/decrease in inventory	63,786
(Increase)/decrease in deferred outflows of resources	47,655
Increase/(decrease) in accounts payable	(638,547)
Increase/(decrease) in accrued payroll	3,873
Increase/(decrease) in customer deposits	435
Increase/(decrease) in net pension liability	(49,768)
Increase/(decrease) in OPEB liability	21,403
Increase/(decrease) in deferred inflows of resources	-
Total Adjustments	(374,252)
Net Cash Provided by/(Used in) Operating Activities	\$ 810,163

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

## **1. 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. These financial statements present both the City and its component units—entities traditionally reported separately but considered financially accountable to the City. The City, as the primary government, is deemed financially accountable if it appoints a voting majority of an entity's governing board and either (1) is able to impose its will on the entity or (2) the entity has the potential to provide financial benefit to or impose financial burden on the City. Additionally, the City evaluates other organizations to ensure that their exclusion would not result in misleading or incomplete financial statements. The financial statements are structured to clearly differentiate the primary government from its component units.

#### *Discretely Presented Component Units*

The following entities are included in the City's reporting because the City appoints their governing boards and they are financially dependent on the City. However, since their boards are separate from the City's governing body and their services extend beyond the primary government to residents in Kemp and surrounding areas, they are presented separately in the financial statements.

- *Kemp Economic Development Corporation ("EDC")*: The EDC is responsible for collecting and disbursing one quarter percent sales tax designated for economic development within the City. Its governing board is appointed by the City, and the EDC's financial information is reported separately in the financial statements to highlight its legal separation from the City. Standalone financial statements for the EDC are not issued.

#### *Blended Component Units*

Blended component units are legally distinct but function as part of the City's operations due to financial interdependence and governance structure. The following entity meets the criteria for blending because its board is substantially the same as the City Council, and it shares a financial relationship with the City.

- *Kemp Municipal Development District ("MDD")*: The MDD is responsible for collecting and disbursing one quarter percent sales tax dedicated to municipal development within the City. The Mayor and City Council serve as its board members, reinforcing its operational and financial connection to the City.

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. While discretely presented component units are legally separate, they have been and continue to operate as though they are part of the Primary Government. As a result, only limited instances will require specific note references or separations. In the absence of such references or categorization, users should assume that the information presented applies equally to all entities.

**1. 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.

**Upcoming and Newly Implemented Accounting Pronouncements**

The GASB has issued the following statements:

GASB Statement No. 94, “Public-Private and Public-Public Partnerships and Availability Payment Arrangements,” improves financial reporting by addressing these relationships and availability payment arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The adoption of Statement No. 94 has no impact on the City’s financial statements.

GASB Statement No. 96, “Subscription-Based Information Technology Arrangements,” provides guidance on accounting and financial reporting for subscription-based information technology arrangements (“SBITA”) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The City has evaluated all subscription-based IT arrangements and determined that there was a material impact on the City.

GASB Statement No. 99, “Omnibus 2022” enhances comparability in accounting and financial reporting and aims to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. Certain provisions of Statement No. 99 are effective upon issuance, while other provisions of Statement No. 99 are effective for fiscal years beginning after June 15, 2022, or 2023. The City has determined that the provisions applicable to the City have no impact on the City’s financial statements.

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

**Upcoming and Newly Implemented Accounting Pronouncements** *(continued)*

GASB issued Statement No. 100, "Accounting Changes and Error Corrections-Amendment of GASB Statement No. 62," which prescribes the accounting and financial reporting for each type of accounting change and error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating the prior period, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this statement are effective for reporting periods beginning after June 15, 2023. The adoption has no impact on the entity's financial statements.

GASB issued Statement No. 101, "Compensated Absences," that clarifies the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The requirements of this Statement are effective for financial statements for reporting periods beginning after December 15, 2023. The City is evaluating the impact that adoption of this Statement will have on its 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 *Nonmajor Governmental Fund* accounts for the City's police services and Kemp Municipal Development District (the "District" or "MDD"), which generally accounts for financial resources allocated for the local police department and the District.

**1. 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 include 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 the 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 valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Subscription Asset

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at or before the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at or before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2024

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

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

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.

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life more than 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/ Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has two items that qualify for reporting in this category. The first is the deferred outflow for pension contributions resulting from GASB 68. The second item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has deferred inflow from the actuarial pension gain that is presented on the Statement of Net Position from GASB 68. There is only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, municipal court and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Subscription Liability

The City contracts for noncancellable subscriptions of information technology software. The City recognizes a subscription liability and an intangible subscription asset (subscription asset) in the government-wide financial statements. The City recognizes subscription liabilities with an initial, individual value of \$5,000 or more. At the commencement of a subscription, the City measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made.

**1. 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  
Fiscal Year Ended September 30, 2024

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

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

Fund Equity *(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, 2024, fund balances are composed of the following:

	General Fund	Other Governmental	Total
Restricted:			
Debt Service	\$ -	\$ 128,744	\$ 128,744
Public Safety	-	1,525	1,525
Municipal development	-	285,938	285,938
Unassigned	154,556	-	154,556
Total Fund Balances	<u>\$ 154,556</u>	<u>\$ 416,207</u>	<u>\$ 570,763</u>

**2. STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY**

**Budgetary Information**

Annual budgets for the general 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.

**3. 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, 2024, the City's carrying amounts of deposits was \$2,073,191 and the bank balance of the City's deposits was \$2,212,007. Of the bank balance, \$250,000 was covered by federal depository insurance, the remaining are fully collateralized. As of September 30, 2024, the City's depository had pledged securities with a carrying amount of \$2,073,191.

As of September 30, 2024, 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.

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2024

**3. DEPOSITS & INVESTMENTS** *(continued)*

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

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.

**4. RECEIVABLES**

Receivables at September 30, 2024 consist of the following:

	General	Debt	MDD	Water & Sewer	Total
<b>Receivables:</b>					
Property Taxes	\$ 81,040	\$ 15,216	\$ -	\$ -	\$ 96,256
Sales Taxes	65,100	-	13,985	-	79,085
Franchise Taxes	18,064	-	-	-	18,064
Utility Bills	-	-	-	109,531	109,531
Gross Receivables	164,204	15,216	13,985	109,531	302,936
Less: Allowance for Uncollectables	(3,090)	-	-	(12,677)	(15,767)
Net Total Receivables	<u>\$ 161,114</u>	<u>\$ 15,216</u>	<u>\$ 13,985</u>	<u>\$ 96,854</u>	<u>\$ 287,169</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.

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2024

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

The composition of inter-fund balances as of September 30, 2024, is as follows:

	<u>Due From</u>	<u>Due To</u>	<u>Net</u>
<b>Governmental Funds:</b>			
General Fund	\$ 60,227	\$ (207,541)	\$ (147,314)
Debt Service	60,259	-	60,259
Nonmajor	75,000	-	75,000
	<u>195,486</u>	<u>(207,541)</u>	<u>(12,055)</u>
<b>Proprietary Fund:</b>			
Water & Sewer	12,055	-	12,055
	<u>\$ 12,055</u>	<u>\$ -</u>	<u>\$ 12,055</u>
	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
<b>Governmental Funds:</b>			
General Fund	\$ 754,998	\$ (578,522)	\$ 176,476
Debt Service	-	(399,364)	(399,364)
Nonmajor	25,000	-	25,000
	<u>779,998</u>	<u>(977,886)</u>	<u>(197,888)</u>
<b>Proprietary Fund:</b>			
Water & Sewer	1,337,502	(1,139,614)	197,888
	<u>\$ 1,337,502</u>	<u>\$ (1,139,614)</u>	<u>\$ 197,888</u>

**6. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2024 was as follows:

	<u>Primary Government</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated/Amortized:				
Land	\$ 3,689	\$ -	\$ -	\$ 3,689
Total Capital Assets Not Being Depreciated/Amortized	<u>3,689</u>	<u>-</u>	<u>-</u>	<u>3,689</u>
Capital Assets Being Depreciated/Amortized:				
Buildings & Structures	139,542	10,194	-	149,736
Leasehold Improvements	27,500	-	-	27,500
Machinery & Equipment	869,981	-	-	869,981
Infrastructure	3,714,021	124,455	-	3,838,476
SBITA Assets	-	125,014	-	125,014
Total Capital Assets Being Depreciated/Amortized	<u>4,751,044</u>	<u>259,663</u>	<u>-</u>	<u>5,010,707</u>
Less Accumulated Depreciated/Amortized for:				
Buildings & Structures	(106,515)	(5,079)	-	(111,594)
Leasehold Improvements	(14,208)	(2,750)	-	(16,958)
Machinery & Equipment	(638,101)	(81,171)	-	(719,272)
Infrastructure	(1,282,961)	(144,494)	-	(1,427,455)
SBITA Assets	-	(37,651)	-	(37,651)
Total Accumulated Depreciated/Amortized	<u>(2,041,785)</u>	<u>(271,145)</u>	<u>-</u>	<u>(2,312,930)</u>
Total Capital Assets, Being Depreciated/Amortized, Net	<u>2,709,259</u>	<u>(11,482)</u>	<u>-</u>	<u>2,697,777</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,712,948</u>	<u>\$ (11,482)</u>	<u>\$ -</u>	<u>\$ 2,701,466</u>

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2024

**6. CAPITAL ASSETS** *(continued)*

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
<b>Business-Type Activities</b>				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 6,268,333	\$ 818,704	\$ -	\$ 7,087,037
Total Capital Assets Not Being Depreciated	<u>6,268,333</u>	<u>818,704</u>	<u>-</u>	<u>7,087,037</u>
Capital Assets Being Depreciated:				
Improvements	7,762,152	-	-	7,762,152
Machinery & Equipment	400,432	-	-	400,432
Total Capital Assets Being Depreciated	<u>8,162,584</u>	<u>-</u>	<u>-</u>	<u>8,162,584</u>
Less Accumulated Depreciation for:				
Improvements	(5,535,032)	(166,035)	-	(5,701,067)
Machinery & Equipment	(286,231)	(11,951)	-	(298,182)
Total Accumulated Depreciation	<u>(5,821,263)</u>	<u>(177,986)</u>	<u>-</u>	<u>(5,999,249)</u>
Total Capital Assets, Being Depreciated, Net	<u>2,341,321</u>	<u>(177,986)</u>	<u>-</u>	<u>2,163,335</u>
Business-Type Activities Capital Assets, Net	<u>\$ 8,609,654</u>	<u>\$ 640,718</u>	<u>\$ -</u>	<u>\$ 9,250,372</u>

The construction in progress from business type activities mainly includes water treatment improvements which is a major element of water pollution control.

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

<b>Governmental Activities</b>	
General Government	\$ 46,622
Public Safety	77,386
Streets	147,137
Total Depreciation Expense - Governmental Activities	<u>\$ 271,145</u>
<b>Business-Type Activities</b>	
Water & Sewer	\$ 177,986
Total Depreciation Expense - Business-Type Activities	<u>\$ 177,986</u>

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

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2024

**6. CAPITAL ASSETS** (continued)

Capital asset activity for the EDC for the year ended September 30, 2024 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<b>EDC</b>				
Capital Assets Not Being Depreciated/Amortized:				
Land	\$ 166,968	\$ -	\$ -	\$ 166,968
Total Capital Assets Not Being Depreciated/Amortized	<u>166,968</u>	<u>-</u>	<u>-</u>	<u>166,968</u>
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	<u>252,683</u>	<u>-</u>	<u>-</u>	<u>252,683</u>
Less Accumulated Depreciated/Amortized for:				
Buildings & Structures	(91,772)	(1,462)	-	(93,234)
Leasehold Improvements	(14,208)	(2,750)	-	(16,958)
Machinery & Equipment	(883)	-	-	(883)
Infrastructure	(12,729)	(19)	-	(12,748)
Leased Building	(33,477)	(16,951)	-	(50,428)
Total Accumulated Depreciated/Amortized	<u>(153,069)</u>	<u>(21,182)</u>	<u>-</u>	<u>(174,251)</u>
Total Capital Assets, Being Depreciated/Amortized, Net	<u>99,614</u>	<u>(21,182)</u>	<u>-</u>	<u>78,432</u>
Governmental Activities Capital Assets, Net	<u>\$ 266,582</u>	<u>\$ (21,182)</u>	<u>\$ -</u>	<u>\$ 245,400</u>

**7. LONG-TERM DEBT**

Long-term liability activity for the year ended September 30, 2024 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General Obligation Refunding Bonds	\$ 1,598,000	\$ -	\$ (76,000)	\$ 1,522,000	\$ 80,000
Notes Payable	208,304	-	(45,848)	162,456	45,365
Compensated Absences	19,897	10,780	(10,780)	19,897	8,954
SBITA Liability	-	125,014	(51,469)	73,545	29,803
Total	<u>\$ 1,826,201</u>	<u>\$ 135,794</u>	<u>\$ (184,097)</u>	<u>\$ 1,777,898</u>	<u>\$ 164,122</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, 2024 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 rate.	\$ 1,299,000
2016 Certificates of Obligation. Interest payable February 1 and Principal and Interest payable August 1 at a 3.60% interest rate.	223,000
	<u>\$ 1,522,000</u>

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 was being paid in five annual installments including interest computed at 4.97%. The note was paid in full as of September 30, 2024.

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2024

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

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 was being paid in five annual installments including interest computed at 4.97%. The note was paid in full as of September 30, 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 4.00%. The final payment is due April 29, 2027.

In August 2016, the City issued \$322,000 certificates of obligation, series 2016. This certificates 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 debt outstanding for the debt service fund as of September 30, 2024 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 125,365	\$ 67,928	\$ 193,293
2026	119,915	62,815	182,730
2027	165,176	58,003	223,179
2028	90,000	51,380	141,380
2029	93,000	47,753	140,753
2030-2034	524,000	179,379	703,379
2035-2039	567,000	67,686	634,686
	<u>\$ 1,684,456</u>	<u>\$ 534,944</u>	<u>\$ 2,219,400</u>

During the year ended September 30, 2024, the following changes occurred in long-term liabilities reported in the Water and Sewer Fund.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Business-Type Activities</b>					
Certificates of Obligation	\$ 49,000	\$ -	\$ (16,000)	\$ 33,000	\$ 16,000
General Obligation Refunding	505,000	-	(44,000)	461,000	45,000
USDA Rural Development Loan	4,753,093	-	(91,000)	4,662,093	94,000
Limited Tax Note	68,000	668,000	(68,000)	668,000	97,000
JohnDeer RDO Equipment Note	44,260	-	(10,361)	33,899	10,817
Total	<u>\$ 5,419,353</u>	<u>\$ 668,000</u>	<u>\$ (229,361)</u>	<u>\$ 5,857,992</u>	<u>\$ 262,817</u>

Bonds payable at September 30, 2024 are comprised of the following issues for the Water and Sewer fund:

2011 Certificates of Obligation. Interest payable February 1 and Principal and Interest payable August 1 at a 4.41% interest rate.	\$ 33,000
2013 General Obligation Refunding. Interest payable February 1 and Principal and Interest payable August 1 at a 3.18% interest rate.	461,000
USDA Series 2021. Interest payable February 1 and Principal and Interest payable August 1 at a 1.75% interest rate.	3,867,093
USDA Series 2021A. Interest payable February 1 and Principal and Interest payable August 1 at a 1.75% interest rate.	795,000
	<u>\$ 5,156,093</u>

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2024

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

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 2.97%. The note was paid in full as of September 30, 2024.

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. As of September 30, 2023, 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. As of September 30, 2024, the City received the whole principal amount of \$856,000.

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 4.40%. The final payment is due August 10, 2027.

On December 28, 2023, the City issued a \$668,000 Limited Tax Note. This note is being paid in six annual installments including interest computed at 5.5%. The final payment is due December 28, 2030.

The annual requirements to amortize the debt outstanding for the Water and Sewer fund as of September 30, 2024 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 262,817	\$ 134,635	\$ 397,452
2026	272,293	125,004	397,297
2027	264,789	115,310	380,099
2028	262,000	105,635	367,635
2029	273,000	96,003	369,003
2030-2034	875,000	445,850	1,320,850
2035-2039	576,000	297,640	873,640
2040-2044	629,000	245,403	874,403
2045-2060	2,443,093	375,883	2,818,976
	<u>\$ 5,857,992</u>	<u>\$ 1,941,363</u>	<u>\$ 7,799,355</u>

**8. 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.

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2024

**8. LEASES** (continued)

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%	\$ 89,970	10	\$ 56,210
Total EDC activities				<u>56,210</u>

The annual requirements to amortize leases payable outstanding as of September 30, 2024:

	<b>EDC Activities</b>	
	<u>Interest</u>	<u>Principal</u>
2025	\$ 406	\$ 17,094
2026	262	17,238
2027	117	17,383
2028	6	4,495
Total	<u>\$ 791</u>	<u>\$ 56,210</u>

**9. SUBSCRIPTION BASED INFORMATION TECHNOLOGY ARRANGEMENT (SBITA)**

The City has subscription based IT arrangements to conduct its operations, the terms of which expire 2025 through 2028. The measurement of the subscription liabilities is based on the present value of subscription payments expected to be paid during the subscription term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, residual value guarantee payments that are fixed in substance, and any subscription incentives payable.

The City has three subscription based IT arrangements under Governmental Fund-Activities with an average interest rate of 4%. The future principal and interest payments for subscription liabilities as of September 30, 2024, are as follows:

<u>Fiscal Year</u>	<u>Governmental</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 29,803	\$ 2,932	\$ 32,735
2026	31,003	1,732	32,735
2027	6,251	484	6,735
2028	6,488	247	6,735
	<u>\$ 73,545</u>	<u>\$ 5,395</u>	<u>\$ 78,940</u>

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2024

**10. 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.

**11. 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 \$0.08 per thousand gallons on the next 600-acre feet. Such a rate is subject to an annual cost adjustment. As of September 30, 2024, the rate was 1.29191 cents per thousand gallons.

Actual payments for the year ended September 30, 2024 were \$0 as the City had a credit with Tarrant Regional that was being drawn down.

**12. RETIREMENT SYSTEM- PENSION PLAN**

**Plan Description**

The City of Kemp participates as one of 934 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](http://www.tmrs.com).

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

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

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

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

	<u>Plan Year 2023</u>	<u>Plan Year 2022</u>
Employee Deposit Rate	7.0%	7.0%
Matching Ratio (city to employee)	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating Transfers	100% Repeating Transfers
Annuity Increase (to retirees)	0% of CPI	0% of CPI

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2024

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

**Employees Covered by Benefit Terms** - At the December 31, 2023, 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	33
Active Employees	16
	60

**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 10.24% and 10.56% in calendar year 2022 and 2023, respectively. The City’s contributions to TMRS for the year ended December 31, 2023, were \$87,987 and were equal to the required contributions.

**Net Pension Liability** - The city’s Net Pension Liability (NPL) was measured as of December 31, 2023, 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, 2023, actuarial valuation was determined using the following actuarial assumptions:

- Inflation – 2.5% per year
- Overall payroll growth – 3.5% to 11.5% 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 are 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**  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2024

**12. 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%	4.90%
Non-Core Fixed Income	20.00%	8.70%
Real Return	12.00%	8.10%
Real Estate	12.00%	5.80%
Absolute Return	5.00%	6.90%
Private Equity	10.00%	11.80%
	<u>100.00%</u>	

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

**Changes in the Net Pension Liability**

	Increase/(Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2022	\$ 1,670,940	\$ 1,406,849	\$ 264,091
Changes for the Year:			
Service Cost	138,076	-	138,076
Interest	115,772	-	115,772
Change of Benefit Terms	-	-	-
Difference Between Expected & Actual Experience	(52,471)	-	(52,471)
Changes of Assumptions	(3,684)	-	(3,684)
Contributions - Employer	-	90,365	(90,365)
Contributions - Employee	-	64,349	(64,349)
Net Investment Income	-	161,817	(161,817)
Benefit Payments, Including Refunds of Employee Contributions	(49,685)	(49,685)	-
Administrative Expenses	-	(1,036)	1,036
Other Changes	-	(7)	7
Net Changes	<u>148,008</u>	<u>265,803</u>	<u>(117,795)</u>
Balance at 12/31/2023	<u>\$ 1,818,948</u>	<u>\$ 1,672,652</u>	<u>\$ 146,296</u>

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2024

**12. 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%)	Current Single Discount Rate Assumption (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability/(Asset)	\$ 425,045	\$ 146,296	\$ (81,370)

**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.tmrs.com](http://www.tmrs.com).

**Pension Expense, Deferred Outflows and Inflows of Resources** - For the year ended September 30, 2024, the City recognized pension expense in the amount of \$87,987. At September 30, 2024, 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)	\$ -	\$ (31,312)
Difference Between Projected & Actual Investment Earnings (net of current year amortization)	35,995	-
Differences in assumptions changes	-	(2,233)
Contributions Subsequent to the Measurement Date	66,511	-
Total	\$ 102,506	\$ (33,545)

\$102,506 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, 2025. 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	
2025	116
2026	26,948
2027	(13,370)
2028	-
Thereafter	-
Total	\$ 13,694

**13. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN**

**Plan Description**

Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The City has elected to participate in the SDBF for its active members including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded single-employer OPEB plan (i.e. no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75) for City reporting.

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2024

**13. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (continued)**

**Benefits Provided**

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered another post-employment benefit (“OPEB”) and is a fixed amount of \$7,500. At the December 31, 2023 valuation and measurement date, the following employees were covered by the benefit terms:

	2023
Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	4
Active employees	16
<b>Total</b>	<b>27</b>

**Contributions**

The member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees’ entire careers.

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year.

Contribution rates to the SDBF for the City were 0.24% and 0.25% for calendar years 2023 and 2024 respectively. The City’s contributions to the SDBF for the year ended September 30, 2024, were \$1,575 and were equal to the required contributions.

**Total OPEB Liability**

The City’s Total OPEB Liability (TOL) was measured as of December 31, 2023, and was determined by an actuarial valuation as of that date.

***Actuarial Assumptions:***

The Total OPEB Liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary increases	3.60% to 11.85% including inflation
Discount rate	3.77%
Retiree's share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements of GASB Statement No. 68.

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates are projected on a fully generational basis with scale UMP to account for future mortality improvements. For disabled annuitants, the 2019 Municipal Retirees of Texas mortality tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and a 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2024

**13. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN** *(continued)*

**Discount Rate:**

The discount rate used to measure the Total OPEB Liability was 3.77%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2023.

**Changes in Total OPEB Liability:**

	Total OPEB Liability
Balance at 12/31/2022	\$ 46,389
Changes for the year:	
Service cost	2,574
Interest on Total OPEB Liability	1,886
Difference between expected and actual experience	94
Changes of assumptions or other inputs	1,921
Benefit payments	(2,206)
Net changes	\$ 4,269
Balance at 12/31/2023	\$ 50,658

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate:**

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.77%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.77%) or 1 percentage-point higher (4.77%) than the current rate:

1% Decrease 2.77%	Current Discount Rate 3.77%	1% Increase 4.77%
\$ 58,618	\$ 50,658	\$ 44,192

**OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB**

For the year ended September 30, 2024, the City recognized OPEB expense of \$1,575. At September 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual economic experience	\$ (92)	\$ -
Differences in assumptions changes	-	(6,722)
Contributions subsequent to the measurement date	1,575	-
Total	\$ 1,483	\$ (6,722)

**CITY OF KEMP, TEXAS**  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2024

**13. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN** *(continued)*

The \$1,483 reported as deferred outflows of resources related to OPEB resulting from changes in, assumptions and other inputs will reduce the Total OPEB liability during the year ending September 30, 2025.

The other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31:	Deferred Outflows (Inflows) of Resources
2024	\$ (1,184)
2025	(1,184)
2026	(1,599)
2027	(2,439)
2028	(408)
Thereafter	-
	\$ (6,814)

**14. EVALUATION OF SUBSEQUENT EVENTS**

Management has evaluated all subsequent events or transactions that occurred after September 30, 2024, up through the date of the auditor’s report, which is the date the financial statements were available to be issued.

The following significant events occurred after September 30, 2024:

- On November 22, 2024, the City entered into a lease-purchase agreement with American National Leasing Company to finance the acquisition of a 2024 PPV Durango Pursuit vehicle, including upfitting, for a total capitalized cost of \$69,742.31. The lease has a five-year term ending November 22, 2029, with annual payments of \$16,759.59 commencing November 22, 2025, at an interest rate of 6.450% per annum. The total lease payments amount to \$83,797.95, including \$14,056.64 in finance charges. The City has the option to purchase the vehicle for \$1.00 at the end of the lease term.
- On March 18, 2025, the City executed a promissory note with HomeBank Texas to finance the purchase of a 2025 Ford Explorer Interceptor for \$69,149.75. The loan has a five-year term maturing March 18, 2030, with an interest rate of 4.650% per annum. The City will make 59 monthly payments of \$1,296.16 starting April 18, 2025, and a final payment of approximately \$1,295.90, totaling approximately \$76,769.34, including estimated finance charges of \$7,619.59. The vehicle serves as collateral under a commercial security agreement.
- On April 23, 2025, EDC purchased a 40.95-acre tract of land in Kaufman County, Texas, from Bray, Chappell, Patterson and Olsen, Inc., Corporate Successor Trustee of Trust A of the Phillips Trust, for economic development purposes. The total consideration included a cash payment of \$210,234.49 and a promissory note for \$400,000 issued to Harmony Bank, with an Owner Title Policy Commitment issued for \$600,000. The note, secured by a deed of trust on the property, has a five-year term maturing April 23, 2030, with an interest rate of 4.950% per annum. EDC will make 59 monthly payments of \$2,644.13 starting May 23, 2025, and a final balloon payment estimated at \$336,575.16, totaling approximately \$492,498.83, including estimated finance charges of \$92,498.83. The property is located in a special flood hazard area, requiring flood insurance for the loan term. Ad valorem taxes for 2024, totaling \$46.65, were prorated at closing, with the EDC assuming taxes for the current and subsequent years. The transaction may be subject to rollback taxes due to the property’s agricultural exemption, which are the responsibility of the buyer and seller per their agreement

These events do not require adjustments to the financial statements as of September 30, 2024, but are disclosed to provide information about significant transactions occurring subsequent to the balance sheet date.

This page left blank intentionally.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF KEMP, TEXAS**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual – General Fund**  
**Fiscal Year Ended September 30, 2024**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes:				
Property	\$ 610,796	\$ 610,796	\$ 495,962	\$ (114,834)
Sales	520,000	520,000	377,445	(142,555)
Franchise	101,600	101,600	85,521	(16,079)
Licenses & permits	74,500	74,500	49,098	(25,402)
Fines & forfeitures	295,441	295,441	185,098	(110,343)
Charges for services	196,470	196,470	135,341	(61,129)
Grants & contributions	-	-	3,615	3,615
Investment earnings	-	-	2,882	2,882
Miscellaneous	-	-	22,029	22,029
Intergovernmental	-	-	11,578	11,578
Total Revenues	<u>1,798,807</u>	<u>1,798,807</u>	<u>1,368,569</u>	<u>(430,238)</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,112,536	1,112,536	361,529	751,007
Public Safety:				
Police protection	94,775	94,775	338,663	(243,888)
Code enforcement	1,600	1,600	801	799
Animal control	500	500	-	500
Municipal court	191,367	191,367	89,184	102,183
Fire protection	125,385	125,385	43,857	81,528
Total Public Safety	<u>1,526,163</u>	<u>1,526,163</u>	<u>834,035</u>	<u>692,128</u>
Streets	66,140	66,140	202,857	(136,717)
Parks & recreation	3,000	3,000	20,583	(17,583)
Capital outlay	-	-	259,663	(259,663)
Debt service	-	-	53,117	(53,117)
Total Expenditures	<u>1,595,303</u>	<u>1,595,303</u>	<u>1,370,255</u>	<u>225,048</u>
Excess/(Deficiency) of Revenues				
Over/(Under) Expenditures	<u>203,504</u>	<u>203,504</u>	<u>(1,686)</u>	<u>(205,190)</u>
<b>OTHER FINANCING SOURCES/(USES)</b>				
Transfers in	165,000	165,000	754,998	589,998
Transfers out	(367,015)	(367,015)	(578,522)	(211,507)
Total Other Financing Sources/(Uses)	<u>(202,015)</u>	<u>(202,015)</u>	<u>176,476</u>	<u>378,491</u>
Net Change in Fund Balances	1,489	1,489	174,790	173,301
Fund Balance - Beginning	<u>(20,234)</u>	<u>(20,234)</u>	<u>(20,234)</u>	<u>-</u>
Fund Balance - Ending	<u>\$ (18,745)</u>	<u>\$ (18,745)</u>	<u>\$ 154,556</u>	<u>\$ 173,301</u>

**CITY OF KEMP, TEXAS**  
**Statement of Revenues, Expenses and Changes in Fund Balances**  
**Budget and Actual – Water and Sewer**  
**Fiscal Year Ended September 30, 2024**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>OPERATING REVENUES</b>				
Water service	\$ 530,000	\$ 530,000	\$ 533,738	\$ 3,738
Sewer service	236,700	236,700	236,844	144
Surcharge	233,100	233,100	269,135	36,035
Tap fees	50,000	50,000	13,000	(37,000)
Grant revenue	-	-	1,272,539	1,272,539
Miscellaneous	42,165	42,165	53,704	11,539
Total Operating Revenues	<u>1,091,965</u>	<u>1,091,965</u>	<u>2,378,960</u>	<u>1,286,995</u>
<b>OPERATING EXPENSES</b>				
Personnel services	505,339	505,339	482,716	22,623
Professional services	63,000	63,000	73,472	(10,472)
Water production	267,050	267,050	179,519	87,531
Water distribution	124,150	124,150	111,253	12,897
Sewer	109,000	109,000	89,777	19,223
Employee development	5,000	5,000	3,844	1,156
Utilities & communication	51,750	51,750	58,044	(6,294)
Insurance & bonding	10,295	10,295	17,934	(7,639)
Depreciation	-	-	177,986	(177,986)
Debt service	38,903	38,903	-	38,903
Total Operating Expenses	<u>1,174,487</u>	<u>1,174,487</u>	<u>1,194,545</u>	<u>(20,058)</u>
Operating Income/(Loss)	<u>(82,522)</u>	<u>(82,522)</u>	<u>1,184,415</u>	<u>1,266,937</u>
<b>NONOPERATING REVENUES/(EXPENSES)</b>				
Interest on investments	-	-	15,098	15,098
Interest & fiscal charges	-	-	(155,021)	(155,021)
Total Nonoperating Revenues/(Expenses)	<u>-</u>	<u>-</u>	<u>(139,923)</u>	<u>(139,923)</u>
Income/(Loss) Before Transfers	(82,522)	(82,522)	1,044,492	1,127,014
Transfers in	301,000	301,000	1,337,502	1,036,502
Transfers out	(212,400)	(212,400)	(1,139,614)	(927,214)
Change in Net Position	6,078	6,078	1,242,380	1,236,302
Net Position - Beginning	<u>3,129,588</u>	<u>3,129,588</u>	<u>3,129,588</u>	<u>-</u>
Net Position - Ending	<u>\$ 3,135,666</u>	<u>\$ 3,135,666</u>	<u>\$ 4,371,968</u>	<u>\$ 1,236,302</u>

**CITY OF KEMP, TEXAS**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**For the Year Ended September 30, 2023**

	<b>Plan Year Ended December 31,</b>	
	<u>2023</u>	<u>2022</u>
<b>Total Pension Liability</b>		
Service cost	\$ 138,076	\$ 116,378
Interest (on the total pension liability)	115,772	104,176
Changes of benefit terms	-	-
Difference between expected and actual experience	(52,471)	(3,454)
Change of assumptions	(3,684)	-
Benefit payments, including refunds of employee contributions	(49,685)	(62,643)
<b>Net Change in Total Pension Liability</b>	<u>148,008</u>	<u>154,457</u>
<b>Total Pension Liability - Beginning</b>	<u>1,670,940</u>	<u>1,516,483</u>
<b>Total Pension Liability - Ending (a)</b>	<u><u>\$ 1,818,948</u></u>	<u><u>\$ 1,670,940</u></u>
 <b>Plan Fiduciary Net Position</b>		
Contributions - employer	90,365	78,474
Contributions - employee	64,349	54,932
Net investment income	161,816	(104,391)
Benefit payments, including refunds of employee contributions	(49,685)	(62,643)
Administrative expense	(1,036)	(910)
Other	(7)	1,086
<b>Net Change in Plan Fiduciary Net Position</b>	<u>265,802</u>	<u>(33,452)</u>
<b>Plan Fiduciary Net Position - Beginning</b>	<u>1,406,849</u>	<u>1,440,301</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u><u>\$ 1,672,651</u></u>	<u><u>\$ 1,406,849</u></u>
 <b>Net Pension Liability - Ending (a) - (b)</b>	<u><u>\$ 146,297</u></u>	<u><u>\$ 264,091</u></u>
 <b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	91.96%	84.20%
 <b>Covered Employee Payroll</b>	919,278	784,748
 <b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	15.91%	33.65%

	2021	2020	2019	2018	2017	2016	2015	2014
\$	116,829	\$ 117,454	\$ 83,551	\$ 73,341	\$ 67,771	\$ 53,920	\$ 23,944	\$ 14,394
	91,943	81,680	63,173	52,016	46,799	41,701	37,739	34,762
	-	164,323	-	-	-	-	35,062	-
	24,059	(5,197)	(3,276)	74,377	(9,390)	5,322	15,058	(13,514)
	-	-	(6,427)	-	-	-	20,993	-
	(40,102)	(43,052)	(45,199)	(33,887)	(27,477)	(37,198)	(30,920)	(34,994)
	192,729	315,208	91,822	165,847	77,703	63,745	101,876	648
	1,323,754	1,008,546	916,724	750,877	673,174	609,429	507,553	506,905
\$	<u>1,516,483</u>	<u>\$ 1,323,754</u>	<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>
	71,160	44,820	40,551	32,494	19,808	1,225	(3)	-
	53,104	38,712	47,931	49,690	31,145	23,566	17,030	11,062
	155,597	81,318	138,456	(26,255)	103,879	48,263	1,075	40,756
	(40,101)	(43,052)	(45,199)	(33,887)	(27,477)	(37,198)	(30,920)	(34,994)
	(725)	(530)	(785)	(508)	(539)	(546)	(655)	(426)
	5	(21)	(24)	(27)	(27)	(29)	(32)	(35)
	239,040	121,247	180,930	21,507	126,789	35,281	(13,505)	16,363
	1,201,261	1,080,014	899,084	877,577	750,788	715,507	729,012	712,649
\$	<u>1,440,301</u>	<u>\$ 1,201,261</u>	<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>76,182</u>	<u>\$ 122,493</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>
	94.98%	90.75%	107.09%	98.08%	116.87%	111.53%	117.41%	143.63%
	758,627	774,250	758,178	668,563	622,893	471,329	340,592	221,239
	10.04%	15.82%	-9.43%	2.64%	-20.34%	-16.47%	-31.15%	-100.10%

**CITY OF KEMP, TEXAS**  
**Schedule of Contributions**  
**Fiscal Year Ended September 30, 2024**

	<u>2024</u>	<u>2023</u>
Actuarially determined contribution	\$ 87,987	\$ 95,086
Contributions in relation to actuarially determined contribution	<u>(87,987)</u>	<u>(95,086)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 839,563	\$ 927,509
Contributions as a percentage of covered employee payroll	10.48%	10.25%

<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
\$ 77,715	\$ 65,483	\$ 42,997	\$ 35,347	\$ 26,427	\$ 14,368	\$ 878
<u>(77,715)</u>	<u>(65,483)</u>	<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>	<u>\$ -</u>	<u>\$ -</u>
\$ 768,162	\$ 766,046	\$ 781,741	\$ 726,501	\$ 654,538	\$ 574,293	\$ 449,638
10.12%	8.55%	5.50%	4.87%	4.04%	2.50%	0.20%

**CITY OF KEMP, TEXAS**  
Notes to Schedule of Contributions  
Fiscal Year Ended September 30, 2024

**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	19 Years (longest amortization ladder)
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with the 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
<b>Other Information:</b>	There were no benefit changes during the year.

**CITY OF KEMP, TEXAS**  
**Schedule of Changes in Total OPEB Liability and Related Ratios**  
**Texas Municipal Retirement System**  
**Last Ten Measured Years**

	2023	2022	2021	2020
<b>Total OPEB liability</b>				
Service Cost	\$ 2,574	\$ 2,904	\$ 3,035	\$ 2,400
Interest (on the Total OPEB Liability)	1,886	1,182	1,142	1,307
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	94	(2,558)	2,888	46,332
Changes in assumptions or other inputs	1,921	(17,113)	1,629	6,179
Benefit payments	(2,206)	(1,648)	(1,290)	-
<b>Net Change in Total OPEB Liability</b>	<u>4,269</u>	<u>(17,233)</u>	<u>7,404</u>	<u>56,218</u>
<b>Total OPEB Liability - Beginning</b>	<u>46,389</u>	<u>63,622</u>	<u>56,218</u>	<u>-</u>
<b>Total OPEB Liability - Ending (a)</b>	<u>\$ 50,658</u>	<u>\$ 46,389</u>	<u>\$ 63,622</u>	<u>\$ 56,218</u>
<b>Covered Payroll</b>	\$ 919,278	\$ 784,748	\$ 758,627	\$ 774,250
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	5.51%	5.91%	8.39%	7.26%

**NOTES TO SCHEDULE OF TOTAL OPEB LIABILITY**

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is presented .

**OTHER SUPPLEMENTARY INFORMATION**

**City of Kemp, Texas**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**September 30, 2024**

	Debt Service Fund	Police Fund	Municipal Development District	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash & Cash Equivalents	\$ 104,393	\$ 1,525	\$ 197,851	\$ 303,769
Receivables (Net of Allowance for Uncollectables)	15,216	-	13,985	29,201
Due from Other Funds	60,259	-	75,000	135,259
Total Assets	<u>179,868</u>	<u>1,525</u>	<u>286,836</u>	<u>468,229</u>
<b>LIABILITIES</b>				
Accounts Payable	-	-	898	898
Total Liabilities	<u>-</u>	<u>-</u>	<u>898</u>	<u>898</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Property Taxes	51,124	-	-	51,124
Total Deferred Inflows of Resources	<u>51,124</u>	<u>-</u>	<u>-</u>	<u>51,124</u>
<b>FUND BALANCES</b>				
Restricted:				
Debt Service	128,744	-	-	128,744
Public Safety	-	1,525	-	1,525
Municipal development	-	-	285,938	285,938
Total Fund Balances	<u>128,744</u>	<u>1,525</u>	<u>285,938</u>	<u>416,207</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 179,868</u>	<u>\$ 1,525</u>	<u>\$ 286,836</u>	<u>\$ 468,229</u>

**City of Kemp, Texas**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended September 30, 2024**

	Debt Service Fund	Police Fund	Municipal Development District	Total Nonmajor Governmental Funds
<b>REVENUES</b>				
Taxes:				
Sales	\$ 106,538	\$ -	\$ 112,597	\$ 219,135
Investment Earnings	3,284	-	-	3,284
Miscellaneous	-	602	20,744	21,346
Total Revenues	<u>109,822</u>	<u>602</u>	<u>133,341</u>	<u>243,765</u>
<b>EXPENDITURES</b>				
Current:				
Municipal development	-	-	12,251	12,251
Debt Service:				
Principal Retirement	76,000	-	-	76,000
Interest & Fiscal Charges	63,507	-	-	63,507
Total Expenditures	<u>139,507</u>	<u>-</u>	<u>12,251</u>	<u>151,758</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<u>(29,685)</u>	<u>602</u>	<u>121,090</u>	<u>92,007</u>
<b>OTHER FINANCING SOURCES/(USES)</b>				
Transfers in	-	-	25,000	25,000
Transfers Out	(399,364)	-	-	(399,364)
Total Other Financing Sources/(Uses)	<u>(399,364)</u>	<u>-</u>	<u>25,000</u>	<u>(374,364)</u>
Net Change in Fund Balances	(429,049)	602	146,090	(282,357)
Fund Balance - Beginning	<u>557,793</u>	<u>923</u>	<u>139,848</u>	<u>698,564</u>
Fund Balance - Ending	<u>\$ 128,744</u>	<u>\$ 1,525</u>	<u>\$ 285,938</u>	<u>\$ 416,207</u>

**INDEPENDENT AUDITORS' 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 unit, each major fund, and the aggregate remaining fund information of City of Kemp, Texas (the "City"), as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise City's basic financial statements and have issued our report thereon dated May 30, 2025.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) as a basis for designing 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2024-01 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2024-02, 2024-03, and 2024-04 to be significant deficiencies.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 financial statements. 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*.

**City of Kemp, Texas's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**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.

Vail + Park, P.C.

Frisco, Texas  
May 30, 2025

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

### Report on Compliance for Each Major Federal Program

#### *Opinion on Each Major Federal Program*

We have audited City of Kemp, Texas (the "City"), compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended September 30, 2024. City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2024.

#### *Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of City's compliance with the compliance requirements referred to above.

#### *Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to City's federal programs.

#### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of City’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City’s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

**Report on Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Frisco, Texas  
May 30, 2024

**CITY OF KEMP**  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2024

Federal Grantor/Pass Through Agency/Federal Program	Federal Assistance Number	Pass-through Grantor's Number	Federal Expenditures
<b>U. S. Department of Agriculture</b>			
Water and Waste Water Disposal Systems for Rural Communities	10.760	N/A	\$ 818,704
<b>Total U. S. Department of Agriculture</b>			<u>818,704</u>
<b>Total Expenditures of Federal Awards</b>			<u><b>\$ 818,704</b></u>

**City of Kemp, Texas**  
*Notes to the Schedule of Expenditures of Federal Awards*  
Fiscal Year Ended September 30, 2024

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

**1. GENERAL**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal award programs of the City of Kemp, Texas for the year ended September 30, 2024. All federal awards received directly by the City from federal agencies, as well as federal awards passed through other government agencies, are included in the scope of the Federal Single Audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and are included on the Schedule of Expenditures of Federal Awards.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City neither recovers indirect costs unless expressly allowed by each award, nor does the City utilize the 10% de minimis indirect cost rate contained in the 2 CFR 200 for entities that have never had an approved rate.

Expenditures for the Schedule are presented using the accrual basis of accounting.

Amounts reported as expenditures in the Schedule may not agree with the amounts in the related financial reports filed with the grantor agencies because of accruals that would not be included until the next report filed with the agency.

**3. COMMITMENT AND CONTINGENCIES**

The City participates in several federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the City has not complied with the rules and regulations governing that grant, refunds of any money may be required, and the collectability of any related receivable at September 30, 2024 may be impaired. In the opinion of management, there are no significant contingent liabilities related to the compliance with rules and regulations governing the grants.

**4. USDA RURAL DEVELOPMENT BONDS**

The USDA Rural Development bonds outstanding principal balance of September 30, 2024, was \$4,662,093 (USDA Series 2021 of \$3,867,093 and USDA Series 2021 A of \$795,000).

**City of Kemp**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2024**

**Finding No. 2024-01:** Lack of formal Financial Statement Close Procedures

Type of Finding: Material weakness

Criteria: The City should implement a financial statement close process to properly close the books and ensure adjusted journal entries are recorded.

Conditions: The audit resulted in multiple (18) audit adjustments and an adjustment to beginning net assets.

Cause: Management does not have a formal financial statement close process (FSCP).

Recommendation: We recommend management develop a formal FSCP to properly close books at fiscal year end.

Management's responses: Management will develop a formal FSCP checklist and will utilize the checklist to ensure the City has properly closed the books at the fiscal year-end. This will help ensure net assets are properly rolled forward. Additionally, the City will send the auditors a copy of the Trial Balance after all audit adjustments are posted to help ensure correct beginning balances are recorded for the new fiscal year. Management implemented a new accounting system in August 2024. We will continue to improve our FSCP.

**Finding No. 2024-02:** Inadequate internal controls over the inter-fund activities and related accounts

Type of Finding: Significant deficiency

Criteria: The City should maintain strong internal controls over the inter-fund activities to prevent errors, fraud, and misuse of the resources.

Conditions: Adjustments were required to inter-fund accounts.

Cause: Management does not ensure inter-fund activities are correctly reconciled, and transfers (in) out and due from (due to) accounts balance at fiscal year-end.

Recommendations: We recommend that the management develop clear procedures, including review and approval, to ensure transfers (in) and out/(due to) and due from accounts balance and transfers in and out are properly budgeted for.

Management's responses: Management will create an accounting policy to address how inter-fund activities, including transfers in and out and due to and from accounts, will be treated, as well as review and approval of account reconciliation as part of the FSCP.

**Finding No. 2024-03:** Inadequate internal controls over Subscription-based Information Technology Arrangements (SBITA)

Type of Finding: Significant Deficiency

Criteria: The City has not implemented GASB 96.

Recommendations: The City shall evaluate software subscription contracts to determine if they fall under the purview of GASB 96. This involves understanding each element and component of the contract to decide if capitalizing the contract cost is appropriate.

Management's responses: Management acknowledges the significant deficiency due to the lack of implementation of GASB 96 and commits to evaluating software subscription contracts to determine their applicability under GASB 96. This evaluation will involve a thorough understanding of each contract's elements and components to decide if capitalizing the contract cost is appropriate. Management will ensure that all relevant personnel are trained on GASB 96 requirements and will establish regular reviews to maintain compliance.

**Finding No. 2024-04:** Inadequate internal controls over Other Post-Employment Benefits (OPEB)

Type of Finding: Significant Deficiency

Criteria: The City has not implemented GASB 75.

Recommendations: The City shall establish a more formalized process to ensure liabilities related to GASB 75 are properly accounted for.

Management's responses: Management acknowledges the significant deficiency due to the lack of implementation of GASB 75 and commits to ensuring OPEB related liabilities are properly accounted for. Management will ensure that all relevant personnel are trained on GASB 75 requirements and will establish regular reviews to maintain compliance.

**City of Kemp, Texas**  
*Schedule of Findings and Questioned*  
 For the Year Ended September 30, 2024

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

Financial Statements

Type of auditor’s reports issued:	UNMODIFIED
Internal control over financial reporting:	
• Significant deficiencies identified?	YES
• Significant deficiencies identified that are considered to be a material weakness?	YES
Noncompliance material to the financial statements noted?	NO

Federal Awards

Internal control over major programs:	
• Significant deficiencies identified?	NO
• Significant deficiencies identified that are considered to be a material weakness?	NO
Type of auditor’s report issued on compliance for major programs:	UNMODIFIED
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. CFR Part 200 Uniform Guidance Subpart F?	NO

Identification of major program:

<u>ALN</u>	<u>Name of Federal Program</u>
10.760	Water and Waste Water Disposal Systems for Rural Communities

Dollar threshold to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	NO

**City of Kemp**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended September 30, 2024**

**PRIOR YEAR FINANCIAL STATEMENT FINDINGS**

**LACK OF FORMAL FINANCIAL STATEMENT CLOSE PROCEDURES**

**Finding No. 2023-01:** Management does not have a formal financial statement close process (FSCP).

Recommendation: We recommend management develop a formal FSCP to properly close books at fiscal year end.

Conclusion: Unresolved. See 2024-01.

**INADEQUATE INTERNAL CONTROLS OVER THE INTER-FUND ACTIVITIES AND RELATED ACCOUNTS**

**Finding No. 2023-02:** Management does not ensure inter-fund activities are correctly reconciled, and transfers in and out/due to and from accounts balance at fiscal year-end.

Recommendations: We recommend that the management develop clear procedures, including review and approval, to ensure transfers in and out/due to and from accounts balance and transfers in and out are properly budgeted for.

Conclusion: Unresolved. See 2024-02.