

ANNUAL FINANCIAL REPORT

of the

City of Kempner, Texas

**For the Year Ended
September 30, 2021**

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City of Kempner, Texas

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September 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Kempner:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Kempner, Texas (the "City") as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Disclaimer of Opinion

We do not express an opinion on the accompanying statement of activities; statement of revenues, expenditures, and changes in fund balance; management discussion and analysis; notes to the financial statements, and required supplementary information of City of Kempner, because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The City and their predecessor auditor were unable to furnish us with sufficient evidence over the beginning balances for our audit. As a result of this matter, we were unable to determine whether any adjustments might have been found necessary, in respect to the statement of activities for governmental activities, and the statements of revenues, expenditures, and changes in fund balances for governmental funds.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the statement of net position and balance sheet for governmental funds. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of activities; statement of revenues, expenditures, and changes in fund balance; management discussion and analysis; and required supplementary information.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective statement of net position for governmental activities and balance sheet for governmental funds of the City as of September 30, 2021, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note V.G. to the financial statements, due to the correction of various accounting errors in the prior year, the City restated its beginning net position/fund balance within governmental activities, the general fund, and sales tax street fund. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer contributions to pension plan, schedule of changes to the OPEB liability, and the budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the required supplementary information.

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, professional script.

Brooks Watson & Co., PLLC
Certified Public Accountants
Houston, Texas
September 23, 2023

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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City of Kempner

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2021

As management of the City of Kempner (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2021.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities (net position) at September 30, 2021 by \$1,307,272.
- The City's total net position increased by \$143,076. The majority of the City's net position is invested in capital assets.
- The City's governmental funds reported combined ending fund balances of \$545,447 at September 30, 2021, an increase of \$120,138 from the prior fiscal year; this includes an increase of \$98,328 in the general fund, a decrease of \$5,240 in the debt service fund, and an increase of \$27,050 in the sales tax street fund,
- The net pension liability and OPEB liability outstanding at the close of the fiscal year was \$356 and \$109, respectively.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide 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, liabilities, and deferred inflows/outflows with the difference 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. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

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 as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses

City of Kempner

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2021

are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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, public works, and culture and recreation. The City does not present business-type activities within the financial statements.

The government-wide financial statements can be found on pages 16 through 19 of this report.

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 one category: governmental 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 on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing 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 statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, debt service, and sales tax street funds, which are considered major funds. The City did not present any nonmajor governmental funds.

City of Kempner

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2021

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

The basic governmental fund financial statements can be found on pages 20 through 23 of this report.

Notes to Financial Statements

The notes provide additional information that is necessary to acquire 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 25 through 48 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison for the general fund. Required supplementary information can be found on page 49 through 55 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Kempner, assets and deferred outflows exceeded liabilities by \$1,307,272 as of September 30, 2021, in the primary government.

The largest portion of the City's net position, \$751,931, reflects its investments in capital assets (e.g., land, city hall, city park, roads, as well as the public works facilities), 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 assets themselves cannot be used to liquidate these liabilities.

Current and other assets of the primary government increased due primarily to greater cash on hand compared to the prior year, which is a direct result of net surpluses over the course of the year.

Long-term liabilities of the primary government decreased due to principal payments made during the year.

City of Kempner
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2021

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	Governmental Activities	
	(restated)	
	2021	2020
Current and other assets	\$ 589,140	\$ 464,717
Capital assets, net	971,931	991,377
Total Assets	1,561,071	1,456,094
Total Def. Outflows	1,529	-
Current liabilities	69,863	71,898
Long-term liabilities	185,465	220,000
Total Liabilities	255,328	291,898
Net Position:		
Net investment in capital assets	751,931	729,066
Restricted	2,257	49,848
Unrestricted	553,084	385,282
Total Net Position	\$ 1,307,272	\$ 1,164,196

City of Kempner
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2021

Statement of Activities:

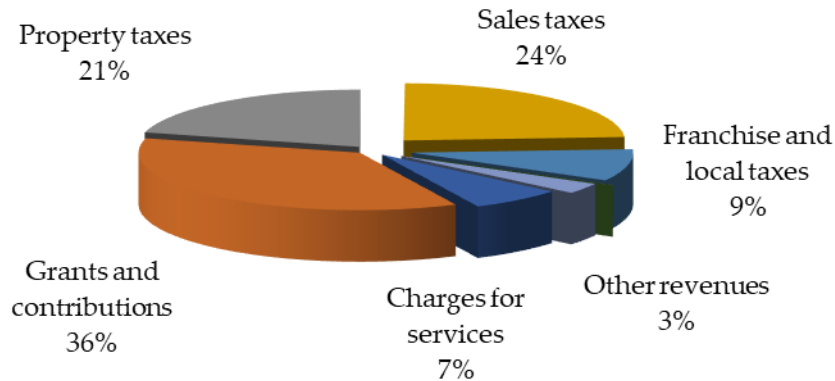
The following table provides a summary of the City's changes in net position:

	Governmental Activities	
	2021	(restated) 2020
Revenues		
Program revenues:		
Charges for services	\$ 36,204	\$ 55,962
Grants and contributions	193,001	1,001
General revenues:		
Property taxes	112,301	136,325
Sales taxes	127,708	130,030
Franchise and local taxes	48,060	60,859
Investment income	167	1,698
Other revenues	16,194	16,754
Total Revenues	533,635	402,629
Expenses		
General government	214,851	164,976
Public safety	130,960	148,010
Public works	12,454	2,314
Culture and recreation	25,765	22,239
Interest and fiscal charges	6,529	10,134
Total Expenses	390,559	347,673
Change in Net Position	143,076	54,956
Beginning Net Position	1,164,196	1,109,240
Ending Net Position	\$ 1,307,272	\$ 1,164,196

City of Kempner
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2021

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

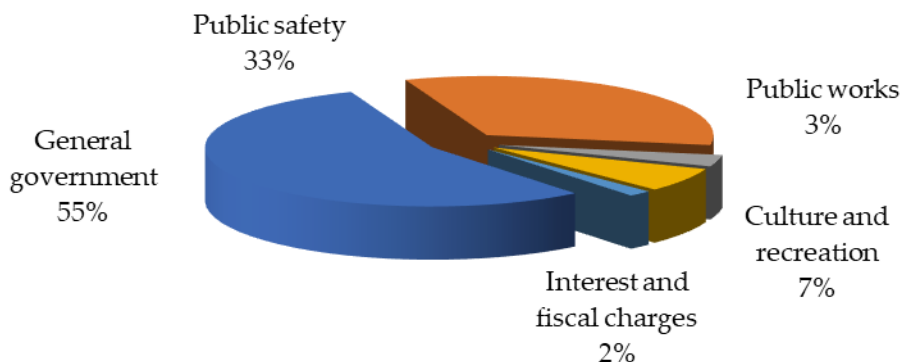
Governmental Activities - Revenues



For the year ended September 30, 2021, revenues from governmental activities totaled \$533,635. Overall revenues increased by \$560 or 3%, due primarily to greater grants and contributions compared to the prior year. Grants/contributions, property tax and sales tax are the City's largest general revenue sources. Grants and contributions increased by \$19,758 or over 100% primarily due to nonrecurring American Rescue Plan grants funds received in the current year. Charges for services decreased \$Govt or as a result of a reduction in court fine collections compared to the prior year. Investment income decreased by \$12,799 or 100% as a result of the realization of lower interest rates during the year. All other revenues remained relatively stable over the course of the fiscal year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



For the year ended September 30, 2021, expenses for governmental activities totaled \$390,559. This represents an increase of \$42,886 or 12% from the prior year. The City's largest functional expense is general government of \$214,851.

City of Kempner
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
September 30, 2021

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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

At September 30, 2021, the City's governmental funds reported combined fund balances of \$545,447, an increase of \$120,138 in comparison with the prior year. The City has an unassigned fund balance in the general fund of \$246,761.

As of the end of the year the general fund reflected a total fund balance of \$491,961. The fund balance increased by \$98,328 compared to the prior year primarily as a result of greater than anticipated revenues received during the year.

The debt service fund had an ending fund balance of \$2,257 at September 30, 2021 compared to the previous year's balance of \$7,497. Total principal and interest payments for the year were \$35,000 and \$6,741, respectively. Debt service payments were made in accordance with their payment schedules. Total debt service payments exceeded revenues by \$5,240 for the year ended September 30, 2021.

The sales tax street fund had an ending fund balance of \$51,229. The fund balance increased by \$27,050 primarily due to current year sales tax revenues and investment income. The fund did not record expenses during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a positive variance of \$233,369 for budgeted general fund revenues. The positive variance was primarily due to grants and contributions being greater than the budget by \$191,825. There was a negative variance of \$130,852 for budgeted general fund expenditures. The negative expense variance of a direct result of all general fund departments being over budget appropriations, with the exception of municipal court. Other financing sources (uses) resulted in a negative variance of \$906. The net of these variances resulted in the total positive budget variance of \$101,611 for the general fund.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$971,931 in a variety of capital assets and infrastructure, net of accumulated depreciation. investment in capital assets includes land, buildings, vehicles, equipment, park improvements, and infrastructure. Major capital asset events

City of Kempner

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2021

during the current year include purchasing new tablets for the police department totaling \$29,780 and asset depreciation expense amounting to \$49,226.

More detailed information about the City's capital assets is presented in note IV. C to the financial statements.

LONG-TERM DEBT

The City's outstanding bonds payable decreased by \$35,000 compared to the prior year. The total bonds payable at the close of the fiscal year was \$220,000. The City made \$42,311 of principal payments during the year.

The City monitors its debt obligations and callable bonds for refinancing opportunities with market conditions.

More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City and improving services provided to their public citizens. The City budgeted for growth in the upcoming year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact City Hall at 12288 U.S. Highway 190. Kempner, Texas 76539 or by calling (512) 932-2180.

FINANCIAL STATEMENTS

City of Kempner, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2021

	Primary Government Governmental Activities
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 545,672
Receivables, net	43,468
Total Current Assets	589,140
Capital assets:	
Non-depreciable capital assets	132,744
Net depreciable capital assets	839,187
Total Noncurrent Assets	971,931
Total Assets	1,561,071
 <u>Deferred Outflows of Resources</u>	
Pension outflows	1,500
OPEB outflows	29
Total Deferred Outflows of Resources	\$ 1,529

See Notes to Financial Statements.

City of Kempner, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2021

	Primary Government Governmental Activities
<u>Liabilities</u>	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 34,070
Accrued interest payable	793
Debt due within one year	35,000
Total Current Liabilities	69,863
Noncurrent liabilities:	
Net pension liability	356
OPEB liability	109
Debt due in more than one year	185,000
Total Noncurrent Liabilities	185,465
Total Liabilities	255,328
 <u>Net Position</u>	
Net investment in capital assets	751,931
Restricted	
Debt service	2,257
Unrestricted	553,084
Total Net Position	\$ 1,307,272

See Notes to Financial Statements.

City of Kempner, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2021

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 214,851	\$ 1,175	\$ 193,001
Public safety	130,960	35,029	-
Public works	12,454	-	-
Culture and recreation	25,765	-	-
Interest and fiscal charges	6,529	-	-
Total Governmental Activities	<u>390,559</u>	<u>36,204</u>	<u>193,001</u>
Total Primary Government	<u>\$ 390,559</u>	<u>\$ 36,204</u>	<u>\$ 193,001</u>

General Revenues:

Taxes:

Property taxes

Sales taxes

Franchise and local taxes

Investment income

Other revenues

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense)	
Primary Government	
Governmental	
Activities	
\$	(20,675)
	(95,931)
	(12,454)
	(25,765)
	(6,529)
	<u>(161,354)</u>
	<u>(161,354)</u>

	112,301
	127,708
	48,060
	167
	16,194
	<u>304,430</u>
	143,076
	1,164,196
\$	<u><u>1,307,272</u></u>

City of Kempner, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2021

	General	Debt Service	Sales Tax Street Fund	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 503,194	\$ 9,317	\$ 33,161	\$ 545,672
Receivables, net	35,327	3,334	4,807	43,468
Due from other funds	7,060	-	13,261	20,321
Total Assets	545,581	12,651	51,229	609,461
<u>Liabilities</u>				
Accounts payable and accrued liabilities	34,070	-	-	34,070
Due to other funds	13,261	7,060	-	20,321
Total Liabilities	47,331	7,060	-	54,391
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	6,289	3,334	-	9,623
Total Deferred Inflows of Resources	6,289	3,334	-	9,623
<u>Fund Balances</u>				
Restricted for:				
Debt service	-	2,257	-	2,257
Committed for:				
Street improvements	-	-	51,229	51,229
Assigned for:				
Infrastructure	190,000	-	-	190,000
Parks	55,200	-	-	55,200
Unassigned reported in:				
General fund	246,761	-	-	246,761
Total Fund Balances	491,961	2,257	51,229	545,447
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 545,581	\$ 12,651	\$ 51,229	\$ 609,461

See Notes to Financial Statements.

City of Kempner, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS

September 30, 2021

Fund Balances - Total Governmental Funds	\$	545,447
Adjustments for the Statement of Net Position:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Capital assets - non-depreciable		132,744
Capital assets - net depreciable		839,187
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		
Property tax receivable		9,623
Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/ expenditure) until then.		
Pension contributions		1,500
OPEB change in assumptions		29
Joint venture reporting of investment in airport		
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.		
Bonds payable		(220,000)
Accrued interest		(793)
Net pension liability		(356)
OPEB liability		(109)
Net Position of Governmental Activities	\$	<u>1,307,272</u>

See Notes to Financial Statements.

City of Kempner, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2021

	General	Debt Service	Sales Tax Street Fund	Total Governmental Funds
<u>Revenues</u>				
Property tax	\$ 77,433	\$ 36,487	\$ -	\$ 113,920
Sales tax	101,582	-	26,126	127,708
Franchise and local taxes	48,060	-	-	48,060
License and permits	1,175	-	-	1,175
Fines and forfeitures	35,029	-	-	35,029
Grants and donations	193,001	-	-	193,001
Investment income	121	28	18	167
Other revenue	16,194	-	-	16,194
Total Revenues	472,595	36,515	26,144	535,254
<u>Expenditures</u>				
Current:				
General government	204,044	14	-	204,058
Public safety	145,859	-	-	145,859
Culture and recreation	15,731	-	-	15,731
Debt Service:				
Principal	7,311	35,000	-	42,311
Interest and fiscal charges	416	6,741	-	7,157
Total Expenditures	373,361	41,755	-	415,116
Excess of Revenues Over (Under) Expenditures	99,234	(5,240)	26,144	120,138
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	-	906	906
Transfers (out)	(906)	-	-	(906)
Total Other Financing Sources (Uses)	(906)	-	906	-
Net Change in Fund Balances	98,328	(5,240)	27,050	120,138
Beginning fund balances	393,633	7,497	24,179	425,309
Ending Fund Balances	\$ 491,961	\$ 2,257	\$ 51,229	\$ 545,447

See Notes to Financial Statements.

City of Kempner, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2021

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$	120,138
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		29,780
Depreciation expense		(49,226)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes		(1,619)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest		628
Pension expense		1,144
OPEB expense		(80)

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities.

This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments		42,311
Change in Net Position of Governmental Activities	\$	<u>143,076</u>

See Notes to Financial Statements.

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City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2021

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Kempner, Texas (the "City") is a municipal corporation governed by an elected mayor and five-member governing Council. The City provides services, such as public safety, street maintenance, culture and recreation, judicial, general administrative and other services.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. No entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

B. Government-Wide and Fund Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds.

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 where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and transit functions and various other functions of

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

The government reports the following major governmental funds:

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, and fines and forfeitures. Expenditures include general government, public safety, public works, and culture and recreation.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all long-term obligations of governmental funds. The primary source of revenue for debt service is local property taxes.

Sales Tax Street Fund

The Sales Tax Street Fund accounts for sales tax revenues collected for and restricted specifically for the maintenance of City streets.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

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NOTES TO FINANCIAL STATEMENTS, Continued
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C. Measurement Focus and Basis of Accounting

The government-wide statements of net position and statements of activities are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and component units are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The City utilizes the current financial resources measurement focus and modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

The statements of net position and statements of activities are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

2. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government."

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

3. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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4. Inventories and Prepaid Items

The city does not report inventories of supplies for consumable items due to the unused amount of these items being on hand at any given time being deemed immaterial. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased; however, the City does not have any prepaid items.

5. Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment and infrastructure assets (e.g., city park, city hall, roads, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Buildings and improvements	15 to 40 years
Machinery and equipment	5 to 7 years
Furniture and fixtures	5 to 7 years
Infrastructure	20 years

6. Deferred Outflows/Inflows 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 assets that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City currently does not have any financial transactions that qualify for reporting in this category.

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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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 assets 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 only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

7. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

8. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

10. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

11. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general fund and debt service fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the department level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year.

A. Expenditures in Excess of Appropriations

For the year ended, expenditures exceeded budget appropriations at the legal level of control as follows:

General Fund:		
Administration	\$	97,838
Police		22,494
Culture and recreation		2,793
Debt service - principal		7,311
Debt service - interest		416

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2021, the City had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
External investment pools	\$ 140,667	0.10
Total value	\$ 140,667	
Portfolio weighted average maturity		0.10

Interest rate risk In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity of its investment portfolio to less than 10 months; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of yearend, the City's investment in the Texpool investment pool was rated AAAM by Standard & Poor's.

Concentration of credit risk – The City's investment policy does not allow for an investment in any one issuer that is in excess of 5 percent of the City's total investments. This restriction however, does not apply to government investment pools due to the low risk nature of this type of investment.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2021, the market values of pledged securities and FDIC exceeded bank balances.

City of Kempner, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

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Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as to the office of the Comptroller of Public Accounts for review. There were no limitations or restrictions on withdrawals.

B. Receivables

The following comprise receivable balances of the primary government at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Street Maintenance</u>	<u>Total</u>
Property taxes	\$ 6,289	\$ 3,334	\$ -	\$ 9,623
Sales tax	19,228	-	4,807	24,035
Franchise and local taxes	9,810	-	-	9,810
Total	<u>\$ 35,327</u>	<u>\$ 3,334</u>	<u>\$ 4,807</u>	<u>\$ 43,468</u>

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 132,744	\$ -	\$ -	\$ 132,744
Total capital assets not being depreciated	<u>132,744</u>	<u>-</u>	<u>-</u>	<u>132,744</u>
Capital assets, being depreciated:				
Buildings and improvements	845,653	-	-	845,653
Machinery, equipment, and vehicles	150,191	29,780	-	179,971
Infrastructure	249,086	-	-	249,086
Total capital assets being depreciated	<u>1,244,930</u>	<u>29,780</u>	<u>-</u>	<u>1,274,710</u>
Less accumulated depreciation				
Buildings and improvements	(174,753)	(21,691)	-	(196,444)
Machinery, equipment, and vehicles	(130,670)	(15,081)	-	(145,751)
Infrastructure	(80,874)	(12,454)	-	(93,328)
Total accumulated depreciation	<u>(386,297)</u>	<u>(49,226)</u>	<u>-</u>	<u>(435,523)</u>
Net capital assets being depreciated	<u>858,633</u>	<u>(19,446)</u>	<u>-</u>	<u>839,187</u>
Total Capital Assets	<u><u>\$ 991,377</u></u>	<u><u>\$ (19,446)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 971,931</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 11,857
Public safety	14,881
Public works	12,454
Culture and recreation	10,034
Total Governmental Activities Depreciation Expense	<u><u>\$ 49,226</u></u>

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

D. Long-term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. In general, the City uses the general and debt service fund to liquidate governmental long-term liabilities.

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds and other payables					
GO Refunding Bonds	\$ 255,000	\$ -	\$ (35,000)	\$ 220,000	\$ 35,000
Note payable - COPsync	7,311	-	(7,311)	-	-
Total Governmental Activities	<u>\$ 262,311</u>	<u>\$ -</u>	<u>\$ (42,311)</u>	<u>\$ 220,000</u>	<u>\$ 35,000</u>
Long-term liabilities due in more than one year				<u>\$ 185,000</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Long-term debt at year end was comprised of the following debt issues:

<u>Description</u>	<u>Interest Rate</u>	<u>Original Balance</u>	<u>Current Balance</u>
Governmental Activities:			
General Obligation Bonds:			
Series 2012 General Obligation Refunding Bonds	2.82%	\$ 490,000	\$ 220,000
Notes Payable			
2017 Note Payable - COPsync	4.73%	30,926	-
Total Governmental Activities		<u>\$ 520,926</u>	<u>\$ 220,000</u>

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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The annual requirements to amortize governmental activities debt issues outstanding at year ending were as follows:

General Obligation Bonds:

Year ending September 30,	G.O. Refunding Bonds	
	Principal	Interest
2023	\$ 35,000	\$ 6,204
2024	35,000	5,217
2025	35,000	4,230
2026	35,000	3,243
2027	40,000	2,256
2028	40,000	1,128
Total	\$ 220,000	\$ 22,278

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds are from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.

E. Interfund Transactions

The composition of interfund balances as of yearend is as follows:

Due to: Payable Funds	Due from: Receivable Funds		Total
	General	Sales Tax - Street	
General	\$ -	\$ 13,261	\$ 13,261
Debt Service	7,060	-	7,060
	\$ 7,060	\$ 13,261	\$ 20,321

Amounts recorded as “due to/from” are considered to be temporary loans and will be repaid during the following year.

The composition of interfund transfers during the current year is as follows:

Transfers Out	Transfers In	
	Sales Tax - Street	Total
General	\$ 906	\$ 906
	\$ 906	\$ 906

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

F. Fund Equity

The City records fund balance restrictions on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The following is a list of fund balances restricted/committed/assigned by the City:

	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>
Debt service	\$ 2,257	\$ -	\$ -
Streets	-	51,229	-
Infrastructure	-	-	190,000
Parks	-	-	55,200
	<u>\$ 2,257</u>	<u>\$ 51,229</u>	<u>\$ 245,200</u>

V. OTHER INFORMATION

A. 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; and natural disasters for which the City participates along with 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

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NOTES TO FINANCIAL STATEMENTS, Continued
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C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does anticipate that it will have an arbitrage liability and performs annual calculations to estimate this potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations, if indicated.

D. Defined Benefit Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Kempner participates as one of 895 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 (ACFR) that can be obtained at www.tmr.com.

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

2. 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 payments

City of Kempner, Texas

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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 2020</u>
Employee deposit rate	5%
Matching ratio (city to employee)	1 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20
Updated service credit	0%
Annuity increase (to retirees)	0% of CPI
Active Employees	Yes
Supplemental Death Benefit to Retirees	Yes

Employees covered by benefit terms

At the December 31, 2020, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>4</u>
Total	<u>4</u>

3. 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 for the City of Kempner were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Kempner were 1.71% in

City of Kempner, Texas
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calendar years 2020 and 2021, respectively. The City's contributions to TMRS for the year ended September 30, 2021, were \$1,820, and were equal to the required contributions.

4. Net Pension Liability

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

Actuarial assumptions

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

Inflation	2.5% per year
Overall payroll growth	2.75% per year
Investment Rate of Return	6.75% net of pension plan investment expense, including
Inflation	

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum 16 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.

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

City of Kempner, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

(expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

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.

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 be 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 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 690	\$ 356	\$ 81

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/19	\$ -	\$ -	\$ -
Changes for the year:			
Service cost	1,485	-	1,485
Interest	69	-	69
Difference between expected and actual experience	285	-	285
Contributions – employer	-	378	(378)
Contributions – employee	-	1,105	(1,105)
Net changes	1,839	1,483	356
Balance at 12/31/20	\$ 1,839	\$ 1,483	\$ 356

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.

5. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2021, the City recognized pension expense of \$734.

At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Contributions subsequent to the measurement date	\$ 1,500
Total	\$ 1,500

The City reported \$1,500 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2022.

E. Postemployment Benefits Other Than Pensions

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as

City of Kempner, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City 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 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); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The 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.

Employees covered by benefit terms

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	0
Active employees	4
Total	4

The City's contributions to the TMRS SDBF for the fiscal years ended 2021 and 2020 were \$0, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates (*RETIREE-only portion of the rate*)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2020	0.00%	0.00%	100.00%
2021	0.00%	0.00%	100.00%

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2020, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5%, including inflation per year
Discount rate	2.00%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under 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 RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 2.00%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

Sensitivity of the Total OPEB liability to Changes in the Discount Rate

The following presents the OPEB liability of the City, calculated using the discount rate of 2.00%, as well as what the City's OPEB liability would be if it were calculated using a

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

discount rate that is 1-percentage-point lower (1.00%) or 1-percentage-point higher (3.00%) than the current rate:

1% Decrease (1.00%)	Current Single Rate Assumption 2.00%	1% Increase (3.00%)
\$ 152	\$ 109	\$ 79

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/19	\$ -
Changes for the year:	
Service Cost	55
Interest	1
Change in benefit terms	20
Changes of assumptions	33
Net changes	109
Balance at 12/31/20	\$ 109

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

For the year ended September 30, 2021, the City recognized OPEB expense of \$80.

At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows of Resources
Change in assumptions	\$ 29
Total	\$ 29

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

Amounts reported as deferred outflows of resources related to pensions will be recognized in OPEB expense as follows:

Year ended December 31:	
2021	\$ 4
2022	4
2023	4
2024	4
2025	4
Thereafter	9
	\$ 29

F. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The funds in the plan are held by Nationwide Retirement Solutions, Inc. of Columbus, Ohio as the plan administrator for the City. The funds are held in a trust by Nationwide Retirement Solutions, Inc. for the exclusive benefits of the employees and their beneficiaries who will receive these funds directly remitted by Nationwide Retirement Solutions, Inc. to the City employees and their beneficiaries. The City no longer holds the amounts deferred by the employees or related income on these amounts. Therefore, since the plan does not qualify to be included with the City's fiduciary funds, there are not any plan assets included in the City's financial statements.

City of Kempner, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

G. Restatement

Due to various accounting errors in the prior year, the City restated its beginning net position/fund balance within governmental activities, the general fund and the sales tax street fund. The restatement to beginning net position/fund balance is as follows:

	<u>Governmental Activities</u>	<u>General</u>	<u>Sales Tax Street</u>
Prior year ending net position/fund balance, as reported	\$ 1,013,961	381,199	\$ 10,469
Correction to capital assets	142,098	-	-
Recognition of accrued interest	(1,421)	-	-
Correction to tax receivables/deferred inflows	5,997	8,873	13,710
Recognition of other income	3,561	3,561	-
Restated beginning net position/fund balance	<u>\$ 1,164,196</u>	<u>\$ 393,633</u>	<u>\$ 24,179</u>

H. Subsequent Events

There were no material subsequent events through September 23, 2023, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Kempner, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended September 30, 2021

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 72,000	\$ 77,433	\$ 5,433
Sales tax	83,000	101,582	18,582
Franchise and local taxes	45,725	48,060	2,335
License and permits	725	1,175	450
Fines and forfeitures	30,000	35,029	5,029
Grants and contributions	1,176	193,001	191,825
Investment income	4,000	121	(3,879)
Other revenue	2,600	16,194	13,594
Total Revenues	239,226	472,595	233,369
<u>Expenditures</u>			
Current:			
General government:			
Administration	106,206	204,044	(97,838) *
Public safety:			
Police	114,363	136,857	(22,494) *
Municipal court	9,002	9,002	-
Culture and recreation:			
Culture and recreation	12,938	15,731	(2,793) *
Debt service:			
Principal	-	7,311	(7,311) *
Interest	-	416	(416) *
Total Expenditures	242,509	373,361	(130,852)
Revenues Over (Under) Expenditures	(3,283)	99,234	102,517
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	-	(906)	(906) *
Total Other Financing Sources (Uses)	-	(906)	(906)
Net Change in Fund Balance	\$ (3,283)	98,328	\$ 101,611
Beginning fund balance		393,633	
Ending Fund Balance		\$ 491,961	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles
- * 2. Expenditures exceeded appropriations at the legal level of control.

City of Kempner, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years Ended:

	¹ <u>12/31/2020</u>
Total pension liability	
Service cost	\$ 1,485
Interest (on the Total Pension Liability)	69
Differences between expected and actual experience	285
Net change in total pension liability	1,839
Total pension liability - beginning	-
Total pension liability - ending (a)	\$ 1,839
Plan fiduciary net position	
Contributions - employer	\$ 378
Contributions - members	1,105
Net change in plan fiduciary net position	1,483
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending (b)	\$ 1,483
Fund's net pension liability - ending (a) - (b)	\$ 356
Plan fiduciary net position as a percentage of the total pension liability	80.64%
Covered payroll	\$ 22,105
Fund's net pension liability as a percentage of covered payroll	1.61%

Notes to schedule:

1) 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 shown.

City of Kempner, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Years Ended:

	¹ 9/30/2021
Actuarially determined employer contributions	\$ 1,820
Contributions in relation to the actuarially determined contribution	\$ 1,820
Contribution deficiency (excess)	\$ -
Annual covered payroll	\$ 106,445
Employer contributions as a percentage of covered payroll	1.71%

1) 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 shown.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes 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	9 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	

Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018.

Mortality

Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.

Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes There were no benefit changes during the year other than TMRS plan participation

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City of Kempner, Texas

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM

Years Ended:

	¹ <u>12/31/2020</u>
Total OPEB liability	
Service cost	\$ 55
Interest	1
Changes of assumptions	33
Change of benefit terms	<u>20</u>
Net changes	<u>109</u>
Total OPEB liability - beginning	<u>-</u>
Total OPEB liability - ending	² \$ <u><u>109</u></u>
Covered payroll	\$ 22,105
Total OPEB Liability as a percentage of covered payroll	0.49%

Notes to schedule:

- ¹ 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 shown.
- ² No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.