

CITY OF KEMPNER, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2025



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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Kempner, Texas (the "City"), as of and for the year ended September 30, 2025, 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, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2025, and the respective changes in financial position, and the respective budgetary comparison for the General Fund 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 section which precedes the basic financial statements and the pension and other post-employment benefits liabilities related schedules following the notes to the financial statements 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 schedules 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, these schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

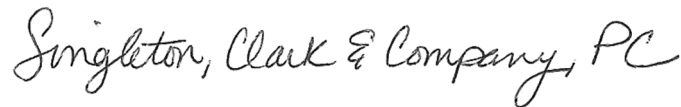
Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2026 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 the City's internal control over financial reporting and compliance.



Singleton, Clark & Company, PC
Cedar Park, Texas

May 29, 2026

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CITY OF KEMPNER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Management's Discussion and Analysis

The Management's Discussion and Analysis section of the City of Kempner, Texas's (hereafter the "City") Annual Financial Report offers readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2025. Please read it in conjunction with the independent auditor's report beginning on page 1 of this report and the City's basic financial statements which follow this section.

Financial Highlights

- The City's net position for governmental activities increased by \$466,528 as a result of the current year's operations to end at \$2,161,882.
- The City's fund balance in the General Fund increased by \$106,887 for the year, to end at \$640,470.
- Total governmental funds of the City reported an overall fund balance increase of \$183,572 for the year, to end at \$918,157.

Overview of the Financial Statements

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

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 financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference between assets and liabilities 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 as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses 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).

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.

CITY OF KEMPNER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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 City'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 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, the Municipal Court Fund, the Street Sales Tax Fund, and the Debt Service Fund, all of which are considered to be major funds.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided within the basic financial statements for the General Fund to demonstrate compliance with this budget.

Basis of Reporting. The government-wide statements are reported using the full accrual basis of accounting. The governmental funds are reported using the modified accrual basis of accounting.

Notes to the 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.

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 and OPEB benefits to its employees as well as a schedule of budget to actual information for the City's Debt Service Fund.

CITY OF KEMPNER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$2,161,882 at the close of the most recent fiscal year.

**Condensed Statement of Net Position
As of September 30,**

	Governmental Activities	
	2025	2024
Current assets	\$ 966,732	\$ 781,374
Capital assets	1,378,738	1,005,806
Total assets	2,345,470	1,787,180
Deferred outflows of resources	4,431	2,954
Current liabilities	36,702	32,706
Noncurrent liabilities	136,004	57,446
Total liabilities	172,706	90,152
Deferred inflows of resources	15,313	4,628
Net position:		
Net investment in capital assets	1,273,786	966,904
Restricted	20,686	18,849
Unrestricted	867,410	709,601
Total net position	\$ 2,161,882	\$ 1,695,354

By far, the largest portion of the City's net position (59%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$867,410 is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors. At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net position, both for the City as a whole, as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

CITY OF KEMPNER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Governmental Activities. During the current fiscal year, net position for governmental activities increased by \$466,528 from the prior fiscal year for an ending balance of \$2,161,882.

**Condensed Statement of Activities
For the Years Ended September 30,**

	Governmental Activities	
	2025	2024
Program Revenues:		
Charges for services	\$ 2,435	\$ 3,480
Operating grants & contributions	51,660	51,808
Capital grants and contributions	376,688	93,066
General Revenues:		
Property taxes	302,265	216,963
Other taxes	317,903	325,133
Investment income	10,127	9,563
Other revenues	71,708	59,685
Total revenue	<u>1,132,786</u>	<u>759,698</u>
Expenses:		
General government	330,590	312,792
Public safety	297,254	246,794
Culture and recreation	32,865	13,941
Interest on long-term debt	5,549	6,154
Total expenses	<u>666,258</u>	<u>579,681</u>
Increase (decrease) in net position	466,528	180,017
Net position - beginning	<u>1,695,354</u>	<u>1,515,337</u>
Net position - ending	<u>\$ 2,161,882</u>	<u>\$ 1,695,354</u>

CITY OF KEMPNER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Financial Analysis of Governmental Funds

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

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

As the City completed this annual period, the General Fund reported an ending fund balance of \$640,470, which represents an increase of \$106,887 from the previous year. Of this net change in fund balance, \$28,656 is the result of operations. The primary reason for that portion of the increase in fund balance was greater than originally anticipated sales tax revenues during the year.

The City's Municipal Court Fund reported an ending fund balance of \$18,179, which represents an increase of \$2,700 from the previous year as a result of the current year's operations.

The City's Street Sales Tax Fund reported an ending fund balance of \$259,470, which represents an increase of \$73,947 from the previous year and primarily relates to than originally anticipated repairs and maintenance expenditures for the year.

The City's Debt Service Fund reported an ending fund balance of \$38, which represents an increase of \$38 from the previous year. This ending fund balance is the result of collections of delinquent property taxes that were levied in previous fiscal years.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year the City made a large amendment to the Intergovernmental Revenues and related Capital Outlay line items relating to the receipt and disbursement of capital related grant funding. In addition, there was a need to make an amendment to reallocate appropriations among departments. The amendment made to the Public Safety function in the General Fund was considered significant.

CITY OF KEMPNER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Capital Assets and Debt Administration

Capital assets. As of September 30, 2025, the City had \$1,378,738 (net of accumulated depreciation) invested in capital assets, including buildings, infrastructure, and furniture and equipment.

A summary of the ending balances of capital assets by major category for both 2025 and 2024 is as follows:

Capital Assets, Net of Accumulated Depreciation

	Governmental Activities 2025	Governmental Activities 2024	Change
Land	\$ 132,744	\$ 132,744	\$ -
Buildings	916,574	916,574	-
Infrastructure	249,086	249,086	-
Furniture and equipment	330,775	330,775	-
Construction in progress	386,688	-	386,688
Right to Use Lease Assets	79,374	-	79,374
Total	2,095,241	1,629,179	466,062
Less accumulated depreciation	(716,503)	(623,373)	(93,130)
Capital assets, net of depreciation	\$ 1,378,738	\$ 1,005,806	\$ 372,932

Long-term Debt. At year-end, the City had \$104,952 in notes payable and right to use lease assets payable versus \$38,902 last year. This increase is the result of the City entering into a right to use lease asset payable during the year for a police vehicle.

A summary of the ending balances of long-term debt by type for both 2025 and 2024 is as follows:

Outstanding Debt

	Governmental Activities 2025	Governmental Activities 2024	Change
Notes payable	\$ 26,721	\$ 38,902	\$ (12,181)
Right to use lease assets payable	78,231	-	78,231
Total	\$ 104,952	\$ 38,902	\$ 66,050

CITY OF KEMPNER, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Economic Factors and Next Year's Budgets and Rates

The City considered many factors when setting the fiscal year 2026 budget. The City's General Fund budget for fiscal year 2026 includes expenditures of \$773,073 which is an increase of approximately \$227 thousand from the fiscal year 2025 original adopted expenditures budget. The city held constant its maintenance and operations tax rate at \$0.3787. The City did not adopt a debt service tax rate for fiscal year 2026.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those interested in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's business office at City of Kempner, Texas, 12288 U.S. Highway 190, Kempner, Texas 76539 or by calling (512) 932-2180.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF KEMPNER, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents	\$ 652,049
Investments - current	225,122
Taxes receivable - delinquent	24,208
Allowance for uncollectible taxes	(7,265)
Intergovernmental receivable	72,618
Capital assets, not being depreciated:	
Land	132,744
Construction in progress	386,688
Capital assets, being depreciated:	
Buildings and improvements	916,574
Infrastructure	249,086
Machinery, equipment, and vehicles	330,775
Right to use lease assets, net	79,374
Accumulated depreciation	(716,503)
Total assets	<u>2,345,470</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows NPL	4,035
Deferred outflows OPEB	396
Total deferred outflows of resources	<u>4,431</u>
LIABILITIES	
Accounts payable	5,443
Accrued salaries and benefits	16,005
Intergovernmental payable	10,184
Accrued interest payable	5,070
Noncurrent liabilities:	
Due within one year	40,823
Due in more than one year	87,408
Net pension liability	6,930
Other post employment benefits liability	843
Total liabilities	<u>172,706</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows NPL	14,373
Deferred inflows OPEB	940
Total deferred inflows of resources	<u>15,313</u>
NET POSITION	
Net investment in capital assets	1,273,786
Restricted for court security and technology	18,179
Restricted for debt service	2,507
Unrestricted	867,410
Total net position	<u>\$ 2,161,882</u>

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

CITY OF KEMPNER, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2025

					Net (Expense)
					Revenue and Changes
					in Net Position
					Primary Government
					Governmental
Functions/Programs:	Expenses	Charges for	Operating	Capital	Activities
		Services	Grants and	Grants and	
			Contributions	Contributions	
Primary Government:					
Governmental activities:					
General government	\$ 330,590	\$ 485	\$ 51,660	\$ 376,688	\$ 98,243
Public safety	297,254	-	-	-	(297,254)
Culture and recreation	32,865	1,950	-	-	(30,915)
Interest and bank fees	5,549	-	-	-	(5,549)
Total governmental activities:	666,258	2,435	51,660	376,688	(235,475)
Total primary government	\$ 666,258	\$ 2,435	\$ 51,660	\$ 376,688	(235,475)
General revenues:					
	Property taxes				302,265
	Sales taxes				266,929
	Franchise taxes				50,974
	Contributions and donations				234
	Investment earnings				10,127
	Miscellaneous				71,474
	Total general revenues				702,003
	Change in net position				466,528
	Net position - beginning				1,695,354
	Net position - ending				\$ 2,161,882

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

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FUND BASIS FINANCIAL STATEMENTS

CITY OF KEMPNER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2025

	General	Municipal	Street	Debt	Total
	Fund	Court	Sales Tax	Service	Governmental
	Fund	Fund	Fund	Fund	Funds
ASSETS					
Cash and cash equivalents	\$ 402,498	\$ 24,393	\$ 225,115	\$ 43	\$ 652,049
Investments - current	225,122	-	-	-	225,122
Taxes receivable - delinquent	20,679	-	-	3,529	24,208
Allowance for uncollectible delinquent taxes	(6,205)	-	-	(1,060)	(7,265)
Intergovernmental receivable	42,196	-	30,422	-	72,618
Due from other funds	3,246	-	3,933	-	7,179
Total assets	<u>\$ 687,536</u>	<u>\$ 24,393</u>	<u>\$ 259,470</u>	<u>\$ 2,512</u>	<u>\$ 973,911</u>
LIABILITIES					
Accounts payable	\$ 5,443	\$ -	\$ -	\$ -	\$ 5,443
Accrued payroll	16,005	-	-	-	16,005
Intergovernmental payable	10,184	-	-	-	10,184
Due to other funds	960	6,214	-	5	7,179
Total liabilities	<u>32,592</u>	<u>6,214</u>	<u>-</u>	<u>5</u>	<u>38,811</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources - property taxes	14,474	-	-	2,469	16,943
Total deferred inflows of resources	<u>14,474</u>	<u>-</u>	<u>-</u>	<u>2,469</u>	<u>16,943</u>
FUND BALANCES					
Restricted:					
Court security & technology	-	18,179	-	-	18,179
Debt service	-	-	-	38	38
Committed:					
Street improvements	-	-	259,470	-	259,470
Unassigned	640,470	-	-	-	640,470
Total fund balances	<u>640,470</u>	<u>18,179</u>	<u>259,470</u>	<u>38</u>	<u>918,157</u>
Total liabilities, def. inflows, and fund balances	<u>\$ 687,536</u>	<u>\$ 24,393</u>	<u>\$ 259,470</u>	<u>\$ 2,512</u>	<u>\$ 973,911</u>

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

CITY OF KEMPNER, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

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

Total fund balance of all governmental funds	\$ 918,157
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,378,738
Other long-term assets, such as uncollected property taxes, are not available to pay for and, therefore, are reported as unavailable revenue in the funds.	16,943
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(133,301)
Additional long-term liabilities related to the recognition of the net pension liability and the net OPEB liability are not reported in the funds.	(18,655)
Net position of governmental activities	<u>\$ 2,161,882</u>

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

CITY OF KEMPNER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	General Fund	Municipal Court Fund	Street Sales Tax Fund	Debt Service Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 294,610	\$ -	\$ -	\$ 38	\$ 294,648
Sales taxes	186,850	-	80,079	-	266,929
Franchise taxes	50,974	-	-	-	50,974
Penalties and interest on taxes	3,850	-	-	-	3,850
Licenses and permits	685	-	-	-	685
Intergovernmental revenues	428,348	-	-	-	428,348
Charges for services	1,750	-	-	-	1,750
Fines	63,821	-	-	-	63,821
Investment earnings	9,811	38	278	-	10,127
Grants and contributions	234	-	-	-	234
Miscellaneous revenue	685	6,042	926	-	7,653
Total revenues	1,041,618	6,080	81,283	38	1,129,019
EXPENDITURES					
Current:					
General government	260,973	3,380	7,336	-	271,689
Public safety	243,232	-	-	-	243,232
Culture and recreation	28,053	-	-	-	28,053
Debt service:					
Notes payable principal	12,181	-	-	-	12,181
Interest - notes payable	2,461	-	-	-	2,461
Capital outlay	466,062	-	-	-	466,062
Total expenditures	1,012,962	3,380	7,336	-	1,023,678
Excess (deficiency) of revenues over expenditures	28,656	2,700	73,947	38	105,341
OTHER FINANCING SOURCES (USES)					
Proceeds from Right to Use Lease Assets	78,231	-	-	-	78,231
Total other financing sources (uses)	78,231	-	-	-	78,231
Net change in fund balance	106,887	2,700	73,947	38	183,572
Fund balance - beginning	533,583	15,479	185,523	-	734,585
Fund balance - ending	\$ 640,470	\$ 18,179	\$ 259,470	\$ 38	\$ 918,157

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

CITY OF KEMPNER, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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

Net change in fund balances for total governmental funds	\$ 183,572
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.	372,932
Property taxes are recognized as revenue in the governmental funds when collected but recognized on the Statement of Activities in the year levied. Therefore, the uncollected amount of the current year levy is added to current year property tax revenue on the Statement of Activities.	3,767
The repayment of principal on bonds and notes payable is an expenditure in the governmental fund, but this expenditure is removed from the Statement of Activities and these repayment instead reduce long-term liabilities on the Statement of Net Position.	(74,212)
The net effect of various transactions involving the net pension liability and the net OPEB liability is to increase net position.	(19,531)
Change in net position for governmental activities	<u>\$ 466,528</u>

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

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CITY OF KEMPNER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Property taxes	\$ 306,953	\$ 294,610	\$ 294,610	\$ -
Sales taxes	132,507	174,233	186,850	12,617
Franchise taxes	45,300	52,866	50,974	(1,892)
Penalties and interest on taxes	1,403	3,850	3,850	-
Licenses and permits	1,150	680	685	5
Intergovernmental revenues	750	428,349	428,348	(1)
Charges for services	3,400	1,750	1,750	-
Fines	50,000	62,976	63,821	845
Investment earnings	3,200	9,739	9,811	72
Grants and contributions	-	234	234	-
Miscellaneous revenue	1,450	78,142	685	(77,457)
Total revenues	546,113	1,107,429	1,041,618	(65,811)
EXPENDITURES				
Current:				
General government	287,960	284,472	260,973	23,499
Public safety	207,750	240,465	243,232	(2,767)
Culture and recreation	15,150	30,837	28,053	2,784
Debt service:				
Principal	28,456	12,181	12,181	-
Interest	6,547	2,461	2,461	-
Capital outlay	-	475,200	466,062	9,138
Total Expenditures	545,863	1,045,616	1,012,962	32,654
Excess (deficiency) of revenues over expenditures	250	61,813	28,656	(33,157)
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(115,067)	-	115,067
Proceeds from Right to Use Lease Assets	-	-	78,231	78,231
Total other financing sources (uses)	-	(115,067)	78,231	193,298
Net change in fund balances	250	(53,254)	106,887	160,141
Fund balance - beginning	533,583	533,583	533,583	-
Fund balance - ending	\$ 533,833	\$ 480,329	\$ 640,470	\$ 160,141

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

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NOTES TO THE FINANCIAL STATEMENTS

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CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

I. Summary of Significant Accounting Policies

A. Reporting Entity

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.

B. Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

C. Fund Financial Statements

The fund financial statements provide information about the City's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 accounted for in another fund.

The Municipal Court Fund accounts for fines collected for and restricted specifically for the court technology and security expenditures.

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

The Debt Service Fund is used to account for the payment of principal and interest on City's bonded debt. The primary source of revenue for the Debt Service Fund is local property tax revenue.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to 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.

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

The 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 City 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under right to use leases and subscription based IT arrangements are reported as other financing sources.

Property taxes, sales 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

Proprietary, pension and other postemployment benefit trust, and private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Custodial funds have no measurement focus but utilize the *accrual basis of accounting* for reporting its assets and liabilities.

E. Budgetary Information

1. Budgetary basis of accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Debt Service Fund. Other special revenue funds do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometimes span a period of more than one fiscal year.

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

The appropriated budget is prepared by fund and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the city council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

2. Excess of expenditures over appropriations

For the year ended September 30, 2025, expenditures did not significantly exceed appropriations in any of the City's legally adopted budgets.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and cash equivalents

The City's cash and cash equivalents are considered to be cash on hand, and demand deposits.

2. Investments

Investments for the City are reported at fair value (generally based on quoted market prices) except for positions in Local Government Investment Pools (TexPool, LoneStar, etc.) when applicable. In accordance with state law, these investment pools operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pools qualify as 2a7-like pools and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. The pools are subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

3. Inventories and prepaid items

Inventories are generally not recorded due to amounts of expendable supplies held not being deemed material. When inventories are recorded, they are charged to expenditures when consumed. Amounts recorded are offset by a fund balance classification titled "nonspendable" which indicates that the inventory does not represent "available expendable resources." 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. Prepaid items are charged to expenditures when consumed. When prepaid items are recorded, they are charged to expenditures when the value represented by the prepaid item has been used. Amounts recorded are offset by a fund balance classification titled "nonspendable" which indicates that the prepaid item amount does not represent "available expendable resources."

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

4. Capital assets

Capital assets, which include real property, buildings and improvements, infrastructure, and machinery, equipment, and vehicles are reported in the government-wide financial statements. Capital assets, except for infrastructure assets, are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one year.

As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other classifications of capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Buildings	10-40
Improvements	10-20
Infrastructure	10-20
Machinery and equipment	5-7
Vehicles	5-7

5. 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 position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. 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. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. Net position flow assumption

Sometimes the City 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 and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

7. Fund balance flow assumptions

Sometimes the City 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 City'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.

8. 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 City 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 City's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the City 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 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 City for specific purposes but do not meet the criteria to be classified as committed.

The council has by resolution authorized the City Manager 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.

G. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

2. *Property taxes*

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The City levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll of January 1, 2024, upon which the levy for the 2024-2025 fiscal year was based, was \$81,290,731. Taxes are delinquent if not paid by February 1st of the following calendar year. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended September 30, 2025, to finance General Fund operations was \$0.3787 per \$100 valuation. The total tax levy for the General Fund for the 2024-2025 fiscal year was \$307,848. Tax collections, including collections of prior year delinquent balances, for the year ended September 30, 2025, were 91% of the year end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes.

3. *Compensated absences*

The City maintains formal programs for vacation, sick leave, and compensatory time. Eligible employees are granted vacation pay benefits in varying amounts to specified maximums depending on tenure with the City. The City's personnel policy permits its eligible employees to accumulate earned but unused vacation, sick leave, and compensatory time pay benefits based on policy maximums. Upon separation from the City, employees are eligible to be paid for their accrued and unused vacation, sick leave, and compensatory time.

II. Stewardship, Compliance and Accountability

A. Violations of Legal or Contractual Provisions

No violations of legal or contractual provisions were noted during the current year.

B. Deficit Fund Equity

For the year ended September 30, 2025 there were no funds reported with deficit fund equity.

III. Detailed Notes on All Activities and Funds

A. Cash Deposits with Financial Institution

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. The City does not have a deposit policy for custodial credit risk. As of September 30, 2025, the City's bank balance was \$652,049. The City's deposits were fully collateralized with securities during the year.

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

B. Investments

As of September 30, 2025, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)	Standard & Poor's Rating
Local government investment pools:			
TEXPOOL	\$ 225,122	1	AAAm
Total investments	<u>\$ 225,122</u>		

TEXPOOL is a local government investment pool. It offers a safe, efficient, and liquid investment alternative to local governments in the State of Texas. The primary objectives of the pool are to preserve capital and protect principal, maintain sufficient liquidity, provide safety of funds and investments, diversify to avoid unreasonable or avoidable risks, and maximize the return on the pool. Cities, counties, school districts, institutions of higher education, special districts, and other public entities of Texas make up the investor base.

TEXPOOL was originally rated in March 1995, but effective April 2002, the Texas Comptroller of Public Accounts contracted with Federated Investors, Inc. for the day-to-day operations of TEXPOOL. Federated Investors, Inc. performs the pool's investment management and custodial functions. It also provides the marketing function, working closely with participants. Federated Securities Corp. acts as the distributor for the portfolio. Oversight of TEXPOOL continues to be provided by the Texas Comptroller, as well as the TEXPOOL advisory board. In January 1995, the advisory board adopted and implemented long-term policy changes to provide for a stable net asset value (NAV) pool, which, in effect, operates like an SEC regulated Rule 2a-7 money-market fund. These changes were made to ensure a more conservative investment strategy and to provide a much higher level of investment safety for local government funds.

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than ten months.

Credit risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of September 30, 2025, investments were included in local governmental investment pools with ratings from Standard & Poor's in compliance with the City's investment policy.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. Information regarding investments in any one issuer that represents five percent or more of the City's total investments must be disclosed under GASB Statement No. 40, excluding investments issued or explicitly guaranteed by the U.S. government. At September 30, 2025, the City had 100% of its investments in local governmental investment pools.

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. At September 30, 2025, the City was not exposed to custodial credit risk.

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

C. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is a detail of receivables for the major and nonmajor funds of both the governmental and proprietary funds of the City, including the applicable allowances for uncollectible accounts:

Governmental Funds:

Governmental Funds			Steet	Total
	General	Debt Service	Sales Tax	Governmental
Receivables	Fund	Fund	Fund	Funds
Property taxes	\$ 20,679	\$ 3,529	\$ -	\$ 24,208
Franchise taxes	11,288	-	-	11,288
Sales taxes	30,908	-	30,422	61,330
Gross receivables	62,875	3,529	30,422	96,826
Less: Allowance for uncollectibles	(6,205)	(1,060)	-	(7,265)
Net receivables	\$ 56,670	\$ 2,469	\$ 30,422	\$ 89,561

D. Capital Assets

Capital assets activity for the year ended September 30, 2025, was as follows:

Governmental Activities:	Balance 10/1/24	Increases	Decreases	Balance 9/30/25
Capital assets, not being depreciated:				
Land	\$ 132,744	\$ -	\$ -	\$ 132,744
Construction in progress	-	386,688	-	386,688
Total capital assets, not being depreciated	132,744	386,688	-	519,432
Capital assets, being depreciated:				
Buildings and improvements	916,574	-	-	916,574
Infrastructure	249,086	-	-	249,086
Machinery, equipment, and vehicles	330,775	-	-	330,775
Right to Use Lease Assets	-	79,374	-	79,374
Total capital assets, being depreciated	1,496,435	79,374	-	1,575,809
Less accumulated depreciation for:				
Buildings and improvements	(268,460)	(28,683)	-	(297,143)
Infrastructure	(130,691)	(12,455)	-	(143,146)
Machinery, equipment, and vehicles	(224,222)	(36,117)	-	(260,339)
Right to Use Lease Assets	-	(15,875)	-	(15,875)
Total accumulated depreciation	(623,373)	(93,130)	-	(716,503)
Total capital assets being depreciated, net	873,062	(13,756)	-	859,306
Governmental activities capital assets, net	\$ 1,005,806	\$ 372,932	\$ -	\$ 1,378,738

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

Governmental activities:	
General government	\$ 46,599
Public safety	41,719
Culture and recreation	4,812
Total depreciation expense - governmental activities	\$ 93,130

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

E. Accrued Liabilities

Accrued liabilities at September 30, 2025, were as follows:

Governmental Funds:

	General Fund	Total Governmental Funds
Salaries and benefits	\$ 16,005	\$ 16,005
State fees	10,184	10,184
Total accrued liabilities	<u>\$ 26,189</u>	<u>\$ 26,189</u>

F. Defined Benefit Pension Plan

Plan Description

The City participates as one of 938 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan 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 employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at *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 Member's benefit is calculated based on the sum of the Member's contributions, with interest, and the city-financed monetary credits with interest. The retiring Member may select of seven monthly benefit payments options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the Member contributions and interest.

Employees Covered by Benefit Terms

At the December 31, 2024 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>6</u>
	<u>12</u>

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Contributions

Member contribution rates in TMRS are either 5%, 6% or 7% of the Member's total compensation, 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 city's contribution rate is based on the liabilities created from the benefit plan options selected by the city and any changes in benefits or actual experience over time.

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 1.19% and 1.70% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the year ended September 30, 2025 were \$4,155, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2024, 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, 2024 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with 110% of the Public Safety table used for males and 100% of 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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 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 the most recent Scale MP- 2021 to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 to December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023, 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 to satisfy the short-term and long-term funding needs of TMRS.

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

The long-term expected rate of return on pension plan investments was determined by best estimate ranges of expected returns for each major asset class. The long-term expected rate of return is determined by weighting the expected return for each major asset class by the respective target asset allocation percentage. The target allocation and best estimates of the expected return for each major asset class in fiscal year 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.00%	7.10%
Core Fixed Income	6.00%	5.00%
Non-Core Fixed Income	6.00%	6.80%
Hedge Funds	5.00%	6.40%
Private Equity	13.00%	8.50%
Private Debt	13.00%	8.20%
Real Estate	12.00%	6.70%
Infrastructure	6.00%	6.00%
Other Public & Private Markets	4.00%	7.30%
Total	100.00%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive Members. 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.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2023	\$ 29,708	\$ 32,617	\$ (2,909)
Changes for the year:			
Service cost	28,586	-	28,586
Interest	3,464	-	3,464
Change of benefit terms	7,319	-	7,319
Difference between expected and actual experience	(13,215)	-	(13,215)
Changes of assumptions	-	-	-
Contributions - employer	-	2,478	(2,478)
Contributions - employee	-	10,410	(10,410)
Net investment income	-	3,449	(3,449)
Administrative expense	-	(22)	22
Net changes	26,154	16,315	9,839
Balance at 12/31/2024	\$ 55,862	\$ 48,932	\$ 6,930

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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 in Discount Rate 5.75%	Current Discount Rate 6.75%	1% Increase in Discount Rate 7.75%
City's net pension liability/(asset) \$	15,457	6,930	(104)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

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

For the year ended September 30, 2025, the city recognized pension expense of \$19,168.

At September 30, 2025, 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 projected and actual investment earnings	\$ 555	\$ 1,607
Differences between expected and actual economic experience	-	12,766
Difference in assumption changes	61	-
Contributions subsequent to the measurement date	3,419	-
Total	<u>\$ 4,035</u>	<u>\$ 14,373</u>

\$3,419 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:

Measurement Year Ended Dec 31st:	Net Deferred Outflows (Inflows) of Resources
2025	\$ (3,436)
2026	(3,418)
2027	(3,692)
2028	(3,087)
2029	(124)
Thereafter	-
Total	<u>\$ (13,757)</u>

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

G. Other Post-Employment Benefit (OPEB) Obligations

Benefits Provided

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 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 post-employment benefit, or OPEB.

Employees Covered by Benefit Terms

At the December 31, 2024 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	-
Active employees	6
	<u>6</u>
	<u><u>6</u></u>

Contributions

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.

The City's contributions to the TMRS SDBF for the years September 30, 2025 and 2024 were \$204 and \$142 respectively, which equaled the required contributions each year.

Plan Assets

At the December 31, 2024 valuation and measurement date, there are no assets accumulated in trust.

Actuarial Assumptions

The Total OPEB Liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Salary increases	3.60%-11.85% including inflation
Discount rate	4.08%
Retirees' share of benefit costs	\$0

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB No. 68. Mortality rates for service retirees are calculated using the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB; while the mortality rate for disabled retirees are calculated using the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females and projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor. The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience study for the period December 31, 2018 to December 31, 2022.

Schedule of Changes in the Total OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2023	\$ 339	\$ -	\$ 339
Changes for the year:			
Service cost	500	-	500
Interest	22	-	22
Change of benefit terms	-	-	-
Difference between expected and actual experience	73	-	73
Changes of assumptions	(91)	-	(91)
Contributions - employer	-	-	-
Contributions - employee	-	-	-
Net investment income	-	-	-
Benefit payments, including refunds of employee contr.	-	-	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	504	-	504
Balance at 12/31/2024	\$ 843	\$ -	\$ 843

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the City, calculated using the discount rate of 4.08%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower 3.08% or 1-percentage-point higher 5.08% than the current rate:

	1% Decrease in Discount Rate 3.08%	Current Discount Rate 4.08%	1% Increase in Discount Rate 5.08%
City's net OPEB liability/(asset)	\$ 1,140	\$ 843	\$ 628

Pension Plan Fiduciary Net Position

Detailed information about the OPEB 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.

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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

For the year ended September 30, 2025, the city recognized OPEB expense of \$363.

At September 30, 2025, 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	\$ 161	\$ 477
Difference in assumption changes	74	463
Contributions subsequent to the measurement date	161	-
Total	<u>\$ 396</u>	<u>\$ 940</u>

\$161 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB 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 OPEB expense as follows:

Measurement Year Ended Dec 31st:	Net Deferred Outflows (Inflows) of Resources
2025	\$ (101)
2026	(101)
2027	(101)
2028	(104)
2029	(94)
Thereafter	(204)
Total	<u>\$ (705)</u>

H. 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. During the year, the City purchased commercial insurance to cover general liabilities. There are no significant reductions in coverage in the past fiscal year and no settlements exceeding insurance coverage for each of the past three fiscal years.

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

I. Long-Term Liabilities

Details of long-term debt obligations outstanding at September 30, 2025 are as follows:

Governmental Activities:

Type	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/25
Notes Payable:					
2022 Note Payable	2022	\$ 65,000	6.330%	2027	\$ 26,721
Right to Use Lease Assets Payable:					
2022 Note Payable	2025	78,231	5.911%	2030	78,231
Total Long-term Debt					<u>\$ 104,952</u>

Changes in Long-Term Liabilities

Changes in the City's long-term liabilities for the year ended September 30, 2025 are as follows:

Governmental Activities

Description	Balance 10/1/24	Additions	Deletions	Balance 9/30/25	Due in One Year
Long-term debt:					
Notes payable	\$ 38,902	\$ -	\$ (12,181)	\$ 26,721	\$ 12,951
Right to use lease assets payable	-	78,231	-	78,231	13,903
Other long-term liabilities:					
Compensated absences*	18,205	5,074	-	23,279	13,969
Governmental activities long-term liabilities	<u>\$ 57,107</u>	<u>\$ 83,305</u>	<u>\$ (12,181)</u>	<u>\$ 128,231</u>	<u>\$ 40,823</u>

*Additions and Deletions presented as a net change

The debt service requirements for the City's notes are as follows:

Year Ended September 30,	Governmental Activities		
	Notes Payable		
	Principal	Interest	Total Requirements
2026	\$ 12,951	\$ 1,691	\$ 14,642
2027	13,770	872	14,642
	<u>\$ 26,721</u>	<u>\$ 2,563</u>	<u>\$ 29,284</u>

The debt service requirements for the City's right to use lease assets payable are as follows:

Year Ending September 30,	Governmental Activities		
	Right to Use Lease Assets Payable		
	Principal	Interest	Total Requirements
2026	\$ 13,903	\$ 4,624	\$ 18,527
2027	14,724	3,803	18,527
2028	15,595	2,932	18,527
2029	16,516	2,011	18,527
2030	17,493	1,034	18,527
	<u>\$ 78,231</u>	<u>\$ 14,404</u>	<u>\$ 92,635</u>

CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

J. Compensated Absences

General Information

The City has a compensated absences policy that awards vacation days, sick leave days, and compensatory time to each applicable full-time employee annually in varying amounts based on tenure. Vacation days, sick leave days, and compensatory hours are accrued beyond the fiscal year in which they are awarded and can be used by employees in future years. There are certain limits to the amount of days that can be accrued regarding each type of leave. Upon separation from the City, employees are eligible to be paid for their accrued and unused vacation, sick leave, and compensatory time.

Accrued Compensated Absences

The City's Compensated Absences Liability represents only days and hours that accumulate beyond one fiscal year, are for services already rendered, and are considered more likely than not to be utilized or paid in cash. For the year ended September 30, 2025, the City reported a beginning liability balance of \$18,205, an increase of \$5,074, and an ending balance related to compensated absences in the amount of \$23,279. Of this amount, the City considers \$13,969 to be due within one year.

Changes in Liabilities

There were no significant changes to the City's policies or rates of usage for the year ended September 30, 2025.

Methods and Assumptions

The City determines the Compensated Absences Liability by calculating each employee's accrued days as of the balance sheet date and multiplying those days by the employee's daily and/or hourly rate. Extended costs not eligible for cash payment as of the balance sheet date are then analyzed for long-term usage rates based on the best available historical data. The City applies a First-in, First-Out (FIFO) flow assumption as it relates to compensated absences.

Once a usage rate is calculated, a percentage of days that are awarded and subsequently go entirely unused is estimated and applied against the gross Compensated Absences Liability to calculate a net Compensated Absences Liability. The City then analyzes the best available historical data to estimate near-term usage rates in order to determine the estimated current portion of the liability.

Expense Recognition

The changes in the Compensated Absences Liability in a fiscal year is recognized as expense and reported as a net change in accordance with Governmental Accounting Standards Board Statement No. 101 – Compensated Absences. This net change includes both additions and deletions to the City's Compensated Absences Liability. Additions include days awarded to employees annually. Deletions to the Compensated Absences Liability include days that are utilized during the fiscal year and days removed from the City's liability as employees exit the City's employment.

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CITY OF KEMPNER, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

K. Interfund Receivables and Payables

The composition of interfund balances as of September 30, 2025 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Municipal Court Fund	\$ 3,241
General Fund	Debt Service Fund	5
Street Sales Tax Fund	General Fund	960
Street Sales Tax Fund	Municipal Court Fund	2,973
Total		<u>\$ 7,179</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. These amounts also include balances of working capital loans made to several nonmajor governmental funds which the general fund expects to collect in the subsequent year.

L. Interfund Transfers

The City did not report any interfund transfers for the year ended September 30, 2025.

M. Contingencies

The City participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the City's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City anticipates such amounts, if any, will be immaterial.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KEMPNER, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Measurement Year 2024	Measurement Year 2023	Measurement Year 2022	Measurement Year 2021	Measurement Year 2020
A. Total pension liability					
1. Service cost	\$ 28,586	\$ 10,954	\$ 9,519	\$ 8,089	\$ 1,485
2. Interest (on the Total Pension Liability)	3,464	1,643	928	397	69
3. Changes of benefit terms	7,319	-	-	-	-
4. Difference between expected and actual experience	(13,215)	(1,849)	(575)	(1,332)	285
5. Changes of assumptions	-	95	-	-	-
6. Benefit payments, including refunds of employee contributions	-	-	-	-	-
7. Net change in total pension liability	\$ 26,154	\$ 10,843	\$ 9,872	\$ 7,154	\$ 1,839
8. Total pension liability - beginning	29,708	18,865	8,993	1,839	-
9. Total pension liability - ending	<u>\$ 55,862</u>	<u>\$ 29,708</u>	<u>\$ 18,865</u>	<u>\$ 8,993</u>	<u>\$ 1,839</u>
B. Plan fiduciary net position					
1. Contributions - employer	\$ 2,478	\$ 2,036	\$ 2,720	\$ 2,098	\$ 378
2. Contributions - employee	10,410	8,777	7,726	6,018	1,105
3. Net investment income	3,449	2,304	(728)	196	-
4. Benefit payments, including refunds of employee contributions	-	-	-	-	-
5. Administrative expense	(22)	(14)	(5)	(1)	-
6. Other changes	(1)	-	7	-	-
7. Net change in plan fiduciary net position	\$ 16,314	\$ 13,103	\$ 9,720	\$ 8,311	\$ 1,483
8. Plan fiduciary net position - beginning	32,617	19,514	9,794	1,483	-
9. Plan fiduciary net position - ending	<u>\$ 48,931</u>	<u>\$ 32,617</u>	<u>\$ 19,514</u>	<u>\$ 9,794</u>	<u>\$ 1,483</u>
C. Net pension liability [A.9 - B.9]	<u>\$ 6,931</u>	<u>\$ (2,909)</u>	<u>\$ (649)</u>	<u>\$ (801)</u>	<u>\$ 356</u>
D. Plan fiduciary net position as a percentage of the total pension liability [B.9 / A.9]	87.59%	109.79%	103.44%	108.91%	80.64%
E. Covered-employee payroll	\$ 262,916	\$ 202,638	\$ 160,571	\$ 147,692	\$ 106,445
F. Net position as a percentage of covered employee payroll [C / E]	2.64%	-1.44%	-0.40%	-0.54%	0.33%

CITY OF KEMPNER, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
NET OPEB LIABILITY
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Fiscal Year				
	2025	2024	2023	2022	2021
Actuarially Determined Contribution	\$ 4,155	\$ 2,395	\$ 2,110	\$ 2,582	\$ 1,820
Contributions in relation to the actuarially determined contribution	(4,155)	(2,395)	(2,110)	(2,582)	(1,820)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 262,916	\$ 202,638	\$ 160,571	\$ 147,692	\$ 106,445
Contributions as a percentage of covered employee payroll	1.58%	1.18%	1.31%	1.75%	1.71%

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	11 Years (longest amortization ladder)
Asset valuation method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary increases	3.60% 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 tables used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).

Other Information:

Notes Increased Employee contribution rate from 5% to 7%.
Increased city matching ration from 1 - 1 to 2 - 1.

CITY OF KEMPNER, TEXAS
SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Measurement Year 2024	Measurement Year 2023	Measurement Year 2022	Measurement Year 2021	Measurement Year 2020
A. Total pension liability					
1. Service cost	\$ 500	\$ 211	\$ 386	\$ 614	\$ 55
2. Interest on Total OPEB Liability	22	21	11	8	1
3. Changes of benefit terms	-	-	-	-	20
4. Difference between expected & actual experience	73	(343)	138	(362)	-
5. Changes of assumptions	(91)	44	(547)	49	33
6. Benefit payments		-	-	-	-
7. Net changes	\$ 504	\$ (67)	\$ (12)	\$ 309	\$ 109
8. Total OPEB Liability - beginning of the year	339	406	418	109	-
9. Total OPEB Liability - end of the year	<u>\$ 843</u>	<u>\$ 339</u>	<u>\$ 406</u>	<u>\$ 418</u>	<u>\$ 109</u>
 E. Covered-employee payroll	 \$ 262,916	 \$ 202,638	 \$ 160,571	 \$ 147,692	 \$ 106,445
 F. Total OPEB Liability as a Percentage of Covered Payroll	 0.32%	 0.17%	 0.25%	 0.28%	 0.10%

CITY OF KEMPNER, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
NET OPEB LIABILITY
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Fiscal Year				
	2025	2024	2023	2022	2021
Actuarially Determined Contribution	\$ 204	\$ 142	\$ -	\$ 133	\$ -
Contributions in relation to the actuarially determined contribution	(204)	(142)	-	(133)	-
Contribution Deficiency (Excess)		\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 262,916	\$ 202,638	\$ 160,571	\$ 147,692	\$ 106,445
Contributions as a percentage of covered employee payroll	0.08%	0.07%	0.00%	0.09%	0.00%

Summary of Actuarial Assumptions:

Inflation	2.50%
Salary increases	3.60% to 11.85%; including inflation
Discount rate*	4.08%
Retirees' 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.
Mortality rates - service retirees	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).
Mortality rates - disabled retirees	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 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 the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.

*The discount rate was based on the Bond Buyer "20-Bond GO Index" rate closest to, but not later than December 31, 20

Note The actuarial assumptions used in the December 31, 2024 valuation were based on the results of an actuarial experience study for the period ending December 31, 2022.

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CITY OF KEMPNER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Property taxes	\$ -	\$ -	\$ 38	\$ 38
Penalties and interest on taxes	-	-	-	-
Investment earnings	-	-	-	-
Total revenues	-	-	38	38
EXPENDITURES				
Debt service:				
Bond principal	-	-	-	-
Interest - bonds	-	-	-	-
Total Expenditures	-	-	-	-
Excess (deficiency) of revenues over expenditures	-	-	38	38
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	-	-	38	38
Fund balance - beginning	-	-	-	-
Fund balance - ending	\$ -	\$ -	\$ 38	\$ 38

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OTHER REPORTING

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

To the Honorable Mayor, Members of the City Council and Citizens of
the City of Kempner, 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, 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, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 29, 2026.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

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Purpose of This Report

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

Singleton, Clark & Company, PC

Singleton, Clark & Company, PC
Cedar Park, Texas

May 29, 2026

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CITY OF KEMPNER, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

SECTION II – FINANCIAL STATEMENT FINDINGS

Findings Related to Financial Statements Which are Required to be Reported in Accordance with Government Auditing Standards:

No findings or questioned costs required to be reported in accordance with *Government Auditing Standards* for the years ended September 30, 2025 and 2024.