
CITY OF KERMIT, TEXAS

FINANCIAL
STATEMENTS AND
OTHER FINANCIAL
INFORMATION

For the Fiscal Year Ended September
30, 2022

whitley

CPAs and Professional Consultants

CITY OF KERMIT, TEXAS
TABLE OF CONTENTS

Page

Certificate of Board

Financial Section

Independent Auditor's Report	1
Management's Discussion and Analysis	5

Basic Financial Statements:

Government Wide Financial Statements:

Statement of Net Position	13
Statement of Activities	14

Fund Financial Statements:

Balance Sheet - Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Statement of Revenues, Expenditures, and Changes in Fund Balance	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19

Proprietary Fund Financial Statements:

Statement of Net Position	20
Statement of Revenues, Expenses, and Change in Fund Net Position	21
Statement of Cash Flows	22
Notes to Financial Statements	23

Required Supplementary Information:

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	48
Notes to Required Supplementary Budget Information	49
Schedule of Changes in Net Pension Liability and Related Ratios	50
Schedule of Pension Contributions	52
Schedule of Changes in the Total OPEB Liability and Related Ratios	53
Schedule of OPES Contribution	54
Notes to the Schedule of changes in the Total OPES Liability and Related Ratios	55

Other Supplementary Information:

Non-major Governmental Funds:

Combining Balance Sheet Nonmajor Governmental Funds	58
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	60

Government Auditing Standards Report Section:

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 <i>Government Auditing Standards</i>	65
Schedule of Findings and Responses	67
Summary Schedule of Prior Audit Findings	71

CERTIFICATE OF BOARD

City of Kermit. Texas Name of City

W
i
n
k
l
e
r
C
o
u
n
t
y

We, the undersigned, certify that the attached Annual Financial and Compliance Report of the above named city was reviewed and (check one) ...L approved_ disapproved for the year ended September 30, 2022 at a meeting of the Council of such city on the 30¹ day of March, 2023.

Signature of Mayor

Signature of City Manager

If the City Council disapproved of the Annual Financial and Compliance Report, the reason (s) for disapproving it is (are): (attach list as necessary)



Odessa Office
7100 E Texas Highway 191
Suite 400
Odessa, Texas
79765 432.362.3800
Main

whitleypenn.com

whitleypenn••

INDEPENDENT AUDITOR'S REPORT

City Council
City of Kermit, Texas

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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.

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 transmittal letter and the combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Odessa, Texas
March 30, 2023

**CITY OF KERMIT,
TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

In this section of the Annual Financial and Compliance Report, we, the managers of the City of Kermit, Texas ("the City"), discuss and analyze the City's financial performance for the fiscal year ended September 30, 2022. Please read it in conjunction with the Independent Auditor's Report and the City's Basic Financial Statements.

Financial Highlights

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$15.1 million (*net position*). Of this amount, \$5.3 million (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors. Governmental activities report a deficit unrestricted net position of \$293 thousand. This is primarily related to the pension and OPEB liabilities.
- The government's total net position increased by \$2.6 million due to operations. Additionally, net position increased by \$147 thousand due to a prior period adjustment to beginning net position.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2.0 million, a decrease of \$0.7 million from the prior year. Approximately 64.5% of the combined fund balance, or \$1.3 million, is *available for spending* at the government's discretion (*assigned and unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was 16.6% of total general fund expenditures.
- The City's long-term liabilities decreased by \$1.8 million over the prior year primarily due to a decrease in bonds payable (\$564 thousand) and a decrease in total net pension liability (\$1.3 million).
- During the year, the City's governmental funds had operating expenditures that were \$1.6 million more than the \$5 million generated in tax and other revenues for the governmental programs. This compares to last year when expenditures exceeded revenues by \$818 thousand.
- The fund balance for all governmental funds ended the year at \$1,962,149 and the ending fund balance from last year was \$2,670,273 (as restated).
- In the City's enterprise funds, operating revenues increased by \$242 thousand while operating expenses increased by \$199 thousand.
- Total cost of the City's programs was \$7.2 million while last year's cost was \$7.9 million.

Using this Annual Report

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 13 • 14). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 16) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget for proprietary activities, fund financial statements tell how goods or services of the City were sold to departments within the City or to external customers and how sales revenues covered the expenses of the goods or services.

The notes to the financial statements (starting on page 23) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

CITY OF KERMIT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (page 13) and changes in net position (page 14) of the City's governmental and business-type activities.

Net Position of the City's governmental activities was \$4,034,601. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements is a deficit of \$293,307 at September 30, 2022. The net pension liability and OPEB liability and related deferred inflows and outflows are the cause of the deficit net position.

Net Position of the City's business-type activities was \$11,025,397, which included \$5,583,914 in unrestricted net position, \$551,819 restricted for debt service and \$4,889,664 in investment in capital assets, net of related debt. The net position of the business-type activities increased by \$1,024,898.

CONDENSED STATEMENT OF NET POSITION
As of September 30, 2022 and 2021

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 4,092,284	\$ 3,854,672	\$ 8,748,772	\$ 7,616,848	\$ 12,841,056	\$ 11,471,520
Capital assets, net	3,698,193	1,573,778	8,064,613	8,458,760	11,762,806	10,032,538
Total Assets	7,790,477	5,428,450	16,813,385	16,075,608	24,603,862	21,504,058
Total Deferred Outflows of Resources	261,333	412,551	117,801	182,971	379,134	595,522
Long-term liabilities	1,224,313	2,122,049	4,277,100	5,230,149	5,501,413	7,352,198
Other liabilities	2,045,394	1,146,701	1,291,589	928,411	3,336,983	2,075,112
Total liabilities	3,269,707	3,268,750	5,568,689	6,158,560	8,838,396	9,427,310
Total Deferred Inflows of Resources	747,502	224,392	337,100	99,520	1,084,602	323,912
Net Position:						
Net investments in capital assets	3,698,193	1,573,778	4,889,664	4,644,275	8,587,857	6,218,053
Restricted	629,715	1,607,566	551,819	546,632	1,181,534	2,154,198
Unrestricted	(293,307)	(833,485)	5,583,914	4,809,592	5,290,607	3,976,107
Total Net Position	\$ 4,034,601	\$ 2,347,859	\$ 11,025,397	\$ 10,000,499	\$ 15,059,998	\$ 12,348,358

CITY OF KERMIT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

Capital Asset and Debt Administration

Capital Assets

At September 30, 2022, the City had \$11,762,806, net of accumulated depreciation, invested in a broad range of capital assets, including land, building and improvements, machinery and equipment, the water system, sewer system and the solid waste fund, as follows:

Capital Assets
(Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	(as restated)					
	2022	2021	2022	2021	2022	2021
Land and land improvements	\$ 74,664	\$ 74,664	\$ 6,300	\$ 6,300	\$ 80,964	\$ 80,964
Construction in progress	2,252,206	379,975			2,252,206	379,975
Buildings and improvements	727,540	693,520			727,540	693,520
Water and sewer system			7,466,035	7,708,490	7,466,035	7,708,490
Machinery and equipment	632,245	533,410	592,278	721,335	1,224,523	1,254,745
Office furniture and equipment	11,538	14,751		22,635	11,538	37,386
Total Capital Assets	\$ 3,698,193	\$ 1,696,320	\$ 8,064,613	\$ 8,458,760	\$ 11,762,806	\$ 10,155,080

The net amount of capital assets increased by \$1,607,726 primarily due to construction in progress for the civic center.

Long-Term Debt

At fiscal year-end, total certificates of obligations for Business-type activities is \$4,289,000 which will primarily be paid with water and sewer revenues. Long-term obligations decreased by \$553,000 due to principal payments made by the City.

Economic factors and next year's budget and rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2022 2023 budget and tax rate. One of those factors is the economy and, in particular, the oil & gas industry. The price of crude oil and natural gas has fluctuated over the course of the current year, which contributes heavily upon the valuation of properties on the mineral roll. The City's population has remained steady with only small increases in recent years. However, administration is fully aware of the volatility of the oil and gas industry and has attempted to adopt a conservative approach to the City's financial operations.

Outstanding Debt

	Business-Type Activities		Total	
	2022	2021	2022	2021
Certificates of obligation				
Certificate of obligation 2008	\$ 1,605,000	\$ 1,850,000	\$ 1,605,000	\$ 1,850,000
Certificate of obligation 2019	2,684,000	2,992,000	2,684,000	2,992,000
Total Outstanding Debt	\$ 4,289,000	\$ 4,842,000	\$ 4,289,000	\$ 4,842,000

These indicators were taken into account when adopting the General Fund budget for 2022-2023. The City's General Fund projects a deficit of \$1,196,102. Compared to fiscal year 2021-2022 budget deficit of \$875,544. The tax rate was set at \$.350415 per \$100 valuation for fiscal year 2022-2023.

BASIC FINANCIAL STATEMENTS

CITY OF KERMIT, TEXAS
STATEMENT OF NET POSITION
September 30, 2022

		Activities	Prima Government Governmental Activities Total	Bus neu-Type
Assets				
Current Assets:				
Cash and cash equivalents	\$ 3,665,730	\$ 8,147,372	\$ 11,813,102	
Receivables, net of allowances:				
Accounts	371,116	381,011	752,127	
Property taxes	84,741		84,741	
Other taxes	101,529	58,747	140,216	
Internal balances	(170,447)	170,447		
Prepays	59,615	11,195	70,810	
Total Current Assets	4,092,284	8,748,772	12,841,056	
Noncurrent Assets:				
Capital assets - net:				
Land and nondepreciable land improvements	74,664	6,300	80,964	
Construction in progress	2,252,206		2,252,206	
Buildings and improvements	727,540		727,540	
Water and Sewer System Machinery and equipment	643,783	7,466,035	7,466,035	
		\$92,278	1,236,061	
Total Capital assets - net	3,698,193	8,064,613	11,762,806	
Total Noncurrent Assets	3,698,193	8,064,613	11,762,806	
Total Assets	7,790,477	16,813,385	24,603,862	
Deferred Outflows of Resources				
Deferred outflows - OPEB	23,899	10,800	34,699	
Deferred outflows - Pension	237,434	107,001	344,435	
Total Deferred Outflows of Resources	261,333	117,801	379,134	
Liabilities				
Current liabilities:				
Accounts payable	\$ 268,346	\$ 431,893	\$ 700,239	
Deposits and other liabilities	109,158	44,074	153,232	
Customer deposits		228,665	228,665	
Retainage payable	91,552		91,552	
Compensated absences	\$0,002	10,776	60,778	
Unearned revenue	1,526,336		1,526,336	
Accrued interest payable		12,181	12,181	
Bonds payable		\$64,000	564,000	
Total current Liabilities	2,045,394	1,291,589	3,336,983	
Noncurrent Liabilities:				
Bonds payable		3,725,000	3,725,000	
Total OPEB liability	147,415	66,500	213,915	
Net pension liability	1,076,898	485,600	1,562,498	
Total Noncurrent Liabilities	1,224,313	4,277,100	5,501,413	
Total Liabilities	3,269,707	5,568,689	8,838,396	
Deferred Inflows of Resources				
Deferred inflows - OPEB	13,516	6,100	19,616	
Deferred inflows - Pension	733,986	331,000	1,064,986	
Total Deferred Inflows of Resources	747,502	337,100	1,084,602	
Net Position				
Net investment in capital assets	3,698,193	4,889,614	8,587,857	
Restricted for:				
Municipal court technology & security	28,311		28,311	
Economic Development	\$89,692		589,692	
Public safety	11,712		11,712	
Debt service		\$51,819	\$51,819	
Unrestricted	(293,307)	\$,583,914	5,290,607	
Total Net Position	\$ 4,034,601	\$ 11,025,397	\$ 15,059,998	

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	
Total Primary Government			
Governmental Activities:			
General government	\$ (47,386)	\$	(47,386)
Public safety	(2,230,811)		(2,230,811)
Culture and recreation	(352,575)		(352,575)
Public works	(950,324)		(950,324)
Total governmental activities	<u>(3,581,096)</u>		(3,581,096)
Business-Type activities:			
Water Utility System		1,841,319	1,841,319
Solid Waste System		35,182	35,182
Total business-type activities		<u>1,876,501</u>	
	<u>1,876,501</u>		
Total primary government	<u>\$</u>	<u>1,876,501</u>	<u>\$ (1,704,595)</u>
\$			
<u>(3,581,096)</u>			
General revenue:			
Taxes:			
Property	802,258	-	802,258
Sales	2,042,807		2,042,807
Mixed beverage	933		933
Franchise	279,004		279,004
Occupancy	882,635		882,635
Unrestricted investment earnings	61,145	6,607	67,752
Miscellaneous	187,967	5,299	193,266
Transfers between governmental and business-type activities	863,509	(863,509)	
Total general revenue and transfers	<u>5,120,258</u>	<u>(851,603)</u>	<u>4,268,655</u>
Change in net position	1,539,162	1,024,898	2,564,060

Net position • beginning of year	2,347,859	10,000,499	12,348,358
Prior period adjustment	147,580		147,580
Net position • end of year	<u>S 4,034,601 S</u>	<u>11,025,397</u>	<u>\$ 15,059,998</u>

**CITY OF KERMIT,
TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
September 30, 2022**

Total Fund balances governmental funds	\$ 1,962,149
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities resources are not financial resources and, therefore, are not reported as net positions in governmental funds.	3,698,193
Long-term liabilities and deferred inflows are not due and payable in this current period and, therefore, are not reported as liabilities in the fund financial statements, but are included in the governmental activities in the Statement of Net Position	
Unavailable revenue	84,741
Deferred outflows related to pension activities	237,434
Deferred outflows related to OPEB activities	23,899
Net pension liability	(1,076,898)
Total OPEB liability	(147,415)
Deferred inflows related to pension activities	(733,986)
Deferred inflows related to OPEB activities	<u>(13,516)</u>
Total net position - governmental activities	<u>\$ 4,034,601</u>

CITY OF KERMIT,
TEXAS

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

For the Year Ended September 30, 2022

Net change in fund balance - total governmental funds \$ (708,124)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

A transfer of capital assets from governmental activities to business-type activities is not reported in the governmental funds but is reported as a Interfund transfer of fixed assets in governmental activities.

Certain deferred inflows of resources were earned in prior year but not yet available for fund level activity. This increase/(decrease) is due to the deferred inflows becoming available in current year.

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

These are detailed below:

P
en
si
on
rel
at
ed
ac
tiv
iti
es
O
P
E
B
rel
at
ed

CITY OF KERMIT,
TEXAS

			22,005
	2,060,598		
(58,725)			275,309
		(51,901)	
Change in net position of governmental activities.		\$	1,539,162

CITY OF KERMIT, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended September 30, 2022

			Water Utili system Enterise	Enterprise Funds Solid Waste system	Total
Operating Revenues Charges for services:					
<i>Water</i> and sewer service	\$ 3,344,307	\$ 1,342,995	\$ 4,687,302		
Fees and permits	381,218		381,218		
Miscellaneous revenues	5,300		5,300		
Total Operating Revenues	3,730,825	1,342,995	5,073,182	0	
Operating Expenses					
Contractual services	369,367	416,629	785,996		
Materials & Supplies	478,183	201,845	680,028		
Personnel services	690,276	507,115	1,197,391		
Other Operating	2,028	30,531	32,559		
Depreciation	301,179	151,693	452,872		
Total Operating Expenses	1,841,033	1,307,183	3,148,846		
Operating income	1,889,792	35,182	1,924,974		
Nonoperating Revenues (Expenses)					
Investment income	6,606		6,606		
Interest and fiscal charges	1101,8981		1101,sgs 1		
Total Nonoperating Revenues (Expenses)	19s,2921		195,2921		
Income before transfers	1,794,500	35,182	1,829,682		
Transfers and Contributions					
capital contributions	58,725		58,725		
Transfers out	!770,3661	!93,1431	!863,5091		
Total Transfers and Contributions - Net	!711,6411	j93,143}	!804?84)		
Change in net position	1,082,8S9	(57,961)	1,024,89 8		
Net Position - Beginning of Year	9,132,010	868,489	!CtOQ_0, 499		
Net Position - End of Year	\$ 10,214,862_	\$ 810,528 _j	11,025,39 7		

**CITY OF KERMIT,
TEXAS
NOTES TO THE FINANCIAL STATEMENTS**

A. Summary of Significant Accounting Policies

The City of Kermit, Texas (the "City") is a municipal corporation under the applicable laws and regulations of the State of Texas. It has a Council • Manager Form of government with the Council Members and Mayor being elected by registered voters of the City. The City Manager is appointed by the City Council and serves as to the Council needs. The Mayor presides over the council meetings but holds no voting power.

The financial statements presented in the report conform to the reporting requirements of the Governmental Accounting Standards Board (GASB), which establishes combined statements as the required reporting level for government entities that present financial statements in accordance with generally accepted accounting principles.

Reporting Entity

The public elects the Mayor and Council. The Council has the authority to make decisions, appoint administrators and managers, and significantly influence operations. They also have the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board in its Statement No. 14, *The Financial Reporting Entity*.

Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Kermit, Texas activities with most of the inter-fund activities removed. *Governmental Activities* include programs supported primarily by taxes, grants, and other inter-governmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. The "grants and contributions" columns include amounts paid by organizations outside the City to help meet the operational and capital requirements of a given function. If revenue is not program revenue, it is general revenue used to support all of the City's functions. Taxes are always general revenue.

Inter-fund activities between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and the Proprietary Fund Statement of Net Position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position. All inter-fund transactions between governmental funds are eliminated on the government-wide statements. Inter-fund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as inter-fund transfers.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental and proprietary funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials, labor, and direct overhead. Other expenses are non-operating.

CITY OF KERMIT, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (continued)

A. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, And Financial Statement Presentation (continued) Fund

Accounting

The City reports the following major governmental funds:

General Fund-The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Hotel/Motel Fund - The City assess and collects a hotel/motel tax to be used for economic development. It is accounted for in a special revenue fund.

American Rescue Plan Act Fund -This fund is being used to account for the advance of funds from the American Rescue Plan Act (ARPA) and will be used to account for related expenditures in the coming year.

The City reports the following non-major governmental funds:

Special Revenue Funds - The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance are accounted for in a special revenue fund, and sometimes, unused balances must be returned to the grantor at the close of specified project periods.

Capital Projects Fund - The City accounts for resources restricted to construction of capital projects in a capital projects fund. The

City reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including administration, operations, maintenance, financing and billing and collection. Included in the Water and Sewer Fund are deposits required to open a utility account. The deposits received to open an account are restricted as to use and considered a current liability of the Fund.

Solid Waste Fund - The Solid Waste Fund is used to account for the trash collection and disposal of solid waste of the residents of the City. All activities necessary to provide such services are accounted for in this fund including operations, maintenance and financing.

Other Accounting Policies

For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of twelve months or less when purchased.

Net position on the Statement of Net Position includes the following:

Net investment in capital assets the component of net position that reports capital assets less both the accumulated depreciation and the outstanding balance of debt and is directly attributable to the acquisition, construction, or improvement of these capital assets.

CITY OF KERMIT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

A. Summary of Significant Accounting Policies (continued) Other

Accounting Policies (continued)

When restricted and other fund balance resources are available for use, it is the City's policy to use restricted resources first, followed by committed, assigned and unassigned amounts, respectively.

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

It is the City's policy to permit full-time employees to accumulate earned but unused vacation and sick pay benefits. These employees may accumulate up to 240 hours of unused vacation benefits and up to 720 hours of unused sick leave benefits. Unused sick leave benefits will not be paid to the employee upon resignation or termination of employment.

The City considers all accrued vacation pay as a current liability because administration expects employees to utilize all allowed vacation within the next twelve months. Therefore, the accumulated vacation benefits are reported as a current liability on the Balance Sheet in the Governmental Funds and in the Statement of Net Position in the Proprietary Fund. The City does not report accumulated sick leave benefits because those benefits are not paid to employees upon resignation or termination.

Capital assets, which include land, buildings, furniture and equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture, and equipment of the City and its component unit are depreciated using the straight-line method over the following estimated useful lives:

Asset category	Useful Life	Threshold
Land	N/A	\$ 5,000
Buildings	22-45 years •	5,000
Building Improvements	15 years	5,000
Water, sewer system and other infrastructure	10-45 years •	5,000
Water and sewer system	10-45 years •	5,000
Office Equipment	7-10 years *	5,000
Computer equipment	5-10 years •	5,000

**Range is due to different assets having different levels of capitalization thresholds within fiscal policy.*

When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

**CITY OF KERMIT,
TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)**

A. Summary of Significant Accounting Policies

(continued) Budgetary Data

The City Council adopts an "appropriated budget" for the General Fund. The City is required to present the adopted and final amended budgeted revenues and expenditures for this fund. The City compares the final amended budget to actual revenues and expenditures.

Prior to September 1, the City Manager submits to the City council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and the actual data for the preceding year.

A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.

Prior to October 1, the Council legally enacts the budget through passage of a resolution. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Council, and are not made after fiscal year end.

The City Council approved and adopted the budget for the year ending September 30, 2022 on September 30, 2021.

Implementation of New Accounting Standards

GASB No. 87, *Leases*, was issued to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a C-A receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The City has evaluated the effects of this standard and has determined that this Statement is not material to the financial statements.

No. 97 *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans -An Amendment of GASB Statements No. 14 and No. 84, and oSupersession of GASB Statement No. 32* was issued in June 2020. This Statement provides guidance regarding the financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans. The Statement will also enhance (1) information related to Section 457 plans that meet the definition of a pension plan and the benefits provided through those plans and (2) investment information for all Section 457 plans. Paragraphs 4 and 5 of the Statement were effective immediately whereas the remaining requirements of this Statement are effective for periods beginning after June 15, 2021. The City has evaluated the effects of this standard and has determined that this Statement does not impact the financial statements.

CITY OF KERMIT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
(continued)

B. Deposits and Investments (continued)

Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Texas Short Term Asset Reserve Program ("TexSTAR") has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. JP Morgan Fleming Asset Management (USA), Inc. ("JPMFAM") and First Southwest Asset Management, Inc. ("FSAM") serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors. JPMFAM provides investment services, and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services Co. The TexSTAR Cash Reserve Fund is designed to be used by participants for investment of funds that require daily liquidity availability. TexSTAR is currently rated AAAm by Standard and Poor's. The state objective of TexSTAR is to maintain a stable average \$1.00 per unit net asset value; however the \$1.00 net asset value is not guaranteed or insured by TexSTAR, its board, the co-administrators, their agents or any governmental or other entity. At September 31, 2022, the carrying amount of the City's deposits in TexSTAR was \$150,272.

TexPool is a local government investment pool created on behalf of Texas entities whose investment objectives are preservation and safety of principal, liquidity and yield consistent with the Public Funds Investment Act. TexPool currently provides investment services to over 2,000 communities throughout the State. TexPool is currently rated AAAm by Standard and Poor's. These funds represent an investment in a pool and are not categorized as to risk because they are not evidenced by securities that exist in physical or book entry form. At September 31, 2022, the carrying amount of the City's deposits in TexPool was \$151.

C. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

D. Delinquent Taxes Receivable

Delinquent taxes are prorated between maintenance and debt service (if applicable) based on rates adopted for the year of the levy. Allowance for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Over the past several years, there has been no debt service tax rate; therefore, all taxes are maintenance and are reported in the General Fund. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

CITY OF KERMIT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
(continued)

F. Receivables and Unearned Revenue

Receivables at September 30, 2022 were as follows:

	Total		
	Hotel/Motel General		
	F_u_n_d		
	<u>Fund</u>		
	-		
Accounts	\$ 495,206	\$	\$ 495,206
Property taxes	84,741		84,741
Other taxes		101,529	101,529
Total	579,947	101,529	681,476
Allowance	(124,090}		(124,090}
Total (net of allowance)	\$ 455,857	\$ 101,529	\$ 557,386
 Proprietary Funds:			
	Water Utility System	Solid Waste System	Total
Billed	330,587	132,836	\$ 463,423
Other	37,016	5,823	42,839
Total	367,603	138,659	506,262
Allowance	(58,113)	(28,391)	{86,504}
Total (net of allowance)	\$ 309,490	\$ 110,268	\$ 419,758

Unearned revenues at September 30, 2022 were as follows:

	Unearned Revenue
American Rescue Plan Act	
Grants	\$ 1,523,646
Total ARPA Fund	1,523,646
Other Governmental Funds	
Deposits for future services	\$ 2,690
Total Other Governmental Funds	2,690
Total Governmental Funds	\$ 1,526,336

G. Capital Assets (continued)

Depreciation expense was charges to functions as follows:

Governmental activities:	
General government	\$ 9,110
Public safety	92,131
Culture and recreation	36,643
Public works	62,371
Total Depreciation Expense.	<u>200,255</u>
Governmental Activities	<u>\$ 200,255</u>
Business-type activities:	\$ 301,179
Water and sewer	<u>151,693</u>
Solid Waste	149,486
Total Depreciation Expense Business-Type Activities	<u>\$ 452,872</u>

Construction commitments for the City's current projects under construction was \$207,272.

H. Long-Term Liabilities

Tax and Revenue Certificates of Obligation - 2008

The City issued \$4,595,000 in Combination Tax and Revenue Certificates of Obligation, Series 2008, on March 11, 2008. The proceeds were used to construct a new wastewater treatment plant as required under state regulations promulgated by the Texas Commission on Environmental Quality (TCEQ). The net revenues of the Water and Sewer Fund serve as pledged collateral for this debt. In addition, the debt covenant allows the City to assess additional property taxes to cover the debt service of the obligations. The City has imposed an assessment of \$12 per water meter connection per month to cover the debt service. The certificates of obligation carry a true interest rate of 2.542%. They are payable over a twenty-year period with a maturity date of February 1S, 2028. Interest payments are due every August 15 and principal and interest payments are due every February 15. Interest expense for the current fiscal year related to this debt reported in the Proprietary Fund financial statements and the government-wide financial statements was \$53,241.

Tax and Revenue Certificates of Obligation - 2019

The City issued \$3,295,000 in Combination Tax and Revenue Certificates of Obligation, Series 2019, on October 17, 2019. The proceeds were used to perform improvements to the City's waterworks system and the construction of new water storage facilities. The net revenues of the Water and Sewer Fund serve as pledged collateral for this debt. In addition, the debt covenant allows the City to assess additional property taxes to cover the debt service of the obligations. The City has elected to impose an assessment of \$11.25 per water meter connection per month to cover the debt service. The certificates of obligation carry interest at rates from 1.65% to 2.15%. They are payable over a ten-year period with a maturity date of February 15, 2030.

Interest payments are due every August 15 and principa! and interest payments are due every February 1S. Interest expense for the current fiscal year related to this debt reported in the Proprietary Fund financial statements and the government wide financial statements was \$60,878.

CITY OF KERMIT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
(continued)

I. Defined Benefit Pension

Plan Description

The City participates as one of 901 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS. The City has elected that members can retire at age 60 and above with 5 or more years of service or with 25 years of service regardless of age. The City does not provide supplemental death benefits. Members may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	32
Inactive employees entitled to but not yet receiving benefits	116
Active employees	<u>54</u>
	<u>202</u>

Contributions

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

CITY OF KERMIT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
(continued)

I. Defined Benefit Pension Plan (continued)

Actuarial Assumptions (continued)

The strategic target allocation of investments will be reviewed annually for reasonableness relative to significant economic and market changes and to changes in the TMRS Board's long-term goals and objectives. The Board has chosen to adopt a rebalancing policy that is governed by allocation ranges rather than time periods. Asset ranges are a function of the volatility of each asset class and the proportion of the total fund allocated to the asset class. The tables bellow illustrates the target allocation and the one-year rate of return for the year ended December 31, 2021:

Asset Class	Target Allocation	Rate of Return
Global Equity	35.0%	17.87%
Core Fixed Income	6.0%	-1.39%
Non-Core Fixed Income	20.0%	5.85%
Other Public & Private Markets	12.0%	12.02%
Real Estate	12.0%	22.23%
Hedge Funds	5.0%	1.60%
Private Equity	10.0%	45.79%
Total	<u>100.0%</u>	

Discount Rate

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

Basis of Allocation

Pension items are allocated between governmental activities and business-type activities on the basis of employee payroll funding. For the year ended September 30, 2022, those percentages were 69% and 31%, respectively, which approximated the prior year's allocations.

CITY OF **KERMIT**, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS (continued)

I. Defined Benefit Pension Plan (continued)

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

For the year ended September 30, 2022, the City recognized pension expense of \$141,339 related to the TMRS plan.

At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows of Resources		Deferred Inflows of Resources
Net difference				
between projected	\$			\$ 257,831
and actual				
investment				
earnings				807,155
Difference in				
assumption changes		344,435		
Differences between				
expected and				
actual				
experience				
Contributions				
subsequent to				
the				
measurement				
date				
		<u>\$ 344,435</u>		<u>\$ 1,064,986</u>

The \$344,435 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, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in a pension expense as follows:

Year Ended September 30,	Amount
2023	\$ (405,407)
2024	(335,660)
2025	(171,234)
2026	(152,685)
	<u>\$ (1,064,986)</u>

J. Other Post-Employment Benefits (OPEB) - Supplemental Death Benefits Fund (continued)

Actuarial assumptions and other inputs: The total OPEB liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Salary Increases Discount rate	3.5% to 11.5% including inflation
Retirees' share of benefit related costs Administrative expenses	1.84%
	\$0
	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. 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 Scale UMP to account for future mortality improvements subject to the floor.

- The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

OPEB items are allocated between governmental activities and business-type activities on the basis of employee payroll funding. For the year ended September 30, 2022, those percentages were 69% and 31%, respectively, which approximated the prior year's allocations.

Changes in Total OPEB Liability

		<u>Total OPEB Liability</u>
Service cost	11,635	
Interest	4,300	
Difference between expected and actual experience	(14,853)	
Changes of assumptions	6,423	

CITY OF KERMIT, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

Benefits payments (5,511)
Net changes (continued) 1,994

Balance at December 31, 2021

\$ 213,915

Balance at December 31, 2020

\$

211,921 Changes for the year

CITY OF KERMIT, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (continued)

K. Deferred Inflows of Resources

Deferred inflows of resources reported only in the General Fund financial statements at September 30, 2022 consisted of property tax revenue assessed but not collected in the amount of \$208,831 less allowance for uncollectible accounts of \$124,090 for net deferred inflows of \$84,741.

L. Litigation

As of September 30, 2022, there was one pending lawsuit involving the city: Cause No. DCIS-16788-CCD, In the 109th Judicial District Court of Winkler County, Texas styled *Hoover Construction Company, Inc. v. City of Kermit, Texas*.

On October 27, 2015, Hoover filed suit against the City asserting a claim for breach of contract. Hoover sought to recover the retainage due under the Contract in the amount of \$383,343, \$695,902 in damages it claimed it suffered while attempting to perform the contract, as well as interest and attorneys fees. The City countersued seeking liquidated damages under the contract in the amount of \$609,500.00, actual damages in the amount of \$37,169.92 and attorney's fees. The litigation concerned the construction of a wastewater treatment plant and closure of the existing sewer ponds. Hoover failed to close the sewer ponds in accordance with Pond Closure Plan provided by the City's engineer. Hoover asserted that closure of the ponds was impossible under the Pond Closure Plan. The City contended that closure of the ponds was possible under the Pond Closure Plan and that Hoover's failure to accomplish closure was the result of improper means and methods employed by Hoover.

The City administration was not aware of any other significant contingencies or commitments at September 30, 2022.

M. Risk Management

The City is exposed to various risks of loss related to torts, thefts, damage or destruction of assets, errors and omissions, injuries to employees and natural disasters. The City purchases commercial insurance to cover general liabilities.

N. Prior Period Adjustment

The beginning net position and fund balances as of October 1, 2021, has been restated as follows:

	Governmental	Hotel/Motel General Fund	Community Development Fund	Fund Activities
Beginning Fund Balance/Net Position	\$ 458,333	\$ 1,573,919	\$	\$ 12,348,358
Prior period adjustment - recording of taxes on the modified accrual basis		25,038		25,038
Prior period adjustment • reporting of special revenue funds separately from the general fund	(56,649)		45,737	10,912
Prior period adjustment-restatement of net position as a fixed asset (OP)				122,542
Beginning Fund Balance/Net Position Restated	\$ 401,684	\$ 1,598,957	\$ 45,737	\$ 10,912
				\$ 12,495,38

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KERMIT, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION
For the Year Ended September 30, 2022

General Budget Policies

The original budget is adopted by the City Council prior to the beginning of the fiscal year for the general fund. The legal level of budgetary control is the department level.

Excess of Expenditures over appropriations

Legally Adopted Fund	Final	Actual	Variance	Explanation
General Fund				
Street lighting	75,000	80,453	(5,453)	Primarily related to increases in utility rates.
Capital outlay		52,868	152,868)	Primarily related to an increase in costs related to animal shelter addition paid out of general fund instead of;init;il nriPrtdunrl lf11nrl 11\

CITY OF KERMIT, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY
INFORMATION TEXAS MUNICIPAL RETIREMENT SYSTEM
PLAN

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
For the Last Eight Measurement Years

	Measurement Year December 31,			
	2017	2016	2015	2014
Total Pension Liability				
Service cost	\$ 350,657	\$ 356,071	\$ 353,182	\$ 265,828
Interest (on the total pension liability)	745,290	694,670	674,305	646,756
Difference between expected and actual experience	98,597	96,798	(65,959)	(128,875)
Change of assumptions			94,582	
Benefit payments, including refunds of employee contributions	(1393,751)	(396,073)	(1402,060)	(1465,614)
Net Change in Total Pension Liability	800,793	751,466	654,050	318,095
Total Pension Liability - Beginning	11,062,877	10,311,411	9,657,361	9,339,266
Total Pension Liability - Ending (a)	\$ 11,863,670	\$ 11,062,877	\$ 10,311,411	\$ 9,657,361
Plan Fiduciary Net Position				
Contributions - employer	\$ 329,928	\$ 343,853	\$ 331,836	\$ 376,311
Contributions - employee	152,744	157,328	154,036	140,865
Net investment income	1,164,656	525,652	11,346	413,564
Benefit payments, including refunds of employee contributions	(393,751)	(396,073)	(402,060)	(465,614)
Administrative expense	(6,035)	(5,936)	(6,911)	(4,317)
Other	(304)	(320)	(341)	(355)
Net Change in Plan Fiduciary Net Position	1,247,238	624,504	87,906	460,454
Plan Fiduciary Net Position - Beginning	8,401,602	7,177,098	7,689,192	7,228,738
Plan Fiduciary Net Position - Ending (b)	\$ 9,648,840	\$ 8,401,602	\$ 7,777,098	\$ 7,689,192
Net Pension Liability - Ending (a) - (b)	\$ 2,214,830	\$ 2,661,275	\$ 2,534,313	\$ 1,968,169
Plan Fiduciary Net Position as a Percentage of				
Total Pension Liability	81.33%	75.94%	75.42%	79.62%
Covered Payroll	\$ 2,182,059	\$ 2,226,836	\$ 2,200,508	\$ 2,012,360
Net Pension Liability as a Percentage of Covered Payroll	101.50%	119.51%	115.17%	97.80%

Notes to the schedule:

- 1) No significant factors to disclose
- 2) No significant methods and assumptions to disclose
- 3) Schedule will be built out to 10 years

The information in this schedule has been determined as of the measurement date (December 31) of the City's net pension liability and is intended to show information for 10 years. However, until a full to-year trend is compiled in accordance with the provisions of GASB 68, only periods of which such information is available are presented.

CITY OF KERMIT, TEXAS
 REQUIRED OTHER POST-EMPLOYMENT BENEFITS SUPPLEMENTARY
 INFORMATION
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF CHANGES IN NET **OPEB** LIABILITY AND RELATED RATIOS
 For the last Five Measurement Years

	Measurement Year December 31,			
	2021	2020	2019	2018
Total OPEB Liability				
Service cost	\$ 11,635	\$ 11,385	\$ 7,316	\$ 7,037
Interest on the total OPEB liability	4,300	4,999	5,359	4,660
Difference between expected and actual experience	(14,853)	(7,864)	(5,879)	3,156
Change of assumptions	6,423	28,415	30,639	(9,594)
Benefit payments**	(5,511)	(2,214)	(2,048)	(1,407)
Net Change in Total OPEB Liability	1,994	34,721	35,387	3,852
Total OPEB liability- Beginning	211,921	177,200	141,813	137,961
Total OPEB Liability- Ending	<u>\$ 213,915</u>	<u>\$ 211,921</u>	<u>\$ 177,200</u>	<u>\$ 141,813</u>
Covered Payroll	\$ 3,061,813	\$ 3,162,558	\$ 2,926,289	\$ 2,345,768
Total OPEB Liability as a Percentage of Covered Payroll	6.99%	6.70%	6.06%	6.05%

	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 5,673
Interest on the total OPEB liability	4,573
Change of assumptions	10,235
Benefit payments**	(1,309)
Net Change in Total OPEB liability	19,172
Total OPEB liability - Beginning	<u>118,789</u>
Total OPEB Liability - Ending	<u>\$ 137,961</u>
Covered Payroll	\$ 2,182,059
Total OPEB liability as a Percentage of Covered Payroll	6.32%

Ending balances are as of the measurement date, December 31, 2021

Changes of assumptions reflect a change in the Single Discount Rate from 2.00% as of December 31, 2020, to 1.84% as of December 31, 2021

- *Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

The information in this schedule has been determined as of the City's fiscal year-end and is intended to show information for 10 years. However, until a full 10-year trend is compiled in accordance with the provisions of GASB 75, only periods of which such information is available are presented.

CITY OF KERMIT, TEXAS
REQUIRED OTHER POST-EMPLOYMENT BENEFITS SUPPLEMENTARY
INFORMATION
NOTES TO THE SCHEDULE OF CHANGES IN THE TOTAL OPEB
LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL
RETIREMENT SYSTEM

otes:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Valuation Date: December 31,

2021 Methods and Assumptions:

Actuarial Cost Method Amortization Method Remaining
 Amortization Period Asset Valuation Method Inflation
 Salary Increases Discount rate*

Entry Age Normal
 Level Percentage of Payroll, Closed
 24 Years (longest amortization ladder)
 10 Year
 smoothed
 market, 12%
 soft corridor
 2.50%
 3.50% to 11.50%, including inflation
 1.84%

Administrative expenses

Mortality rates - service retirees Mortality rates disables

retirees

All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements of GASS Statement No. 68.

Notes

2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. 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 Scale UMP to account for future mortality improvements subject to the floor.

* The discount rate was based on Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021

Note: The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

OTHER SUPPLEMENTARY INFORMATION

CITY OF KERMIT, TEXAS
 COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
 September 30, 2022

	Special Revenue			Capital Projects		Total
	Cause for Paws	Municipal Technology Fund	Municipal Court Security Fund	Capital Acquisition Fund	Non-major Governmental	
Assets						
Cash and cash equivalents	\$ 2,251	\$ 8,935	\$ 28,311	\$ 402,402	\$	527,042
Due from other funds				342,350		343,014
Prepaid items						146
Total Assets	\$ 2,251	\$ 8,935	\$ 28,311	\$ 744,752	\$	870,202
A						
T						
Liabilities						
Accounts payable	\$	\$	\$	\$	\$	10,546
Due to other funds					204,228	204,228
Unearned revenue						2,690
Total liabilities					204,228	217,464
Fund Balance						
Nonspendable:						
Prepays						146
Restricted:						
Municipal court technology & security			8,935	28,311		37,246
Promotional & economic development						37,506
Public safety						319
Assigned:						
Recreation center	2,251					10,847
Capital projects					540,524	540,524
Police						26,150
Total Fund Balance	2,251	8,935	28,311	540,524	540,524	652,738
Total liabilities, Deferred Inflows and Fund Balance	\$ 2,251	\$ 8,935	\$ 28,311	\$ 744,752	\$	870,202

CITY OF KERMIT, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2022**

	<u>Special Revenue</u>			<u>Capital Projects</u>	<u>Total Non-major Governmental</u>
	Cause for	Municipal Technology	Municipal Court	Capital Acquisition	
	<u>Paws</u>	<u>Fund</u>	<u>Security Fund</u>	Fund	
Revenues					
Licenses and permits	\$	\$ 7,538	\$	\$	\$ 7,538
Fines and fess			8,895		8,895
Donation/Contributions					70,525
Investment income	33	38	222		817
Miscellaneous	3,048				12,982
Total Revenues	3,081	7,576	9,117		100,757
Expenditures					
Generat government		2,202			2,269
Public safety			2,935		88,352
Culture and recreation					3,141
Capital outlay:					
General government	15,907			319,847	335,754
Total Expenditures	15,907	2,202	2,935	319,847	429,516
Excess (deficiency) of revenues over expenditures	(12,826)	5,374	6,182	{319,847}	(328,759)
Other Financing Sources (Uses)					
Transfers in				311,913	311,913
Total Other Financing Sources (Uses)				311,913	311,913
Net change in fund balance {deficit}	(12,826)	5,374	6,182	(7,934)	(16,846)
Fund Balance • Beginning of Year	15,077	3,561	22,129	548,458	612,935
Prior period adjustment					56,649
Fund Balance• Beginning of Year (as restated)	15,077	3,561	22,129	548,458	669,584
Fund Balance - End of Year	<u>\$ 2,251</u>	<u>\$ 8,935</u>	<u>\$ 28,311</u>	<u>\$ 540,524</u>	<u>\$ 652,738</u>

GOVERNMENT AUDITING STANDARDS REPORT SECTION



**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 City Council City
of Kermit, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund Information of the City of Kermit, Texas (the City) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 30, 2023.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022- 001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2022-002, 2022-003, and 2022-004 to be significant deficiencies.

CITY OF KERMIT, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
(continued)
For the Year Ended September 30, 2022

Finding 2022-01

Material Weakness in Internal Control over Financial Reporting-Fiscal Year End Closing Procedures

Criteria: Proper controls over financial reporting include a system designed to provide for the preparation of the financial statements and accompanying notes to the financial statements that are materially correct and in accordance with accounting principles generally accepted in the United States of America. Monthly and annual reconciliations are necessary to ensure that accounts are properly stated.

Condition: During our audit, we identified journal entries to correct year end balances, fund balances and net position.

Context: During our audit entries were made to reconcile property tax receivables and allowance, sales tax receivable, occupancy tax receivable, utility receivables and allowance, accounts payable, retainage payable, capital assets, and interfund transactions.

Effect or Potential Effect: The lack of internal controls increases the risk of misappropriation of assets and potential misreporting of financial statement amounts due to error or fraud.

Cause: Internal controls not properly designed to regularly reconcile accounts leads to inaccurate balances and reporting at the end of a reporting period.

Recommendation: We recommend that the City review its internal control procedures over financial reporting to ensure controls are in place to identify and record all transactions in the correct period and reconcile accounts on a timely basis. Management should establish and follow financial close procedures and ensure that all reconciliations are completed monthly for all significant financial accounts, which includes timely and effective review and/or approval of all transactions and reconciliations of account balances by the appropriate level of management. In addition, management should retain supporting documentation for all transactions entered into its general ledger.

Views of Responsible Official(s) and Planned Corrective Actions: Management, in part, concurs with finding of material weakness in financial reporting. A chronic lack of qualified staffing in the finance/budget operation overtook our internal controls for fiscal year closing procedures and timely recording/review of account balances. Additionally, several staff changes mid-year served to further exacerbate the issue. Going forward, management predicts that stability in the Finance Director position should provide for adherence to internal controls despite staffing shortages and correct the oversight in future audits.

CITY OF KERMIT, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
(continued)
For the Year Ended September 30, 2022

Finding 2D22-03

Significant Deficiency in Internal Control over Financial Reporting-Purchase Order System

Criteria: The City is required to maintain internal controls over financial reporting to provide a high level of assurance that the financial amounts are accurate and valid.

Condition: There are no formal procedures related to purchasing and purchase orders. During review of internal controls and testing procedures related to accounts payable, we noted purchase orders are not being utilized consistently for 8 out of 25 transactions tested. Additionally, there are no formal procedures established for the reconciliation between the purchase order, items received, and the invoice being paid.

Context: During the evaluation of internal control, testing identified that purchase orders are being created after the items have been purchased. Additionally, the City does not maintain a receiving system to ensure goods and services being ordered have been received, prior to payment.

Effect or Potential Effect: The lack of internal controls increases the **risk** of misappropriation of assets and potential misreporting of financial statement amounts due to error or fraud.

Cause: The lack of a formal purchasing policy and the entity's limited size and staffing resources have made it difficult for management to enforce and keep up with the previously established purchase order system.

Repeat Finding: Yes.

Recommendation: We recommend for the City to establish formal policies and procedures to ensure that purchase orders are created, reviewed, and approved prior to the purchasing of goods/services. Further, management should implement a voucher system that utilizes the accounts payable department. This includes prenumbered receiving reports that include vendor description, date of receipt, and a reference to the packaging slip or purchase order. The accounts payable personnel should be completing a three-way match between the purchase order, the receiving report and the invoice. Additionally, on a monthly basis, the City should review an open purchase orders report and follow up on any open items; this will help identify any potential liabilities to be recorded in the accounting records.

Views of Responsible Official(s) and Planned Corrective Actions: The City has a simple purchase order system where purchase orders are generated from an Excel spreadsheet located at City Hall. Due to a severe lack of staffing, the ability to generate a purchase order before the purchases are made is hindered if the employee in charge is out of the office causing some purchase orders to be generated after the purchase. Additionally, the system does not provide for receipting in which sales orders, receiving/delivery receipts are obtained. Management would like to see better control over the purchasing process; therefore, management is looking to add the purchasing module to its accounting system to automate the process. A purchase order module with encumbrances will be added to the accounting system to provide for proper purchasing procedures. This, along with an updated purchasing policy will address the weaknesses recording in the audit findings. The City purchased the purchase order module and instituted a purchasing policy in fiscal year 2021-2022. However, Tyler Technologies could not complete the installation of this module until mid-October of 2022. This audit finding has been corrected going forward.

**CITY OF KERMIT,
TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, ZOZZ**

r. Prior Audit Findings

Finding 2021-01- Inadequate Segregation of Duties - Municipal Court Cash Receipts

- Corrected in FY 2022.

Finding 2021-02 - Use of modified accrual basis of accounting

- Status: See 2022-01.
- Reason for finding recurrence: Due to staff turnover and changes during FY 2022, the closing process was not able to be fully implemented. The current director of finance will ensure the closing process in FY 2023 includes recording accruals necessary for the modified accrual and accrual basis of accounting.

Finding 2021-03- Use of purchase order system

- Status: See 2022-03
- Reason for finding recurrence: The City has purchased the purchase order module. However, due to delays with the vendor, the City was unable to fully implement the module for FY 2022. The City expects to have this process implemented in FY 2023.

Finding 2021-04 - Use of fixed asset system

- Status: See 2022-04
- Reason for finding recurrence: The City has purchased the capital asset module. However, due to delays with the vendor, the City was unable to fully implement the module for FY 2022. The City expects to have this process implemented in FY 2023.

Finding 2021-05 - Excess of expenditures over appropriations

- Corrected in FY 2022.