

CITY OF KERMIT, TEXAS

**FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

**Year Ended September 30, 2020
With Independent Auditor's Report**

CITY OF KERMIT, TEXAS
FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

Year Ended September 30, 2020

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CITY OF KERMIT, TEXAS
FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

Year Ended September 30, 2020

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LETTER OF TRANSMITTAL

City of Kermit, Texas
Name of City

Winkler
County

We, the undersigned, certify that the attached Annual Financial and Compliance Report of the above named city was reviewed and (check one) approved disapproved for the year ended September 30, 2020 at a meeting of the Council of such city on the 20th day of May, 2021.



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)

INDEPENDENT AUDITOR'S REPORT

The City Council
City of Kermit, Texas

Report on the Financial Statements

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, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Kermit, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas, as of September 30, 2020, 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.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kermit, Texas' 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.

The combining and individual nonmajor fund financial statements are 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. Such 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.

The transmittal letter has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2021 on our consideration of the City of Kermit, Texas' 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 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 of Kermit, Texas' internal control over financial reporting and compliance.

Whitley Penn LLP

Odessa, Texas
May 20, 2021

CITY OF KERMIT, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended September 30, 2020

In this section of the Annual Financial and Compliance Report, we, the managers of the City of Kermit, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2020. Please read it in conjunction with the Independent Auditor's Report on page 1, and the City's Basic Financial Statements, which begin on page 13.

Financial Highlights

The City's net position changed as follows:

	Governmental Activities	Business-Type Activities
2020 Net position	\$ 3,464,245	\$ 7,938,690
2019 Net position (as restated)	<u>3,895,724</u>	<u>6,113,863</u>
2020 Change in net position	\$ (431,479)	\$ 1,824,827
2020 % of Change in net position	-11.1%	29.8%

During the year, the City had operating expenditures that were \$303,216 more than the \$4,206,076 generated in tax and other revenues for the governmental programs. This compares to last year when expenditures were less revenues by \$669,795.

In the City's enterprise funds, revenues increased by \$1,099,954, while operating expenses decreased by \$96,053.

Total cost of the City's programs was \$7,682,296 while last year's cost was \$7,533,043. The fund balance for all Governmental Funds ended the year at \$3,437,109 and the ending fund balance from last year was \$3,700,070, as restated.

The resources available for appropriation were \$759,073 less than budgeted for the General Fund. The Decrease in revenues was primarily due to decrease in Sales Tax Revenue.

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 13-16). 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 17) 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.

CITY OF KERMIT, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

The notes to the financial statements (starting on page 26) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 13. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting, which is the basis used by private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who pay for the costs of programs (such as utility funds) and grants provided by outside parties and agencies (program revenues), and revenues provided by the taxpayers or other unrestricted sources (general revenues). All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in it. The City's net position (the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider nonfinancial factors as well, such as changes in the City's property tax base or the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

Governmental Activities: Most of the City's basic services are reported here. Property, sales & use, and franchise taxes finance most of these activities.

Business-type Activities: The City charges a fee to customers to help it cover all or most of the cost of services it provides in the water utility system and solid waste funds.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 17 and provide detailed information about the most significant funds – not the City as a whole. Laws and contracts require the City to establish some funds, such as grants received from a government agency. The City's administration establishes many other funds to help it control and manage money for particular purposes. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

CITY OF KERMIT, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Governmental Funds: Most of the City's basic services are reported in governmental funds. These use the modified accrual method of accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Proprietary Funds: The City reports the activities for which it charges users (whether outside customers or units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (page 13) and changes in net position (page 15) of the City's Governmental and business-type activities.

Net Position of the City's governmental activities was \$3,464,245. 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 were \$516,217 at September 30, 2020.

Net Position of the City's business-type activities was \$7,938,690, which included \$5,823,358 in unrestricted net position, \$464,552 restricted for debt service and \$1,650,780 in investment in capital assets, net of related debt. The net position of the business-type activities increased by \$1,824,827.

CITY OF KERMIT, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Table I
Schedule of Net Position

	Governmental Activities		Business-Type Activities	
	2020	2019	2020	2019
Current and other assets	\$ 3,790,444	\$ 3,718,624	\$ 8,425,238	4,456,599
Capital assets, net	1,671,744	1,782,011	7,035,780	5,184,377
Total Assets	<u>5,462,188</u>	<u>5,500,635</u>	<u>15,461,018</u>	<u>9,640,976</u>
Total deferred outflows of resources	<u>386,249</u>	<u>745,661</u>	<u>184,406</u>	<u>396,167</u>
Long-term liabilities	1,853,960	2,211,644	5,727,132	3,440,016
Other liabilities	281,388	369,917	1,764,881	361,787
Total liabilities	<u>2,135,348</u>	<u>2,581,561</u>	<u>7,492,013</u>	<u>3,801,803</u>
Total deferred inflows of resources	<u>248,844</u>	<u>189,990</u>	<u>118,805</u>	<u>121,477</u>
Net Position:				
Net investments in capital assets	1,671,744	1,670,011	1,650,780	2,859,377
Restricted	1,276,284	803,958	464,552	-
Unrestricted	516,217	1,000,776	5,823,358	3,254,486
Total net position	<u>\$ 3,464,245</u>	<u>\$ 3,474,745</u>	<u>\$ 7,938,690</u>	<u>\$ 6,113,863</u>

CITY OF KERMIT, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Table II
Changes in Net Position

	Governmental Activities		Business-Type Activities	
	2020	2019	2020	2019
Revenues:				
Program revenues:				
Charges for services	\$ 736,423	1,306,465	\$ 4,887,135	4,128,025
Operating grants and contributions	1,464	13,292	-	-
Capital grants and contributions	-	-	-	-
General revenues:				
Property tax	731,507	741,426	-	-
Sales tax	1,831,586	2,569,897	497	520
Mixed beverage	665	668	-	-
Franchise taxes	272,611	301,150	-	-
Occupancy taxes	496,099	903,547	-	-
Unrestricted investment earnings	64,380	120,408	26,905	16,449
Miscellaneous	73,423	224,956	48,866	(72)
Total revenue	<u>4,208,158</u>	<u>6,181,809</u>	<u>4,963,403</u>	<u>4,144,922</u>
Expenses:				
General government	2,130,725	1,834,813	-	-
Public safety	1,287,959	1,218,050	-	-
Culture and recreation	443,833	623,618	-	-
Public works	816,026	849,479	-	-
Interest and other fees	1,348	4,018	-	-
Utility	-	-	1,551,490	1,586,439
Aquatic park	-	-	1,450,915	1,414,515
Total expenses	<u>4,679,891</u>	<u>4,529,978</u>	<u>3,002,405</u>	<u>3,000,954</u>
Increase (decrease) in net position before transfers	(471,733)	1,651,831	1,960,998	1,143,968
Transfers between governmental and business-type activities	<u>40,255</u>	<u>(120,753)</u>	<u>(40,255)</u>	<u>120,753</u>
Net Increase (decrease) in net position	(431,478)	1,531,078	1,920,743	1,264,721
Net position - beginning of year	3,474,745	1,943,667	6,017,947	4,846,142
Prior period adjustment	420,978	-	-	3,000
Net position - end of year	<u>\$ 3,464,245</u>	<u>\$ 3,474,745</u>	<u>\$ 7,938,690</u>	<u>\$ 6,113,863</u>

CITY OF KERMIT, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

The cost of all governmental activities this year was \$4,679,891. However, as shown in the Statement of Activities on pages 15 and 16, some of the costs were paid by those who directly benefited from the programs (\$736,423).

The City's funds

As the City completed the year, its governmental funds, on page 17, reported a fund balance of \$3,437,109 while it reported a fund balance of \$3,700,070, as restated last year.

Over the course of the year, the City Council made revisions to the City's budget. These budget amendments lowered budgeted expenditures for the year by \$131,199 for a budgeted decrease in fund balance for the General fund of \$144,951.

Capital asset and debt administration

Capital Assets

At September 30, 2020, the City had \$19,858,688 invested in a broad range of capital assets, including land, the water system, sewer system and the solid waste fund as follows:

Governmental Funds:	
General Fund	\$ 6,697,190
Total General Fund	\$ <u>6,697,190</u>
Business-Type Funds:	
Water Utility System Fund	\$ 11,612,013
Solid Waste Fund	<u>1,549,485</u>
Total Business-Type Funds	\$ <u>13,161,498</u>
Total	\$ <u><u>19,858,688</u></u>

CITY OF KERMIT, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

This amount represents a net increase of \$2,369,304 = 13.5%.

This year's net additions included:

Additions:

Governmental Funds:

Scissor Lift	\$	6,000
NIBRS System Public Safety Vehicles:		34,600
2020 Ford Pick Up Public Safety		34,000
2020 Tahoe Public Safety		<u>58,591</u>
Total Governmental Funds		<u>133,191</u>

Business-Type Funds:

Water System Fund		
2012 Ford F150 Service Truck		36,800
Vermeer Wood Chipper		25,901
Water Tower and Tank		<u>2,173,412</u>
Total Water/Sewer System Fund		<u>2,236,113</u>

Total additions 2,369,304

Dispositions (cost):

Retirement		<u>-</u>
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Net Additions \$ 2,369,304

General Obligation Bonds for Water Improvement Fund

During the fiscal year ending September 30, 2020, the City passed an ordinance whereby \$3,295,000 in General Obligation Bonds was sold to West Texas National Bank. The proceeds of these bonds were designated to construct a new water tower and tank. This construction was necessary to improve water pressure for the citizens and enable future growth.

The bond repayments are funded by a specially-assessed charge to each water meter connection. The additional charge is \$11.25 per water meter per month. City managers project the revenue from this assessment will be sufficient to make the required payments of the debt. The City paid \$52,463 in bond interest and had no principal payments for the year ended September 30, 2020.

General Obligation Bonds for Water System Utility Fund

During the fiscal year ending September 30, 2008 the City passed an ordinance whereby \$4,595,000 in General Obligation Bonds was sold to the Texas Water Development Board. The proceeds of these bonds were designated to construct a new wastewater treatment system. This construction was mandatory because the City's wastewater treatment system was considered deficient under state requirements.

CITY OF KERMIT, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

The bond repayments are funded by a specially-assessed charge to the residents of the City who have a water meter connection. The additional charge to each resident is \$12 per water meter per month. City managers project that the revenue from this assessment will be sufficient to make the required payments on the debt. The City reduced this bond debt by \$235,000 and paid \$60,002 in bond interest for the year ended September 30, 2020. The City has eight years of bond payments left on these notes.

The wastewater treatment plant was put into service and fully functional in March 2013. The closure of the old treatment system was effective September 30, 2015.

Tax Notes for Cemetery Expansion Project

During the fiscal year ending September 30, 2015, the City issued \$530,000 in tax notes to fund the cemetery expansion project. The City Council and City Administration determined the City was in desperate need of more space to provide citizens space for burial of family and loved ones.

The note repayments are funded by the City's taxes and revenues. However, the City did not assess a separate tax levy for the payment of these notes. The City paid off the remaining principal of \$112,000 and paid \$1,348 in interest for the year ended September 30, 2020.

Economic factors and next year's budget and rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2020-2021 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 stabilized over the course of the current year, which contributes heavily upon the valuation of properties on the mineral roll. The City's population has held at a small, steady increase 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.

These indicators were taken into account when adopting the General Fund budget for 2020-2021. The City's General Fund projects a deficit of \$647,979. Compared to fiscal year 2019-2020 budget deficit of \$144,951. The tax rate was set at \$.331592 per \$100 valuation for fiscal year 2020-2021.

Contacting the City's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's finance office at the City of Kermit, 110 S. Tomillo, Kermit, Texas, 79745.

BASIC FINANCIAL STATEMENTS

CITY OF KERMIT, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets:			
Cash and cash equivalents	\$ 3,353,648	7,993,019	\$ 11,346,667
Receivables, net of allowances:			
Accounts	213,835	480,252	694,087
Property taxes	71,947	(763)	71,184
Other taxes	18,861	9,622	28,483
Special assessments	31,864	-	31,864
Internal balances	56,892	(56,892)	-
Prepays	43,397	-	43,397
Total current assets	3,790,444	8,425,238	12,215,682
Noncurrent assets:			
Capital assets - net:			
Land and nondepreciable land improvements	74,664	6,300	80,964
Buildings and improvements	1,231,386	8,287,914	9,519,300
Improvements other than buildings	2,535,671	-	2,535,671
Machinery and equipment	2,598,036	2,693,872	5,291,908
Construction in progress	257,433	2,173,412	2,430,845
Accumulated depreciation	(5,025,446)	(6,125,718)	(11,151,164)
Total capital assets - net	1,671,744	7,035,780	8,707,524
Total noncurrent assets	1,671,744	7,035,780	8,707,524
Total assets	5,462,188	15,461,018	20,923,206
Deferred Outflows of Resources			
Deferred outflows - OPEB	24,297	11,600	35,897
Deferred outflows - Pension	361,952	172,806	534,758
Total deferred outflows of resources	386,249	184,406	570,655

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

CITY OF KERMIT, TEXAS

STATEMENT OF NET POSITION - CONTINUED

SEPTEMBER 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 93,636	\$ 847,864	\$ 941,500
Deposits and other liabilities	107,722	46,267	153,989
Customer deposits	-	199,379	199,379
Retainage payable	-	86,386	86,386
Compensated absences	80,030	34,118	114,148
Accrued interest payable	-	7,867	7,867
Bonds payable	-	543,000	543,000
Total current liabilities	281,388	1,764,881	2,046,269
Noncurrent Liabilities:			
Bonds payable	-	4,842,000	4,842,000
Total OPEB liability	119,938	57,262	177,200
Net pension liability	1,734,022	827,870	2,561,892
Total noncurrent liabilities	1,853,960	5,727,132	7,581,092
Total liabilities	2,135,348	7,492,013	9,627,361
Deferred Inflows of Resources			
Deferred inflows - OPEB	6,961	3,323	10,284
Deferred inflows - Pension	241,883	115,482	357,365
Total deferred inflows of resources	248,844	118,805	367,649
Net Position			
Net investment in capital assets	1,671,744	1,650,780	3,322,524
Restricted for:			
Municipal court technology & security	18,643	-	18,643
Economic Development	1,246,283	464,552	1,710,835
Public safety	11,358	-	11,358
Unrestricted	516,217	5,823,358	6,339,575
Total net position	\$ 3,464,245	\$ 7,938,690	\$ 11,402,935

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

CITY OF KERMIT, TEXAS
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2020

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General government	\$ 2,130,725	\$ 525,753	\$ -	\$ -
Public safety	1,287,959	210,670	1,464	-
Culture and recreation	443,833	-	-	-
Public works	816,026	-	-	-
Interest and other fees	1,348	-	-	-
Total governmental activities	<u>4,679,891</u>	<u>736,423</u>	<u>1,464</u>	<u>-</u>
Business-Type activities:				
Water Utility System	1,551,490	3,434,175	-	-
Solid Waste System	1,450,915	1,452,960	-	-
Total business-type activities	<u>3,002,405</u>	<u>4,887,135</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 7,682,296</u>	<u>\$ 5,623,558</u>	<u>\$ 1,464</u>	<u>\$ -</u>

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

CITY OF KERMIT, TEXAS

STATEMENT OF ACTIVITIES - CONTINUED

SEPTEMBER 30, 2020

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
Primary Government			
Governmental Activities:			
General government	\$ (1,604,972)	\$ -	\$ (1,604,972)
Public safety	(1,075,825)	-	(1,075,825)
Culture and recreation	(443,833)	-	(443,833)
Public works	(816,026)	-	(816,026)
Interest and other fees	(1,348)	-	(1,348)
Total governmental activities	(3,942,004)	-	(3,942,004)
Business-Type activities:			
Water Utility System	-	1,882,685	1,882,685
Solid Waste System	-	2,045	2,045
Total business-type activities	-	1,884,730	1,884,730
Total primary government	(3,942,004)	1,884,730	(2,057,274)
General revenue:			
Taxes:			
Property	731,507	-	731,507
Sales	1,831,586	497	1,832,083
Mixed beverage	665	-	665
Franchise	272,611	-	272,611
Occupancy	496,099	-	496,099
Unrestricted investment earnings	64,380	26,905	91,285
Miscellaneous	73,423	48,866	122,289
Transfers between governmental and business-type activities	40,255	(40,255)	-
Total general revenue and transfers	3,510,526	36,013	3,546,539
Change in net position	(431,478)	1,920,743	1,489,265
Net position - beginning of year	3,474,745	6,017,947	9,492,692
Prior period adjustment	420,978	-	420,978
Net position - end of year	\$ 3,464,245	\$ 7,938,690	\$ 11,402,935

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

CITY OF KERMIT, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2020

	<u>General Fund</u>	<u>Hotel/Motel Fund</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Assets				
Cash and cash equivalents	\$ 1,556,985	\$ 1,214,313	\$ 582,350	\$ 3,353,648
Receivables, net of allowance:				
Accounts	213,835	-	-	213,835
Property taxes	71,947	-	-	71,947
Other taxes receivable	18,861	31,864	-	50,725
Due from other funds	30,427	-	63,276	93,703
Prepaid items	43,397	-	-	43,397
Total assets	<u>\$ 1,935,452</u>	<u>\$ 1,246,177</u>	<u>\$ 645,626</u>	<u>\$ 3,827,255</u>
Liabilities				
Accounts payable	\$ 93,732	\$ -	\$ (96)	\$ 93,636
Accrued liabilities	187,752	-	-	187,752
Due to other funds	37,005	(106)	(88)	36,811
Total liabilities	<u>318,489</u>	<u>(106)</u>	<u>(184)</u>	<u>318,199</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	71,947	-	-	71,947
Total deferred inflows of resources	<u>71,947</u>	<u>-</u>	<u>-</u>	<u>71,947</u>
Fund Balance				
Nonspendable:				
Inventories	\$ -	\$ -	\$ -	\$ -
Prepays	-	-	-	-
Restricted:				
Municipal court technology & security	-	-	18,643	18,643
Promotional & economic development	-	1,246,283	-	1,246,283
Public safety	-	-	11,358	11,358
Assigned:				
Recreation center	-	-	12,776	12,776
Capital projects	-	-	600,398	600,398
Purchases on order	-	-	2,635	2,635
Unassigned	1,545,016	-	-	1,545,016
Total fund balance	<u>1,545,016</u>	<u>1,246,283</u>	<u>645,810</u>	<u>3,437,109</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 1,935,452</u>	<u>\$ 1,246,177</u>	<u>\$ 645,626</u>	<u>\$ 3,827,255</u>

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

CITY OF KERMIT, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET
TO THE STATEMENT OF NET POSITION

SEPTEMBER 30, 2020

Total Fund balances - governmental funds	\$	3,437,109
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities resources are not financial resources and, therefore, are not reported as net positions in governmental funds.</p>		1,671,744
<p>Certain receivables are not available to pay current-period expenditures and, therefore, are reported as unavailable revenue in the funds.</p>		71,947
<p>Long-term liabilities and related deferred inflows and outflows, including bonds payable, accrued interest payable, compensated absences, other post employment benefits, and net pension liability, are not due and payable in this current period and, therefore, are not reported as liabilities in the funds.</p>		<u>(1,716,555)</u>
Total net position - governmental activities	\$	<u><u>3,464,245</u></u>

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

CITY OF KERMIT, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>General Fund</u>	<u>Hotel/Motel Fund</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Revenues				
Property Tax	\$ 729,506	\$ -	\$ 7,253	\$ 736,759
General Sales and Use tax	1,831,586	-	-	1,831,586
Franchise tax	272,611	-	-	272,611
Other Taxes	-	496,099	-	496,099
Licenses and permits	266,671	-	5,632	272,303
Intergovernmental revenue and grants	210,266	-	-	210,266
Charges for services	223,556	-	27	223,583
Investment income	57,499	6,649	14	64,162
Other	98,707	-	-	98,707
Total revenues	<u>3,690,402</u>	<u>502,748</u>	<u>12,926</u>	<u>4,206,076</u>
Expenditures				
General government	810,692	-	5,784	816,476
Public safety	2,246,041	-	276	2,246,317
Street, humane and city shop	704,807	-	-	704,807
Street lighting	76,253	-	-	76,253
Parks and cemetery	381,388	-	-	381,388
County ambulance	14,400	-	-	14,400
Tax department	6,600	-	-	6,600
Economic Development and assistance	2,692	52,027	-	54,719
Capital outlay				
General government	-	-	96,984	96,984
Debt service:				
Principal retirement	110,000	-	-	110,000
Interest and fiscal charges	1,348	-	-	1,348
Total expenditures	<u>4,354,221</u>	<u>52,027</u>	<u>103,044</u>	<u>4,509,292</u>
Excess (deficiency) of revenues over expenditures	(663,819)	450,721	(90,118)	(303,216)
Other Financing Sources (Uses)				
Transfers in	40,255	-	290,560	330,815
Transfers out	(290,560)	-	-	(290,560)
Total other financing sources (uses)	<u>(250,305)</u>	<u>-</u>	<u>290,560</u>	<u>40,255</u>
Net change in fund balance (deficit)	<u>(914,124)</u>	<u>450,721</u>	<u>200,442</u>	<u>(262,961)</u>
Fund balance (deficit) - beginning of year	2,475,134	765,412	38,546	3,279,092
Prior year restatement	(15,994)	30,150	406,822	420,978
Fund balance (deficit) - beginning of year, as restated	<u>2,459,140</u>	<u>795,562</u>	<u>445,368</u>	<u>3,700,070</u>
Fund balance - end of year	<u>\$ 1,545,016</u>	<u>\$ 1,246,283</u>	<u>\$ 645,810</u>	<u>\$ 3,437,109</u>

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

CITY OF KERMIT, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2020

Net change in fund balance - total governmental funds \$ (262,961)

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. (110,268)

The net effect of various transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase/(decrease) net position. -

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. 2,001

Certain long-term liabilities are accrued at the government-wide level but not at the fund level. The current year change in those liabilities is reported as expense in the statement of activities. Expenses recorded for accrual of interest and amortization expense are included in this category. (172,251)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the difference between repayments and proceeds received. 112,000

Change in net position of governmental activities. \$ (431,479)

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

CITY OF KERMIT, TEXAS
STATEMENT OF NET POSITION -
PROPRIETARY FUND

SEPTEMBER 30, 2020

	Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise
Assets			
Current Assets:			
Cash and cash equivalents	\$ 7,424,170	\$ 568,849	\$ 7,993,019
Accounts receivable, net of allowances:			
Billed	334,252	109,808	444,060
Other	35,429	9,622	45,051
Interfund receivable	19,392		19,392
Total current assets	<u>7,813,243</u>	<u>688,279</u>	<u>8,501,522</u>
Noncurrent assets:			
Capital assets - net:			
Land	6,300	-	6,300
Buildings and improvements	8,287,914	-	8,287,914
Machinery and equipment	1,144,387	1,549,485	2,693,872
Construction in progress	2,173,412	-	2,173,412
Accumulated depreciation	<u>(5,025,943)</u>	<u>(1,099,775)</u>	<u>(6,125,718)</u>
Total capital assets - net	<u>6,586,070</u>	<u>449,710</u>	<u>7,035,780</u>
Total noncurrent assets	<u>6,586,070</u>	<u>449,710</u>	<u>7,035,780</u>
Total assets	<u>14,399,313</u>	<u>1,137,989</u>	<u>15,537,302</u>
Deferred Outflows of Resources			
Deferred outflows - OPEB	6,255	5,345	11,600
Deferred outflows - Pension	93,179	79,627	172,806
Total deferred outflows of resources	<u>99,434</u>	<u>84,972</u>	<u>184,406</u>

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

CITY OF KERMIT, TEXAS
STATEMENT OF NET POSITION -
PROPRIETARY FUND – CONTINUED

SEPTEMBER 30, 2020

	Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise
Liabilities			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 806,396	\$ 41,468	\$ 847,864
Other liabilities	14,302	38,918	53,220
Retainage payable	86,386	-	86,386
Compensated absences	27,165	-	27,165
Unearned revenue	199,379	-	199,379
Accrued interest payable	7,867	-	7,867
Bonds payable	543,000	-	543,000
Due to other fund	-	76,284	76,284
Total current liabilities	<u>1,684,495</u>	<u>156,670</u>	<u>1,841,165</u>
Noncurrent Liabilities:			
Bonds payable	4,842,000	-	4,842,000
Total OPEB liability	30,876	26,386	57,262
Net pension liability	446,396	381,474	827,870
Total noncurrent liabilities	<u>5,319,272</u>	<u>407,860</u>	<u>5,727,132</u>
Total liabilities	<u>7,003,767</u>	<u>564,530</u>	<u>7,568,297</u>
Deferred Inflows of Resources			
Deferred inflows - OPEB	1,792	1,531	3,323
Deferred inflows - Pension	62,269	53,213	115,482
Total deferred inflows of resources	<u>64,061</u>	<u>54,744</u>	<u>118,805</u>
Net Position			
Net investment in capital assets	1,193,203	449,710	1,642,913
Unrestricted net position	6,237,716	153,977	6,391,693
Total net position	<u>\$ 7,430,919</u>	<u>603,687</u>	<u>\$ 8,034,606</u>

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

CITY OF KERMIT, TEXAS

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION -
PROPRIETARY FUND**

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise
Operating Revenues			
Charges for services:			
Water and sewer service	\$ 3,080,846	\$ 1,453,457	\$ 4,534,303
Fees and permits	353,329	-	353,329
Miscellaneous revenues	33,208	15,659	48,867
Total operating revenues	<u>3,467,383</u>	<u>1,469,116</u>	<u>4,936,499</u>
Operating Expenses			
Contractual services	313,070	426,983	740,053
Materials & Supplies	149,746	160,589	310,335
Personnel services	696,823	667,818	1,364,641
Other Operating	262	38,940	39,202
Depreciation	228,124	156,585	384,709
Total operating expenses	<u>1,388,025</u>	<u>1,450,915</u>	<u>2,838,940</u>
Operating income (loss)	<u>2,079,358</u>	<u>18,201</u>	<u>2,097,559</u>
Nonoperating revenues (expenses)			
Investment income	26,904	-	26,904
Interest and fiscal charges	(112,465)	-	(112,465)
Bond issuance costs	(51,000)	-	(51,000)
Total nonoperating revenues (expenses)	<u>(136,561)</u>	<u>-</u>	<u>(136,561)</u>
Income (loss) before transfers	<u>1,942,797</u>	<u>18,201</u>	<u>1,960,998</u>
Transfers			
Transfers out	<u>(36,757)</u>	<u>(3,498)</u>	<u>(40,255)</u>
Total transfers - net	<u>(36,757)</u>	<u>(3,498)</u>	<u>(40,255)</u>
Change in net position	1,906,040	14,703	1,920,743
Net position - beginning of year	<u>5,524,879</u>	<u>588,984</u>	<u>6,113,863</u>
Net position - end of year	<u>\$ 7,430,919</u>	<u>\$ 603,687</u>	<u>\$ 8,034,606</u>

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

CITY OF KERMIT, TEXAS
STATEMENT OF CASH FLOW -
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise
Cash flows from operating activities:			
Receipts from customers	\$ 3,328,240	\$ 1,442,460	\$ 4,770,700
Receipts from interfund services provided	(10,009)	102,907	92,898
Other operating revenue	33,208	15,659	48,867
Receipts from (payments to) suppliers	381,835	(614,377)	(232,542)
Payments to employees	(755,419)	(628,796)	(1,384,215)
Net cash provided by (used for) operating activities	2,977,855	317,853	3,295,708
Cash flows from noncapital financing activities:			
Transfers to other funds	(36,757)	(3,498)	(40,255)
Net cash provided by (used for) noncapital and related financing activities	(36,757)	(3,498)	(40,255)
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(2,210,212)	(25,900)	(2,236,112)
Proceeds from capital debt	3,295,000	-	3,295,000
Principal paid on capital debt	(235,000)	-	(235,000)
Interest paid on capital debt	(163,465)	-	(163,465)
Net cash provided by (used for) capital and related financing activities	686,323	(25,900)	660,423
Cash flows from investing activities:			
Interest and dividends received	26,904	-	26,904
Net cash provided by (used for) investing activities	26,904	-	26,904
Net increase (decrease) in cash and cash equivalents	3,654,325	288,455	3,942,780
Cash and cash equivalents, beginning of year	3,769,845	280,394	4,050,239
Cash and cash equivalents, end of year	7,424,170	568,849	7,993,019
Reconciliation of Cash and Cash Equivalents to Statement of Net Position - Proprietary Funds			
Cash and cash equivalents - current	7,424,170	568,849	7,993,019
Total cash and cash equivalents	7,424,170	568,849	7,993,019

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

CITY OF KERMIT, TEXAS
STATEMENT OF CASH FLOW -
PROPRIETARY FUND - CONTINUED

FOR THE YEAR ENDED SEPTEMBER 30, 2020

Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	<u>2,079,358</u>	<u>18,201</u>	<u>2,097,559</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	228,124	156,585	384,709
Other income (expense)			-
(Increase) decrease in accounts receivable	(107,762)	(10,997)	(118,759)
(Increase) decrease in interfund loan receivable	15,964	27,777	43,741
(Increase) decrease in OPEB deferred outflows	(3,963)	(3,825)	(7,788)
(Increase) decrease in pension deferred outflows	134,119	85,432	219,551
Increase (decrease) in accounts payable	765,150	5,962	771,112
Increase (decrease) in other current liabilities	(6,623)	6,173	(450)
Increase (decrease) in retainage payable	86,386	-	86,386
Increase (decrease) in compensated absences	1,219	-	1,219
Increase (decrease) in unearned revenues	1,827	-	1,827
Increase (decrease) in intergovernmental payables	(25,973)	75,130	49,157
Increase (decrease) in other post employment benefits	(1,607)	5,098	3,491
Increase (decrease) in net pension liability	(177,102)	(56,273)	(233,375)
Increase (decrease) in OPEB deferred inflows	304	356	660
Increase (decrease) in pension deferred inflows	(11,566)	8,234	(3,332)
Total adjustments	<u>898,497</u>	<u>299,652</u>	<u>1,198,149</u>
Net cash provided by operating activities	<u>\$ 2,977,855</u>	<u>\$ 317,853</u>	<u>\$ 3,295,708</u>

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

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

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 matter\$. 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.

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

A. Summary of Significant Accounting Policies – continued

Government-Wide and Fund Financial Statements – continued

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.

Measurement Focus, Basis of Accounting, And Financial Statement Presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing resources and expenditures and other financing uses).

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

A. Summary of Significant Accounting Policies – continued

Measurement Focus, Basis of Accounting, And Financial Statement Presentation – continued

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of property taxes and sales taxes. Property tax, sales tax, and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If the balance has not been expended by the end of the project period, grantors sometimes require the city to refund all or part of the unused amount.

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all Governmental Accounting Standards Board (GASB) pronouncements. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the fund Statement of Net Position. The fund equity is segregated into (1) investments in capital assets, net of related debt, (2) restricted by debt covenants and (3) unrestricted net position.

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.

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

A. Summary of Significant Accounting Policies – continued

Fund Accounting – continued

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.

Restricted by debt covenants - the component of net position that may not be spent without specific authorization by the oversight agency, Texas Water Development Board, and must adhere to requirements of the debt covenant issued pursuant to bond indebtedness.

Restricted by enabling legislation - the component of net position that reports the funds received from taxpayers, defendants and various other entities that were legally imposed taxes or fees by statutes or local taxpayer election. These funds are restricted as to use and ultimate disposal.

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

A. Summary of Significant Accounting Policies – continued

Other Accounting Policies – continued

Unrestricted net position - the difference between the assets and liabilities that are not reported in net position net investment in capital assets, or restricted net position.

Net position flow assumptions - Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., 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.

The City employs GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Non-spendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance - amounts constrained to specific purposes by their providers (such as granters, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority, to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint;

Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by a governing body or by an official or body to which the governing body delegates the authority;

Unassigned fund balance - amounts that are available for any purpose, positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. Assigned fund balance is delegated by the Council to the City Manager or her designee.

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC 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 employees 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:

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

A. Summary of Significant Accounting Policies – continued

Other Accounting Policies – continued

Asset Category	Useful Life	Capitalization Threshold
Land		\$ 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.

Deferred outflows/inflows of resources

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

- Deferred outflows of resources for other post-employment benefits (“OPEB”) – Reported in the government wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the total OPEB liability and the results of 1) differences between projected and actual earnings on OPEB plan investments and 2) changes in the City’s proportional share of OPEB liabilities. The deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on OPEB plan investments will be amortized over a closed five-year period. The remaining OPEB related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the plan.

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

A. Summary of Significant Accounting Policies – continued

Deferred outflows/inflows of resources – continued

- Deferred outflows of resources for pension – Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; 3) differences between expected and actual actuarial experiences and 4) changes in the City's proportional share of pension liabilities. The deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the plan.

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

- Deferred inflows of resources for other post-employment benefits (“OPEB”) – Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions and 2) differences between expected and actual actuarial experiences. These OPEB related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the plan.
- Deferred inflows of resources for pension – Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions; 2) differences between expected and actual actuarial experiences and 3) changes in the City's proportional share of pension liabilities. These pensions related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

Governmental Fund level statements have deferred inflows from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available, or within 60 days of the fiscal year-end.

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC 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, 2020 on September 26, 2019.

B. Restatement

The beginning net position and fund balance as of October 1, 2019, has been restated as follows for the recording of additional sales tax and hotel/motel revenue on the modified accrual basis of accounting.

Beginning net position	\$ 3,474,745
Prior period adjustment – recording of taxes on the modified accrual basis	420,978
Beginning net position as restated	\$ 3,895,723

	General Fund	Hotel/Motel Fund	Capital Projects Fund
Beginning fund balance	\$ 2,475,134	\$ 765,412	\$ -
Prior period adjustment – recording of taxes on the modified accrual basis	390,828	30,150	-
Prior period adjustment – reporting the capital projects fund separate from the general fund	(406,822)	-	406,822
Beginning fund balance as restated	\$ 2,459,140	\$ 795,562	\$ 406,822

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

C. Deposits and Investments

Deposits - The City maintains an entity wide cash and investment pool that is available for use by all funds. Each fund's portion of the pool is displayed on the statement of net position as "Cash and Cash Equivalents".

The investment policy of the City is governed by State statute and a Council adopted City Investment Policy. Major controls stipulated in the Investment Policy include: depository limitations require Federal Deposit Insurance Corporation ("FDIC") insurance or full 100 percent collateralization; depositories are limited to Texas banking institutions; all collateral for repurchase agreements and deposits held by independent third party trustees; all settlement is delivery versus payment; all authorized investments are defined; and diversification guidelines are set as are maximum maturity and maximum weighted average maturity.

State statutes require all time and demand deposits to be fully insured or collateralized. At September 30, 2020 the carrying amount of the City's deposits was \$11,346,667 and the bank balance was \$10,371,759. The City's cash deposits at September 30, 2020 and throughout the year, were covered by FDIC Insurance or by pledged collateral held by the City's agent bank in Kermit, Texas.

City Policies and Legal and Contractual Provision Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent bank. The City was at risk at a maximum of \$828,538 during the year for deposits held in certificates of deposit with Southwest Heritage Credit Union, American Momentum Bank, Prosperity

Bank, Frost Bank and West Texas National Bank. At September 30, 2020, the custodial risk for that certificate of deposit was \$0.

City Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The *Public Funds Investment Act* (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety or principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the state maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

C. 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, 2020, the carrying amount of the City's deposits in TexSTAR was \$149,244.

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, 2020, the carrying amount of the City's deposits in TexPool was \$150.

D. 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.

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

E. 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.

F. Inter-Fund Balances and Transfers

The City recorded the following inter-fund transfers for the fiscal year ended September 30, 2020:

	Transfer in:			Total
	General Fund	Hotel/Motel Fund	Other Governmental	
Transfers out:				
Governmental:				
General Fund	\$ -	\$ -	\$ 290,560	\$ 290,560
Subtotal governmental funds	-	-	290,560	290,560
Proprietary:				
Water Utility System Fund	36,757	-	-	36,757
Solid Waste Fund	3,498	-	-	3,498
Subtotal enterprise funds	40,255	-	-	40,255
Grand total	\$ 40,255	\$ -	\$ 290,560	\$ 330,815

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

F. Inter-Fund Balances and Transfers - continued

Interfund receivables and payables at September 30, 2020 consisted of the following:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental:		
General Fund	\$ 30,427	\$ 37,005
Other governmental	<u>63,470</u>	<u>-</u>
Total governmental funds	<u>\$ 93,897</u>	<u>\$ 37,005</u>
Business-type funds		
Water utility sewer fund	\$ 19,392	\$ -
Solid waste fund	<u>-</u>	<u>76,284</u>
Total Business-type funds	<u>\$ 19,392</u>	<u>\$ 76,284</u>

G. Disaggregation of Receivables and Payables

Receivables at September 30, 2020 were as follows:

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

Governmental Funds:

	General Fund	Hotel/Motel Fund	Total
Accounts	\$ 213,835	\$ -	\$ 213,835
Property taxes	180,887	-	180,887
Other taxes	18,861	31,864	50,725
Total	413,583	31,864	445,447
Allowance	(108,940)	-	(108,940)
Total (net of allowance)	<u>\$ 304,643</u>	<u>\$ 31,864</u>	<u>\$ 336,507</u>

Proprietary Funds:

	Water Utility System	Solid Waste System	Total
Accounts	\$ 395,274	\$ 136,074	\$ 531,348
Other	-	11,043	11,043
Special assessments	34,600	-	34,600
Total	429,874	147,117	576,991
Allowance	(60,193)	(27,687)	(87,880)
Total (net of allowance)	<u>\$ 369,681</u>	<u>\$ 119,430</u>	<u>\$ 489,111</u>

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

G. Disaggregation of Receivables and Payables – continued

Payables at September 30, 2020 were as follows:

Governmental Funds:

	General Fund	Hotel/Motel Fund	Total
General Accounts	\$ 93,636	\$ -	\$ 93,636
Wages Payable	60,913	-	60,913
Payroll Deductions and Withholdings	46,809	-	46,809
Other liabilities	-	-	-
Total Payroll Costs Payable	107,722	-	107,722
Accrued Vacation Payable	80,030	-	80,030
Total	\$ 281,388	\$ -	\$ 281,388

Proprietary Funds:

	Utility System	Solid Waste System	Total
General accounts	\$ 806,395	\$ 41,469	\$ 847,864
Customer deposits	199,379	-	199,379
Wages payable	19,374	12,122	31,496
Payroll deductions and withholdings	(5,072)	8,246	3,174
Other liabilities	-	11,597	11,597
Retainage payable	86,386	-	86,386
Accrued vacation payable	27,165	6,953	34,118
Total	\$1,133,627	\$ 80,387	\$1,214,014

Unearned revenues at September 30, 2020 were as follows:

	Unearned Revenue
Enterprise Funds:	
Meter Deposits	\$ 199,379
Total Enterprise Funds	\$ 199,379

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

H. Capital Assets

Capital asset activity for the year ended September 30, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government				
Governmental activities:				
Capital assets, nondepreciable:				
Land	\$ 74,664	\$ -	\$ -	\$ 74,664
Construction in progress	257,433	-	-	257,433
Total nondepreciable	<u>332,097</u>	<u>-</u>	<u>-</u>	<u>332,097</u>
Capital assets, depreciable:				
Buildings and improvements	1,231,386	-	-	1,231,386
Officer furniture & equipment	225,447	-	-	225,447
Machinery & equipment	2,239,398	133,191	-	2,372,589
Infrastructure	2,535,671	-	-	2,535,671
Total depreciable	<u>6,231,902</u>	<u>133,191</u>	<u>-</u>	<u>6,365,093</u>
Less accumulated depreciation for:				
Buildings & improvements	(458,055)	(38,853)	-	(496,908)
Office furniture & equipment	(209,312)	(3,340)	-	(212,652)
Machinery & equipment	(1,640,384)	(152,106)	-	(1,792,490)
Infrastructure	(2,474,236)	(49,160)	-	(2,523,396)
Total accumulated depreciation	<u>(4,781,987)</u>	<u>(243,459)</u>	<u>-</u>	<u>(5,025,446)</u>
Total depreciable - net	<u>1,449,915</u>	<u>(110,268)</u>	<u>-</u>	<u>1,339,647</u>
Governmental activities - net	<u>\$ 1,782,012</u>	<u>\$ (110,268)</u>	<u>\$ -</u>	<u>\$ 1,671,744</u>

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

H. Capital Assets – continued

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Primary Government				
Business-type activities:				
Capital assets, nondepreciable:				
Land	\$ 6,300	\$ -	\$ -	\$ 6,300
Construction in progress	-	2,173,412	-	2,173,412
Total nondepreciable	<u>6,300</u>	<u>2,173,412</u>	<u>-</u>	<u>2,179,712</u>
Capital assets, depreciable:				
Buildings	13,908	-	-	13,908
Water & sewer system	8,274,006	-	-	8,274,006
Office Furniture & equipment	70,302	-	-	70,302
Machinery and equipment	2,560,869	62,701	-	2,623,570
Total depreciable	<u>10,919,085</u>	<u>62,701</u>	<u>-</u>	<u>10,981,786</u>
Less accumulated depreciation for:				
Buildings	(7,455)	(537)	-	(7,992)
Water & sewer system	(3,963,885)	(163,960)	-	(4,127,845)
Office Furniture & equipment	(70,300)	-	-	(70,300)
Machinery and equipment	(1,699,369)	(220,212)	-	(1,919,581)
Total accumulated depreciation	<u>(5,741,009)</u>	<u>(384,709)</u>	<u>-</u>	<u>(6,125,718)</u>
Total depreciable - net	<u>5,178,076</u>	<u>(322,008)</u>	<u>-</u>	<u>4,856,068</u>
Business-type activities - net	<u>\$ 5,184,376</u>	<u>\$ 1,851,404</u>	<u>\$ -</u>	<u>\$ 7,035,780</u>

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

H. Capital Assets – continued

Depreciation expense was charges to functions as follows:

Governmental activities:	
General government	\$ 4,880
Public safety	78,830
Culture and recreation	46,379
Public works	<u>113,370</u>
Total depreciation expense - governmental activities	<u><u>\$ 243,459</u></u>
Business-type activities:	
Water and sewer	\$ 228,124
Solid Waste	<u>156,585</u>
Total depreciation expense - business-type activities	<u><u>\$ 384,709</u></u>

The City has an active construction project as of September 30, 2020. The project includes improvements to the City’s waterworks system and construction of new water storage facilities. At year-end the City’s commitments with contractors were as follows:

	<u>Project Authorization</u>	<u>Expended to September 30, 2020</u>	<u>Committed</u>
Water improvement project	<u>\$ 3,304,550</u>	<u>\$ 2,173,412</u>	<u>\$ 1,131,138</u>

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

I. Long-Term Debt

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 15, 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 \$60,003.

Tax Notes – Series 2014

The City issued \$530,000 in Tax Notes, series 2014, on November 13, 2014. The proceeds of these bonds were used to expand the cemetery facilities of the City because the current property has very little additional capacity. The City's revenue and taxes serve as pledged collateral and source of repayment. The City Council did not assess a separate tax levy for the payment of these bonds. The bonds carry a true interest rate of 2.45%. They were payable over a five-year period with a maturity date of February 15, 2020. Interest payments were made every August 15 and principal and interest payments were made every February 15. Interest expense related to this debt reported in the Governmental Fund financial statements was \$1,348.

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 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 \$52,463.

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

I. Long-Term Debt – continued

Long-term liability activity for the year ended September 30, 2020 is reflected as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Tax note, series 2014	\$ 112,000	\$ -	\$ (112,000)	\$ -	\$ -
Compensated absences	61,255	92,916	(74,141)	80,030	80,030
Total Governmental Activities	<u>\$ 173,255</u>	<u>\$ 92,916</u>	<u>\$ (186,141)</u>	<u>\$ 80,030</u>	<u>\$ 80,030</u>
Business-type Activities:					
Bonds payable:					
Certificate of obligation 2008	\$ 2,325,000	\$ -	\$ (235,000)	\$ 2,090,000	\$ 240,000
Certificate of obligation 2019	-	3,295,000	-	3,295,000	303,000
Compensated absences	35,405	38,643	(39,930)	34,118	34,118
Total Business-type Activities	<u>\$ 35,405</u>	<u>\$ 38,643</u>	<u>\$ (39,930)</u>	<u>\$ 34,118</u>	<u>\$ 34,118</u>

Combination tax and revenue certificates of obligation currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
Series 2019	1.65-2.15%	\$ 3,295,000
Series 2008	1.60-2.85%	2,090,000
		<u>\$ 5,385,000</u>

Annual debt service requirements to maturity for the combination tax and revenue certificates of obligation are as follows:

<u>Year Ending September 30,</u>	<u>Series 2019</u>		<u>Series 2008</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 303,000	\$ 60,878	\$ 240,000	\$ 54,006
2022	308,000	55,683	245,000	47,699
2023	314,000	50,162	250,000	41,140
2024	319,000	44,465	260,000	34,318
2025	325,000	38,507	265,000	27,164
2026	331,000	32,192	270,000	19,740
2027	338,000	25,584	275,000	12,041
2028	345,000	18,668	285,000	4,061
2029	352,000	11,436	-	-
2030	360,000	3,870	-	-
	<u>\$ 3,295,000</u>	<u>\$ 341,445</u>	<u>\$ 2,090,000</u>	<u>\$ 240,169</u>

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

J. Defined Benefit Pension Plan

Plan Description: The City participates as one of 888 plans in the non-traditional, joint contributory, hybrid defined benefit 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 Governmental Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) 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.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150% or 200%) of the employee's accumulated contributions. In addition, the City can grant, as of often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee's salary had always been the average of his or her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

J. Defined Benefit Pension Plan – continued

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	31
Inactive employees entitled to but not yet receiving benefits	109
Active employees	56
	196
	196

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

Employees for the City of Kermit were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Kermit were 16.16% and 15.71% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended were \$487,023 and were equal to the required contributions.

Net Pension Liability: The City's net pension liability (NPL) was measured as of December 31, 2019, 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, 2019 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	26 Years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

J. Defined Benefit Pension Plan – continued

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2109 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS (the actuary) focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	35.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	5.0%	7.75%
Total	<u>100.0%</u>	

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

J. Defined Benefit Pension Plan – continued

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, 2020, those percentages were 68% and 32%, respectively, which approximated the prior year's allocations.

Changes in net pension liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2018	\$ 12,515,023	\$ 9,442,177	\$ 3,072,846
Changes for the year:			
Service cost	469,377	-	469,377
Interest	844,188	-	844,188
Difference between expected and actual experience	343,160	-	343,160
Changes of assumptions	(39,132)	-	(39,132)
Contributions - employer	-	472,716	(472,716)
Contributions - employee	-	204,840	(204,840)
Net investment income	-	1,459,487	(1,459,487)
Benefits payments, including refunds of employee contributions	(486,447)	(486,447)	-
Administrative expense	-	(8,248)	8,248
Other changes	-	(248)	248
Net changes	1,131,146	1,642,100	(510,954)
Balance at December 31, 2019	\$ 13,646,169	\$ 11,084,277	\$ 2,561,892

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

J. Defined Benefit Pension Plan – continued

Changes in net pension liability – continued

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

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would 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%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 4,433,922	\$ 2,561,892	\$ 1,023,061

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 Outflow of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2020 the City recognized pension expense of \$612,753.

At September 30, 2020, 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 and actual investment earnings	\$ -	\$ 332,616
Difference in assumption changes	-	19,468
Differences between expected and actual experience	170,718	5,281
Contributions subsequent to the measurement date	364,040	-
	\$ 534,758	\$ 357,365

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

J. Defined Benefit Pension Plan – continued

Changes in net pension liability – continued

\$364,040 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 as of September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended	
September 30,	Amount
2021	\$ 49,977
2022	(95,852)
2023	23,656
2024	(164,428)
	<u>\$ (186,647)</u>

K. Supplemental Death Benefits Fund

Plan description: The City also participates in the single-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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits provided: The City provides a death benefit for active employees in a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12 month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Benefits Contributions: at the City contributes to SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing on-year term life insurance. The funding policy for 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 contribution rate for calendar years 2019 and 2020 was 0.26%.

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

K. Supplemental Death Benefits Fund – continued

Employees covered by benefit terms: At December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	19
Inactive employees entitled to but not yet receiving benefits	11
Active members	56
Total	86

Total OPEB Liability of \$177,200 was measured as of December 31, 2019.

Actuarial assumptions and other inputs: The total OPEB liability in the December 31, 2019 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	3.50% to 11.5% including inflation
Discount rate*	2.75%
Retirees' share of benefit related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
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 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, 2019.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

K. Supplemental Death Benefits Fund – continued

OPEB items are allocated between governmental activities and business-type activities on the basis of employee payroll funding. For the year ended September 30, 2020, those percentages were 68% and 32%, respectively, which approximated the prior year’s allocations.

Changes in Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2018	\$ 141,813
Changes for the year	
Service cost	7,316
Interest	5,359
Changes in benefit terms	-
Difference between expected and actual experience	(5,879)
Changes of assumptions	30,639
Benefits payments	(2,048)
Net changes	35,387
Balance at December 31, 2019	\$ 177,200

Changes of assumptions reflect a change in the Single Discount Rate from 3.71% as of December 31, 2018 to 2.75% as of December 31, 2019.

Sensitivity of total OPEB liability to changes in the discount rate.

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75 percent) or 1-percentage-point higher (3.75 percent) than the current discount rate:

	1% Decrease in Discount Rate (1.75%)	Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
City's Total OPEB Liability	\$ 215,111	\$ 177,200	\$ 148,297

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

For the year ended September 30, 2020, the City recognized OPEB expense related to supplemental death benefits of \$18,776.

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

K. Supplemental Death Benefits Fund – continued

At September 30, 2020, 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
Difference in assumption changes	\$ 28,006	\$ 5,670
Differences between expected and actual experience	1,866	4,614
Contributions subsequent to the measurement date	6,025	-
	\$ 35,897	\$ 10,284

An amount of \$6,025 reported as deferred outflows of resources related to supplemental death benefits resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability as of September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended September 30,	Amount
2021	\$ 6,101
2022	5,871
2023	4,155
2024	3,461
	\$ 19,588

L. Deferred Inflows of Resources

Deferred inflows of resources reported only in the General Fund financial statements at September 30, 2020 consisted of property tax revenue assessed but not collected in the amount of \$180,887 less allowance for uncollectible accounts of \$108,940 for net deferred inflows of \$71,947.

M. Litigation

The City is in one pending lawsuit: Cause No. DC15-16788-CCD, in the 109th District, Winkler County, Texas styled Hoover Construction Company, Inc. v City of Kermit, Texas. Hoover filed against City on October 27, 2015

CITY OF KERMIT, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS – (continued)

N. Litigation – continued

Hoover seeks to recover the retainage due under the Contract in the amount of \$383,343, as well as \$695,902 in damages it claims it suffered while trying to close certain ponds. In addition, Hoover is also seeking interest and attorney's fees. The City is seeking to recover the liquidated damages in the amount of \$609,500, which represents \$500 per day Hoover failed to complete the project beyond certain date called for under the contract. Alternatively, the City seeks to recover its actual damages incurred in closure of the ponds of \$37,170, plus attorney's fees.

This lawsuit is highly contested, there does not appear to be any potential for settlement at this time. Hoover has filed a motion for summary judgment on its claim for the retainage amount, as well as on the City's Counter claim. The City responded to Hoover's motion, and the Court denied that motion at a hearing held on November 19, 2020. Currently, there is no trial date. Legal counsel for the City is pursuing the option to obtain a summary judgement and are of the opinion that an unfavorable outcome for the City is remote based on current knowledge. The City officials expect to pay no more than required reserve remaining in the Construction Fund Reserve Account, a total of \$334,106.

The City administration was not aware of any other significant contingencies or commitments at September 30, 2020.

O. 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. During fiscal 2020, the City purchased commercial insurance to cover general liabilities.

P. Subsequent events

On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the COVID-19, which disaster declaration he has subsequently extended. The full extent of the ongoing impact of COVID-19 on the City's fiscal year 2021 and longer-term operational and financial performance will depend on future developments, many of which are outside of its control, including the effectiveness of the mitigation strategies related to COVID-19, the duration and spread of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KERMIT, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND**

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes				
Property taxes (penalties & interest included)	\$ 688,830	\$ 688,830	\$ 729,506	\$ 40,676
City sales taxes	2,735,000	2,735,000	1,831,586	(903,414)
Franchise taxes	278,500	278,500	272,611	(5,889)
Sub-total taxes	<u>3,702,330</u>	<u>3,702,330</u>	<u>2,833,703</u>	<u>(868,627)</u>
Licenses and permits	221,900	221,900	266,671	44,771
Intergovernmental revenue and grants	220,000	220,000	210,266	(9,734)
Charges for services	203,770	203,770	223,556	19,786
Sub-total non-tax revenues	<u>645,670</u>	<u>645,670</u>	<u>700,493</u>	<u>54,823</u>
Other appropriations				
Investment earnings	75,800	75,800	57,499	(18,301)
Other revenue	25,675	25,675	98,707	73,032
Sub-total other appropriations	<u>101,475</u>	<u>101,475</u>	<u>156,206</u>	<u>54,731</u>
Total Revenues	<u>4,449,475</u>	<u>4,449,475</u>	<u>3,690,402</u>	<u>(759,073)</u>
Expenditures				
Current				
City Hall	427,312	410,912	491,250	(80,338)
Municipal court	50,088	50,088	54,609	(4,521)
Administration	231,761	231,761	264,833	(33,072)
Police department	1,828,847	1,828,847	1,931,682	(102,835)
Fire department	117,021	105,521	136,469	(30,948)
Inspections	182,688	182,688	177,890	4,798
Street department	472,782	442,782	401,026	41,756
Human department	130,458	110,458	86,564	23,894
Shop department	240,485	235,485	217,217	18,268
Street lighting	75,000	75,000	76,253	(1,253)
Parks & cemetary	421,675	376,775	381,388	(4,613)
County ambulance	14,400	14,400	14,400	-
Tax department	10,000	6,601	6,600	1
Economic Development	6,760	6,760	2,692	4,068
Debt service				
Principal on debt	110,000	110,000	110,000	-
Interest on debt	1,348	1,348	1,348	-
Capital outlay	-	-	-	-
Total expenditures	<u>4,320,625</u>	<u>4,189,426</u>	<u>4,354,221</u>	<u>(164,795)</u>
Other Financing Sources (Uses)				
Sale of real and personal property	-	-	40,255	-
Transfers in	-	-	40,255	(40,255)
Transfers out	(405,000)	(405,000)	(290,560)	(114,440)
Total other financing sources (uses)	<u>(405,000)</u>	<u>(405,000)</u>	<u>(250,305)</u>	<u>(154,695)</u>
Net Increase (Decrease)	<u>\$ (276,150)</u>	<u>\$ (144,951)</u>	<u>\$ (914,124)</u>	<u>\$ (439,583)</u>

CITY OF KERMIT, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2020

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

<u>Legally Adopted Fund</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>	<u>Explanation</u>
General Fund				
				Overages resulted from planning/zoning changes approximating \$68,000; remainder resulted from adjunct legal, advertising, and office supplies to update for these zoning changes
City Hall	410,912	491,250	(80,338)	
Municipal court	50,088	54,609	(4,521)	Overage due to higher third party fees for collections
				Overage due to part time help hired to assist in the administration of the CRF grant and increase in worker's compenstaion costs after the annual audit
Administration	231,761	264,833	(33,072)	
				Overage due to overtime pay for officers approximating \$52,000; \$10,000 overage on purchase of new vehicle; \$15,500 in unbudgeted server upgrade/replacements; \$10,000 for air conditioner replacement; remaining due to worker's compenstation audit
Police department	1,828,847	1,931,682	(102,835)	
				Overage due to expense being recorded at the fire dpeartment level for the non charge water accounts provided as a benefit to the volunteer fire department
Fire department	105,521	136,469	(30,948)	
				Overage due to higher than anticipated electricity charges for the street lights
Street lighting	75,000	76,253	(1,253)	
				Overages due to higher motor vehicle repairs that budgeted
Parks & cemetary	376,775	381,388	(4,613)	

CITY OF KERMIT, TEXAS

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM**

FOR THE LAST SIX MEASUREMENT YEARS

	Measurement Year December 31,					
	2014	2015	2016	2017	2018	2019
Total Pension Liability						
Service cost	\$ 265,828	\$ 353,182	\$ 356,071	\$ 350,657	\$ 379,780	\$ 469,377
Interest (on the total pension liability)	646,756	674,305	694,670	745,290	798,744	844,188
Difference between expected and actual experience	(128,875)	(65,959)	96,798	98,597	(86,539)	343,160
Change of assumptions	-	94,582	-	-	-	(39,132)
Benefit payments, including refunds of employee contributions	(465,614)	(402,060)	(396,073)	(393,751)	(440,632)	(486,447)
Net Change in Total Pension Liability	318,095	654,050	751,466	800,793	651,353	1,131,146
Total Pension Liability - Beginning	9,339,266	9,657,361	10,311,411	11,062,877	11,863,670	12,515,023
Total Pension Liability - Ending (a)	<u>\$ 9,657,361</u>	<u>\$ 10,311,411</u>	<u>\$ 11,062,877</u>	<u>\$ 11,863,670</u>	<u>\$ 12,515,023</u>	<u>\$ 13,646,169</u>
Plan Fiduciary Net Position						
Contributions - employer	\$ 376,311	\$ 331,836	\$ 343,853	\$ 329,928	\$ 364,766	\$ 472,716
Contributions - employee	140,865	154,036	157,328	152,744	164,204	204,840
Net investment income	413,564	11,346	525,652	1,164,656	(289,123)	1,459,487
Benefit payments, including refunds of employee contributions	(465,614)	(402,060)	(396,073)	(393,751)	(440,632)	(486,447)
Administrative expense	(4,317)	(6,911)	(5,936)	(6,035)	(5,586)	(8,248)
Other	(355)	(341)	(320)	(304)	(292)	(248)
Net Change in Plan Fiduciary Net Position	460,454	87,906	624,504	1,247,238	(206,663)	1,642,100
Plan Fiduciary Net Position - Beginning	7,228,738	7,689,192	7,777,098	8,401,602	9,648,840	9,442,177
Plan Fiduciary Net Position - Ending (b)	<u>\$ 7,689,192</u>	<u>\$ 7,777,098</u>	<u>\$ 8,401,602</u>	<u>\$ 9,648,840</u>	<u>\$ 9,442,177</u>	<u>\$ 11,084,277</u>
Net Pension Liability - Ending (a) - (b)	\$ 1,968,169	\$ 2,534,313	\$ 2,661,275	\$ 2,214,830	\$ 3,072,846	\$ 2,561,892
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	79.62%	75.42%	75.94%	81.33%	75.45%	81.23%
Covered Payroll	\$ 2,012,360	\$ 2,200,508	\$ 2,226,836	\$ 2,182,059	\$ 2,345,768	\$ 2,926,289
Net Pension Liability as a Percentage of Covered Payroll	97.80%	115.17%	119.51%	101.50%	131.00%	87.55%

Changes in assumptions: In the 2015 valuation, the investment rate of return decreased from 7.0% to 6.75%, the discount rate decreased from 7.0% to 6.75%, and the inflation rate decreased from 3.0% to 2.5%

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 10-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

**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY
AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM**

FOR THE LAST THREE MEASUREMENT YEARS

	<u>Measurement Year</u> <u>December 31,</u> <u>2017</u>	<u>Measurement Year</u> <u>December 31,</u> <u>2018</u>	<u>Measurement Year</u> <u>December 31,</u> <u>2019</u>
Total OPEB Liability			
Service cost	\$ 5,673	\$ 7,037	\$ 7,316
Interest on the total OPEB liability	4,573	4,660	5,359
Difference between expected and actual experience	-	3,156	(5,879)
Change of assumptions	10,235	(9,594)	30,639
Benefit payments	<u>(1,309)</u>	<u>(1,407)</u>	<u>(2,048)</u>
Net Change in Total OPEB Liability	19,172	3,852	35,387
Total OPEB Liability - Beginning	<u>118,789</u>	<u>137,961</u>	<u>141,813</u>
Total OPEB Liability - Ending	<u>\$ 137,961</u>	<u>\$ 141,813</u>	<u>\$ 177,200</u>
Covered Payroll	\$ 2,182,059	\$ 2,345,768	\$ 2,926,289
Total OPEB Liability as a Percentage of Covered Payroll	6.32%	6.05%	6.06%

Ending balances are as of the measurement date, December 31, 2019

Changes of assumptions reflect a change in the Single Discount Rate from 3.71% as of December 31, 2018 to 2.75% as of December 31, 2019.

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

**NOTES TO THE SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY
AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM**

FOR THE LAST THREE MEASUREMENT YEARS

Notes:

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

Valuation Date: December 31, 2019

Methods and Assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period <input type="checkbox"/>	26 years
Asset Valuation Method	10 Year smoothed market, 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other Information:	
Notes	There were no benefit changes during the year.

OTHER SUPPLEMENTARY INFORMATION

CITY OF KERMIT, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2020

	<u>Special Revenue</u>		
	<u>Police Department Leose</u>	<u>Child Safety Fund</u>	<u>Recreation Fund</u>
Assets			
Cash and cash equivalents	\$ 2,685	\$ 10,548	\$ 10,400
Due from other funds	-	576	-
Prepaid items	-	-	-
Total assets	<u>\$ 2,685</u>	<u>\$ 11,124</u>	<u>\$ 10,400</u>
Liabilities			
Accounts payable	\$ 50	\$ (146)	\$ -
Due to other funds	-	(88)	-
Total liabilities	<u>50</u>	<u>(234)</u>	<u>-</u>
Fund Balance			
Restricted:			
Municipal court technology & security	-	-	-
Public safety	-	11,358	-
Assigned:			
Recreation center	-	-	10,400
Capital projects	-	-	-
Police	2,635	-	-
Total fund balance	<u>2,635</u>	<u>11,358</u>	<u>10,400</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 2,685</u>	<u>\$ 11,124</u>	<u>\$ 10,400</u>

CITY OF KERMIT, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL
FUNDS - CONTINUED

SEPTEMBER 30, 2020

	<u>Special Revenue</u>		<u>Capital Projects</u>	<u>Total Non-major Governmental</u>
	<u>Municipal Technology Fund</u>	<u>Municipal Court Security Fund</u>	<u>Capital Acquisition Fund</u>	
Assets				
Cash and cash equivalents	\$ 2,376	\$ 18,643	\$ 537,698	\$ 582,350
Due from other funds	-	-	62,700	63,276
Prepaid items	-	-	-	-
Total assets	<u>\$ 2,376</u>	<u>\$ 18,643</u>	<u>\$ 600,398</u>	<u>\$ 645,626</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ (96)
Due to other funds	-	-	-	(88)
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(184)</u>
Fund Balance				
Restricted:				
Municipal court technology & security	-	18,643	-	18,643
Public safety	-	-	-	11,358
Assigned:				
Recreation center	2,376	-	-	12,776
Capital projects	-	-	600,398	600,398
Police	-	-	-	2,635
Total fund balance	<u>2,376</u>	<u>18,643</u>	<u>600,398</u>	<u>645,810</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 2,376</u>	<u>\$ 18,643</u>	<u>\$ 600,398</u>	<u>\$ 645,626</u>

CITY OF KERMIT, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

YEAR ENDED SEPTEMBER 30, 2020

	<u>Special Revenue</u>		
	<u>Police Department Leose</u>	<u>Child Safety Fund</u>	<u>Recreation Fund</u>
Revenues			
Taxes	\$ 1,464	\$ 483	\$ -
Licenses and permits	-	-	-
Charges for services	-	-	-
Investment income	14	-	-
Total revenues	<u>1,478</u>	<u>483</u>	<u>-</u>
Expenditures			
General government	-	-	-
Public safety	422	(146)	-
Culture and recreation	-	-	-
Public works	-	-	-
Capital outlay:			
General government	-	-	-
Total expenditures	<u>422</u>	<u>(146)</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>1,056</u>	<u>629</u>	<u>-</u>
Other Financing Sources (Uses)			
Transfers in	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance (deficit)	1,056	629	-
Fund balance - beginning of year	1,579	10,729	10,400
Prior year restatement	-	-	-
Fund balance (deficit) - beginning of year, as restated	<u>1,579</u>	<u>10,729</u>	<u>10,400</u>
Fund balance - end of year	<u>\$ 2,635</u>	<u>\$ 11,358</u>	<u>\$ 10,400</u>

CITY OF KERMIT, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS - CONTINUED**

YEAR ENDED SEPTEMBER 30, 2020

	<u>Special Revenue</u>		<u>Capital Projects</u>	
	<u>Municipal Technology Fund</u>	<u>Municipal Court Security Fund</u>	<u>Capital Acquisition Fund</u>	<u>Total Non-major Governmental</u>
Revenues				
Taxes	\$ -	\$ 5,306	\$ -	\$ 7,253
Licenses and permits	5,520	112	-	5,632
Charges for services	27	-	-	27
Investment income	-	-	-	14
Total revenues	<u>5,547</u>	<u>5,418</u>	<u>-</u>	<u>12,926</u>
Expenditures				
General government	5,784	-	-	5,784
Public safety	-	-	-	276
Culture and recreation	-	-	-	-
Public works	-	-	-	-
Capital outlay:				
General government	-	-	96,984	96,984
Total expenditures	<u>5,784</u>	<u>-</u>	<u>96,984</u>	<u>103,044</u>
Excess (deficiency) of revenues over expenditures	<u>(237)</u>	<u>5,418</u>	<u>(96,984)</u>	<u>(90,118)</u>
Other Financing Sources (Uses)				
Transfers in	-	-	290,560	290,560
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>290,560</u>	<u>290,560</u>
Net change in fund balance (deficit)	(237)	5,418	193,576	200,442
Fund balance - beginning of year	2,613	13,225	-	38,546
Prior year restatement	-	-	406,822	406,822
Fund balance (deficit) - beginning of year, as restated	<u>2,613</u>	<u>13,225</u>	<u>406,822</u>	<u>445,368</u>
Fund balance - end of year	<u>\$ 2,376</u>	<u>\$ 18,643</u>	<u>\$ 600,398</u>	<u>\$ 645,810</u>

***GOVERNMENT AUDITING STANDARDS* REPORT SECTION**

**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***

INDEPENDENT AUDITOR'S REPORT

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 as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Kermit, Texas' basic financial statements, and have issued our report thereon dated May 20, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kermit, Texas' 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 of Kermit, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kermit, Texas' 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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2020-001 and 2020-002 that we consider to be material weaknesses. Items 2020-003, 2020-004, and 2020-005 are described in the accompanying schedule of findings and responses which we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The City of Kermit, Texas' 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*.

The City of Kermit, Texas' Response to Findings

The City of Kermit, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City of Kermit, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, professional style.

Odessa, Texas
May 20, 2021

CITY OF KERMIT, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2020-01

Material Weakness in Internal Control over Financial Reporting—Inadequate Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual that receives court fines at the municipal court office is the same individual who records those payments against the court records. Also, there is no reconciliation done between the fines assessed and the fines paid and there is no oversight from the City finance office.

Context: We observed inadequate segregation of duties by inquiring and observing the intake and recording of cash receipts at the municipal court office.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Cause: The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Recommendation: Management and the City Council should consider a formal evaluation of their risks associated with this lack of duties segregation over municipal court cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including daily balancing and monthly reconciliations.

Views of Responsible Official(s) and Planned Corrective Actions: Previous Administrations have carved-out the Municipal Court from the City Finance Office and the Annual Audit. The Municipal Court system was held on their own server apart from the City of Kermit. Therefore, the City Finance Office had no opportunity to view and/or address issues of internal controls, methods and procedures for processing monies within the Municipal Court. Current Administration has repeatedly inquired as to the financial operations within Municipal Court. Current Administration recognizes these material weaknesses and is eager to address these issues going forward. The Municipal Court system will be moved onto the server of the City of Kermit. The Court module will be upgraded to include a receipting system that will batch payments and provide for reporting. The Municipal Court will be visible to City Finance through the accounting system once it is moved onto the server. At that time, we will be able to provide for separation of duties, and proper reporting. It is incumbent upon the Council to inform Court that it must provide for proper documentation of payments, deferrals, dismissals, etc. and make these available to City Finance as it relates to City Funds.

CITY OF KERMIT, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2020-02

Material Weakness in Internal Control over Financial Reporting—Use of modified accrual basis of accounting

Criteria: Governmental funds financial statements use the current financial resources measurement focus and the modified accrual basis of accounting.

Condition: The City maintains its books on a cash basis.

Context: Several journal entries were proposed during the audit process to record transactions on the modified accrual basis of accounting.

Effect or Potential Effect: Without recording transactions on a modified accrual basis, there is potential for the financial statements that are presented to the City Council and bonding agencies to be materially misstated.

Cause: The City utilizes the cash basis method due to its ease of administration and understanding.

Recommendation: Management should begin recording transactions on the modified accrual basis.

Views of Responsible Official(s) and Planned Corrective Actions: In the past, standard procedure was to allow the auditors to convert the cash basis to modified accruals due to lack of appropriate staffing. Current Management understands the importance of maintaining accurate financial reporting based upon the appropriate accounting method. Steps have been taken to re-align the Finance Director duties to allow for recording financial information accurately by re-directing job duties such as Payroll and Accounts Payable to a new position. Additional personnel need to be added to the Finance Department in order to free up the Finance Director to concentrate on financial reporting and internal audit of systems.

CITY OF KERMIT, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2020-03

Significant deficiency in Internal Control over Financial Reporting—Use of purchase order system

Criteria: The City has an established purchase order policy

Condition: Purchase orders are being created after the items have been purchased and there is no 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 and there is no receipting systems to make sure the goods and services being ordered have been received.

Effect or Potential Effect: Without utilizing the purchase order system to its full capacity, there is potential for unauthorized purchases and for purchased goods to not be received.

Cause: The entity's limited size and staffing resources have made it difficult for management to enforce and keep up with the purchase order system.

Recommendation: Management should begin creating and approving purchase orders prior to making the purchase. Further, management should implement prenumbered receiving reports that include vendor description, date of receipt, and a reference to the packaging slip or purchase order. Payment of vendor invoices should not be made unless there is a three-way match between the purchase order, the receiving report and the invoice. Additionally, on a monthly basis, the City should review open receiving reports 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. Of course, this will need to be approved by the City Council.

CITY OF KERMIT, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2020-04

Significant deficiency in Internal Control over Financial Reporting—Use of fixed asset system

Criteria: The City should maintain a detail of the fixed assets and routinely inventory such items

Condition: There are no formal procedures to report disposal of fixed assets to the accounting department as they occur. Additionally, there is no system in place in the accounting department to track changes to fixed assets and calculate the depreciation there of.

Context: During the evaluation of internal control, testing identified the City does not have adequate systems in place to adequately monitor and record fixed asset activity.

Effect or Potential Effect: Without the systems in place, the City could potentially be overstating their fixed asset balance.

Cause: The entity's limited size and staffing resources have made it difficult for management to obtain or implement these systems.

Recommendation: A formal policy to ensure the reporting of fixed asset disposals should be adopted and should include the necessary level of approval for the disposal. Additionally, because of the lack of formal procedures over disposals, we recommend the City complete a physical inventory of all fixed assets. The resulting fixed asset listing will provide a strong source of detail and control to establish a future system of safeguards for all fixed assets. Finally, we would recommend the City convert to a computerized system designed to accumulate asset cost and calculate depreciation expense.

Views of Responsible Official(s) and Planned Corrective Actions: Previous Administrations had off-loaded the fixed asset records to the Auditing firm at the time. Records of additions/deletions from fixed assets were accumulated throughout the year and passed along to the Auditors at the end of the fiscal year. Current Management agrees that fixed assets should be housed at City Hall and procedures for additions/deletions in place along with a Fixed Asset Policy. Additionally, Management agrees that a physical inventory of all assets should be performed to establish an accurate record of assets. Therefore, staffing needs within City Hall need to be addressed in order ensure timely and accurate recording of asset stays current. A fixed asset computerized system will be added to the accounting system. A physical inventory of current assets on file will be conducted to ensure accuracy. Proper policy for additions/deletions will be put in place. Again, this additional software expense will need to be approved by the City Council.

CITY OF KERMIT, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2020-05

Significant deficiency in Internal Control over Financial Reporting—Excess of Expenditures Over Appropriation

Criteria: The City Council on an annual basis adopts the annual budget. Expenditures should be within budgeted amounts.

Condition: Expenditures were made in excess of appropriations.

Context: For several departments within the City, the expenditures incurred exceeded the approved budget and no amendments were made.

Effect or Potential Effect: Expenditures in excess of appropriation may lead to unauthorized expenditures.

Cause: The entity's limited size and resources have made it difficult for management and the Council to get these amendments approved.

Recommendation: The City should monitor expenditures throughout the year and ensure that budget amendments are properly approved by the City Council and recorded in the accounting system prior to the expenditure of funds.

Views of Responsible Official(s) and Planned Corrective Actions: The City understands its obligation to remain within budgeted appropriations requiring monitoring of expenditures and necessary budget amendments forwarded to the City Council for approval as required to balance the budget. The City has in the past consistently maintained a balanced budget; however, this fiscal year brought about numerous challenges that lead to the eventual miss on the over-spent line items. Measures will be put in place to ensure this does not occur in the future. For example, when performing our normal quarterly reporting, this will be added to the list to review at quarter end.

CITY OF KERMIT, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding:

No findings in prior year.