

**CITY OF KERMIT, TEXAS**

**FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION**

**Year Ended September 30, 2021  
With Independent Auditor's Report**



# CITY OF KERMIT, TEXAS

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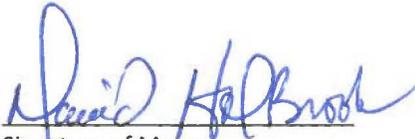


**CERTIFICATE OF BOARD**

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) x approved \_\_\_ disapproved for the year ended September 30, 2021 at a meeting of the Council of such city on the 16<sup>th</sup> day of June, 2022.

  
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

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, 2021, 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, 2021, 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 June 16, 2022 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.



Odessa, Texas  
June 16, 2022

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

In this section of the Annual Financial and Compliance Report, we, the managers of the City of Kermit, Texas ("the City"), discuss and analyze the City's financial performance for the fiscal year ended September 30, 2021. Please read it in conjunction with the Independent Auditor's Report and the City's Basic Financial Statements.

**Financial Highlights**

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$12.3 million (*net position*). Of this amount, \$4.0 million (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors. Governmental activities report a deficit unrestricted net position of \$0.8 million. This is primarily related to the pension and OPEB liabilities.
- The government's total net position increased by \$0.9 million due to operations.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2.6 million, a decrease of \$0.8 million from the prior year. Approximately 38.6% of the combined fund balance, or \$1.0 million, is *available for spending* at the government's discretion (*assigned and unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was 10.4% of total general fund expenditures.
- The City's long-term liabilities decreased by \$229 thousand over the prior year primarily due to a decrease in bonds payable (\$553 thousand) offset by an increase in net pension liability (\$289 thousand) and total OPEB liability (\$35 thousand).

During the year, the City had operating expenditures that were \$818,341 more than the \$4,052,351 generated in tax and other revenues for the governmental programs. This compares to last year when expenditures exceeded revenues by \$471,733.

In the City's enterprise funds, revenues decreased by \$127,109 while operating expenses increased by \$70,125.

Total cost of the City's programs was \$7,941,037 while last year's cost was \$7,680,111.

The fund balance for all Governmental Funds ended the year at \$2,645,235 and the ending fund balance from last year was \$3,437,109.

The resources available for appropriation were \$288,809 less than budgeted for the General Fund. The Decrease in revenues was primarily due to a 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 10 - 11). 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 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget for proprietary activities, fund financial statements tell how goods or services of the City were sold to departments within the City or to external customers and how sales revenues covered the expenses of the goods or services.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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

**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 10. 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 12 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.

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.

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Our analysis focuses on the net position (page 10) and changes in net position (page 11) of the City's Governmental and business-type activities.

Net Position of the City's governmental activities was \$2,347,859. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements is a deficit of \$833,485 at September 30, 2021. The net pension liability and OPEB liability and related deferred inflows and outflows are the cause of the deficit net position.

Net Position of the City's business-type activities was \$10,000,499, which included \$4,809,592 in unrestricted net position, \$546,632 restricted for debt service and \$4,644,275 in investment in capital assets, net of related debt. The net position of the business-type activities increased by \$2,061,808.

**Condensed Schedule of Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 3,854,672	\$ 3,790,444	\$ 7,616,848	8,329,322	\$ 11,471,520	\$ 12,119,766
Capital assets, net	1,573,778	1,671,744	8,458,760	7,035,780	10,032,538	8,707,524
<b>Total Assets</b>	<b>5,428,450</b>	<b>5,462,188</b>	<b>16,075,608</b>	<b>15,365,102</b>	<b>21,504,058</b>	<b>20,827,290</b>
<b>Total deferred outflows of resources</b>	<b>412,551</b>	<b>386,249</b>	<b>182,971</b>	<b>184,406</b>	<b>595,522</b>	<b>570,655</b>
Long-term liabilities	2,122,049	1,853,960	5,230,149	5,727,132	7,352,198	7,581,092
Other liabilities	1,146,701	281,388	928,411	1,764,881	2,075,112	2,046,269
<b>Total liabilities</b>	<b>3,268,750</b>	<b>2,135,348</b>	<b>6,158,560</b>	<b>7,492,013</b>	<b>9,427,310</b>	<b>9,627,361</b>
<b>Total deferred inflows of resources</b>	<b>224,392</b>	<b>248,844</b>	<b>99,520</b>	<b>118,805</b>	<b>323,912</b>	<b>367,649</b>
<b>Net Position:</b>						
Net investments in capital assets	1,573,778	1,671,744	4,644,275	1,650,780	6,218,053	3,322,524
Restricted	1,607,566	1,276,284	546,632	464,552	2,154,198	1,740,836
Unrestricted	(833,485)	516,217	4,809,592	5,823,358	3,976,107	6,339,575
<b>Total net position</b>	<b>\$ 2,347,859</b>	<b>\$ 3,464,245</b>	<b>\$ 10,000,499</b>	<b>\$ 7,938,690</b>	<b>\$ 12,348,358</b>	<b>\$ 11,402,935</b>

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

**CONDENSED SCHEDULE OF CHANGES IN NET POSITION**  
**For the Year Ended September 30, 2021 and 2020**

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 675,320	736,423	\$ 4,823,465	4,903,291	\$ 5,498,785	\$ 5,639,714
Operating grants and contributions	271,832	69,422	-	-	271,832	69,422
General revenues:						
Property tax	744,564	731,507	-	-	744,564	731,507
Sales tax	1,439,123	1,763,628	-	-	1,439,123	1,763,628
Mixed beverage	768	665	-	-	768	665
Franchise taxes	254,722	272,611	-	-	254,722	272,611
Occupancy taxes	532,976	496,099	-	-	532,976	496,099
Unrestricted investment earnings	26,058	64,380	2,605	26,905	28,663	91,285
Miscellaneous	106,988	73,423	8,039	31,022	115,027	104,445
<b>Total revenue</b>	<b>4,052,351</b>	<b>4,208,158</b>	<b>4,834,109</b>	<b>4,961,218</b>	<b>8,886,460</b>	<b>9,169,376</b>
<b>Expenses:</b>						
General government	973,115	897,613	-	-	973,115	897,613
Public safety	2,381,165	2,521,071	-	-	2,381,165	2,521,071
Culture and recreation	546,446	443,833	-	-	546,446	443,833
Public works	969,966	816,026	-	-	969,966	816,026
Interest and other fees	-	1,348	-	-	-	1,348
Utility	-	-	1,738,424	1,549,305	1,738,424	1,549,305
Aquatic park	-	-	1,331,921	1,450,915	1,331,921	1,450,915
<b>Total expenses</b>	<b>4,870,692</b>	<b>4,679,891</b>	<b>3,070,345</b>	<b>3,000,220</b>	<b>7,941,037</b>	<b>7,680,111</b>
Increase (decrease) in net position before transfers	(818,341)	(471,733)	1,763,764	1,960,998	945,423	1,489,265
Transfers between governmental and business-type activities	(298,045)	40,255	298,045	(40,255)	-	-
Net Increase (decrease) in net position	(1,116,386)	(431,478)	2,061,809	1,920,743	945,423	1,489,265
<b>Net position - beginning of year</b>	<b>3,464,245</b>	<b>3,474,745</b>	<b>7,938,690</b>	<b>6,017,947</b>	<b>11,402,935</b>	<b>9,492,692</b>
Prior period adjustment	-	420,978	-	-	-	420,978
<b>Net position - end of year</b>	<b>\$ 2,347,859</b>	<b>\$ 3,464,245</b>	<b>\$ 10,000,499</b>	<b>\$ 7,938,690</b>	<b>\$ 12,348,358</b>	<b>\$ 11,402,935</b>

The cost of all governmental activities this year was \$4,870,692. However, as shown in the Statement of Activities on page 11, some of the costs were paid by those who directly benefited from the programs (\$675,320).

**The City's funds**

As the City completed the year, its governmental funds, on page 12, reported a fund balance of \$2,645,235 while it reported a fund balance of \$3,437,109 last year.

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

**Capital asset and debt administration**

**Capital Assets**

At September 30, 2021, the City had \$10,032,538, net of accumulated depreciation, invested in a broad range of capital assets, including land, the water system, sewer system and the solid waste fund, as follows:

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land and land improvements	\$ 74,664	\$ 74,664	\$ 6,300	\$ 6,300	\$ 80,964	\$ 80,964
Construction in progress	257,433	257,433	-	2,173,412	257,433	2,430,845
Buildings and improvements	693,520	734,478	-	5,916	693,520	740,394
Infrastructure	-	12,275	-	-	-	12,275
Water and sewer system	-	-	7,708,490	4,146,161	7,708,490	4,146,161
Machinery and equipment	533,410	580,099	721,335	703,988	1,254,745	1,284,087
Office furniture and equipment	14,751	12,795	22,635	2	37,386	12,797
Total capital assets	<u>\$ 1,573,778</u>	<u>\$ 1,671,744</u>	<u>\$ 8,458,760</u>	<u>\$ 7,035,779</u>	<u>\$ 10,032,538</u>	<u>\$ 8,707,523</u>

The net amount of capital assets increased by \$1,325,015 primarily due to completed projects in the water and sewer system.

**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 \$60,878 in bond interest and principal payments of \$303,000 for the year ended September 30, 2021.

**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.

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 \$240,000 and paid \$53,241 in bond interest for the year ended September 30, 2021. The City has seven years of bond payments left on these notes.

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

**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 fluctuated over the course of the current year, which contributes heavily upon the valuation of properties on the mineral roll. The City's population has remained steady with only small increases in recent years. However, administration is fully aware of the volatility of the oil and gas industry and has attempted to adopt a conservative approach to the City's financial operations.

These indicators were taken into account when adopting the General Fund budget for 2020-2021. The City's General Fund projects a deficit of \$875,544. Compared to fiscal year 2019-2020 budget deficit of \$647,979. The tax rate was set at \$.331592 per \$100 valuation for fiscal year 2020-2021.

The City has encountered much of the same issues facing the economy during FY22 as pressures from inflation and supply chain disruptions continue; therefore, despite the City's conservative approach to budgeting and expenditures, the City predicts a General Fund shortfall of approximately \$125,000 for FY 22 end.

**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, 2021**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 3,591,350	7,059,594	\$ 10,650,944
Receivables, net of allowances:			
Accounts	267,851	390,142	657,993
Property taxes	62,736	-	62,736
Other taxes	18,541	48,532	67,073
Special assessments	31,864	-	31,864
Internal balances	(117,841)	117,841	-
Prepays	171	739	910
<b>Total Current Assets</b>	<b>3,854,672</b>	<b>7,616,848</b>	<b>11,471,520</b>
<b>Noncurrent Assets:</b>			
Capital assets - net:			
Land and nondepreciable land improvements	74,664	6,300	80,964
Construction in progress	257,433	-	257,433
Buildings and improvements	693,520	-	693,520
Water and Sewer System	-	7,708,490	7,708,490
Machinery and equipment	548,161	743,970	1,292,131
Total capital assets - net	1,573,778	8,458,760	10,032,538
<b>Total Noncurrent Assets</b>	<b>1,573,778</b>	<b>8,458,760</b>	<b>10,032,538</b>
<b>Total Assets</b>	<b>5,428,450</b>	<b>16,075,608</b>	<b>21,504,058</b>
<b>Deferred Outflows of Resources</b>			
Deferred outflows - OPEB	34,156	15,149	49,305
Deferred outflows - Pension	378,395	167,822	546,217
<b>Total Deferred Outflows of Resources</b>	<b>412,551</b>	<b>182,971</b>	<b>595,522</b>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 178,776	\$ 81,357	\$ 260,133
Deposits and other liabilities	99,857	44,829	144,686
Customer deposits	-	207,466	207,466
Compensated absences	64,498	28,094	92,592
Unearned revenue	803,570	-	803,570
Accrued interest payable	-	13,665	13,665
Bonds payable	-	553,000	553,000
<b>Total Current Liabilities</b>	<b>1,146,701</b>	<b>928,411</b>	<b>2,075,112</b>
<b>Noncurrent Liabilities:</b>			
Bonds payable	-	4,289,000	4,289,000
Total OPEB liability	146,810	65,111	211,921
Net pension liability	1,975,239	876,038	2,851,277
<b>Total Noncurrent Liabilities</b>	<b>2,122,049</b>	<b>5,230,149</b>	<b>7,352,198</b>
<b>Total Liabilities</b>	<b>3,268,750</b>	<b>6,158,560</b>	<b>9,427,310</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows - OPEB	9,077	4,025	13,102
Deferred inflows - Pension	215,315	95,495	310,810
<b>Total Deferred Inflows of Resources</b>	<b>224,392</b>	<b>99,520</b>	<b>323,912</b>
<b>Net Position</b>			
Net investment in capital assets	1,573,778	4,644,275	6,218,053
Restricted for:			
Municipal court technology & security	22,129	-	22,129
Economic Development	1,573,919	-	1,573,919
Public safety	11,518	-	11,518
Debt service	-	546,632	546,632
Unrestricted	(833,485)	4,809,592	3,976,107
<b>Total Net Position</b>	<b>\$ 2,347,859</b>	<b>\$ 10,000,499</b>	<b>\$ 12,348,358</b>

**CITY OF KERMIT, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**September 30, 2021**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>						
<b>Governmental Activities:</b>						
General government	\$ 973,115	\$ 546,114	\$ 271,832	\$ (155,169)	\$ -	\$ (155,169)
Public safety	2,381,165	129,206	-	(2,251,959)	-	(2,251,959)
Culture and recreation	546,446	-	-	(546,446)	-	(546,446)
Public works	969,966	-	-	(969,966)	-	(969,966)
<b>Total Governmental Activities</b>	<b>4,870,692</b>	<b>675,320</b>	<b>271,832</b>	<b>(3,923,540)</b>	<b>-</b>	<b>(3,923,540)</b>
<b>Business-Type Activities:</b>						
Water Utility System	1,738,424	3,463,879	-	-	1,725,455	1,725,455
Solid Waste System	1,331,921	1,359,586	-	-	27,665	27,665
<b>Total Business-Type Activities</b>	<b>3,070,345</b>	<b>4,823,465</b>	<b>-</b>	<b>-</b>	<b>1,753,120</b>	<b>1,753,120</b>
<b>Total Primary Government</b>	<b>\$ 7,941,037</b>	<b>\$ 5,498,785</b>	<b>\$ 271,832</b>	<b>(3,923,540)</b>	<b>1,753,120</b>	<b>(2,170,420)</b>
<b>General Revenue and Transfers:</b>						
Taxes:						
Property				744,564	-	744,564
Sales				1,439,123	-	1,439,123
Mixed beverage				768	-	768
Franchise				254,722	-	254,722
Occupancy				532,976	-	532,976
Unrestricted investment earnings				26,058	2,605	28,663
Miscellaneous				106,988	8,039	115,027
Transfers between governmental and business-type activities				(298,045)	298,045	-
<b>Total General Revenue and Transfers</b>				<b>2,807,154</b>	<b>308,689</b>	<b>3,115,843</b>
Change in net position				(1,116,386)	2,061,809	945,423
<b>Net Position - Beginning of Year</b>				<b>3,464,245</b>	<b>7,938,690</b>	<b>11,402,935</b>
<b>Net Position - End of Year</b>				<b>\$ 2,347,859</b>	<b>\$ 10,000,499</b>	<b>\$ 12,348,358</b>

**CITY OF KERMIT, TEXAS**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**September 30, 2021**

	<u>General Fund</u>	<u>Hotel/Motel Fund</u>	<u>American Rescue Plan Act</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 491,966	\$ 1,542,048	\$ 803,618	\$ 753,718	\$ 3,591,350
Receivables, net of allowance:					
Accounts	267,851	-	-	-	267,851
Property taxes	62,736	-	-	-	62,736
Other taxes receivable	18,541	31,864	-	-	50,405
Due from other funds	88,792	106	-	63,364	152,262
Prepaid items	-	-	-	196	196
<b>Total Assets</b>	<u>\$ 929,886</u>	<u>\$ 1,574,018</u>	<u>\$ 803,618</u>	<u>\$ 817,278</u>	<u>\$ 4,124,800</u>
<b>Liabilities</b>					
Accounts payable	\$ 178,587	\$ 99	\$ -	\$ 115	\$ 178,801
Accrued liabilities	164,355	-	-	-	164,355
Due to other funds	65,875	-	-	204,228	270,103
Unearned revenue	-	-	803,570	-	803,570
<b>Total Liabilities</b>	<u>408,817</u>	<u>99</u>	<u>803,570</u>	<u>204,343</u>	<u>1,416,829</u>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - property taxes	62,736	-	-	-	62,736
<b>Total Deferred Inflows of Resources</b>	<u>62,736</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,736</u>
<b>Fund Balance</b>					
Restricted:					
Municipal court technology & security	\$ -	\$ -	\$ -	\$ 22,129	\$ 22,129
Grants	-	-	48	15,077	15,125
Promotional & economic development	-	1,573,919	-	-	1,573,919
Public safety	-	-	-	11,689	11,689
Assigned:					
Recreation center	-	-	-	15,235	15,235
Capital projects	-	-	-	548,458	548,458
Purchases on order	-	-	-	347	347
Unassigned	458,333	-	-	-	458,333
<b>Total Fund Balance</b>	<u>458,333</u>	<u>1,573,919</u>	<u>48</u>	<u>612,935</u>	<u>2,645,235</u>
<b>Total Liabilities, Deferred Inflows and Fund Balance</b>	<u>\$ 929,886</u>	<u>\$ 1,574,018</u>	<u>\$ 803,618</u>	<u>\$ 817,278</u>	<u>\$ 4,124,800</u>

**CITY OF KERMIT, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**September 30, 2021**

Total Fund balances - governmental funds \$ 2,645,235

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

Capital assets used in governmental activities resources are not financial resources and, therefore, are not reported as net positions in governmental funds. 1,573,778

Certain other unavailable assets and deferred outflows or resources are not available to pay current period expenditures and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position

Unavailable revenue	62,736
Deferred outflows related to pension activities	378,395
Deferred outflows related to OPEB activities	34,156

Long-term liabilities and deferred inflows are not due and payable in this current period and, therefore, are not reported as liabilities in the fund financial statements, but are included in the governmental activities in the Statement of Net Position

Net pension liability	(1,975,239)
Total OPEB liability	(146,810)
Deferred inflows related to pension activities	(215,315)
Deferred inflows related to OPEB activities	(9,077)
Total net position - governmental activities	\$ 2,347,859

**CITY OF KERMIT, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2021**

	<u>General Fund</u>	<u>Hotel/Motel Fund</u>	<u>American Rescue Plan Act</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
<b>Revenues</b>					
Property Tax	\$ 753,775	\$ -	\$ -	\$ 8,266	\$ 762,041
General Sales and Use tax	1,439,123	-	-	-	1,439,123
Franchise tax	254,722	-	-	-	254,722
Other Taxes	-	532,976	-	-	532,976
Licenses and permits	252,604	-	-	3,073	255,677
Contributions	-	-	-	15,057	15,057
Intergovernmental revenue and grants	271,832	-	-	-	271,832
Fine and fees	128,927	-	-	-	128,927
Charges for services	225,110	-	-	6	225,116
Investment income	22,425	3,462	48	38	25,973
Other	176,378	-	-	-	176,378
<b>Total Revenues</b>	<u>3,524,896</u>	<u>536,438</u>	<u>48</u>	<u>26,440</u>	<u>4,087,822</u>
<b>Expenditures</b>					
General government	1,025,797	-	-	1,843	1,027,640
Public safety	2,150,581	-	-	5,532	2,156,113
Street, humane and city shop	785,678	-	-	-	785,678
Street lighting	69,262	-	-	-	69,262
Parks and cemetery	338,458	-	-	-	338,458
County ambulance	14,400	-	-	-	14,400
Tax department	5,101	-	-	-	5,101
Community development	11,163	-	-	-	11,163
Economic development and assistance	-	78,327	-	-	78,327
Capital outlay:					
General government	-	130,475	-	216,342	346,817
<b>Total Expenditures</b>	<u>4,400,440</u>	<u>208,802</u>	<u>-</u>	<u>223,717</u>	<u>4,832,959</u>
Excess (deficiency) of revenues over expenditures	(875,544)	327,636	48	(197,277)	(745,137)
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	-	164,402	164,402
Transfers out	(211,139)	-	-	-	(211,139)
<b>Total Other Financing Sources (Uses)</b>	<u>(211,139)</u>	<u>-</u>	<u>-</u>	<u>164,402</u>	<u>(46,737)</u>
Net change in fund balance (deficit)	(1,086,683)	327,636	48	(32,875)	(791,874)
<b>Fund Balance (Deficit) - Beginning of Year</b>	<u>1,545,016</u>	<u>1,246,283</u>	<u>-</u>	<u>645,810</u>	<u>3,437,109</u>
<b>Fund Balance - End of Year</b>	<u>\$ 458,333</u>	<u>\$ 1,573,919</u>	<u>\$ 48</u>	<u>\$ 612,935</u>	<u>\$ 2,645,235</u>

**CITY OF KERMIT, TEXAS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2021**

Net change in fund balance - total governmental funds	\$ (791,874)
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.	(97,966)
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.	(9,211)
Some expenses (revenues) reported in the statement of activities do not require the use of current financial resources and, therefore, are not expenditures in governmental funds. These are detailed below:	
Pension related activities	(198,206)
OPEB related activities	<u>(19,129)</u>
Change in net position of governmental activities.	<u><u>\$ (1,116,386)</u></u>

**CITY OF KERMIT, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**September 30, 2021**

	Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 6,476,882	\$ 582,712	\$ 7,059,594
Accounts receivable, net of allowances:			
Billed	286,160	103,982	390,142
Other	34,297	14,235	48,532
Due from other funds	139,967	151,189	291,156
Prepaid items	473	266	739
<b>Total Current Assets</b>	<b>6,937,779</b>	<b>852,384</b>	<b>7,790,163</b>
<b>Noncurrent Assets:</b>			
Capital assets - net:			
Land	6,300	-	6,300
Buildings and improvements	13,936	-	13,936
Water and sewer system	12,052,306	-	12,052,306
Machinery and equipment	1,235,216	1,732,598	2,967,814
Accumulated depreciation	(5,352,083)	(1,229,513)	(6,581,596)
Total capital assets - net	7,955,675	503,085	8,458,760
<b>Total Noncurrent Assets</b>	<b>7,955,675</b>	<b>503,085</b>	<b>8,458,760</b>
<b>Total Assets</b>	<b>14,893,454</b>	<b>1,355,469</b>	<b>16,248,923</b>
<b>Deferred Outflows of Resources</b>			
Deferred outflows - OPEB	9,184	5,965	15,149
Deferred outflows - Pension	101,740	66,082	167,822
<b>Total Deferred Outflows of Resources</b>	<b>110,924</b>	<b>72,047</b>	<b>182,971</b>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts payable	\$ 47,262	\$ 34,095	\$ 81,357
Accrued expenses	20,925	19,399	40,324
Due to other fund	77,556	95,759	173,315
Accrued interest payable	13,665	-	13,665
Customer deposits	215,795	-	215,795
Compensated absences	24,270	-	24,270
Bonds payable	553,000	-	553,000
<b>Total Current Liabilities</b>	<b>952,473</b>	<b>149,253</b>	<b>1,101,726</b>
<b>Noncurrent Liabilities:</b>			
Bonds payable	4,289,000	-	4,289,000
Total OPEB liability	39,473	25,638	65,111
Net pension liability	531,088	344,950	876,038
<b>Total Noncurrent Liabilities</b>	<b>4,859,561</b>	<b>370,588</b>	<b>5,230,149</b>
<b>Total Liabilities</b>	<b>5,812,034</b>	<b>519,841</b>	<b>6,331,875</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows - OPEB	2,440	1,585	4,025
Deferred inflows - Pension	57,893	37,602	95,495
<b>Total Deferred Inflows of Resources</b>	<b>60,333</b>	<b>39,187</b>	<b>99,520</b>
<b>Net Position</b>			
Net investment in capital assets	4,141,190	503,085	4,644,275
Restricted for debt service	546,632	-	546,632
Unrestricted net position	4,444,188	365,404	4,809,592
<b>Total Net Position</b>	<b>\$ 9,132,010</b>	<b>868,489</b>	<b>\$ 10,000,499</b>

**CITY OF KERMIT, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
**For the Year Ended September 30, 2021**

	<b>Enterprise Funds</b>		
	<b>Water Utility System</b>	<b>Solid Waste System</b>	<b>Total Enterprise</b>
<b>Operating Revenues</b>			
<b>Charges for services:</b>			
Water and sewer service	\$ 3,084,423	\$ 1,359,586	\$ 4,444,009
Fees and permits	379,456	-	379,456
Miscellaneous revenues	8,039	-	8,039
<b>Total Operating Revenues</b>	<u>3,471,918</u>	<u>1,359,586</u>	<u>4,831,504</u>
<b>Operating Expenses</b>			
Contractual services	356,811	385,725	742,536
Materials & Supplies	111,351	147,617	258,968
Personnel services	881,659	583,593	1,465,252
Other Operating	-	43,124	43,124
Depreciation	267,922	171,862	439,784
<b>Total Operating Expenses</b>	<u>1,617,743</u>	<u>1,331,921</u>	<u>2,949,664</u>
Operating income (loss)	<u>1,854,175</u>	<u>27,665</u>	<u>1,881,840</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	2,605	-	2,605
Interest and fiscal charges	(120,681)	-	(120,681)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(118,076)</u>	<u>-</u>	<u>(118,076)</u>
Income (loss) before transfers	<u>1,736,099</u>	<u>27,665</u>	<u>1,763,764</u>
<b>Transfers</b>			
Capital contributions	47,080	204,228	251,308
Transfers in	30,466	32,909	63,375
Transfers out	(16,638)	-	(16,638)
<b>Total Transfers - Net</b>	<u>60,908</u>	<u>237,137</u>	<u>298,045</u>
Change in net position	1,797,007	264,802	2,061,809
<b>Net Position - Beginning of Year</b>	7,430,919	603,687	8,034,606
<b>Prior Period Adjustment</b>	<u>(95,916)</u>	<u>-</u>	<u>(95,916)</u>
<b>Net Position - End of Year</b>	<u>\$ 9,132,010</u>	<u>\$ 868,489</u>	<u>\$ 10,000,499</u>

**CITY OF KERMIT, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**For the Year Ended September 30, 2021**

	<b>Enterprise Funds</b>		
	<b>Water Utility System</b>	<b>Solid Waste System</b>	<b>Total Enterprise</b>
<b>Cash flows from operating activities:</b>			
Receipts from customers	\$ 3,433,603	\$ 1,360,799	\$ 4,794,402
Other operating revenue	8,039	-	8,039
Receipts from (payments to) suppliers	(1,307,531)	(603,625)	(1,911,156)
Payments to employees	(783,503)	(649,347)	(1,432,850)
<b>Net cash provided by (used for) operating activities</b>	<b>1,350,608</b>	<b>107,827</b>	<b>1,458,435</b>
<b>Cash flows from noncapital financing activities:</b>			
Net transfers from (to) other funds	30,466	(122,877)	(92,411)
<b>Net cash provided by (used for) noncapital and related financing activities</b>	<b>30,466</b>	<b>(122,877)</b>	<b>(92,411)</b>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition and construction of capital assets	(1,649,615)	-	(1,649,615)
Principal paid on capital debt	(543,000)	-	(543,000)
Interest paid on capital debt	(123,576)	-	(123,576)
<b>Net cash provided by (used for) capital and related financing activities</b>	<b>(2,316,191)</b>	<b>-</b>	<b>(2,316,191)</b>
<b>Cash flows from investing activities:</b>			
Interest and dividends received	2,605	-	2,605
<b>Net cash provided by (used for) investing activities</b>	<b>2,605</b>	<b>-</b>	<b>2,605</b>
Net increase (decrease) in cash and cash equivalents	(932,512)	(15,050)	(947,562)
<b>Cash and cash equivalents, beginning of year</b>	<b>7,409,394</b>	<b>597,762</b>	<b>8,007,156</b>
<b>Cash and cash equivalents, end of year</b>	<b>6,476,882</b>	<b>582,712</b>	<b>7,059,594</b>
<b>Reconciliation of Cash and Cash Equivalents to Statement of Net Position - Proprietary Funds</b>			
Cash and cash equivalents - current	6,476,882	582,712	7,059,594
<b>Total cash and cash equivalents</b>	<b>6,476,882</b>	<b>582,712</b>	<b>7,059,594</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	1,854,175	27,665	1,881,840
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</b>			
Depreciation expense	267,922	171,862	439,784
(Increase) decrease in accounts receivable	(46,692)	1,213	(45,479)
(Increase) decrease in prepaid items	(473)	(266)	(739)
(Increase) decrease in OPEB deferred outflows	2,929	620	3,549
(Increase) decrease in pension deferred outflows	8,561	(13,545)	(4,984)
Increase (decrease) in accounts payable	(759,133)	(7,374)	(766,507)
Increase (decrease) in accrued expenses	6,623	(19,519)	(12,896)
Increase (decrease) in retainage payable	(86,386)	-	(86,386)
Increase (decrease) in compensated absences	(2,895)	-	(2,895)
Increase (decrease) in unearned revenues	16,416	-	16,416
Increase (decrease) in other post employment benefits	8,597	(748)	7,849
Increase (decrease) in net pension liability	84,692	(36,524)	48,168
Increase (decrease) in OPEB deferred inflows	648	54	702
Increase (decrease) in pension deferred inflows	(4,376)	(15,611)	(19,987)
<b>Total adjustments</b>	<b>(503,567)</b>	<b>80,162</b>	<b>(423,405)</b>
<b>Net cash provided by operating activities</b>	<b>\$ 1,350,608</b>	<b>\$ 107,827</b>	<b>\$ 1,458,435</b>

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

**A. Summary of Significant Accounting Policies**

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

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

**Reporting Entity**

The public elects the Mayor and Council. The Council has the authority to make decisions, appoint administrators and managers, and significantly influence operations. They also have the primary accountability for fiscal 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.

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

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

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

## **CITY OF KERMIT, TEXAS**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **A. Summary of Significant Accounting Policies (continued)**

##### **Measurement Focus, Basis of Accounting, And Financial Statement Presentation**

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).

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.

## CITY OF KERMIT, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### A. Summary of Significant Accounting Policies (continued)

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

##### Fund Accounting

The City reports the following major governmental funds:

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

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

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

The City reports the following non-major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

##### Other Accounting Policies

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

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

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

## CITY OF KERMIT, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### A. Summary of Significant Accounting Policies (continued)

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

##### Other Accounting Policies (continued)

*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.

*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 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:

<b>Asset Category</b>	<b>Useful Life</b>	<b>Capitalization Threshold</b>
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.

## CITY OF KERMIT, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### A. Summary of Significant Accounting Policies (continued)

##### 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.
- 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 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, 2021 on September 30, 2020.

#### **B. 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.

**CITY OF KERMIT, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**B. Deposits and Investments (continued)**

State statutes require all time and demand deposits to be fully insured or collateralized. At September 30, 2021 the carrying amount of the City's deposits was \$10,494,533 and the bank balance was \$10,507,865. In addition, the City carries The City's cash deposits at September 30, 2021 and throughout the year, were covered by FDIC Insurance or by pledged collateral held by the City's agent bank in Kermit, Texas. The City's cash and cash equivalents as of September 30, 2021 are shown in the table below:

	<b>Bank Deposits &amp; Petty Cash</b>	<b>Cash Equivalent Investments</b>	<b>Totals</b>
<b>Governmental Activities:</b>			
General Fund	\$ 491,816	\$ 150	\$ 491,966
Hotel/Motel Fund	1,542,048	-	1,542,048
American Rescue Plan Act	803,618	-	803,618
Other governmental funds	742,044	11,674	753,718
Total Governmental Activities	<u>3,579,526</u>	<u>11,824</u>	<u>3,591,350</u>
<b>Business-type Activities:</b>			
Water Utility System	6,327,582	149,300	\$ 6,476,882
Solid Waste System	582,712	-	\$ 582,712
Total Business-type Activities	<u>6,910,294</u>	<u>149,300</u>	<u>7,059,594</u>
<b>Total</b>	<u>\$ 10,489,820</u>	<u>\$ 161,124</u>	<u>\$ 10,650,944</u>

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.

Bank, Frost Bank and West Texas National Bank. At September 30, 2021, 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.

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.

## **CITY OF KERMIT, TEXAS**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **B. Deposits and Investments (continued)**

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, 2021, the carrying amount of the City's deposits in TexSTAR was \$149,300.

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, 2021, the carrying amount of the City's deposits in TexPool was \$150.

#### **C. Property Taxes**

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

#### **D. Delinquent Taxes Receivable**

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

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

**E. Interfund Balances and Transfers**

The City recorded the following interfund transfers for the fiscal year ended September 30, 2021:

	Transfer in:			Total
	Other Governmental	Water Utility System Fund	Solid Waste Fund	
Transfers out:				
Governmental:				
General Fund	\$ 164,402	\$ 30,466	\$ 16,271	\$ 211,139
Subtotal governmental funds	<u>164,402</u>	<u>30,466</u>	<u>16,271</u>	<u>211,139</u>
Proprietary:				
Water Utility System Fund	-	-	16,638	16,638
Subtotal enterprise funds	<u>-</u>	<u>-</u>	<u>16,638</u>	<u>16,638</u>
Grand total	<u>\$ 164,402</u>	<u>\$ 30,466</u>	<u>\$ 32,909</u>	<u>\$ 227,777</u>

Interfund receivables and payables at September 30, 2021 consisted of the following:

	Interfund Receivable	Interfund Payable
Governmental:		
General Fund	\$ 88,792	\$ 65,875
Hotel/Motel	106	-
Other governmental	63,364	204,228
Total governmental funds	<u>\$ 152,262</u>	<u>\$ 270,103</u>
Business-type funds		
Water utility sewer fund	\$ 139,967	\$ 77,556
Solid waste fund	151,189	95,759
Total Business-type funds	<u>\$ 291,156</u>	<u>\$ 173,315</u>
Total Government-wide	<u>\$ 443,418</u>	<u>\$ 443,418</u>

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

**F. Disaggregation of Receivables and Payables**

Receivables at September 30, 2021 were as follows:

**Governmental Funds:**

	<u>General Fund</u>	<u>Hotel/Motel Fund</u>	<u>Total</u>
Accounts	\$ 267,851	\$ -	\$ 267,851
Property taxes	200,764	-	200,764
Other taxes	18,541	31,864	50,405
Total	487,156	31,864	519,020
Allowance	(138,028)	-	(138,028)
Total (net of allowance)	<u>\$ 349,128</u>	<u>\$ 31,864</u>	<u>\$ 380,992</u>

**Proprietary Funds:**

	<u>Water Utility System</u>	<u>Solid Waste System</u>	<u>Total</u>
Accounts	\$ 327,440	\$ 131,528	\$ 458,968
Other	-	14,235	14,235
Special assessments	35,622	-	35,622
Total	363,062	145,763	508,825
Allowance	(42,605)	(27,546)	(70,151)
Total (net of allowance)	<u>\$ 320,457</u>	<u>\$ 118,217</u>	<u>\$ 438,674</u>

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

**F. Disaggregation of Receivables and Payables (continued)**

Payables at September 30, 2021 were as follows:

**Governmental Funds:**

	<u>General Fund</u>	<u>Hotel/Motel Fund</u>	<u>Other Governmental</u>	<u>Total</u>
General accounts	\$ 178,587	\$ 99	\$ 115	\$ 178,686
Wages payable	58,910	-	-	58,910
Payroll deductions and withholdings	21,558	-	-	21,558
Other liabilities	19,389	-	-	19,389
Total Payroll Costs Payable	<u>99,857</u>	<u>-</u>	<u>-</u>	<u>99,857</u>
Accrued vacation payable	64,498	-	-	64,498
Total	<u>\$ 342,942</u>	<u>\$ 99</u>	<u>\$ 115</u>	<u>\$ 343,041</u>

**Proprietary Funds:**

	<u>Water Utility System</u>	<u>Solid Waste System</u>	<u>Total</u>
General accounts	\$ 47,262	\$ 34,095	\$ 81,357
Customer deposits	215,795	-	215,795
Wages payable	20,925	15,575	36,500
Accrued vacation payable	24,270	3,824	28,094
Total	<u>\$ 308,252</u>	<u>\$ 53,494</u>	<u>\$ 361,746</u>

Unearned revenues at September 30, 2021 were as follows:

	<u>Unearned Revenue</u>
<b>Enterprise Funds:</b>	
Meter Deposits	\$ 207,466
<b>Total Enterprise Funds</b>	<u>\$ 207,466</u>

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

**G. Capital Assets**

Capital asset activity for the year ended September 30, 2021, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>					
Capital assets, nondepreciable:					
Land	\$ 74,664	\$ -	\$ -	\$ -	\$ 74,664
Construction in progress	257,433	-	-	-	257,433
<b>Total nondepreciable</b>	<u>332,097</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>332,097</u>
Capital assets, depreciable:					
Buildings and improvements	1,231,386	-	(3,278)	-	1,228,108
Infrastructure	2,535,671	-	-	-	2,535,671
Machinery and equipment	2,372,589	95,248	2,254	-	2,470,091
Office furniture and equipment	225,447	6,580	1,023	-	233,050
<b>Total depreciable</b>	<u>6,365,093</u>	<u>101,828</u>	<u>(1)</u>	<u>-</u>	<u>6,466,920</u>
Less accumulated depreciation for:					
Buildings & improvements	(496,908)	(39,968)	2,288	-	(534,588)
Infrastructure	(2,523,396)	(12,278)	3	-	(2,535,671)
Machinery and equipment	(1,792,490)	(142,926)	(1,265)	-	(1,936,681)
Office furniture and equipment	(212,652)	(4,622)	(1,025)	-	(218,299)
<b>Total accumulated depreciation</b>	<u>(5,025,446)</u>	<u>(199,794)</u>	<u>1</u>	<u>-</u>	<u>(5,225,239)</u>
<b>Total depreciable - net</b>	<u>1,339,647</u>	<u>(97,966)</u>	<u>-</u>	<u>-</u>	<u>1,241,681</u>
<b>Governmental Activities - Net</b>	<u>\$ 1,671,744</u>	<u>\$ (97,966)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,573,778</u>

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

**G. Capital Assets (continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>					
Capital assets, nondepreciable:					
Land	\$ 6,300	\$ -	\$ -	\$ -	\$ 6,300
Construction in progress	<u>2,173,412</u>	<u>1,627,553</u>	<u>-</u>	<u>(3,800,965)</u>	<u>-</u>
Total nondepreciable	<u>2,179,712</u>	<u>1,627,553</u>	<u>-</u>	<u>(3,800,965)</u>	<u>6,300</u>
Capital assets, depreciable:					
Buildings and improvements	13,908	-	28	-	13,936
Water and sewer system	8,274,006	-	(22,665)	3,800,965	12,052,306
Machinery and equipment	2,623,569	251,308	-	-	2,874,877
Office Furniture & equipment	<u>70,302</u>	<u>-</u>	<u>22,635</u>	<u>-</u>	<u>92,937</u>
Total depreciable	<u>10,981,785</u>	<u>251,308</u>	<u>(2)</u>	<u>3,800,965</u>	<u>15,034,056</u>
Less accumulated depreciation for:					
Buildings and improvements	(7,992)	(7)	(5,937)	-	(13,936)
Water and sewer system	(4,127,845)	(207,128)	(8,843)	-	(4,343,816)
Machinery and equipment	(1,919,581)	(232,649)	(1,312)	-	(2,153,542)
Office Furniture & equipment	<u>(70,300)</u>	<u>-</u>	<u>(2)</u>	<u>-</u>	<u>(70,302)</u>
Total accumulated depreciation	<u>(6,125,718)</u>	<u>(439,784)</u>	<u>(16,094)</u>	<u>-</u>	<u>(6,581,596)</u>
<b>Total Depreciable - Net</b>	<u>4,856,067</u>	<u>(188,476)</u>	<u>(16,096)</u>	<u>3,800,965</u>	<u>8,452,460</u>
<b>Business-Type Activities - Net</b>	<u>\$ 7,035,779</u>	<u>\$ 1,439,077</u>	<u>\$ (16,096)</u>	<u>\$ -</u>	<u>\$ 8,458,760</u>

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

**G. Capital Assets (continued)**

Depreciation expense was charges to functions as follows:

Governmental activities:	
General government	\$ 9,823
Public safety	79,339
Culture and recreation	46,956
Public works	63,676
Total depreciation expense - governmental activities	<u>\$ 199,794</u>
Business-type activities:	
Water and sewer	\$ 267,922
Solid Waste	171,862
Total depreciation expense - business-type activities	<u>\$ 439,784</u>

**H. Long-Term Obligations**

**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 \$53,241.

**Tax and Revenue Certificates of Obligation - 2019**

The City issued \$3,295,000 in Combination Tax and Revenue Certificates of Obligation, Series 2019, on October 17, 2019. The proceeds were used to perform improvements to the City's waterworks system and the construction of new water storage facilities. The net revenues of the Water and Sewer Fund serve as pledged collateral for this debt. In addition, the debt covenant allows the City to assess additional property taxes to cover the debt service of the obligations. The City has elected to impose an assessment of \$11.25 per water meter connection per month to cover the debt service. The certificates of obligation carry interest at rates from 1.65% to 2.15%. They are payable over a ten-year period with a maturity date of February 15, 2030. Interest payments are due every August 15 and 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 \$60,878.

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

**H. Long-Term Obligations (continued)**

Long-term liability activity for the year ended September 30, 2021 is reflected as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Compensated absences	\$ 80,030	\$ -	\$ (15,532)	\$ 64,498	\$ 64,498
<b>Total Governmental Activities</b>	<u>\$ 80,030</u>	<u>\$ -</u>	<u>\$ (15,532)</u>	<u>\$ 64,498</u>	<u>\$ 64,498</u>
<b>Business-type Activities:</b>					
Bonds payable:					
Certificate of obligation 2008	\$ 2,090,000	\$ -	\$ (240,000)	\$ 1,850,000	\$ 245,000
Certificate of obligation 2019	3,295,000	-	(303,000)	2,992,000	308,000
Compensated absences	34,118	-	(6,024)	28,094	28,094
<b>Total Business-type Activities</b>	<u>\$ 5,419,118</u>	<u>\$ -</u>	<u>\$ (549,024)</u>	<u>\$ 4,870,094</u>	<u>\$ 581,094</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%	\$ 2,992,000
Series 2008	1.60-2.85%	1,850,000
		<u>\$ 4,842,000</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>
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 - 2030	1,395,000	59,558	560,000	16,102
	<u>\$ 2,992,000</u>	<u>\$ 280,567</u>	<u>\$ 1,850,000</u>	<u>\$ 186,163</u>

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

**I. 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](http://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.

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

Inactive employees or beneficiaries currently receiving benefits	32
Inactive employees entitled to but not yet receiving benefits	107
Active employees	57
	<u>196</u>

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

**CITY OF KERMIT, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**I. Defined Benefit Pension Plan (continued)**

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 15.71% and 15.66% in calendar years 2020 and 2021, respectively. The City's contributions to TMRS for the year ended were \$491,671 and were equal to the required contributions.

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

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

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

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.

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

**I. Defined Benefit Pension Plan (continued)**

**Actuarial assumptions (continued):**

The strategic target allocation of investments will be reviewed annually for reasonableness relative to significant economic and market changes and to changes in the TMRS Board’s long-term goals and objectives. The Board has chosen to adopt a rebalancing policy that is governed by allocation ranges rather than time periods. Asset ranges are a function of the volatility of each asset class and the proportion of the total fund allocated to the asset class. The tables bellow illustrates the target allocation and the one-year rate of return for the year ended December 31, 2020:

Asset Class	Target Allocation	Rate of Return
Global Equity	30.0%	14.46%
Core Fixed Income	10.0%	8.45%
Non-Core Fixed Income	20.0%	4.42%
Real Return	10.0%	3.26%
Real Estate	10.0%	-2.96%
Absolute Return	10.0%	10.58%
Private Equity	10.0%	26.37%
Total	<u>100.0%</u>	

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

**Basis of allocation**

Pension items are allocated between governmental activities and business-type activities on the basis of employee payroll funding. For the year ended September 30, 2021, those percentages were 69% and 31%, respectively, which approximated the prior year’s allocations.

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

**I. Defined Benefit Pension Plan (continued)**

**Changes in net pension liability**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
<b>Balance at December 31, 2019</b>	\$ 13,646,169	\$ 11,084,277	\$ 2,561,892
Changes for the year:			
Service cost	506,009	-	506,009
Interest	922,098	-	922,098
Difference between expected and actual experience	414,758	-	414,758
Contributions - employer	-	496,837	(496,837)
Contributions - employee	-	221,379	(221,379)
Net investment income	-	840,921	(840,921)
Benefits payments, including refunds of employee contributions	(476,929)	(476,929)	-
Administrative expense	-	(5,444)	5,444
Other changes	-	(213)	213
Net changes	<u>1,365,936</u>	<u>1,076,551</u>	<u>289,385</u>
<b>Balance at December 31, 2020</b>	<u>\$ 15,012,105</u>	<u>\$ 12,160,828</u>	<u>\$ 2,851,277</u>

**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	\$ 4,911,496	\$ 2,851,277	\$ 1,156,527



**CITY OF KERMIT, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**J. Other Post-Employment Benefits (OPEB) - 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%.

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

Inactive employees curenly receiving benefits	19
Inactive employees entitled to but not yet receiving benefits	11
Active members	57
Total	<u>87</u>

Total OPEB Liability of \$211,921 was measured as of December 31, 2020.

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

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

**Actuarial assumptions and other inputs:** The total OPEB liability in the December 31, 2020 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*	2.00%
Retirees’ share of benefit related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
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, 2020.

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

OPEB items are allocated between governmental activities and business-type activities on the basis of employee payroll funding. For the year ended September 30, 2021, those percentages were 69% and 31%, respectively, which approximated the prior year’s allocations.

<b>Changes in Total OPEB Liability</b>	<b>Total OPEB Liability</b>
<b>Balance at December 31, 2019</b>	<u>\$ 177,200</u>
Changes for the year	
Service cost	11,385
Interest	4,999
Difference between expected and actual experience	(7,864)
Changes of assumptions	28,415
Benefits payments	(2,214)
Net changes	<u>34,721</u>
<b>Balance at December 31, 2020</b>	<u><u>\$ 211,921</u></u>

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

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

Changes of assumptions reflect a change in the Single Discount Rate from 2.75% as of December 31, 2019 to 2.00% as of December 31, 2020.

**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 (1.00 percent) or 1-percentage-point higher (3.00 percent) than the current discount rate:

	1% Decrease in Discount Rate (1.00%)	Discount Rate (2.00%)	1% Increase in Discount Rate (3.00%)
City's Total OPEB Liability	\$ 260,068	\$ 211,921	\$ 175,202

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

For the year ended September 30, 2021, the City recognized OPEB expense related to supplemental death benefits of \$27,243.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in assumption changes	\$ 41,161	\$ 3,708
Differences between expected and actual experience	1,220	9,394
Contributions subsequent to the measurement date	6,924	-
	<u>\$ 49,305</u>	<u>\$ 13,102</u>

An amount of \$6,924 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, 2022. 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
2022	\$ 10,629
2023	8,913
2024	8,218
2025	1,519
	<u>\$ 29,279</u>

## **CITY OF KERMIT, TEXAS**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **K. Deferred Inflows of Resources**

Deferred inflows of resources reported only in the General Fund financial statements at September 30, 2021 consisted of property tax revenue assessed but not collected in the amount of \$200,764 less allowance for uncollectible accounts of \$138,028 for net deferred inflows of \$62,736.

#### **L. Litigation**

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

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, 2021.

#### **M. Risk Management**

The City is exposed to various risks of loss related to torts, thefts, damage or destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal 2020, the City purchased commercial insurance to cover general liabilities.



**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF KERMIT, TEXAS**

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Taxes:				
Property taxes (penalties & interest included)	\$ 688,830	\$ 688,830	\$ 753,775	\$ 64,945
City sales taxes	2,100,000	2,100,000	1,439,123	(660,877)
Franchise taxes	281,000	281,000	254,722	(26,278)
Sub-total taxes	<u>3,069,830</u>	<u>3,069,830</u>	<u>2,447,620</u>	<u>(622,210)</u>
Non-tax revenues:				
Licenses and permits	228,700	228,700	252,604	23,904
Intergovernmental revenue and grants	-	-	271,832	271,832
Fines and fees	180,000	180,000	128,927	(51,073)
Charges for services	225,000	225,000	225,110	110
Sub-total non-tax revenues	<u>633,700</u>	<u>633,700</u>	<u>878,473</u>	<u>244,773</u>
Other appropriations:				
Investment earnings	28,375	28,375	22,425	(5,950)
Other revenue	81,800	81,800	176,378	94,578
Sub-total other appropriations	<u>110,175</u>	<u>110,175</u>	<u>198,803</u>	<u>88,628</u>
<b>Total Revenues</b>	<u>3,813,705</u>	<u>3,813,705</u>	<u>3,524,896</u>	<u>(288,809)</u>
<b>Expenditures</b>				
Current				
City Hall	385,822	385,822	384,314	1,508
Municipal court	61,589	61,589	59,011	2,578
Administration	253,031	253,031	582,472	(329,441)
Police department	1,880,604	1,880,604	1,810,355	70,249
Fire department	133,691	133,691	166,289	(32,598)
Inspections	210,428	210,428	173,937	36,491
Street department	470,822	470,822	477,446	(6,624)
Human department	95,575	95,575	86,161	9,414
Shop department	231,344	231,344	222,071	9,273
Street lighting	75,000	75,000	69,262	5,738
Parks & cemetery	357,266	357,266	338,458	18,808
County ambulance	14,400	14,400	14,400	-
Tax department	11,000	11,000	5,101	5,899
Community development	2,000	2,000	11,163	(9,163)
<b>Total Expenditures</b>	<u>4,182,572</u>	<u>4,182,572</u>	<u>4,400,440</u>	<u>(217,868)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers out	(315,000)	(315,000)	(211,139)	(103,861)
<b>Total Other Financing Sources (Uses)</b>	<u>(315,000)</u>	<u>(315,000)</u>	<u>(211,139)</u>	<u>(103,861)</u>
<b>Net Increase (Decrease)</b>	<u>\$ (683,867)</u>	<u>\$ (683,867)</u>	<u>\$ (1,086,683)</u>	<u>\$ (174,802)</u>

**CITY OF KERMIT, TEXAS**

**NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION**

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

**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**

<b>Legally Adopted Fund</b>	<b>Final</b>	<b>Actual</b>	<b>Variance</b>	<b>Explanation</b>
General Fund				
Administration	253,031	582,472	(329,441)	Related to expenditures paid for with Coronavirus Relief Funds passed through the Texas Department of Emergency Management.
Fire department	133,691	166,289	(32,598)	Primarily related to contract services
Street department	470,822	477,446	(6,624)	Primarily related to salaries and wages
Community development	2,000	11,163	(9,163)	Miscellaneous and professional services. These expenditures are reported in the community development fund (45) but for reporting purposes it has been reported in the general fund

**REQUIRED SUPPLEMENTARY INFORMATION  
TEXAS MUNICIPAL RETIREMENT SYSTEM PLAN  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (Unaudited)  
For the Last Seven Measurement Years**

	<b>Measurement Year December 31,</b>			
	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Total Pension Liability</b>				
Service cost	\$ 506,009	\$ 469,377	\$ 379,780	\$ 350,657
Interest (on the total pension liability)	922,098	844,188	798,744	745,290
Difference between expected and actual experience	414,758	343,160	(86,539)	98,597
Change of assumptions	-	(39,132)	-	-
Benefit payments, including refunds of employee contributions	(476,929)	(486,447)	(440,632)	(393,751)
<b>Net Change in Total Pension Liability</b>	<b>1,365,936</b>	<b>1,131,146</b>	<b>651,353</b>	<b>800,793</b>
<b>Total Pension Liability - Beginning</b>	<b>13,646,169</b>	<b>12,515,023</b>	<b>11,863,670</b>	<b>11,062,877</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 15,012,105</b>	<b>\$ 13,646,169</b>	<b>\$ 12,515,023</b>	<b>\$ 11,863,670</b>
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	\$ 496,837	\$ 472,716	\$ 364,766	\$ 329,928
Contributions - employee	221,379	204,840	164,204	152,744
Net investment income	840,921	1,459,487	(289,123)	1,164,656
Benefit payments, including refunds of employee contributions	(476,929)	(486,447)	(440,632)	(393,751)
Administrative expense	(5,444)	(8,248)	(5,586)	(6,035)
Other	(213)	(248)	(292)	(304)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>1,076,551</b>	<b>1,642,100</b>	<b>(206,663)</b>	<b>1,247,238</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>11,084,277</b>	<b>9,442,177</b>	<b>9,648,840</b>	<b>8,401,602</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 12,160,828</b>	<b>\$ 11,084,277</b>	<b>\$ 9,442,177</b>	<b>\$ 9,648,840</b>
<b>Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 2,851,277</b>	<b>\$ 2,561,892</b>	<b>\$ 3,072,846</b>	<b>\$ 2,214,830</b>
<b>Plan Fiduciary Net Position as a Percentage of</b>				
<b>Total Pension Liability</b>	81.01%	81.23%	75.45%	81.33%
<b>Covered Payroll</b>	\$ 3,162,558	\$ 2,926,289	\$ 2,345,768	\$ 2,182,059
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	90.16%	87.55%	131.00%	101.50%

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**

**REQUIRED SUPPLEMENTARY INFORMATION**

**TEXAS MUNICIPAL RETIREMENT SYSTEM PLAN**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (Unaudited)**

**For the Last Seven Measurement Years**

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

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**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM PLAN**  
**SCHEDULE OF PENSION CONTRIBUTIONS (Unaudited)**  
**For the Last Seven Fiscal Years**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 482,549	\$ 479,146	\$ 466,731	\$ 344,912
Contributions in relation to the actuarially determined contribution	<u>482,549</u>	<u>479,146</u>	<u>466,731</u>	<u>344,912</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	3,078,715	3,029,539	2,865,254	2,233,024
Contributions as a percentage of covered payroll	15.67%	15.82%	16.29%	15.45%

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 330,373	\$ 356,887	\$ 337,764
Contributions in relation to the actuarially determined contribution	<u>330,373</u>	<u>356,887</u>	<u>337,764</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	2,172,204	2,335,131	2,108,423
Contributions as a percentage of covered payroll	15.21%	15.28%	16.02%

Notes:

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

Methods and Assumptions Used to Determine Contribution Rate:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 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. There were no benefit changes during the year.
Other Information:	

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 68, only periods of which such information is available are presented.

**CITY OF KERMIT, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**OTHER POST-EMPLOYMENT BENEFITS**  
**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS (Unaudited)**  
**For the Last Four Measurement Years**

	Measurement Year December 31,			
	2020	2019	2018	2017
<b>Total OPEB Liability</b>				
Service cost	\$ 11,385	\$ 7,316	\$ 7,037	\$ 5,673
Interest on the total OPEB liability	4,999	5,359	4,660	4,573
Difference between expected and actual experience	(7,864)	(5,879)	3,156	-
Change of assumptions	28,415	30,639	(9,594)	10,235
Benefit payments	(2,214)	(2,048)	(1,407)	(1,309)
<b>Net Change in Total OPEB Liability</b>	<u>34,721</u>	<u>35,387</u>	<u>3,852</u>	<u>19,172</u>
<b>Total OPEB Liability - Beginning</b>	<u>177,200</u>	<u>141,813</u>	<u>137,961</u>	<u>118,789</u>
<b>Total OPEB Liability - Ending</b>	<u><u>\$ 211,921</u></u>	<u><u>\$ 177,200</u></u>	<u><u>\$ 141,813</u></u>	<u><u>\$ 137,961</u></u>
<b>Covered Payroll</b>	\$ 3,162,558	\$ 2,926,289	\$ 2,345,768	\$ 2,182,059
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	6.70%	6.06%	6.05%	6.32%

Ending balances are as of the measurement date, December 31, 2020

Changes of assumptions reflect a change in the Single Discount Rate from 2.75% as of December 31, 2019 to 2.00% as of December 31, 2020.

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 Four 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, 2020

Methods and 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	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Discount rate*	2.00%
Administrative expenses	

All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements of GASB Statement No. 68  
2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.  
2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor

Mortality rates - service retirees

Mortality rates - disables retirees

Notes

\* The discount rate was based on Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020

## **OTHER SUPPLEMENTARY INFORMATION**

**CITY OF KERMIT, TEXAS**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS**  
**September 30, 2021**

	Special Revenue					Capital Projects		Total Non-major Governmental
	Police Department Lease	Child Safety Fund	Recreation Fund	Cause for Paws	Municipal Technology Fund	Municipal Court Security Fund	Capital Acquisition Fund	
<b>Assets</b>								
Cash and cash equivalents	\$ 437	\$ 10,854	\$ 11,674	\$ 15,077	\$ 3,561	\$ 22,129	\$ 689,986	\$ 753,718
Due from other funds	-	664	-	-	-	-	62,700	63,364
Prepaid items	-	196	-	-	-	-	-	196
<b>Total Assets</b>	<u>\$ 437</u>	<u>\$ 11,714</u>	<u>\$ 11,674</u>	<u>\$ 15,077</u>	<u>\$ 3,561</u>	<u>\$ 22,129</u>	<u>\$ 752,686</u>	<u>\$ 817,278</u>
<b>Liabilities</b>								
Accounts payable	\$ 90	\$ 25	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 115
Due to other funds	-	-	-	-	-	-	204,228	204,228
<b>Total Liabilities</b>	<u>90</u>	<u>25</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>204,228</u>	<u>204,343</u>
<b>Fund Balance</b>								
Restricted:								
Municipal court technology & security	-	-	-	-	-	22,129	-	22,129
Grants	-	-	-	15,077	-	-	-	15,077
Public safety	-	11,689	-	-	-	-	-	11,689
Assigned:								
Recreation center	-	-	11,674	-	3,561	-	-	15,235
Capital projects	-	-	-	-	-	-	548,458	548,458
Police	347	-	-	-	-	-	-	347
<b>Total Fund Balance</b>	<u>347</u>	<u>11,689</u>	<u>11,674</u>	<u>15,077</u>	<u>3,561</u>	<u>22,129</u>	<u>548,458</u>	<u>612,935</u>
<b>Total Liabilities, Deferred Inflows and Fund Balance</b>	<u>\$ 437</u>	<u>\$ 11,714</u>	<u>\$ 11,674</u>	<u>\$ 15,077</u>	<u>\$ 3,561</u>	<u>\$ 22,129</u>	<u>\$ 752,686</u>	<u>\$ 817,278</u>

**CITY OF KERMIT, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**NON-MAJOR GOVERNMENTAL FUNDS**

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

	Special Revenue				Capital Projects			Total Non-major Governmental
	Police Department Leose	Child Safety Fund	Recreation Fund	Cause for Paws	Municipal Technology Fund	Municipal Court Security Fund	Capital Acquisition Fund	
<b>Revenues</b>								
Taxes	\$ -	\$ 331	\$ 4,500	\$ -	\$ -	\$ 3,435	\$ -	\$ 8,266
Licenses and permits	-	-	-	-	3,022	51	-	3,073
Charges for services	-	-	-	-	6	-	-	6
Contributions	-	-	-	15,057	-	-	-	15,057
Investment income	4	-	14	20	-	-	-	38
<b>Total Revenues</b>	<b>4</b>	<b>331</b>	<b>4,514</b>	<b>15,077</b>	<b>3,028</b>	<b>3,486</b>	<b>-</b>	<b>26,440</b>
<b>Expenditures</b>								
General government	-	-	-	-	1,843	-	-	1,843
Public safety	2,292	-	3,240	-	-	-	-	5,532
Capital outlay:								
General government	-	-	-	-	-	-	216,342	216,342
<b>Total Expenditures</b>	<b>2,292</b>	<b>-</b>	<b>3,240</b>	<b>-</b>	<b>1,843</b>	<b>-</b>	<b>216,342</b>	<b>223,717</b>
Excess (deficiency) of revenues over expenditures	(2,288)	331	1,274	15,077	1,185	3,486	(216,342)	(197,277)
<b>Other Financing Sources (Uses)</b>								
Transfers in	-	-	-	-	-	-	164,402	164,402
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>164,402</b>	<b>164,402</b>
Net change in fund balance (deficit)	(2,288)	331	1,274	15,077	1,185	3,486	(51,940)	(32,875)
<b>Fund Balance - Beginning of Year</b>	<b>2,635</b>	<b>11,358</b>	<b>10,400</b>	<b>-</b>	<b>2,376</b>	<b>18,643</b>	<b>600,398</b>	<b>645,810</b>
<b>Fund Balance - End of Year</b>	<b>\$ 347</b>	<b>\$ 11,689</b>	<b>\$ 11,674</b>	<b>\$ 15,077</b>	<b>\$ 3,561</b>	<b>\$ 22,129</b>	<b>\$ 548,458</b>	<b>\$ 612,935</b>



***GOVERNMENT AUDITING STANDARDS REPORT SECTION***



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

To the City Council  
City of Kermit, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas 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 June 16, 2022.

**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 item 2021-001 that we consider to be material weaknesses. Items 2021-002, 2021-003, 2021-004, and 2021-005 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*.

City Council  
City of Kermit, Texas

### **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, flowing style.

Odessa, Texas  
June 16, 2022

**CITY OF KERMIT, TEXAS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For the Year Ended September 30, 2021**

**Finding 2021-01**

**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. Per discussions with the client, this occurred in fiscal year 2022.

**CITY OF KERMIT, TEXAS**  
**SCHEDULE OF FINDINGS AND RESPONSES (continued)**  
**For the Year Ended September 30, 2021**

**Finding 2021-02**

**Significant Deficiency in Internal Control over Financial Reporting—Use of modified accrual and accrual basis of accounting**

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

*Condition:* Upon receipt of the trial balance, the financial statements were not reported on a modified accrual (governmental funds) or accrual basis (proprietary funds).

*Context:* Several journal entries were proposed during the audit process to record transactions on the modified accrual (governmental funds) or accrual basis (proprietary funds) 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. This process is ongoing.

**CITY OF KERMIT, TEXAS**  
**SCHEDULE OF FINDINGS AND RESPONSES (continued)**  
**For the Year Ended September 30, 2021**

**Finding 2021-03**

**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 (continued)**  
**For the Year Ended September 30, 2021**

**Finding 2021-04**

**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 (continued)**  
**For the Year Ended September 30, 2021**

**Finding 2021-05**

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

**I. Prior Audit Findings**

**Finding 2020-01 – Inadequate Segregation of Duties**

- Status: See 2021-01
- Reason for finding recurrence: Implementation was initiated in FY 2021 but was not fully implemented due to staffing restrictions and time until FY 2022. Due to the entity beginning to take steps to implement in FY 2021, this was changed to a significant deficiency in FY 2021.

**Finding 2020-02 – Use of modified accrual basis of accounting**

- Status: See 2021-02. Partially corrected in FY 2021.
- Reason for finding recurrence: Due to staff turnover and changes during FY 2021 and FY 2022, the closing process was not able to be fully implemented. The current director of finance will ensure the closing process in FY 2022 includes recording accruals necessary for the modified accrual and accrual basis of accounting.

**Finding 2020-03 – Use of purchase order system**

- Status: See 2021-03
- Reason for finding recurrence: In order to implement this change, the City will need to purchase the module. They have discussed with Council and are working toward this.

**Finding 2020-04 – Use of fixed asset system**

- Status: See 2021-04
- Reason for finding recurrence: The City has not yet purchased the capital asset module. However, we will provide the excel detail file of the City's assets and they will maintain the file and provide all of the information regarding additions and deletions each year. When the capital asset module is purchased, the City will have the information to enter it into the system.

**Finding 2020-05 – Excess of expenditures over appropriations**

- Status: See 2021-05
- Reason for finding recurrence: The City faced challenges in the previous year that led to overages in actual expenditures compared to budgeted expenditures. During FY 2021, they faced challenges in staffing turnover. The primary cause of the overage in FY 2021 was due to additional funding received for COVID-19 expenditures, however the budget amendments were not prepared in time, mainly due to the staffing turnover. The City expects to have this fully corrected in FY 2022.