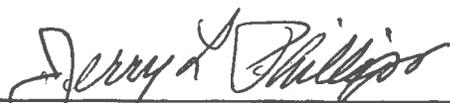


LETTER OF TRANSMITTAL

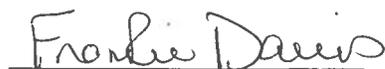
City of Kermit, Texas
Name of City

Winkler
County

We, the undersigned, certify that the attached Annual Financial and Compliance Report of the above named city was reviewed and (check one) approved disapproved for the year ended September 30, 2019 at a meeting of the Council of such city on the 17th day of September, 2020.



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)

CITY OF KERMIT, TEXAS
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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CITY OF KERMIT, TEXAS
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2019

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SMITH & RIVES, PC
Certified Public Accountants

Terry R. Smith, C.P.A.
Rocky L. Rives, C.P.A.

Members of:
American Institute of Certified
Public Accountants
Division of CPA Firms Private
Companies Practice Section
Texas Society of Certified Public
Accountants

INDEPENDENT AUDITOR'S REPORT

City Council
City of Kermit,
110 South Tornillo
Kermit, Texas 79745

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas (the "City"), as of and for the year ended September 30, 2019, 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 the 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 error or fraud.

Auditor's Responsibility

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

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

Opinion

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kermit, TX, as of September 30, 2019, 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 management's discussion and analysis, and TMRS pension information and Schedule of Supplementary Information for OPEB health care benefits 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's basic financial statements. The combining and individual nonmajor fund financial statements, statement of changes in assets and liabilities of agency funds, budget and actual comparison of the system fund and the financial statements of the discretely presented component unit 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, statement of changes in assets and liabilities of agency funds, budget and actual comparison of the system fund and the financial statements of the discretely presented component unit are the responsibility of management, and were derived from and related 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 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 statements, statement of changes in assets and liabilities of agency funds, budget and actual comparison of the system fund and the financial statements of the discretely presented component unit are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2020, and our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Smith & Rives, PC
Monahans, TX
September 17, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of the City of Kermit, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2019. Please read it in conjunction with the Independent Auditor's Report on page 1, and the City's Basic Financial Statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

The City's net position changed as follows:
(Exhibit B-1)

		Governmental Activities	Business-Type Activities
2018	Net Position	1,943,667	4,846,142
2019	Net Position	3,474,745	6,113,863
		<hr/>	<hr/>
2019	Change in Net Position	1,531,078	1,267,721
2019	% Change in Net Position	78.8%	26.2%

During the year, the City had operating expenditures that were \$669,795 less than the \$5,682,295 generated in tax and other revenues for the governmental programs. (Exhibit C-3) This compares to last year when expenditures exceeded revenues by \$ 1,593,180.

In the City's business-type activities, revenues increased by \$319,467, while operating expenses increased by \$432,470.

Total cost of the City's programs was \$7,533,043 while last year's cost was \$6,168,882. (Exhibit B-1)

The fund balance for all Governmental Funds ended the year at \$3,279,092 and the ending fund balance from last year was \$2,218,419.(Exhibit C-1)

The resources available for appropriation were \$705,930 more than budgeted for the General Fund.Increase in revenues primarily due to increase in Sales Tax Revenue. (Exhibit C-5)

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 and 11-12). 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 15) 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 25) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 11. 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 and liabilities 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 and liabilities) 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 non-financial 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 15 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities.

Net Position of the City's governmental activities was \$3,474,745. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - were \$1,000,776 at September 30, 2019.

Net Position of the City's business-type activities were \$6,113,863, which included \$ 3,254,486 in unrestricted net position and \$2,859,377 in Investment in capital assets, net of related debt. The net position of the business-type activities increased by \$1,267,721.

Table I
Net Position

	Governmental Activities		Business-type Activities	
	2019	2018	2019	2018
Current and other assets	\$ 3,718,624	\$ 2,591,253	\$ 4,456,599	\$ 3,140,775
Capital assets	1,782,011	1,325,614	5,184,377	5,405,898
Deferred Outflows	745,661	339,166	396,167	175,243
Total assets	\$ 6,246,296	\$ 4,256,033	\$ 10,037,143	\$ 8,721,916
Long-term liabilities	\$ 2,211,644	\$ 1,648,570	\$ 3,440,016	\$ 3,139,222
Other liabilities	369,917	400,882	361,787	575,980
Deferred Inflows	189,990	262,914	121,477	160,572
Total liabilities	\$ 2,771,551	\$ 2,312,366	\$ 3,923,280	\$ 3,875,774
Net Position:				
Invested in capital assets, net of related debt	\$ 1,670,011	\$ 1,107,614	\$ 2,859,377	\$ 2,850,897
Restricted	803,958	62,320	-	465,813
Unrestricted	1,000,776	773,733	3,254,486	1,529,432
Total Net Position	\$ 3,474,745	\$ 1,943,667	\$ 6,113,863	\$ 4,846,142

Table II
Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues:				
Program Revenues:				
Charges for Services	\$ 767,322	\$ 532,375	\$ 3,701,041	\$ 3,382,652
General Revenues:				
Maintenance and Operations Taxes	705,943	703,230	-	-
General Sales Taxes	2,569,897	3,120,862	-	-
Franchise Taxes	301,151	283,651	-	-
Other Taxes	903,547	273,882	-	-
Penalty & Interest	25,487	50,843	-	-
Intergovernmental Revenue & Grants	-	-	-	-
Grants	13,292	-	-	-
Contribution & Donations	146,390	20,150	-	-
Miscellaneous	133,979	80,314	42,380	38,510
Special Assessments	-	-	385,049	376,857
Insurance Recovery	-	6,180	-	49
Sale of Property	496,649	89,979	-	-
Investment Earnings	120,264	46,926	16,449	9,862
Total Revenue	\$ 6,183,921	\$ 5,208,392	\$ 4,144,919	\$ 3,807,930
Expenses:				
Sewerage	\$ -	\$ -	\$ 1,068,407	\$ 892,128
Utility Office	-	-	144,640	128,687
Finance	-	-	88,108	86,373
Solid Waste/Sanitation	-	-	1,258,654	1,039,489
City Hall	591,081	227,935	-	-
Municipal Court	60,295	40,678	-	-
Administration	208,892	174,617	-	-
Police	1,920,747	1,415,482	-	-
Fire Department	133,057	129,405	-	-
Inspections	167,957	166,078	-	-
Child Safety Education	106	65	-	-
Street Lights	75,579	75,831	-	-
Cemetary and Parks	431,273	368,856	-	-
Summer Rec Program	4,320	2,458	-	-
EMS	-	12,000	-	-
Economic Development	190,303	298,730	-	-
Debt Interest and Expenses	6,349	7,307	65,960	71,350
Other	-	-	-	1,884
Depreciation	-	-	375,184	355,846
Total Expenses	\$ 4,532,090	\$ 3,593,125	\$ 3,000,953	\$ 2,575,757
Increase (Decrease) in Net Position before Transfers and Special Items	\$ 1,651,831	\$ 1,615,267	\$ 1,143,966	\$ 1,232,173
Transfers	(120,753)	1,073,428	120,753	(1,073,428)
Litigation Settlement	-	-	-	-
Increase (Decrease) in Net Position	\$ 1,531,078	\$ 2,688,695	\$ 1,264,719	\$ 158,745
Net Position - October 1	1,943,667	(671,379)	4,846,142	4,732,536
Prior Period Adjustments	-	(73,649)	3,000	(45,139)
Net Position - September 30	\$ 3,474,745	\$ 1,943,667	\$ 6,113,861	\$ 4,846,142

The cost of all governmental activities this year was \$5,012,500. (Exhibit C-3) However, as shown in the Statement of Activities on pages 13 and 14, some of the costs were paid by those who directly benefited from the programs (\$1,263,971).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented on Exhibit C-1 Balance Sheet, on page 15) reported a fund balance of \$3,279,092 while it reported a fund balance of \$2,218,419 last year.

Over the course of the year, the City Council made revisions to the City's budget. These budget amendments added \$1,004,205 to budgeted revenues and \$1,522,697 to budgeted expenditures for the year for an additional budgeted decrease in fund balance for all governmental funds of \$518,492.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2019, the City had \$17,489,383 invested in a broad range of capital assets, including land, the water system, sewer system and the solid waste fund as follows:

Governmental Funds:	
General Fund	\$ <u>6,563,998</u>
Total General Fund	<u>6,563,998</u>
Business-Type Funds:	
Water Utility System Fund	\$ 9,401,800
Solid Waste Fund	<u>1,523,585</u>
Total Business-Type Funds	\$ <u>10,925,385</u>
Total	<u>\$ 17,489,383</u>

This amount represents a net increase of \$846,331 = 5.1%.

This year's net additions included:

Additions:

Governmental Funds:

Telephone System	\$ 13,280
Cemetery Sod	30,375
Anticoh Niches	36,845
2 2019 Police Vehicles	108,821
2019 Ford F150	37,663
Watch Guard Video System for Police Vehicles	109,968
2019-F-750	67,384
2018-Ford F150	30,900
White Tail Development -2019 CIP	167,478
Park Plaza- 2019 CIP	89,955
Total Governmental Funds	\$ 692,669

Business-Type Funds

Water System Fund	
2010 Case 580M Series 3 Backhoe	35,000
FLYGT NP468-4 Submersible Sewage Pump	34,981
FLYGT NP468-4 Submersible Sewage Pump	34,981
Stacon Triplex Panel for Sewage Pumps	20,800
2017-PAS 150HF 6" Portable Dewatering Pur	27,900
Total Water System Fund	\$ 153,662

Total Additions \$ 846,331

Dispositions (cost):

Retirement \$ -

Net Additions \$ **846,331**

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 \$230,000 and paid \$65,700 in bond interest for the year ended September 30, 2019. The City has nine years of bond payments left on these notes.

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

Tax Notes for Cemetery Expansion Project

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

The bond repayments are funded by the City's taxes and revenues. However, the City did not assess a separate tax levy for the payment of these bonds. The City reduced this bond debt by \$108,000 and paid \$4,018 in bond interest for the year ended September 30, 2018. The City has one year of bond payments remaining on these notes at a interest rate of 2.45%.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2019-2020 budget and tax rate. One of those factors is the economy and, in particular, the oil & gas industry. The price of crude oil and natural gas has stabilized over the course of the current year, which contributes heavily upon the valuation of properties on the mineral roll. The City's population has held at a small, steady increase in recent years. However, administration is fully aware of the volatility of the oil and gas industry and has attempted to adopt a conservative approach to the City's financial operations.

These indicators were taken into account when adopting the General Fund budget for 2019-2020. The City's General Fund projects a deficit of \$269,390. Compared to fiscal year 2018-2019 balanced budget of revenues = expenses of \$0. The tax rate was set at \$.331592 per \$100 valuation for fiscal year 2019-2020.

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. Tornillo, Kermit, Texas, 79745.

BASIC FINANCIAL STATEMENTS

CITY OF KERMIT, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

EXHIBIT A-1 (Cont'd)

Data Control Codes	Primary Government			
	Governmental Activities	Business - Type Activities	Total	
ASSETS				
1010	Cash and Cash Equivalents	\$ 2,832,665	\$ 2,933,787	\$ 5,766,452
1011	Petty Cash	764	1,224	1,988
1070	Taxes Receivable - Delinquent	161,898	-	161,898
1071	Allowance for Uncollectible Delinquent Taxes	(91,952)	-	(91,952)
1150	Accounts Receivable (Net)	32,879	403,021	435,900
1151	Allowance for Uncollectible Accts Receivable	(4,497)	(68,182)	(72,679)
1210	Special Assessments Receivable (Net)	-	39,004	39,004
1211	Allowance-Uncollectible Special Assements	-	(3,492)	(3,492)
1300	Due from Other Funds	(36,009)	36,009	-
1611	Temporarily Restricted Cash	822,876	1,115,228	1,938,104
	Capital Assets:			
1710	Land Purchase and Improvements	74,664	6,300	80,964
1720	Infrastructure, Net	61,436	-	61,436
1730	Buildings, Net	773,331	6,452	779,783
1740	Improvements other than Buildings, Net	-	4,310,122	4,310,122
1750	Furniture and Equipoment, Net	615,147	861,503	1,476,650
1780	Construction in Progress	257,433	-	257,433
1000	Total Assets	<u>5,500,635</u>	<u>9,640,976</u>	<u>15,141,611</u>
DEFERRED OUTFLOWS OF RESOURCES				
1997	Deffered Outflow Pension Plan	739,365	392,355	1,131,720
1998	Deferred Outflow OPEB	6,296	3,812	10,108
1500	Total Deferred Outflows of Resources	<u>745,661</u>	<u>396,167</u>	<u>1,141,828</u>

CITY OF KERMIT, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019

EXHIBIT A-1

Data Control Codes	Primary Government			
	Governmental Activities	Business - Type Activities	Total	
LIABILITIES				
2010	Accounts Payable	194,951	76,752	271,703
2020	Wages and Salaries Payable	36,663	18,327	54,990
2022	Payroll Deductions & Withholdings Payabel	41,943	17,686	59,629
2030	Compensated Absences Payable	61,255	35,405	96,660
2070	Intergovernmental Payable	34,774	8,198	42,972
2140	Accrued Interest Payable	-	7,867	7,867
2400	Liabilities Payable from Restricted Assets	-	197,552	197,552
2410		331	-	331
	Noncurrent Liabilities:			
2501	Debt Due Within One Year	2,000	235,000	237,000
2502	Bonds Payable - Noncurrent	110,000	2,090,000	2,200,000
2580	Net Pension Liability	2,011,600	1,061,245	3,072,845
2585	Net OPEB Liability	88,044	53,771	141,815
2000	Total Liabilities	2,581,561	3,801,803	6,383,364
DEFERRED INFLOWS OF RESOURCES				
2601	Unavailable Revenue - Property Taxes	-	-	-
2602	Deferred Inflow Related to Pension Plan	185,022	118,814	303,836
2603	Deferred Resource Inflow OPEB	4,968	2,663	7,631
2500	Total Deferred Inflows of Resources	189,990	121,477	311,467
NET POSITION				
3200	Net Investment in Capital Assets	1,670,011	2,859,377	4,529,388
	Restricted for:			
3810	Restricted by Enabling Legislation	45,131	-	45,131
3890	Restricted for Other Purposes	758,827	-	758,827
3900	Unrestricted Net Position	1,000,776	3,254,486	4,255,262
3000	Total Net Position	\$ 3,474,745	\$ 6,113,863	\$ 9,588,608

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

**CITY OF KERMIT, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Data Control Codes	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
110 City Hall	\$ 591,081	\$ -	\$ -
120 Municipal Court	60,295	12,513	-
130 Administration	208,892	-	-
210 Police Department	1,920,747	308,425	13,292
220 Fire Department	133,057	-	-
240 Inspections	167,957	245,772	-
250 Child Safety Education	106	249	-
300 Street, Humane and City Shop Departments	742,131	170,569	-
310 Street Lighting	75,579	-	-
330 Parks and Cemetary	431,273	58,050	-
350 Summer Rec Program	4,320	-	-
650 Economic Development and Assistance	190,303	468,393	-
710 Principal on Debt	2,000	-	-
720 Interest on Debt	4,349	-	-
Total Governmental Activities	<u>4,532,090</u>	<u>1,263,971</u>	<u>13,292</u>
BUSINESS-TYPE ACTIVITIES:			
701 Water Utility System	1,586,437	2,442,198	-
702 Solid Waste System	1,414,516	1,258,843	-
Total Business-Type Activities	<u>3,000,953</u>	<u>3,701,041</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u><u>\$ 7,533,043</u></u>	<u><u>\$ 4,965,012</u></u>	<u><u>\$ 13,292</u></u>

Data
Control
Codes

General Revenues:

Taxes:

5010	Property Taxes, Levied for General Purposes
5120	General Sales and Use Taxes
5170	Franchise Tax
5180	Other Taxes
5190	Penalty and Interest on Taxes
5600	Grants and Contributions
5700	Miscellaneous Revenue
5800	Investment Earnings
5800	Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning
Prior Period Adjustment
Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
	Governmental Activities	Business-Type Activities	Total
\$ (591,081)	\$ (3,254,827)	\$ -	\$ (3,254,827)
(47,782)	(208,892)	-	(47,782)
(208,892)	(1,599,030)	-	(208,892)
(133,057)	77,815	-	(133,057)
77,815	143	-	77,815
(571,562)	(571,562)	-	(571,562)
(75,579)	(75,579)	-	(75,579)
(373,223)	(373,223)	-	(373,223)
(4,320)	(4,320)	-	(4,320)
278,090	278,090	-	278,090
(2,000)	(4,349)	-	(2,000)
(4,349)	(3,254,827)	-	(4,349)
-	-	700,088	-
-	-	700,088	-
-	(3,254,827)	700,088	(2,554,739)
705,943	2,569,897	-	705,943
301,151	903,547	-	301,151
25,487	146,390	-	25,487
146,390	133,979	427,431	146,390
120,264	120,264	16,449	561,410
(120,753)	(120,753)	120,753	-
4,785,905	4,785,905	564,633	5,350,538
1,531,078	1,264,721	1,264,721	2,795,799
1,943,667	4,846,142	4,846,142	6,789,809
-	3,000	3,000	3,000
\$ 3,474,745	\$ 6,113,863	\$ 9,588,608	\$ 9,588,608

CITY OF KERMIT, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019

Data Control Codes	General Fund	Other Funds	Total Governmental Funds
ASSETS			
1010 Cash and Cash Equivalents	\$ 2,832,665	\$ -	\$ 2,832,665
1011 Petty Cash	764	-	764
1070 Taxes Receivable - Delinquent	161,898	-	161,898
1071 Allowance for Uncollectible Delinquent Taxes	(91,952)	-	(91,952)
1150 Accounts Receivable (Net)	20,807	12,072	32,879
1151 Allowance for Uncollectible Accts Receivable	(4,497)	-	(4,497)
1300 Due from Other Funds	12,488	173	12,661
1611 Temporarily Restricted Cash	30,963	791,913	822,876
1000 Total Assets	<u>\$ 2,963,136</u>	<u>\$ 804,158</u>	<u>\$ 3,767,294</u>
LIABILITIES			
2010 Accounts Payable	\$ 194,703	\$ 248	\$ 194,951
2020 Wages and Salaries Payable	36,663	-	36,663
2022 Payroll Deductions & Withholdings Payable	41,943	-	41,943
2030 Compensated Absences Payable	61,255	-	61,255
2070 Intergovernmental Payable	34,628	146	34,774
2080 Due to Other Funds	48,864	(194)	48,670
2000 Total Liabilities	<u>418,056</u>	<u>200</u>	<u>418,256</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	69,946	-	69,946
2600 Total Deferred Inflows of Resources	<u>69,946</u>	<u>-</u>	<u>69,946</u>
FUND BALANCES			
3490 Other Restricted Fund Balance	-	45,131	45,131
3590 Other Assigned Fund Balance	-	758,827	758,827
3600 Unassigned Fund Balance	2,475,134	-	2,475,134
3000 Total Fund Balances	<u>2,475,134</u>	<u>803,958</u>	<u>3,279,092</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 2,963,136</u>	<u>\$ 804,158</u>	<u>\$ 3,767,294</u>

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

CITY OF KERMIT, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2019

Total Fund Balances - Governmental Funds	\$	3,279,092
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.		1,107,614
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2015 capital outlays and debt principal payments is to increase (decrease) net position.		798,338
For the TMRS Pension plan, this fiscal year required that the City report their net pension liability in the Government Wide Statement of Net Position. The items reported as a result of this included a net pension liability of \$2,011,600, a Deferred Resource Inflow of \$185,022, and a Deferred Resource Outflow of \$739,365. The net effect of these was to decrease the ending net position by \$1,457,257.		(1,457,257)
For the TMRS OPEB plan, this fiscal year required that the City report their net pension liability in the Government Wide Statement of Net Position. The items reported as a result of this included a net OPEB liability of \$88,044, a Deferred Resource Inflow of \$4,968, and a Deferred Resource Outflow of \$6,296. The net effect of these was to decrease the ending net position by \$86,716.		(86,716)
The 2019 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(236,272)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		69,946
Net Position of Governmental Activities	\$	<u>3,474,745</u>

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

CITY OF KERMIT, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

EXHIBIT C-3

Data Control Codes	General Fund	Other Funds	Total Governmental Funds
REVENUES:			
Taxes:			
5110 Property Taxes	\$ 715,939	\$ -	\$ 715,939
5120 General Sales and Use Taxes	2,569,897	-	2,569,897
5170 Franchise Tax	301,151	-	301,151
5180 Other Taxes	-	903,547	903,547
5190 Penalty and Interest on Taxes	25,487	-	25,487
5200 Licenses and Permits	253,486	-	253,486
5300 Intergovernmental Revenue and Grants	11,925	1,367	13,292
5400 Charges for Services	217,941	-	217,941
5510 Fines	312,836	249	313,085
5610 Investment Earnings	110,458	9,806	120,264
5640 Contributions & Donations from Private Sources	144,223	800	145,023
5700 Other Revenue	55,808	15,452	71,260
5701 Misc Income	31,817	106	31,923
5020 Total Revenues	<u>4,750,968</u>	<u>931,327</u>	<u>5,682,295</u>
EXPENDITURES:			
Current:			
General Government:			
0110 City Hall	737,663	-	737,663
0120 Municipal Court	51,196	9,099	60,295
0130 Administration	217,022	-	217,022
Public Safety:			
0210 Police Department	2,000,332	3,508	2,003,840
0220 Fire Department	131,977	-	131,977
0240 Inspections	165,967	-	165,967
0250 Child Safety Education	-	106	106
0300 Street, Humane and City Shop Departments	764,283	-	764,283
0310 Street Lighting	75,579	-	75,579
0330 Parks and Cemetery	515,610	2,617	518,227
0350 Summer Rec Program	-	4,320	4,320
0650 Economic Development and Assistance	18,188	172,115	190,303
Debt Service:			
0710 Principal on Debt	108,000	-	108,000
0720 Interest on Debt	4,018	-	4,018
Capital Outlay:			
0800 Capital Outlay	30,900	-	30,900
6030 Total Expenditures	<u>4,820,735</u>	<u>191,765</u>	<u>5,012,500</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(69,767)</u>	<u>739,562</u>	<u>669,795</u>
OTHER FINANCING SOURCES (USES):			
7912 Sale of Real and Personal Property	511,622	-	511,622
7915 Transfers In	386,734	1,400	388,134
8911 Transfers Out (Use)	(508,887)	-	(508,887)
7080 Total Other Financing Sources (Uses)	<u>389,469</u>	<u>1,400</u>	<u>390,869</u>
1200 Net Change in Fund Balances	319,702	740,962	1,060,664
0100 Fund Balance - October 1 (Beginning)	2,155,432	62,996	2,218,428
3000 Fund Balance - September 30 (Ending)	<u>\$ 2,475,134</u>	<u>\$ 803,958</u>	<u>\$ 3,279,092</u>

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

CITY OF KERMIT, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

Total Net Change in Fund Balances - Governmental Funds	\$	1,060,664
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2019 capital outlays and debt principal payments is to increase (decrease) the change in net position.		798,338
Current year changes due to GASB 68 increased expenses in the amount of \$74,798. The net effect on the change in the ending net position was a decrease in the amount of \$74,798.		(74,798)
Current year changes due to GASB 75 increased expenses in the amount of \$6,858. The net effect on the change in the ending net position was a decrease in the amount of \$6,858.		(6,858)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(236,272)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.		(9,996)
Change in Net Position of Governmental Activities	\$	1,531,078

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

CITY OF KERMIT, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
Taxes:					
5110	Property Taxes	\$ 644,068	\$ 709,632	\$ 715,939	\$ 6,307
5120	General Sales and Use Taxes	2,500,000	2,568,864	2,569,897	1,033
5170	Franchise Tax	254,500	301,738	301,151	(587)
5190	Penalty and Interest on Taxes	26,836	26,836	25,487	(1,349)
5200	Licenses and Permits	158,710	244,935	253,486	8,551
5300	Intergovernmental Revenue and Grants	-	-	11,925	11,925
5400	Charges for Services	189,500	199,464	217,941	18,477
5510	Fines	156,000	304,851	312,836	7,985
5610	Investment Earnings	28,800	90,644	110,458	19,814
5640	Contributions & Donations from Private Sources	18,500	18,500	144,223	125,723
5700	Other Revenue	66,624	66,624	55,808	(10,816)
5701	Misc Income	1,500	1,500	31,817	30,317
5020	Total Revenues	4,045,038	4,533,588	4,750,968	217,380
EXPENDITURES:					
Current:					
0110	City Hall	314,753	675,076	737,663	(62,587)
0120	Municipal Court	42,477	55,717	51,196	4,521
0130	Administration	214,583	234,246	217,022	17,224
0210	Police Department	1,422,638	1,812,463	2,000,332	(187,869)
0220	Fire Department	53,001	81,001	131,977	(50,976)
0240	Inspections	180,255	191,457	165,967	25,490
0300	Street, Humane and City Shop Departments	852,584	852,584	764,283	88,301
0310	Street Lighting	75,000	80,000	75,579	4,421
0330	Parks and Cemetary	407,718	516,438	515,610	828
0400	County Ambulance	14,400	14,400	-	14,400
0650	Economic Development and Assistance	6,160	6,160	18,188	(12,028)
Debt Service:					
0710	Principal on Debt	-	108,000	108,000	-
0720	Interest on Debt	112,018	112,018	4,018	108,000
Capital Outlay:					
0800	Capital Outlay	66,686	66,686	30,900	35,786
6030	Total Expenditures	3,762,273	4,806,246	4,820,735	(14,489)
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	282,765	(272,658)	(69,767)	202,891
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	24,000	24,000	511,622	487,622
7915	Transfers In	375,000	375,000	386,734	11,734
8911	Transfers Out (Use)	(375,000)	(375,000)	(508,887)	(133,887)
7080	Total Other Financing Sources (Uses)	24,000	24,000	389,469	365,469
1200	Net Change in Fund Balances	306,765	(248,658)	319,702	568,360
0100	Fund Balance - October 1 (Beginning)	-	2,155,432	2,155,432	-
3000	Fund Balance - September 30 (Ending)	\$ 306,765	\$ 1,906,774	\$ 2,475,134	\$ 568,360

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

**CITY OF KERMIT, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2019**

	Business-Type Activities - Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,654,212	\$ 279,575	\$ 2,933,787
Petty Cash	406	818	1,224
Restricted Assets - Current:			
Temporarily Restricted Cash	1,115,228	-	1,115,228
Accounts Receivable (Net)	265,110	137,911	403,021
Allowance for Uncollectible Accts Receivable	(38,704)	(29,478)	(68,182)
Special Assessments Receivable (Net)	39,004	-	39,004
Allowance-Uncollectible Special Assesments	(3,492)	-	(3,492)
Due from Other Funds	35,279	26,624	61,903
Total Current Assets	4,067,043	415,450	4,482,493
Noncurrent Assets:			
Capital Assets:			
Land Purchase and Improvements	6,300	-	6,300
Buildings	13,909	-	13,909
Accumulated Depreciation - Buildings	(7,457)	-	(7,457)
Improvements other than Buildings	8,274,006	-	8,274,006
Accumulated Depreciation - Other Improvements	(3,963,884)	-	(3,963,884)
Furniture and Equipoment	1,107,586	1,523,585	2,631,171
Accumulated Depreciation - Furniture & Equipment	(826,478)	(943,190)	(1,769,668)
Total Noncurrent Assets	4,603,982	580,395	5,184,377
Total Assets	8,671,025	995,845	9,666,870
DEFERRED OUTFLOWS OF RESOURCES			
Deffered Outflow Pension Plan	227,296	165,059	392,355
Deferred Outflow OPEB	2,292	1,520	3,812
Total Deferred Outflows of Resources	229,588	166,579	396,167

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

**CITY OF KERMIT, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2019**

Business-Type Activities - Enterprise Funds			
	Water Utility System	Solid Waste System	Total Enterprise Funds
LIABILITIES			
Current Liabilities:			
Accounts Payable	41,246	35,506	76,752
Wages and Salaries Payable	10,625	7,702	18,327
Payroll Deductions & Withholdings Payable	10,300	7,386	17,686
Compensated Absences Payable	25,946	9,459	35,405
Intergovernmental Payable	-	8,198	8,198
Due to Other Funds	25,894	-	25,894
Accrued Interest Payable	7,867	-	7,867
Bonds Payable - Current	235,000	-	235,000
Liabilities Payable from Restricted Assets	197,552	-	197,552
Total Current Liabilities	554,430	68,251	622,681
Noncurrent Liabilities:			
Bonds Payable - Noncurrent	2,090,000	-	2,090,000
Net Pension Liability	623,498	437,747	1,061,245
Net OPEB Liability	32,483	21,288	53,771
Total Noncurrent Liabilities	2,745,981	459,035	3,205,016
Total Liabilities	3,300,411	527,286	3,827,697
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to Pension Plan	73,835	44,979	118,814
Deferred Resource Inflow OPEB	1,488	1,175	2,663
Total Deferred Inflows of Resources	75,323	46,154	121,477
NET POSITION			
Net Investment in Capital Assets	2,278,982	580,395	2,859,377
Unrestricted Net Position	3,245,897	8,589	3,254,486
Total Net Position	\$ 5,524,879	\$ 588,984	\$ 6,113,863

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

CITY OF KERMIT, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Business-Type Activities - Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Services	\$ 2,442,198	\$ 1,258,843	\$ 3,701,041
Other Revenue	-	39,662	39,662
Misc Income	(74)	-	(74)
Total Operating Revenues	2,442,124	1,298,505	3,740,629
OPERATING EXPENSES:			
Personnel Services - Salaries and Wages			
Water/Sewer Department	433,246	-	433,246
Utility Office	73,421	-	73,421
Finance	57,433	-	57,433
Solid Waste	-	456,596	456,596
Total Personnel Services - Salaries and Wages	564,100	456,596	1,020,696
Personnel Services - Employee Benefits			
Water/Sewer Department	181,956	-	181,956
Utility Office	35,481	-	35,481
Finance	22,452	-	22,452
Solid Waste	-	191,178	191,178
Total Personnel Services - Employee Benefits	239,889	191,178	431,067
Purchased Professional & Technical Services			
Water/Sewer Department	106,155	-	106,155
Utility Office	28,685	-	28,685
Finance	7,192	-	7,192
Solid Waste	-	6,198	6,198
Total Purchased Professional & Technical Services	142,032	6,198	148,230
Purchased Property Services			
Water/Sewer Department	136,017	-	136,017
Utility Office	13	-	13
Solid Waste	-	50,867	50,867
Total Purchased Property Services	136,030	50,867	186,897
Other Operating Costs			
Water/Sewer Department	38,743	-	38,743
Utility Office	3,055	-	3,055
Finance	262	-	262
Solid Waste	-	390,274	390,274
Total Other Operating Costs	42,060	390,274	432,334
Supplies			
Water/Sewer Department	172,290	-	172,290
Utility Office	3,985	-	3,985
Finance	769	-	769
Solid Waste	-	163,541	163,541
Total Supplies	177,044	163,541	340,585
Depreciation			
	219,322	155,862	375,184
Total Operating Expenses	1,520,477	1,414,516	2,934,993

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

CITY OF KERMIT, TEXAS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Business-Type Activities - Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise Funds
Operating Income (Loss)	921,647	(116,011)	805,636
NONOPERATING REVENUES (EXPENSES):			
Investment Earnings	16,449	-	16,449
Other Non-Operating Revenues	387,841	-	387,841
Interest Expense - Non-Operating	(65,010)	-	(65,010)
Bond Issuance Cost	(950)	-	(950)
Total Nonoperating Revenue (Expenses)	338,330	-	338,330
Income (Loss) Before Contributions & Transfers	1,259,977	(116,011)	1,143,966
Capital Contributions	153,664	-	153,664
Transfers Out (Use)	(32,113)	(796)	(32,909)
Change in Net Position	1,381,528	(116,807)	1,264,721
Total Net Position - October 1 (Beginning)	4,140,351	705,791	4,846,142
Prior Period Adjustment	3,000	-	3,000
Total Net Position - September 30 (Ending)	<u>\$ 5,524,879</u>	<u>\$ 588,984</u>	<u>\$ 6,113,863</u>

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

CITY OF KERMIT, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Business-Type Activities - Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 2,407,285	\$ 1,302,655	\$ 3,709,940
Cash Payments to Employees for Services	(776,592)	(625,618)	(1,402,210)
Cash Payments for Suppliers	(470,282)	(601,246)	(1,071,528)
Net Cash Provided by Operating Activities	<u>1,160,411</u>	<u>75,791</u>	<u>1,236,202</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfer Out	(32,113)	(796)	(32,909)
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition of Capital Assets	(153,662)	-	(153,662)
Capital Contributed by Other Funds	153,664	-	153,664
Debt Principal and Interest Payments	(295,010)	-	(295,010)
Debt Maintenance Fees	(950)	-	(950)
Special Assessment - Bond Retirement	387,841	-	387,841
Net Cash Provided by Capital and Related Financing Activities	<u>91,883</u>	<u>-</u>	<u>91,883</u>
<u>Cash Flows from Investing Activities:</u>			
Interest and Dividends on Investments	16,449	-	16,449
Net Increase in Cash and Cash Equivalents	1,236,630	74,995	1,311,625
Cash and Cash Equivalents at the Beginning of the Year	2,530,216	205,398	2,735,614
Prior Period Adjustment	3,000	-	3,000
Cash and Cash Equivalents at the End of the Year	<u>\$ 3,769,846</u>	<u>\$ 280,393</u>	<u>\$ 4,050,239</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:</u>			
Operating Income (Loss)	\$ 921,647	\$ (116,011)	\$ 805,636
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities:			
Depreciation	219,322	155,862	375,184
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (Increase) in Receivables	(34,839)	4,150	(30,689)
Decrease (Increase) in Due from Other Funds	(10,402)	13,998	3,596
Increase (Decrease) in Accounts Payable	22,198	(5,310)	16,888
Increase (Decrease) in Payroll Liabilities	27,397	22,156	49,553
Increase (Decrease) in Intergovernmental Payable	-	946	946
Increase (Decrease) in Due to Other Funds	(1,728)	-	(1,728)
Increase (Decrease) in Other Current Liabilities	17,506	-	17,506
Increase (Decrease) in Accrued Interest Payable	(690)	-	(690)
Net Cash Provided by Operating Activities	<u>\$ 1,160,411</u>	<u>\$ 75,791</u>	<u>\$ 1,236,202</u>

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

CITY OF KERMIT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2019

I. 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. These statements also comply with the requirements of the appropriate version of Texas's uniform accounting requirements and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

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

B. 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.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS-continued

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.

C. 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

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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.

E. 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.

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, such as the Cemetery Expansion Project, 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.

F. OTHER ACCOUNTING POLICIES

1. 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.
2. 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.

F. 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 FASB 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 grantors, 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.

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.

F. OTHER ACCOUNTING POLICIES-continued

- 3. 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.
- 4. 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.

- 5. 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:

<u>Assets</u>	<u>Years</u>
Buildings	22 to 45
Building Improvements	15
Infrastructure	10 to 45
Water & Sewer System	10 to 45
Office Equipment	7 to 10
Computer Equipment	5 to 10

- 6. 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.

F. OTHER ACCOUNTING POLICIES - continued

7. Deferred outflows/inflows of resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of revenues*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has one type of this item which qualifies for reporting in this category, outflows related to pensions. The deferred outflows relating to pension expense is reported in the government-wide financial statements and in the proprietary financial statements. They represent the impact that differences between expected and actual experiences and changes of assumptions have on the plan's annual pension expense.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of this item which qualify for reporting in this category, deferred property taxes and inflows related to pensions. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The deferred inflows relating to pension expense is reported in the government-wide financial statements and in the proprietary financial statements.

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMR's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY DATA

The City Council adopts an "appropriated budget" for the General Fund and System Fund. The City is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5 and the Water System Fund Budget and Solid Waste System Budget reports appear in Exhibit F-1 and F-2.

1. 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.

BUDGETARY DATA - continued

2. 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.
3. 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, 2019 on September 28, 2018.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

At September 30, 2019 the carrying amount of the City's deposits was \$ 6,693,019 and the bank balance was \$ 6,783,844. The City's cash deposits at September 30, 2019 and throughout the year, were covered by FDIC Insurance or by pledged collateral held by the City's agent bank in Kermit, Texas.

City Policies and Legal and Contractual Provision Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent bank. The City was at risk at a maximum of \$852,995 during the year for deposits held in a certificates of deposit held with CDARS, Commercial State Bank, Southwest Heritage Credit Union and AIM Bank. At September 30, 2019, the custodial risk for that certificate of deposit was \$0.

Foreign Currency Risk - The City has no investments or deposits of a foreign currency.

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

A. DEPOSITS AND INVESTMENTS-continued

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.

The City's cash equivalents consist of Certificates of Deposit with maturities of less than 18 months and balances held by TexSTAR and TexPool. The City has no temporary or long-term investments.

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.

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

B. 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.

C. 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.

D. INTER-FUND BALANCES AND TRANSFERS

The City recorded the following inter-fund transfers for the fiscal year ended September 30, 2019:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>	<u>Purpose</u>
Governmental-wide statements (B1)	\$ -	\$ 120,753	\$ (120,753)	To Supplement Governmental Fund
Business-Type Funds	<u>120,753</u>	<u>-</u>	<u>120,753</u>	To Supplement Governmental Fund
	<u>\$ 120,753</u>	<u>\$ 120,753</u>	<u>\$ -</u>	
Business-Type Funds (D2)				
General Fund		\$ -	\$ -	
Water Utility System	153,662	32,113	121,549	To Supplement Governmental Fund
Solid Waste Fund	<u>-</u>	<u>796</u>	<u>(796)</u>	Transfers of Solid Waste Collection
	<u>\$ 153,662</u>	<u>\$ 32,909</u>	<u>\$ 120,753</u>	
Governmental Funds (C-3)				
General Fund	\$ 386,734	\$ 508,887	\$ (122,153)	To Supplement General Fund
Other	1,400		1,400	To Fund Rec Program
	<u>\$ 388,134</u>	<u>\$ 508,887</u>	<u>\$ (120,753)</u>	

D. INTER-FUND BALANCES AND TRANSFERS - continued

Interfund receivables and payables at September 30, 2019 consisted of the following:

	<u>Receivables</u>	<u>Payables</u>	<u>Reason</u>
Governmental Funds:			
General Fund due to/forms:			
Water Utility System Fund	\$ 4,019	\$ -	General Fund Fees Collected
Solid Waste Fund		<u>34,945</u>	Water Utility Fees
Total Governmental Funds	<u>\$ 4,019</u>	<u>\$ 34,945</u>	
Special Revenue Fund due to/forms:			
Child Safety	<u>\$ 88</u>	<u>\$ -</u>	Child Safety Fee
Business-Type Funds:			
Water Utility System Fund due to/forms:			
General Fund	\$ -	\$ 4,019	General Fund Fees Collected
Special Revenue Fund		88	Child Safety Fee
Solid Waste Fund	-	8,470	Solid Waste Fees
Solid Waste Fund due to/forms:			
Water Utility	8,470		Solid Waste Fees
General Fund	<u>34,945</u>	<u>-</u>	Water Utility Fees
Total Business-Type Funds	<u>\$ 43,415</u>	<u>\$ 12,577</u>	
Totals	<u><u>\$ 47,522</u></u>	<u><u>\$ 47,522</u></u>	

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2019 were as follows:

	General Fund	Revenue Funds	Total
Governmental Funds:			
Property Taxes	\$ 161,897	\$ -	\$ 161,897
Hotel/Motel Taxes	-	12,072	12,072
Services Receivable	20,806	-	20,806
Gross Receivables	<u>\$ 182,703</u>	<u>\$ 12,072</u>	<u>\$ 194,775</u>
Allowance for Uncollectibles	(96,449)	-	(96,449)
Net Receivables	<u>\$ 86,254</u>	<u>\$ 12,072</u>	<u>\$ 98,326</u>

	Water System Utility Fund	Solid Waste Fund	Total
Business-Type Funds:			
Services Receivable	\$ 265,110	\$ 137,910	\$ 403,020
Special Assessments Receivable	39,004	-	39,004
Gross Receivables	<u>\$ 304,114</u>	<u>\$ 137,910</u>	<u>\$ 442,024</u>
Allowance for Uncollectibles	(42,196)	(29,478)	(71,674)
Net Receivables	<u>\$ 261,918</u>	<u>\$ 108,432</u>	<u>\$ 370,350</u>

Payables at September 30, 2019 were as follows:

	General	Special Revenue Funds	Total
Governmental Funds:			
General Accounts	\$ 182,263	\$ 12,638	\$ 194,901
Wages Payable	\$ 36,663	-	\$ 36,663
Payroll Insurance Payable	6,200	-	6,200
Payroll Deductions & Withholdings	35,743	-	35,743
Total Payroll Costs Payable	<u>\$ 78,606</u>	<u>\$ -</u>	<u>\$ 78,606</u>
Accrued Vacation Payable	61,255	-	61,255
Total Accounts Payable	<u>\$ 322,124</u>	<u>\$ 12,638</u>	<u>\$ 334,762</u>
Business-Type Funds:			
General Accounts	\$ 41,246	\$ 35,506	\$ 76,752
Wages Payable	\$ 10,625	\$ 7,702	\$ 18,327
Payroll Insurance Payable	-	-	-
Payroll Deductions & Withholdings	10,300	7,386	17,686
Total Payroll Costs Payable	<u>\$ 20,925</u>	<u>\$ 15,088</u>	<u>\$ 36,013</u>
Accrued Vacation Payable	\$ 25,945	\$ 9,459	\$ 35,404
Total Accounts Payable	<u>\$ 88,116</u>	<u>\$ 60,053</u>	<u>\$ 148,169</u>

F. CAPITAL ASSETS

Capital asset activity for the City for the year September 30, 2019 as follows:

Governmental Activities:

	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	\$ 74,664	\$ -	\$ -	\$ 74,664
Buildings & Improvements	1,164,166	67,220	-	1,231,386
Office Furniture & Equipment	212,167	13,280	-	225,447
Machinery & Equipment	1,884,662	354,736	-	2,239,398
Infrastructure	2,535,671			2,535,671
Construction in Progress	-	257,433	-	257,433
Total General Fixed Assets	\$ 5,871,330	\$ 692,669	\$ -	\$ 6,563,999

Less: Accumulated Depreciation

Buildings & Improvements	\$ (386,500)	\$ (71,555)	\$ -	\$ (458,055)
Office Furniture & Equipment	(207,644)	(1,668)	-	(209,312)
Machinery & Equipment	(1,526,494)	(113,890)	-	(1,640,384)
Infrastructure	(2,425,077)	(49,159)	-	(2,474,236)
Total Accumulated Depreciation	(4,545,715)	(236,272)	-	(4,781,987)

Governmental Activities

Capital Assets - Net	\$ 1,325,615	\$ 456,397	\$ -	\$ 1,782,012
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Business-type Activities:

	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Water & Sewer System:				
Land	\$ 6,300	\$ -	\$ -	\$ 6,300
Buildings & Improvements	13,908	-	-	13,908
Water & Sewer System	8,274,006	-	-	8,274,006
Machinery and Equipment	883,622	153,662	-	1,037,284
Office Furniture and Equipment	70,302	-	-	70,302
Total Water & Sewer System	\$ 9,248,138	\$ 153,662	\$ -	\$ 9,401,800

Solid Waste:

Machinery & Equipment	\$ 1,523,585	\$ -	\$ -	\$ 1,523,585
Total Fixed Assets	\$ 10,771,723	\$ 153,662	\$ -	\$ 10,925,385

Less Accumulated Depreciation:

Water & Sewer System:

Buildings & Improvements	\$ (6,937)	\$ (518)	\$ -	\$ (7,455)
Water & Sewer System	(3,805,031)	(158,854)	-	(3,963,885)
Machinery and Equipment	(696,229)	(59,949)	-	(756,178)
Other Equipment	(70,300)	-	-	(70,300)
Total Water & Sewer System	\$ (4,578,497)	\$ (219,321)	\$ -	\$ (4,797,818)

Solid Waste:

Machinery & Equipment	\$ (787,329)	\$ (155,862)	\$ -	\$ (943,191)
Total Accumulated Depr.	(5,365,826)	(375,183)	-	(5,741,009)

Business-type Activities

Capital Assets, Net	\$ 5,405,897	\$ (221,521)	\$ -	\$ 5,184,376
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F. CAPITAL ASSETS - continued

Depreciation Expense was charged to functions as follows:

Function	Governmental Activities	Business-type Activities
Executive	\$ 3,276	\$ -
Police	44,310	-
Streets, Animal Control and Shop	97,757	-
Parks and Cemetary	81,280	-
Code Enforcement	8,569	
Fire	1,080	
Water and Sewerage	-	158,854
Solid Waste	-	155,862
Total Depreciation	\$ 236,272	\$ 314,716

G. TAX AND REVENUE OBLIGATION BONDS

The City issued \$4,595,000 in Combination Tax & Revenue Certificates of Obligation, Series 2008, on March 11, 2008. The proceeds of these bonds was 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 bond 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 \$12 per water meter connection per month to cover the debt service. The bonds 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.

A summary of changes in the bond obligations for the year ended September 30, 2019 is as follows:

	Balance October 1, 2018	Issued	Redeemed	Balance September 30, 2019
Bonds	\$ 2,555,000	\$ -	\$ 230,000	\$ 2,325,000

The debt service schedule for these bonds is as follows:

Fiscal Years ended:	Principal	Interest	Total
2020	235,000	60,002	295,002
2021	240,000	54,005	294,005
2022	245,000	47,699	292,699
2023	250,000	41,140	291,140
2024	260,000	34,318	294,318
2025-2026	535,000	46,904	581,904
2027-2028	560,000	16,102	576,102
	<u>\$ 2,325,000</u>	<u>\$ 300,170</u>	<u>\$ 2,625,170</u>

Interest expense related to this debt reported in the Proprietary Fund financial statements and the government-wide financial statements was \$65,010. Of this expense, \$8,557.38 accrued in the prior fiscal year. A total of \$65,700 was paid on February 15, 2019 and August 15, 2019 pursuant to the debt service schedule, and \$7,867.38 was accrued from August 15, 2019 to September 30, 2019.

H. TAX NOTES, SERIES 2014

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

A summary of changes in the bond obligations for the year ended September 30, 2019 is as follows:

	Balance October 1, 2018	Issued	Redeemed	Balance September 30, 2019
Bonds	<u>\$ 218,000</u>	<u>\$ -</u>	<u>\$ 106,000</u>	<u>\$ 112,000</u>

The debt service for these bonds is as follows:

Fiscal Years ended:	Principal	Interest	Total
2020	110,000	1,348	111,348
	<u>\$ 110,000</u>	<u>\$ 1,348</u>	<u>\$ 111,348</u>

Interest expense related to this debt reported in the Governmental Fund financial statements was \$4,018. Of this expense, \$667 was accrued in the prior fiscal year; \$4,018 was paid on February 15, 2019 and August 15, 2019 pursuant to the debt service schedule.

I. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Upon termination of employment, the City pays employees for any unused vacation leave that has been earned through the last day of work if the employee terminates in good standing with proper notice. Each regular full-time employee may accumulate up to a maximum of 240 hours of unused vacation leave. The amount of accumulated unused vacation leaves at September 30, 2019 was \$87,197 in the government-wide financial statements.

J. DEFINED BENEFIT PENSION PLAN

Plan Description: The City of Kermit participates as one of 866 plans in the non-traditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Governmental Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com

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

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

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

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

J. DEFINED BENEFIT PENSION PLAN - continued

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan year 2017	Plan year 2018
Employee deposit rate	7.00%	7.00%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expresses as age/years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving bene	28
Inactive employees entitled to but not yet receiving benefits	107
Active employees	52
Total	<u>187</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.

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 15.80% and 16.42% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended were \$466,731, and were equal to the required contributions.

Net Pension Liability: The City's net pension liability (NPL) was measured as of December 31, 2016, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date.

J. DEFINED BENEFIT PENSION PLAN - continued

Actuarial assumptions:

The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS (the actuary) focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

J. DEFINED BENEFIT PENSION PLAN - continued

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20%	3.90%
Real Return	10%	3.80%
Real Estate	10%	4.50%
Absolute Return	10%	3.75%
Private Equity	5%	7.50%
Total	100.00%	

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.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)- (b)
Balance at 12/31/2017	\$ 11,863,670	\$ 9,648,838	\$ 2,214,832
Changes for the Year:			
Service cost	379,780	-	379,780
Interest	798,744	-	798,744
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(86,539)	-	(86,539)
Changes of assumptions	-	-	-
Contributions - employer	-	364,766	(364,766)
Contributions - employee	-	164,204	(164,204)
Net investment income	-	(289,123)	289,123
Benefit payments, including refunds of employee contributions	(440,632)	(440,632)	-
Administrative expense	-	(5,586)	5,586
Other charges	-	(292)	292
Net change in pension liability	\$ 651,353	\$ (208,663)	\$ 858,016
Balance at 12/31/2018 *	\$ 12,515,023	\$ 9,442,175	\$ 3,072,848

*FNP may be off due to rounding

J. DEFINED BENEFIT PENSION PLAN - continued

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

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Decrease in Discount Rate (7.75%)
City's Net Pension Liability	\$ 4,806,543	\$ 3,072,847	\$ 1,648,314

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

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

For the year ended September 30, 2019 the City recognized pension expense of \$579,996

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow s of Resources	Deferred Inflow s of Resources
Differences between expected and actual economic experience	\$ 11,343	\$ 45,910
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	498,911	-
Contributions subsequent to the measurement date	383,539	-
Total	<u>\$ 873,793</u>	<u>\$ 45,910</u>

J. DEFINED BENEFIT PENSION PLAN - continued

\$363,539 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability as of September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:		
2019	\$	144,529
2020		63,155
2021		68,576
2022		188,084
2023		0
Thereafter		0
Total	\$	<u>464,344</u>

K. SUPPLEMENTAL DEATH BENEFITS FUND

Plan description: The City also participates in the single-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

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

Benefits Contributions: at the City contributes to SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing on-year term life insurance. The funding policy for SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers. The City's contribution rate for calendar years 2018 and 2019 was 0.25% and 0.26%.

Employees covered by benefit terms: At September 30, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	18
Inactive employees entitled to but not yet receiving benefits	10
Active employees	<u>52</u>
Total	80

Total OPEB Liability of \$141,81 was measured as of December 31, 2018.

K. SUPPLEMENTAL DEATH BENEFITS FUND

Actuarial assumptions and other inputs: The total OPEB liability in the December 31, 2018 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 10.50% including inflation
Discount rate*	3.71%
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	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates -disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to 3% floor.

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

K. SUPPLEMENTAL DEATH BENEFITS FUND -continued

Changes in Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2017	\$ 137,961
Changes for the year:	
Service Cost	7,037
Interest on total OPEB liability	4,660
Changes in benefit terms	-
Differences between expected and actual experience	3,156
Changes in assumptions or other inputs	(9,594)
Benefit Payments	(1,407)
Net Changes	<u>3,852</u>
Balance at 12/31/2018	\$ 141,813

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 (2.31 percent) or 1-percentage-point higher (4.31 percent) than the current discount rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Decrease in Discount Rate (7.75%)
City's Net Pension Liability	\$ 167,815	\$ 141,813	\$ 121,623

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

For the year ended September 30, 2019, the City recognized OPEB expense related to supplemental death benefits of \$12,473.

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,511	7,632
Changes in actuarial assumptions	6,049	
Contributions subsequent to the measurement date	4,232	
	<u>\$ 12,792</u>	<u>7,632</u>

K. SUPPLEMENTAL DEATH BENEFITS FUND -continued

An amount of \$4,232 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 net OPEB liability as of September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended Dec 31	
2019	\$ 776
2020	776
2021	546
2022	(1,170)
2023	0
Thereafter	0
Total	<u>\$ 928</u>

L. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources reported only in the General Fund financial statements at September 30, 2019 consisted of property tax revenue assessed but not collected in the amount of \$161,898 less allowance for uncollectible accounts of \$91,952 for net deferred inflows of \$69,945.

M. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources consisted of the following:

	General Fund	Special Revenue Funds	Proprietary Funds	Total
Animal Shelter Fees	\$ 6,570	\$ -	\$ -	\$ 6,570
Court costs, fees and charges	1,030	-	-	1,030
Street Lighting	163,359	-	-	163,359
Cemetery Services	43,700	-	-	43,700
Water	-	-	2,459,999	2,459,999
Sewer	-	-	1,270,659	1,270,659
Solid Waste	-	-	-	-
Other Services	-	-	-	-
Service related income	<u>\$ 214,659</u>	<u>\$ -</u>	<u>\$ 3,730,658</u>	<u>\$ 3,945,317</u>
Property Taxes	\$ 715,939	\$ -	\$ -	\$ 715,939
General Sales & Use Tax	2,569,897	-	-	2,569,897
Franchise Tax	301,151	-	-	301,151
Hotel/Motel Tax	-	903,547	-	903,547
Penalties & Interest	25,487	-	-	25,487
Tax-related Income	<u>\$ 3,612,474</u>	<u>\$ 903,547</u>	<u>\$ -</u>	<u>\$ 4,516,021</u>
Contributions from Private Sources	\$ 145,023	\$ -	\$ -	\$ 145,023
State Revenue	\$ -	\$ 13,292	\$ -	\$ 13,292
Fines	\$ 313,085	\$ -	\$ -	\$ 313,085
Licenses and Permits	253,487	-	-	253,487
Special assessments	-	-	396,917	396,917
Other Revenue	60,840	-	39,662	100,502
Fund Raisers	50,082	-	-	50,082
Recovery of Damage	623	-	-	623
Sale of Cemetery Lots	14,350	-	-	14,350
Sale of City Owned Property	496,649	-	-	496,649
Other revenue	<u>\$ 1,189,116</u>	<u>\$ -</u>	<u>\$ 436,579</u>	<u>\$ 1,625,695</u>
Investment Earnings	\$ 136,712	\$ 691	\$ 5,976	\$ 143,379
Totals	<u>\$ 5,297,984</u>	<u>\$ 917,530</u>	<u>\$ 4,173,213</u>	<u>\$ 10,388,727</u>

N. LITIGATION

The City is in one pending lawsuit: Cause No. DC15-16788-CCD, in the 109th District, Winkler County, Texas styled Hoover Construction Company, Inc. v City of Kermit, Texas. Hoover filed against City on October 27, 2015, asserting a claim for breach of contract. The city filed counter lawsuit on June 15, 2019.

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 the ponds. In addition, Hoover is also seeking 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.

N. LITIGATION - continued

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 has responded to Hoover's motion, and a hearing is currently set for October 28, 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 Account, a total of \$ 331,597.

O. OTHER COMMITMENTS AND CONTINGENCIES

Other than litigation disclosed in Note P in these financial statements, the City administration was not aware of any other significant contingencies or commitments at September 30, 2019.

P. 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 2019, the City purchased commercial insurance to cover general liabilities.

For the year ended September 30, 2019, the City was a participant in the Public Entity Risk Pool currently operating as the Texas Municipal League's modified self-funded pool. The coverage in this pool is for workers' compensation insurance, health insurance and unemployment.

Q. PRIOR PERIOD ADJUSTMENTS

A \$ 3,000 Prior period adjustment was made to Net Pension Liability.

COMBINING STATEMENTS

**CITY OF KERMIT, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019**

Data Control Codes	152 Police Department LEOSE	160 Child Safety Fund	165 Kermit Recreational Council	180 Hotel/Motel Tax	
ASSETS					
1150	Accounts Receivable (Net)	\$ -	\$ -	\$ -	\$ 12,072
1300	Due from Other Funds	-	173	-	-
Restricted Assets:					
1611	Temporarily Restricted Cash	1,629	10,614	10,400	753,432
1000	Total Assets	<u>\$ 1,629</u>	<u>\$ 10,787</u>	<u>\$ 10,400</u>	<u>\$ 765,504</u>
LIABILITIES					
2010	Accounts Payable	\$ 50	\$ -	\$ -	\$ 198
2070	Intergovernmental Payable	-	146	-	-
2080	Due to Other Funds	-	(88)	-	(106)
2000	Total Liabilities	<u>50</u>	<u>58</u>	<u>-</u>	<u>92</u>
FUND BALANCES					
3490	Other Restricted Fund Balance	-	10,374	-	24,609
3590	Other Assigned Fund Balance	1,579	355	10,400	740,803
3000	Total Fund Balances	<u>1,579</u>	<u>10,729</u>	<u>10,400</u>	<u>765,412</u>
4000	Total Liabilities and Fund Balances	<u>\$ 1,629</u>	<u>\$ 10,787</u>	<u>\$ 10,400</u>	<u>\$ 765,504</u>

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

EXHIBIT E-1

185	191	193	Total	194	Total
Moorehead Derrick	Court Technology	Court Security	Nonmajor Special Revenue Funds	Cemetery Expansion	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 12,072	\$ -	\$ 12,072
-	-	-	173	-	173
-	2,613	13,225	791,913	-	791,913
<u>\$ -</u>	<u>\$ 2,613</u>	<u>\$ 13,225</u>	<u>\$ 804,158</u>	<u>\$ -</u>	<u>\$ 804,158</u>
\$ -	\$ -	\$ -	\$ 248	\$ -	\$ 248
-	-	-	146	-	146
-	-	-	(194)	-	(194)
-	-	-	200	-	200
-	2,613	7,535	45,131	-	45,131
-	-	5,690	758,827	-	758,827
-	2,613	13,225	803,958	-	803,958
<u>\$ -</u>	<u>\$ 2,613</u>	<u>\$ 13,225</u>	<u>\$ 804,158</u>	<u>\$ -</u>	<u>\$ 804,158</u>

CITY OF KERMIT, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

Data Control Codes	152 Police Department LEOSE	160 Child Safety Fund	165 Kermit Recreational Council	180 Hotel/Motel Tax
REVENUES:				
Taxes:				
5180 Other Taxes	\$ -	\$ -	\$ -	\$ 903,547
5300 Intergovernmental Revenue and Grants	1,367	-	-	-
5510 Fines	-	249	-	-
5610 Investment Earnings	52	212	-	9,265
5640 Contributions & Donations from Private Sources	-	-	-	-
5700 Other Revenue	-	-	2,800	-
5701 Misc Income	-	-	-	106
5020 Total Revenues	<u>1,419</u>	<u>461</u>	<u>2,800</u>	<u>912,918</u>
EXPENDITURES:				
Current:				
General Government:				
0120 Municipal Court	-	-	-	-
Public Safety:				
0210 Police Department	3,508	-	-	-
0250 Child Safety Education	-	106	-	-
Street, Humane and City Shop Departments:				
0330 Parks and Cemetary	-	-	-	-
0350 Summer Rec Program	-	-	4,320	-
0650 Economic Development and Assistance	-	-	-	172,115
6030 Total Expenditures	<u>3,508</u>	<u>106</u>	<u>4,320</u>	<u>172,115</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,089)</u>	<u>355</u>	<u>(1,520)</u>	<u>740,803</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	1,400	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>1,400</u>	<u>-</u>
1200 Net Change in Fund Balance	(2,089)	355	(120)	740,803
0100 Fund Balance - October 1 (Beginning)	<u>3,668</u>	<u>10,374</u>	<u>10,520</u>	<u>24,609</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 1,579</u>	<u>\$ 10,729</u>	<u>\$ 10,400</u>	<u>\$ 765,412</u>

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

185 Moorehead Derrick	191 Court Technology	193 Court Security	Total Nonmajor Special Revenue Funds	194 Cemetery Expansion	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 903,547	\$ -	\$ 903,547
-	-	-	1,367	-	1,367
-	-	-	249	-	249
8	63	206	9,806	-	9,806
800	-	-	800	-	800
-	7,168	5,484	15,452	-	15,452
-	-	-	106	-	106
<u>808</u>	<u>7,231</u>	<u>5,690</u>	<u>931,327</u>	<u>-</u>	<u>931,327</u>
-	9,099	-	9,099	-	9,099
-	-	-	3,508	-	3,508
-	-	-	106	-	106
2,617	-	-	2,617	-	2,617
-	-	-	4,320	-	4,320
-	-	-	172,115	-	172,115
<u>2,617</u>	<u>9,099</u>	<u>-</u>	<u>191,765</u>	<u>-</u>	<u>191,765</u>
<u>(1,809)</u>	<u>(1,868)</u>	<u>5,690</u>	<u>739,562</u>	<u>-</u>	<u>739,562</u>
-	-	-	1,400	-	1,400
-	-	-	1,400	-	1,400
<u>(1,809)</u>	<u>(1,868)</u>	<u>5,690</u>	<u>740,962</u>	<u>-</u>	<u>740,962</u>
<u>1,809</u>	<u>4,481</u>	<u>7,535</u>	<u>62,996</u>	<u>-</u>	<u>62,996</u>
<u>\$ -</u>	<u>\$ 2,613</u>	<u>\$ 13,225</u>	<u>\$ 803,958</u>	<u>\$ -</u>	<u>\$ 803,958</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KERMIT, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
A. Total Pension Liability		
Service Cost	\$ 379,780	\$ 350,657
Interest (on the Total Pension Liability)	798,744	745,290
Changes of Benefit Terms	-	-
Difference between Expected and Actual Experience	(86,539)	98,597
Changes of Assumptions	-	-
Benefit Payments, Including Refunds of Employee Contributions	(440,632)	(393,751)
Net Change in Total Pension Liability	<u>\$ 651,353</u>	<u>\$ 800,793</u>
Total Pension Liability - Beginning	11,863,670	11,062,877
Total Pension Liability - Ending	<u><u>\$ 12,515,023</u></u>	<u><u>\$ 11,863,670</u></u>
B. Total Fiduciary Net Position		
Contributions - Employer	\$ 364,766	\$ 329,928
Contributions - Employee	164,204	152,744
Net Investment Income	(289,123)	1,164,656
Benefit Payments, Including Refunds of Employee Contributions	(440,632)	(393,751)
Administrative Expense	(5,586)	(6,035)
Other	(292)	(306)
Net Change in Plan Fiduciary Net Position	<u>\$ (206,663)</u>	<u>\$ 1,247,236</u>
Plan Fiduciary Net Position - Beginning	9,648,839	8,401,602
Plan Fiduciary Net Position - Ending	<u><u>\$ 9,442,176</u></u>	<u><u>\$ 9,648,838</u></u>
C. Net Pension Liability	<u><u>\$ 3,072,847</u></u>	<u><u>\$ 2,214,832</u></u>
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	75.45%	81.33%
E. Covered Payroll	\$ 2,345,768	\$ 2,182,059
F. Net Pension Liability as a Percentage of Covered Payroll	131.00%	101.50%

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only five years of data are presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
\$	356,071	\$ 353,182	\$ 265,828
	694,670	674,305	646,756
	-	-	-
	96,798	(65,959)	(128,875)
	-	94,582	-
	(396,073)	(402,060)	(465,614)
\$	751,466	\$ 654,050	\$ 318,095
	10,311,411	9,657,361	9,339,266
\$	11,062,877	\$ 10,311,411	\$ 9,657,361
\$	343,853	\$ 331,836	\$ 376,311
	157,328	154,036	140,865
	525,652	11,346	413,564
	(396,073)	(402,060)	(465,614)
	(5,936)	(6,911)	(4,317)
	(320)	(341)	(355)
\$	624,504	\$ 87,906	\$ 460,454
	7,777,098	7,689,192	7,228,738
\$	8,401,602	\$ 7,777,098	\$ 7,689,192
\$	2,661,275	\$ 2,534,313	\$ 1,968,169
	75.94%	75.42%	79.62%
\$	2,226,836	\$ 2,200,508	\$ 2,012,360
	119.51%	115.17%	97.80%

CITY OF KERMIT, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE FISCAL YEAR 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarially Determined Contribution	\$ 466,731	\$ 344,912	\$ 330,373
Contributions in Relation to the Actuarially Determined Contributions	466,731	344,912	330,373
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 2,865,254	\$ 2,233,024	\$ 2,172,204
Contributions as a Percentage of Covered Payroll	15.45%	15.45%	15.20%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

	2016		2015
\$	356,887	\$	337,764
	356,887		337,764
\$	-	\$	-
\$	2,335,131	\$	2,108,423
	15.28%		16.02%

CITY OF KERMIT, TEXAS
 SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
Total OPEB Liability		
Service Cost	\$ 5,673	\$ 7,037
Interest on the Total OPEB Liability	4,573	4,660
Changes of Benefit Terms	-	-
Difference between Expected and Actual Experience	-	3,156
Changes of Assumptions	10,235	(9,594)
Benefit Payments*	(1,309)	(1,407)
Net Change in Total OPEB Liability	19,172	3,852
Total OPEB Liability - Beginning	118,789	137,961
Total OPEB Liability - Ending	\$ 137,961	\$ 141,813
Covered Payroll	\$ 2,182,059	\$ 2,345,768
Total OPEB Liability as a Percentage of Covered Payroll	6.32%	6.05%

*The Supplemental Death Benefit Fund is considered to be an unfunded OPEB plan under GASB 75. Because of this benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Note: GASB Codification, Vol. 2, P52.139 states that the information on this schedule should be determined as of the measurement date of the plan.

As required by GASB 75, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

City of Kermit, Texas
Notes to the Schedule of Contributions
Year Ended September 30, 2019

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market, 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50%, 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 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplies by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year.



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Companies Practice Section
Texas Society of Certified Public
Accountants

**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, TX
110 South Tornillo
Kermit, TX 79745

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 17, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Compliance and Other Matters

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

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.

Smith & Rives, PC
Monahans, Texas
September 17, 2020

**City of Kermit, Texas
Schedule of Findings and Responses
For the Year Ended September 30, 2019**

I. Summary of the Auditor's Results

- a. The type of report issued on the financial statements of the City of Kermit, Texas was an unqualified opinion.
- b. No reportable significant deficiencies in internal control were disclosed by the audit of the financial statements.
- c. The audit disclosed no instances of non-compliance that could be material to the financial statements of the City of Kermit, Texas.
- d. The audit disclosed no:
 - 1. Known questioned costs greater than \$10,000 for a Federal program, which is not audited as a major program.
 - 2. Known fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards.
 - 3. Instances where audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the City of Kermit, Texas materially misrepresents the status of any prior audit finding.
- e. The City had no major programs.
- f. The City was not subject to the Single Audit Act.
- g. The City did not qualify as a low-risk auditee.

II. Findings Relating to the Financial Statements Which Are Required to be Reported in Accordance with *Generally Accepted Auditing Standards*.

No Findings

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.d Above

No Findings

**CITY OF KERMIT, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(Prepared by the City's Administration)**

Finding :

No findings in prior year.

**CITY OF KERMIT, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

(Prepared by the City's Administration)

No findings requiring corrective action for Year Ended September 30, 2019.