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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, Texas
110 South Tornillo
Kermit, Texas 79745

Members of the Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas (the "City") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's 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 fraud or error.

Auditor's Responsibility

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

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

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

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, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas, as of September 30, 2018, 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 on pages 3 - 10, the budgetary comparison information on page 17 and Pension System Supplementary Information on pages 54-56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City Of Kermit, Texas' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management, and 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 used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Smith & Rives, PC
Monahans, Texas
August 20, 2019

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, 2018. 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 9.

FINANCIAL HIGHLIGHTS

2018 was first year for implementation of GASB 75 requirements for OBEP Plans for Supplemental Death Benefits. As a result of GASB 75 implementation the Governmental Funds incurred additional liability of \$ 85,536 and the Business-Type funds \$ 54,425 for a total of \$137,961.

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

	Governmental Activities	Business-Type Activities
2017 Net Position	(671,379)	4,732,536
2017 PPA for GASB 75	(73,649)	(45,139)
2017 Adjusted Net Position	(745,028)	4,687,397
2018 Change in Net Position	2,688,695	158,745
	<hr/>	<hr/>
2018 Net Position	1,943,667	4,846,142
2018 % Change in Net Position	360.9%	3.4%

During the year, the City had operating expenditures that were \$1,187,087 less than the \$5,120,592 generated in tax and other revenues for the governmental programs. (Exhibit C-3) This compares to last year when expenditures exceeded revenues by \$ 483,539.

In the City's business-type activities, revenues increased by \$543,202, while operating expenses increased by \$200,042.

Total cost of the City's programs was \$6,168,882 while last year's cost was 5,697,775. (Exhibit B-1)

The fund balance for all Governmental Funds ended the year at \$2,218,419 and the ending fund balance from last year was (\$561,849).(Exhibit C-1)

The resources available for appropriation were \$1,675,051 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 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to departments within the City or to external customers and how sales revenues covered the expenses of the goods or services.

The notes to the financial statements (starting on page 22) 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 9. 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 12 and provide detailed information about the most significant funds – not the City as a whole. Laws and contracts require the City to establish some funds, such as grants received from a government agency. The City's administration establishes many other funds to help it control and manage money for particular purposes. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

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

Proprietary Funds: The City reports the activities for which it charges users (whether outside customers or units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the City' 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 \$1,943,667. 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 \$ 773,733 at September 30, 2018.

Net Position of the City's business-type activities were \$4,846,142, which included \$ 1,529,432 in unrestricted net position, \$465,813 in net position restricted by Enabling Legislation and \$2,850,897 in Investment in capital assets, net of related debt. The net position of the business-type activities increased by \$113,606.

**Table I
Net Position**

	Governmental Activities		Business-type Activities	
	2018	2017	2018	2017
Current and other assets	\$ 2,591,253	\$ (208,723)	\$ 3,140,775	\$ 3,082,438
Capital assets	1,325,614	1,407,123	5,405,898	5,575,925
Deferred Outflows	339,166	435,258	175,243	239,132
Total assets	\$ 4,256,033	\$ 1,633,658	\$ 8,721,916	\$ 8,897,495
Long-term liabilities	\$ 1,648,570	\$ 1,928,147	\$ 3,139,222	\$ 3,784,574
Other liabilities	400,882	369,997	575,980	339,648
Deferred Inflows	262,914	6,893	160,572	40,737
Total liabilities	\$ 2,312,366	\$ 2,305,037	\$ 3,875,774	\$ 4,164,959
Net Position:				
Invested in capital assets, net of related debt	\$ 1,107,614	\$ 1,083,123	\$ 2,850,897	\$ 2,717,061
Restricted	62,320	56,470	465,813	461,440
Unrestricted	773,733	(1,810,972)	1,529,432	1,554,035
Total Net Position	\$ 1,943,667	\$ (671,379)	\$ 4,846,142	\$ 4,732,536

CITY OF KERMIT, TEXAS

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

**FOR THE YEAR ENDED
SEPTEMBER 30, 2018**

LETTER OF TRANSMITTAL

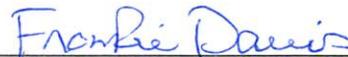
City of Kermit, Texas
Name of City

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, 2018 at a meeting of the Council of such city on the 20th day of August, 2019.



Signature of Mayor Pro Tem



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, 2018

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CITY OF KERMIT, TEXAS
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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Table II
Changes in Net Position

	Governmental Activities		Business-type Activities	
	2018	2017	2018	2017
Revenues:				
Program Revenues:				
Charges for Services	\$ 532,375	\$ 463,046	\$ 3,382,652	\$ 2,877,960
General Revenues:				
Maintenance and Operations Taxes	703,230	703,982	-	-
General Sales Taxes	3,120,862	1,090,563	-	-
Franchise Taxes	283,651	277,757	-	-
Other Taxes	273,882	199,610	-	-
Penalty & Interest	50,843	41,482	-	-
Intergovernmental Revenue & Grants	-	6,620	-	-
Capital Grants	-	-	-	-
Contribution & Donations	20,150	19,750	-	-
Miscellaneous	80,314	66,922	38,510	17,986
Special Assessments	-	-	376,857	365,054
Insurance Recovery	6,180	-	49	-
Sale of Property	89,979	-	-	-
Investment Earnings	46,926	9,433	9,862	3,807
Total Revenue	<u>\$ 5,208,392</u>	<u>\$ 2,879,165</u>	<u>\$ 3,807,930</u>	<u>\$ 3,264,807</u>

Table II
Changes in Net Position
Continued

	Governmental Activities		Business-type Activities	
	2018	2017	2018	2017
Expenses:				
Sewerage	\$ -	\$ -	\$ 892,128	\$ 881,723
Utility Office	-	-	128,687	142,922
Finance	-	-	86,373	88,976
Solid Waste/Sanitation	-	-	1,039,489	841,181
City Hall	227,935	217,537	-	-
Municipal Court	40,678	41,831	-	-
Administration	174,617	178,357	-	-
Police	1,415,482	1,266,467	-	-
Fire Department	129,405	137,647	-	-
Inspections	166,078	156,498	-	-
Child Safety Education	65	666	-	-
Street, Humane and City Shop	673,683	676,898	-	-
Street Lights	75,831	76,860	-	-
Cemetery and Parks	368,856	314,602	-	-
Summer Rec Program	2,458	2,200	-	-
EMS	12,000	12,000	-	-
Economic Development	298,730	224,775	-	-
Debt Interest and Expenses	7,307	6,715	71,350	82,241
Other	-	-	1,884	-
Depreciation	-	-	355,846	347,677
Total Expenses	\$ 3,593,125	\$ 3,313,053	\$ 2,575,757	\$ 2,384,720
Increase (Decrease) in Net Position before Transfers and Special Items	\$ 1,615,267	\$ (433,888)	\$ 1,232,173	\$ 880,087
Transfers	1,073,428	47,157	(1,073,428)	(47,157)
Litigation Settlement	-	-	-	-
Increase (Decrease) in Net Position	\$ 2,688,695	\$ (386,731)	\$ 158,745	\$ 832,930
Net Position - October 1	(671,379)	(284,648)	4,732,536	3,899,606
Prior Period Adjustments	(73,649)	-	(45,139)	-
Net Position - September 30	\$ 1,943,667	\$ (671,379)	\$ 4,846,142	\$ 4,732,536

The cost of all governmental activities this year was \$3,308,909. (Exhibit C-3) However, as shown in the Statement of Activities on pages 11 and 12, some of the costs were paid by those who directly benefited from the programs (\$463,046).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a fund balance of \$2,218,419 while it reported a fund balance of (\$1,561,849) last year.

Over the course of the year, the City Council made revisions to the City's budget. These budget amendments added \$ 656,464 to budgeted revenues and \$478,361 to budgeted expenditures for the year for an additional budgeted increase in fund balance for all governmental funds of \$178,103.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2018, the City had \$16,643,053 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	\$ 5,871,329
Cemetery Expansion Fund	<u>0</u>
Total General Fund	<u>5,871,329</u>
Business-Type Funds:	
Water Utility System Fund	\$ 9,263,552
Solid Waste Fund	<u>1,508,172</u>
Total Business-Type Funds	<u>\$ 10,771,724</u>
Total	<u>\$ 16,643,053</u>

This amount represents a net increase of \$ 299,133 or 1.83%.

This year's net additions included:

Additions:

Governmental Funds:

Pavillion for Cemetery Annex	\$ 17,550
Columbarium	8,600
36' Liberty Lawn Mower	5,400
2017 Excavator	28,400
Roof for Shop	<u>68,780</u>
Total Governmental Funds	<u>\$ 128,730</u>

Business-Type Funds

Water System Fund	
Handale Model FL6501-S	6,129
6' OMNI C2 Motor	<u>6,204</u>
Total Water System Fund	<u>\$ 12,333</u>

Solid Waste Fund Additions:

2019 Freightliner	\$ 173,484
Total Solid Waste Fund Additions	<u>\$ 173,484</u>

Total Additions \$ 314,547

Dispositions (cost):

Retirement	<u>\$ (15,414)</u>
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Net Additions \$ 299,133

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 \$225,000 and paid \$71,047 in bond interest for the year ended September 30, 2018. The City has ten 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 \$106,000 and paid \$6,639 in bond interest for the year ended September 30, 2018. The City has two years 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 2018-2019 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 2018-2019. The City's General Fund projects a balance budget of revenues vs. expenditures of 3,997,438.. Compared to fiscal year 2017-2018 adopted budget, this is a compared to prior budget of a deficit of \$686,335. The tax rate was set at \$.404738 per \$100 valuation.

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
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

EXHIBIT A-1 (Cont'd)

Data Control Codes	Primary Government			
	Governmental Activities	Business - Type Activities	Total	
ASSETS				
1010	Cash and Cash Equivalents	\$ 2,421,071	\$ 1,737,646	\$ 4,158,717
1070	Taxes Receivable - Delinquent	157,007	-	157,007
1071	Allowance for Uncollectible Delinquent Taxes	(76,388)	-	(76,388)
1150	Accounts Receivable (Net)	68,187	353,465	421,652
1151	Allowance for Uncollectible Accts Receivable	(8,671)	(48,589)	(57,260)
1210	Special Assessments Receivable (Net)	-	37,533	37,533
1211	Allowance-Uncollectible Special Assements	-	(2,747)	(2,747)
1300	Due from Other Funds	(37,877)	37,877	-
1611	Temporarily Restricted Cash	67,924	997,968	1,065,892
	Capital Assets:			
1710	Land Purchase and Improvements	74,664	6,300	80,964
1720	Infrastructure, Net	110,595	-	110,595
1730	Buildings, Net	777,666	6,970	784,636
1740	Improvements other than Buildings, Net	-	4,468,976	4,468,976
1750	Furniture and Equipoment, Net	362,689	2	362,691
1760	Capital Assets, Net	-	923,650	923,650
1000	Total Assets	<u>3,916,867</u>	<u>8,519,051</u>	<u>12,435,918</u>
DEFERRED OUTFLOWS OF RESOURCES				
1997	Deffered Outflow Pension Plan	333,488	171,764	505,252
1998	Deffered Outflow OBED	5,678	3,479	9,157
1500	Total Deferred Outflows of Resources	<u>339,166</u>	<u>175,243</u>	<u>514,409</u>

CITY OF KERMIT
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

EXHIBIT A-1

Data Control Codes	Primary Government			
	Governmental Activities	Business - Type Activities	Total	
LIABILITIES				
2010	Accounts Payable	147,370	59,864	207,234
2020	Wages and Salaries Payable	36,710	18,327	55,037
2022	Payroll Deductions & Withholdings Payabel	29,050	15,104	44,154
2030	Compensated Absences Payable	57,988	29,209	87,197
2070	Intergovernmental Payable	21,097	7,251	28,348
2140	Accrued Interest Payable	667	8,557	9,224
2250	Bonds Payable - Current	108,000	-	108,000
2400	Liabilities Payable from Restricted Assets	-	180,046	180,046
	Noncurrent Liabilities:			
2501	Debt Due Within One Year-Tax Note	-	230,000	230,000
2502	Bonds Payable - Noncurrent	110,000	2,325,000	2,435,000
2580	Net Pension Liability	1,453,034	761,797	2,214,831
2585	Net OPEB Liability	85,536	52,425	137,961
2000	Total Liabilities	<u>2,049,452</u>	<u>3,687,580</u>	<u>5,737,032</u>
DEFERRED INFLOWS OF RESOURCES				
2602	Deferred Inflow Related to Pension Plan	262,914	160,572	423,486
2500	Total Deferred Inflows of Resources	<u>262,914</u>	<u>160,572</u>	<u>423,486</u>
NET POSITION				
3200	Net Investment in Capital Assets	1,107,614	2,850,897	3,958,511
	Restricted for:			
3810	Restricted by Enabling Legislation	44,330	-	44,330
3820	Restricted by Debt Covenants	17,990	465,813	483,803
3900	Unrestricted Net Position	773,733	1,529,432	2,303,165
3000	Total Net Position	<u>\$ 1,943,667</u>	<u>\$ 4,846,142</u>	<u>\$ 6,789,809</u>

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

CITY OF KERMIT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Data Control Codes	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
110 City Hall	\$ 227,935	\$ 443	\$ -
120 Municipal Court	40,678	10,659	-
130 Administration	174,617	-	-
210 Police Department	1,415,482	258,169	1,319
220 Fire Department	129,405	-	-
240 Inspections	166,078	55,568	-
250 Child Safety Education	65	447	-
300 Street, Humane and City Shop Departments	673,683	158,017	-
310 Street Lighting	75,831	-	-
330 Parks and Cemetary	368,856	58,334	-
350 Summer Rec Program	2,458	-	-
400 County Ambulance	12,000	-	-
650 Economic Development and Assistance	298,730	9,498	-
720 Interest on Debt	7,307	-	-
Total Governmental Activities	<u>3,593,125</u>	<u>551,135</u>	<u>1,319</u>
BUSINESS-TYPE ACTIVITIES:			
701	1,390,088	2,228,513	-
702	1,185,669	1,154,139	-
Total Business-Type Activities	<u>2,575,757</u>	<u>3,382,652</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 6,168,882</u>	<u>\$ 3,933,787</u>	<u>\$ 1,319</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
5700	Miscellaneous Revenue
5800	Investment Earnings
S1	Special Item - Resource
E1	Extraordinary Item - Resource
5800	Transfers In (Out)
	Total General Revenues, Special Items, 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
\$ (227,492)	\$ -	\$ (227,492)
(30,019)	-	(30,019)
(174,617)	-	(174,617)
(1,155,994)	-	(1,155,994)
(129,405)	-	(129,405)
(110,510)	-	(110,510)
382	-	382
(515,666)	-	(515,666)
(75,831)	-	(75,831)
(310,522)	-	(310,522)
(2,458)	-	(2,458)
(12,000)	-	(12,000)
(289,232)	-	(289,232)
(7,307)	-	(7,307)
(3,040,671)	-	(3,040,671)
-	838,425	838,425
-	(31,530)	(31,530)
-	806,895	806,895
(3,040,671)	806,895	(2,233,776)
697,507	-	697,507
3,120,862	-	3,120,862
283,651	-	283,651
273,882	-	273,882
50,843	-	50,843
86,108	415,416	501,524
46,926	9,862	56,788
6,180	-	6,180
89,979	-	89,979
1,073,428	(1,073,428)	-
5,729,366	(648,150)	5,081,216
2,688,695	158,745	2,847,440
(671,379)	4,732,536	4,061,157
(73,649)	(45,139)	(118,788)
\$ 1,943,667	\$ 4,846,142	\$ 6,789,809

CITY OF KERMIT
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

Data Control Codes	General Fund	Other Funds	Total Governmental Funds
ASSETS			
1010 Cash and Cash Equivalents	\$ 2,421,071	\$ -	\$ 2,421,071
1070 Taxes Receivable - Delinquent	157,007	-	157,007
1071 Allowance for Uncollectible Delinquent Taxes	(76,388)	-	(76,388)
1150 Accounts Receivable (Net)	19,940	48,247	68,187
1151 Allowance for Uncollectible Accts Receivable	(8,671)	-	(8,671)
1300 Due from Other Funds	4,019	88	4,107
1611 Temporarily Restricted Cash	-	67,924	67,924
1000 Total Assets	<u>\$ 2,516,978</u>	<u>\$ 116,259</u>	<u>\$ 2,633,237</u>
LIABILITIES			
2010 Accounts Payable	\$ 94,105	\$ 53,265	\$ 147,370
2020 Wages and Salaries Payable	36,710	-	36,710
2022 Payroll Deductions & Withholdings Payabel	29,050	-	29,050
2030 Compensated Absences Payable	57,988	-	57,988
2070 Intergovernmental Payable	21,097	-	21,097
2080 Due to Other Funds	41,975	9	41,984
2000 Total Liabilities	<u>280,925</u>	<u>53,274</u>	<u>334,199</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	80,619	-	80,619
2600 Total Deferred Inflows of Resources	<u>80,619</u>	<u>-</u>	<u>80,619</u>
FUND BALANCES			
3490 Other Restricted Fund Balance	-	44,330	44,330
3590 Other Assigned Fund Balance	-	18,657	18,657
3600 Unassigned Fund Balance	2,155,432	-	2,155,432
3000 Total Fund Balances	<u>2,155,432</u>	<u>62,987</u>	<u>2,218,419</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 2,516,976</u>	<u>\$ 116,261</u>	<u>\$ 2,633,237</u>

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

CITY OF KERMIT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

Total Fund Balances - Governmental Funds	\$	2,218,419
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.		1,083,123
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 2018 capital outlays and debt principal payments is to increase (decrease) net position.		234,063
This is the fourth year of the implementation of GASB 68 for the TMRS Pension plan. GASB 68 requires that the City reports their net pension liability in the Government Wide Statement of Net Position. The items reported as a result of this implementation included a net pension liability of \$1,453,034, Deferred Resource Outflow of \$333,488 and Deferred inflow of \$ 262,914. The net effect of these was to decrease the ending net position by \$ 1,382,460.		(1,382,460)
The City implemented GASB Statement No. 75 requirements for OPEB Plans for the TMRS Supplemental Death Benefit. This is the first year of implementation so the City's General Fund had a prior period adjustment in the amount of \$ 73,649. This resulted in an overall net OPEB liability of \$ 85,536, a deferred inflow of \$ 0, and a deferred resource outflow of \$ 5,678. The net effect of these was to decrease the ending net position by \$ 79,858.		(79,858)
The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(210,239)
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.		80,619
Net Position of Governmental Activities	\$	1,943,667

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

CITY OF KERMIT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

EXHIBIT C-3

Data Control Codes	General Fund	Other Funds	Total Governmental Funds
REVENUES:			
Taxes:			
5110 Property Taxes	\$ 723,366	\$ -	\$ 723,366
5120 General Sales and Use Taxes	3,120,862	-	3,120,862
5170 Franchise Tax	283,651	-	283,651
5180 Other Taxes	-	273,882	273,882
5190 Penalty and Interest on Taxes	50,843	-	50,843
5200 Licenses and Permits	57,889	-	57,889
5300 Intergovernmental Revenue and Grants	-	1,319	1,319
5400 Charges for Services	198,898	-	198,898
5510 Fines	256,324	446	256,770
5610 Investment Earnings	46,056	870	46,926
5640 Contributions & Donations from Private Sources	18,550	1,600	20,150
5700 Other Revenue	59,050	14,045	73,095
5701 Misc Income	12,941	-	12,941
5020 Total Revenues	<u>4,828,430</u>	<u>292,162</u>	<u>5,120,592</u>
EXPENDITURES:			
Current:			
General Government:			
0110 City Hall	224,571	-	224,571
0120 Municipal Court	21,345	19,333	40,678
0130 Administration	168,348	-	168,348
Public Safety:			
0210 Police Department	1,314,432	572	1,315,004
0220 Fire Department	127,429	-	127,429
0240 Inspections	151,240	-	151,240
0250 Child Safety Education	-	65	65
0300 Street, Humane and City Shop Departments	621,170	-	621,170
0310 Street Lighting	75,831	-	75,831
0330 Parks and Cemetary	377,248	-	377,248
0350 Summer Rec Program	-	2,458	2,458
0400 County Ambulance	12,000	-	12,000
0650 Economic Development and Assistance	35,512	263,218	298,730
Debt Service:			
0710 Principal on Debt	106,000	-	106,000
0720 Interest on Debt	6,640	-	6,640
6030 Total Expenditures	<u>3,241,766</u>	<u>285,646</u>	<u>3,527,412</u>
1100 Excess of Revenues Over Expenditures	<u>1,586,664</u>	<u>6,516</u>	<u>1,593,180</u>
OTHER FINANCING SOURCES (USES):			
7912 Sale of Real and Personal Property	107,479	-	107,479
7915 Transfers In	1,715,041	-	1,715,041
8911 Transfers Out (Use)	(641,613)	-	(641,613)
7956 Proceeds from Damaged Property	6,180	-	6,180
7080 Total Other Financing Sources (Uses)	<u>1,187,087</u>	<u>-</u>	<u>1,187,087</u>
1200 Net Change in Fund Balances	2,773,751	6,516	2,780,267
0100 Fund Balance - October 1 (Beginning)	<u>(618,319)</u>	<u>56,471</u>	<u>(561,848)</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 2,155,432</u>	<u>\$ 62,987</u>	<u>\$ 2,218,419</u>

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

CITY OF KERMIT
 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, 2018

Total Net Change in Fund Balances - Governmental Funds	\$	2,780,267
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 2018 capital outlays and debt principal payments is to increase (decrease) the change in net position.		234,063
Current year changes due to GASB Statement No. 68 increased expenses in the amount of \$ 83,328. The net effect on the change in the ending net position was an increase in the amount of \$ 83,328..		(83,328)
The implementation of GASB Statement no. 68 to report the City's OPEB plans resulted in a prior period adjustment of (\$ 73,649) The changes in ending net position as a result of reporting OPEB items was a decrease in the change in net position in the amount of \$6,209.		(6,209)
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.		(210,239)
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.		(25,859)
Change in Net Position of Governmental Activities	\$	2,688,695

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

CITY OF KERMIT
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
Taxes:					
5110	Property Taxes	\$ 711,300	\$ 1,367,764	\$ 723,366	\$ (644,398)
5120	General Sales and Use Taxes	1,028,000	1,028,000	3,120,862	2,092,862
5170	Franchise Tax	257,866	257,866	283,651	25,785
5190	Penalty and Interest on Taxes	27,000	27,000	50,843	23,843
5200	Licenses and Permits	33,590	33,590	57,889	24,299
5400	Charges for Services	175,895	175,895	198,898	23,003
5510	Fines	185,500	185,500	256,324	70,824
5610	Investment Earnings	6,440	6,440	46,056	39,616
5640	Contributions & Donations from Private Sources	12,000	12,000	18,550	6,550
5700	Other Revenue	58,324	58,324	59,050	726
5701	Misc Income	1,000	1,000	12,941	11,941
5020	Total Revenues	<u>2,496,915</u>	<u>3,153,379</u>	<u>4,828,430</u>	<u>1,675,051</u>
EXPENDITURES:					
Current:					
0110	City Hall	144,663	331,446	224,571	106,875
0120	Municipal Court	37,436	40,327	21,345	18,982
0130	Administration	168,168	180,439	168,348	12,091
0210	Police Department	1,240,626	1,354,691	1,314,432	40,259
0220	Fire Department	39,346	55,591	127,429	(71,838)
0240	Inspections	150,493	158,193	151,240	6,953
0300	Street, Humane and City Shop Departments	664,375	767,686	621,170	146,516
0310	Street Lighting	76,900	82,900	75,831	7,069
0330	Parks and Cemetary	380,683	409,778	377,248	32,530
0400	County Ambulance	12,000	12,000	12,000	-
0650	Economic Development and Assistance	4,810	4,810	35,512	(30,702)
Debt Service:					
0710	Principal on Debt	106,000	106,000	106,000	-
0720	Interest on Debt	6,640	6,640	6,640	-
6030	Total Expenditures	<u>3,032,140</u>	<u>3,510,501</u>	<u>3,241,766</u>	<u>268,735</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(535,225)</u>	<u>(357,122)</u>	<u>1,586,664</u>	<u>1,943,786</u>
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	20,000	20,000	107,479	87,479
7915	Transfers In	154,200	1,354,200	1,715,041	360,841
8911	Transfers Out (Use)	(154,200)	(447,621)	(641,613)	(193,992)
7956	Proceeds from Damaged Property	-	-	6,180	6,180
7080	Total Other Financing Sources (Uses)	<u>20,000</u>	<u>926,579</u>	<u>1,187,087</u>	<u>260,508</u>
1200	Net Change in Fund Balances	<u>(515,225)</u>	<u>569,457</u>	<u>2,773,751</u>	<u>2,204,294</u>
0100	Fund Balance - October 1 (Beginning)	<u>-</u>	<u>(618,319)</u>	<u>(618,319)</u>	<u>-</u>
3000	Fund Balance - September 30 (Ending)	<u>\$ (515,225)</u>	<u>\$ (48,862)</u>	<u>\$ 2,155,432</u>	<u>\$ 2,204,294</u>

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

CITY OF KERMIT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business-Type Activities - Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,532,248	\$ 205,398	\$ 1,737,646
Restricted Assets - Current:			
Temporarily Restricted Cash	997,968	-	997,968
Accounts Receivable	218,184	135,281	353,465
Allowance for Uncollectible Accts Receivable	(25,891)	(22,698)	(48,589)
Special Assessments Receivable	37,533	-	37,533
Allowance-Uncollectible Special Assements	(2,747)	-	(2,747)
Due from Other Funds	24,877	40,622	65,499
Total Current Assets	<u>2,782,172</u>	<u>358,603</u>	<u>3,140,775</u>
Noncurrent Assets:			
Capital Assets:			
Land Purchase and Improvements	6,300	-	6,300
Buildings	13,909	-	13,909
Accumulated Depreciation - Buildings	(6,939)	-	(6,939)
Improvements other than Buildings	8,274,006	-	8,274,006
Accumulated Depreciation - Other Improvements	(3,805,030)	-	(3,805,030)
Furniture and Equipoment	70,302	-	70,302
Accumulated Depreciation - Furniture & Equipment	(70,300)	-	(70,300)
Machinery & Equipment	899,036	1,523,585	2,422,621
Accumulated Depreciation - Machinery & Equipment	(711,642)	(787,329)	(1,498,971)
Total Noncurrent Assets	<u>4,669,642</u>	<u>736,256</u>	<u>5,405,898</u>
Total Assets	<u>7,451,814</u>	<u>1,094,859</u>	<u>8,546,673</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deffered Outflow Pension Plan	102,720	69,044	171,764
Deferred Outflow OBED	2,106	1,373	3,479
Total Deferred Outflows of Resources	<u>104,826</u>	<u>70,417</u>	<u>175,243</u>

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

CITY OF KERMIT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business-Type Activities - Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise Funds
LIABILITIES			
Current Liabilities:			
Accounts Payable	19,048	40,816	59,864
Wages and Salaries Payable	10,625	7,702	18,327
Payroll Deductions & Withholdings Payable	8,527	6,577	15,104
Compensated Absences Payable	21,781	7,428	29,209
Intergovernmental Payable	-	7,251	7,251
Due to Other Funds	27,622	-	27,622
Accrued Interest Payable	8,557	-	8,557
Bonds Payable - Current	230,000	-	230,000
Liabilities Payable from Restricted Assets	180,046	-	180,046
Total Current Liabilities	506,206	69,774	575,980
Noncurrent Liabilities:			
Bonds Payable - Noncurrent	2,325,000	-	2,325,000
Net Pension Liability	456,185	305,612	761,797
Net OPEB Liability	31,731	20,694	52,425
Total Noncurrent Liabilities	2,812,916	326,306	3,139,222
Total Liabilities	3,319,122	396,080	3,715,202
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to Pension Plan	97,167	63,405	160,572
Total Deferred Inflows of Resources	97,167	63,405	160,572
NET POSITION			
Net Investment in Capital Assets	2,114,641	736,256	2,850,897
Restricted by Debt Covenants	465,813	-	465,813
Unrestricted Net Position	1,559,898	(30,466)	1,529,432
Total Net Position	\$ 4,140,352	\$ 705,790	\$ 4,846,142

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

CITY OF KERMIT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

EXHIBIT D-2 (Cont'd)

	Business-Type Activities - Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Services	\$ 2,228,513	\$ 1,154,139	\$ 3,382,652
Other Revenue	-	35,969	35,969
Misc Income	2,541	-	2,541
Total Operating Revenues	<u>2,231,054</u>	<u>1,190,108</u>	<u>3,421,162</u>
OPERATING EXPENSES:			
Personnel Services - Salaries and Wages			
Water/Sewer Department	389,588	-	389,588
Utility Office	60,241	-	60,241
Finance	60,375	-	60,375
Solid Waste	-	342,050	342,050
Total Personnel Services - Salaries and Wages	<u>510,204</u>	<u>342,050</u>	<u>852,254</u>
Personnel Services - Employee Benefits			
Water/Sewer Department	145,173	-	145,173
Utility Office	29,648	-	29,648
Finance	19,749	-	19,749
Solid Waste	-	142,313	142,313
Total Personnel Services - Employee Benefits	<u>194,570</u>	<u>142,313</u>	<u>336,883</u>
Purchased Professional & Technical Services			
Water/Sewer Department	30,694	-	30,694
Utility Office	32,714	-	32,714
Finance	3,768	-	3,768
Solid Waste	-	2,016	2,016
Total Purchased Professional & Technical Services	<u>67,176</u>	<u>2,016</u>	<u>69,192</u>
Purchased Property Services			
Water/Sewer Department	142,138	-	142,138
Utility Office	1,000	-	1,000
Solid Waste	-	42,144	42,144
Total Purchased Property Services	<u>143,138</u>	<u>42,144</u>	<u>185,282</u>
Other Operating Costs			
Water/Sewer Department	29,616	-	29,616
Utility Office	2,059	-	2,059
Finance	1,359	-	1,359
Solid Waste	-	349,380	349,380
Total Other Operating Costs	<u>33,034</u>	<u>349,380</u>	<u>382,414</u>
Supplies			
Water/Sewer Department	154,919	-	154,919
Utility Office	3,025	-	3,025
Finance	1,122	-	1,122
Solid Waste	-	161,586	161,586
Total Supplies	<u>159,066</u>	<u>161,586</u>	<u>320,652</u>
Depreciation	211,550	144,296	355,846
Total Operating Expenses	<u>1,318,738</u>	<u>1,183,785</u>	<u>2,502,523</u>

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

CITY OF KERMIT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities - Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise Funds
Operating Income	912,316	6,323	918,639
NONOPERATING REVENUES (EXPENSES):			
Transfers In	-	192,195	192,195
Investment Earnings	9,862	-	9,862
Insurance Recovery	49	-	49
Other Non-Operating Revenues	376,857	-	376,857
Interest Expense - Non-Operating	(70,400)	-	(70,400)
Bond Issuance Cost	(950)	-	(950)
Other Non-Operating Expenses	-	(1,884)	(1,884)
Total Nonoperating Revenue (Expenses)	315,418	190,311	505,729
Income Before Transfers	1,227,734	196,634	1,424,368
Transfers Out (Use)	(1,248,057)	(17,566)	(1,265,623)
Change in Net Position	(20,323)	179,068	158,745
Total Net Position - October 1 (Beginning)	4,187,995	544,541	4,732,536
Prior Period Adjustment [GASB 75]	(27,321)	(17,818)	(45,139)
Total Net Position - September 30 (Ending)	\$ 4,140,351	\$ 705,791	\$ 4,846,142

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

CITY OF KERMIT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	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	\$ 2,194,975	\$ 1,164,043	\$ 3,359,018
Cash Payments to Employees for Services	(704,999)	(468,008)	(1,173,007)
Cash Payments for Suppliers	(453,852)	(547,509)	(1,001,361)
Net Cash Provided by Operating Activities	<u>1,036,124</u>	<u>148,526</u>	<u>1,184,650</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfer Out	(1,200,000)	-	(1,200,000)
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Bond Interest Paid	(71,048)	-	(71,048)
Debt Payments	(225,038)	(78,854)	(303,892)
Special Assessments for Bond Retirement	366,032	-	366,032
Bond Maint Cost	(950)	-	(950)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>68,996</u>	<u>(78,854)</u>	<u>(9,858)</u>
<u>Cash Flows from Investing Activities:</u>			
Interest and Dividends on Investments	9,861	(1,884)	7,977
Net Increase (Decrease) in Cash and Cash Equivalents	(85,019)	67,788	(17,231)
Cash and Cash Equivalents at the Beginning of the Year	<u>2,615,239</u>	<u>137,646</u>	<u>2,752,885</u>
Cash and Cash Equivalents at the End of the Year	<u>\$ 2,530,220</u>	<u>\$ 205,434</u>	<u>\$ 2,735,654</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>			
Operating Income	\$ 912,316	\$ 6,323	\$ 918,639
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities:			
Depreciation	211,550	144,296	355,846
Decrease (Increase) AR	(36,079)	(26,065)	(62,144)
Decrease (Increase) Prepays	5,262	3,358	8,620
Increase (Decrease) in AP	(28,531)	4,259	(24,272)
Increase (Decrease) Wages Payable	(218)	1,846	1,628
Increase (Decrease) Accrued Vacation	(2,594)	442	(2,152)
Increase (Decrease) Payrol Related Liab	8,232	6,440	14,672
Increase(decrease) Net Pension Liability	(7,948)	5,820	(2,128)
Effect of Increases and Decreases in Current Assets and Liabilities:			
Net OPED Liability	2,303	1,807	4,110
Restricted Liabilities	(28,169)	-	(28,169)
Net Cash Provided by Operating Activities	<u>\$ 1,036,124</u>	<u>\$ 148,526</u>	<u>\$ 1,184,650</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, 2018

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
-continued**

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, 2018 on September 29, 2017.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

At September 30, 2018, the carrying amount of the City's deposits with the designated depository bank was \$4,415,365 and the bank's collected balance was \$4,580,088. The City's cash deposits with the designated depository bank at September 30, 2018 and the City's deposits on the day of the highest daily cash balance, September 24, 2018 were adequately covered by FDIC insurance or by pledged collateral by the depository bank.

Cash and cash equivalents held by the City at September 30, 2018 other than operating deposits held by the City's agent bank include:

TexPool	\$	144
Commercial State Bank		203,021
Complex Community Federal Credit Union		29
Southwest Heritage Credit Union		25
Plantimum Bank CD # 9954		247,914
Prosperity Bank CD		201,009
WCCU		25
TexSTAR Escrow		144,453
TexSTAR (LGIP)		116
	<u>\$</u>	<u>796,736</u>

The City also had approximately \$1,989 in petty cash on hand at September 30, 2018.

A. DEPOSITS AND INVESTMENTS - continued

Restricted Cash

The City has the following balances in cash accounts that are restricted as to use:

Restricted by enabling legislation:	
Municipal Court Security Fund	\$ 4,480
Police Department LEOSE	3,668
Court Technology Fund	7,535
Child Safety Fund Cash	10,286
Hotel/Motel Fund	29,626
Total	<u>\$ 55,595</u>
Restricted by debt covenants:	
Wastewater Sewer Bond	\$ 307,720
Wastewater Construction	324,966
Wastewater Escrow	144,453
Total	<u>\$ 777,139</u>
Other Restricted	
Kermit Recreational Council	\$ 10,520
Moorehead Derrick	1,809
Meter Deposits by Customers	220,828
	<u>\$ 233,157</u>
Total temporarily restricted cash	<u>\$ 1,065,891</u>

Municipal Court Security Fund: The City is allowed by state law to assess a fee to a convicted defendant to be applied towards maintenance of court security. All funds generated by these fees are restricted to expenditures for maintenance and upgrading of the court's security system.

Court Technology Fund: The City is allowed by state law to assess a fee to a convicted defendant to be applied towards maintenance of the Municipal Court's technology system. All funds generated by these fees are restricted to expenditures for maintenance and upgrading of the court's technology system.

Child Safety Fund: The City receives fine revenues from offenders of the child restraint statutes. These fines must be separately accounted for and may only be used to further child safety education and support for the citizens of the City.

Hotel/Motel: The City receives excise taxes from lodging establishments located within the City. These funds are used to support the local Chamber of Commerce and to promote tourism for the City and the immediately surrounding area.

A. DEPOSITS AND INVESTMENTS - continued

Water Meter Deposits: The City charges residents a deposit whenever a new utility account is opened. This deposit does not belong to the City; it is money held by the City on behalf of its residents that will ultimately be refunded whenever utility accounts are closed. This cash cannot be used for any other purpose. An offsetting liability for this amount is reflected in the Proprietary Fund financial statements and government-wide financial statements.

Wastewater Construction Cash: This account was restricted for construction costs of the wastewater treatment plant. The project has been completed and account is currently unavailable pending outcome of pending jury trial with Hoover Construction Company.

Wastewater Sewer Bond Payment Cash: This account may only be used to pay down interest and principal on bonds per the bond payment schedule. This account is funded by special assessments imposed on the City's residents relating to the water system and by interest earnings.

Wastewater Escrow Cash: This account contains money received from issuing the general obligation bonds that will be used to construct/complete the wastewater treatment plant. No money can be disbursed from this account without proper prior approval from the Texas Water Development Board. Under the bond's contractual provisions, this money must earn a competitive rate of interest to help offset costs of the construction. Cash from this account will be transferred to the construction account on proper approval.

Police Department LEOSE: The City receives funding from the state for law enforcement training expenses. All funds received are restricted to expenditures for law enforcement training.

Kermit Recreational Council: The City of Kermit, Kermit Independent School District and Winkler County all equally contribute monies to this account. Funds are used to support Recreation Program and expenditures must be approved by Kermit Recreation Council Board which consists of members from each taxing entity that contributes to the fund.

Moorehead Derrick Cash: This account contains donations received for the restoration project for the Moorehead Derrick project.

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 \$651,944 during the year for deposits held in certificates of deposit held at Platinum Bank, Commercial State Bank, and Prosperity Bank. Invested certificates were covered by FDIC. At September 30, 2018, the custodial risk for that certificate of deposit was \$0.

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

A. DEPOSITS AND INVESTMENTS - continued

City Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

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

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

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, 2018:

	Transfers In	Transfers Out	Net Transfers	Purpose
Governmental-wide statements (B1)	\$ 1,073,428	\$ -	\$ 1,073,428	To Supplement Governmental Fund
Business-Type Funds	<u> </u>	<u>1,073,428</u>	<u>(1,073,428)</u>	To Supplement Governmental Fund
	<u>\$ 1,073,428</u>	<u>\$ 1,073,428</u>	<u>\$ -</u>	
Business-Type Funds (D2)				
General Fund		\$ -	\$ -	
Water Utility System	-	1,248,057	(1,248,057)	To Supplement Governmental Fund
Solid Waste Fund	<u>192,195</u>	<u>17,566</u>	<u>174,629</u>	Transfers of Solid Waste Collection
	<u>\$ 192,195</u>	<u>\$ 1,265,623</u>	<u>\$ (1,073,428)</u>	
Governmental Funds (C-3)				
General Fund	<u>\$ 1,715,041</u>	<u>\$ 641,613</u>	<u>\$ 1,073,428</u>	To Supplement General Fund
	<u>\$ 1,715,041</u>	<u>\$ 641,613</u>	<u>\$ 1,073,428</u>	

D. INTER-FUND BALANCES AND TRANSFERS - continued

Interfund receivables and payables at September 30, 2018 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, 2018 were as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Governmental Funds:			
Property Taxes	\$ 157,007	\$ -	\$ 157,007
Hotel/Motel Taxes	-	48,247	48,247
Services Receivable	19,940	-	19,940
Gross Receivables	<u>\$ 176,947</u>	<u>\$ 48,247</u>	<u>\$ 225,194</u>
Allowance for Uncollectibles	85,059	-	85,059
Net Receivables	<u>\$ 262,006</u>	<u>\$ 48,247</u>	<u>\$ 310,253</u>

	<u>Water System Utility Fund</u>	<u>Solid Waste Fund</u>	<u>Total</u>
Business-Type Funds:			
Services Receivable	\$ 218,184	\$ 135,281	\$ 353,465
Special Assessments Receivable	37,533	-	37,533
Gross Receivables	<u>\$ 255,717</u>	<u>\$ 135,281</u>	<u>\$ 390,998</u>
Allowance for Uncollectibles	28,638	22,698	51,336
Net Receivables	<u>\$ 284,355</u>	<u>\$ 157,979</u>	<u>\$ 442,334</u>

Payables at September 30, 2018 were as follows:

	<u>General</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Governmental Funds:			
General Accounts	\$ 94,105	\$ -	\$ 94,105
Hotel/Motel Tax due to Kermit Chamber of Commerce	-	53,265	53,265
Total General Accounts Payable	<u>\$ 94,105</u>	<u>\$ 53,265</u>	<u>\$ 147,370</u>
Wages Payable	\$ 36,710	\$ -	\$ 36,710
Payroll Insurance Payable	-	-	-
Payroll Deductions & Withholdings	29,050	-	29,050
Total Payroll Costs Payable	<u>\$ 65,760</u>	<u>\$ -</u>	<u>\$ 65,760</u>
Accrued Vacation Payable	57,988	-	57,988
Total Accounts Payable	<u>\$ 217,853</u>	<u>\$ 53,265</u>	<u>\$ 271,118</u>

	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
Business-Type Funds:			
General Accounts	\$ 19,048	\$ 40,816	\$ 59,864
Wages Payable	\$ 10,625	\$ 7,702	\$ 18,327
Payroll Deductions & Withholdings	8,527	6,577	15,104
Total Payroll Costs Payable	<u>\$ 19,152</u>	<u>\$ 14,279</u>	<u>\$ 33,431</u>
Accrued Vacation Payable	\$ 21,781	\$ 7,428	\$ 29,209
Total Accounts Payable	<u>\$ 59,981</u>	<u>\$ 62,523</u>	<u>\$ 122,504</u>

F. CAPITAL ASSETS

Capital asset activity for the City for the year ended September 30, 2018 was as follows:

Governmental Activities:

	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	\$ 74,664	\$ -	\$ -	\$ 74,664
Buildings & Improvements	1,069,236	94,930	-	1,164,166
Office Furniture & Equipment	212,167	-	-	212,167
Machinery & Equipment	1,850,862	33,800	-	1,884,662
Infrastructure	2,535,671	-	-	2,535,671
Total General Fixed Assets	\$ 5,742,600	\$ 128,730	\$ -	\$ 5,871,330
Less: Accumulated Depreciation				
Buildings & Improvements	\$ (356,178)	\$ (30,322)	\$ -	\$ (386,500)
Office Furniture & Equipment	(195,696)	(11,948)	-	(207,644)
Machinery & Equipment	(1,407,685)	(118,809)	-	(1,526,494)
Infrastructure	(2,375,917)	(49,160)	-	(2,425,077)
Total Accumulated Depreciation	(4,335,476)	(210,239)	-	(4,545,715)
Governmental Activities Capital Assets - Net	\$ 1,407,124	\$ (81,509)	\$ -	\$ 1,325,615

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	8,267,802	6,204	-	8,274,006
Machinery and Equipment	892,908	6,130	-	899,038
Office Furniture and Equipment	70,302	-	-	70,302
Total Water & Sewer System	\$ 9,251,220	\$ 12,334	\$ -	\$ 9,263,554
Solid Waste:				
Machinery & Equipment	\$ 1,350,102	\$ 173,484	\$ 15,414	\$ 1,508,172
Total Fixed Assets	\$ 10,601,322	\$ 185,818	\$ 15,414	\$ 10,771,726

Less Accumulated Depreciation:

Water & Sewer System:				
Buildings & Improvements	\$ (6,419)	\$ (518)	\$ -	\$ (6,937)
Water & Sewer System	(3,646,489)	(158,544)	-	(3,805,033)
Machinery and Equipment	(659,155)	(52,488)	-	(711,643)
Other Equipment	(70,300)	-	-	(70,300)
Total Water & Sewer System	\$ (4,382,363)	\$ (211,550)	\$ -	\$ (4,593,913)
Solid Waste:				
Machinery & Equipment	\$ (643,032)	\$ (144,296)	\$ (15,414)	\$ (771,914)
Total Accumulated Depr.	(5,025,395)	(355,846)	(15,414)	(5,365,827)
Business-type Activities Capital Assets, Net	\$ 5,575,927	\$ (170,028)	\$ (15,414)	\$ 5,405,899

F. CAPITAL ASSETS - continued

Depreciation Expense was charged to functions as follows:

Function	Governmental Activities	Business-type Activities
Executive	\$ 3,364	\$ -
Police	52,128	-
Streets, Animal Control and Shop	104,281	-
Parks and Cemetary	40,817	-
Code Enforcement	8,569	
Fire	1,080	
Water and Sewerage	-	211,550
Solid Waste	-	128,882
Total Depreciation	\$ 210,239	\$ 340,432

LOANS PAYABLE

The City had the following loans during the year ended September 30, 2018:

1. A sanitation truck was purchased August 13, 2013 which was also financed through Government Capital Corporation with an annual interest rate of 3.39% and seven annual payments of \$28,134; the first payment was made February 15, 2018. The City paid this debt off early, the debt was paid off in April of 2018, paid off two years early.

G. LOANS PAYABLE - continued

A summary of the change in commitments under these loans for the year ended September 30, 2018 is as follows.

Asset Purchased	Payable Amount Outstanding October 1, 2017	Additions	Payments	Payable Amount Outstanding September 30, 2018
Business Type Activities:				
Solid Waste Fund:				
2014 Freightliner & Sideloader*	\$ 78,854	\$ -	\$ 78,854	\$ 0
	Note paid off early April 2018, was schduled to payoff 2/15/20			

H. 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, 2018 is as follows:

	Balance October 1, 2017	Issued	Redeemed	Balance September 30, 2018
Bonds	\$ 2,780,000	\$ -	\$ 225,000	\$ 2,555,000

The debt service schedule for these bonds is as follows:

Fiscal Years ended:	Principal	Interest	Total
2019	230,000	65,700	295,700
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
2024-2026	795,000	81,221	876,221
2027-2028	560,000	16,102	576,102
	<u>\$ 2,555,000</u>	<u>\$ 365,869</u>	<u>\$ 2,920,869</u>

Interest expense related to this debt reported in the Proprietary Fund financial statements and the government-wide financial statements was \$70,400. Of this expense, \$9,205 accrued in the prior fiscal year. A total of \$71,047 was paid on February 15, 2018 and August 15, 2018 pursuant to the debt service schedule, and \$8,557 was accrued from August 15, 2018 to September 30, 2018.

I. 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.

I. TAX NOTES, SERIES 2014 - continued

A summary of changes in the bond obligations for the year ended September 30, 2018 is as follows:

	Balance October 1, 2017	Issued	Redeemed	Balance September 30, 2018
Bonds	\$ 324,000	\$ -	\$ 106,000	\$ 218,000

The debt service for these bonds is as follows:

Fiscal Years ended:	Principal	Interest	Total
2019	108,000	4,018	112,018
2020	110,000	1,348	111,348
	<u>\$ 218,000</u>	<u>\$ 5,366</u>	<u>\$ 223,366</u>

Interest expense related to this debt reported in the Governmental Fund financial statements was \$7,307. Of this expense a total of \$6,639 was paid February 15, 2018 and August 15, 2018 pursuant to the debt service schedule and \$667 was accrued from August 15, 2018 to September 30, 2018.

J. 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, 2018 was \$87,197 in the government-wide financial statements.

K. 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.tmrs.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.

K. DEFINED BENEFIT PENSION PLAN - continued

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.

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 2016	Plan year 2017
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, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	27
Inactive employees entitled to but not yet receiving benefits	96
Active employees	<u>52</u>
Total	<u>175</u>

K. DEFINED BENEFIT PENSION PLAN - continued

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 15.36% and 15.14% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended were \$344,912, 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.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2017 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.

K. DEFINED BENEFIT PENSION PLAN - continued

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 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

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.

K. DEFINED BENEFIT PENSION PLAN - continued

Changes in the Net Pension Liability

	Liability (a)	Increase (Decrease) Position (b)	Net Pension Liability (a)- (b)
Balance at 12/31/2016	\$ 11,062,877	\$ 8,401,602	\$ 2,661,275
Changes for the Year:			
Service cost	350,657	-	350,657
Interest	745,290	-	745,290
Changes of benefit terms	-	-	-
Difference between expected and actual experience	98,597	-	98,597
Changes of assumptions	-	-	-
Contributions - employer	-	329,928	(329,928)
Contributions - employee	-	152,744	(152,744)
Net investment income	-	1,164,656	(1,164,656)
Benefit payments, including refunds of employee contributions	(393,751)	(393,751)	-
Administrative expense	-	(6,035)	6,035
Other charges	-	(306)	306
Net change in pension liability	\$ 800,793	\$ 1,247,236	\$ (446,443)
Balance at 12/31/2017 *	\$ 11,863,670	\$ 9,648,838	\$ 2,214,832

* FNP may be off due to rounding

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 3,868,339	\$ 2,214,831	\$ 855,513

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, 2018 the City recognized pension expense of \$475,652.

K. DEFINED BENEFIT PENSION PLAN - continued

At September 30, 2018, 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	\$ 70,766	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	229,248	(478,456)
Contributions subsequent to the measurement date	263,207	-
Total	<u>\$ 563,221</u>	<u>\$ (478,456)</u>

An amount of \$263,207 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, 2017.

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:	
2018	\$ 63,640
2019	(2,926)
2020	(119,648)
2021	(119,508)
2022	-
Thereafter	-
	<u>\$ (178,442)</u>

L. 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.

L. SUPPLEMENTAL DEATH BENEFITS FUND - continued

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 2017 and 2018 was 0.25% and 0.25%.

Employees covered by benefit terms: At September 30, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	17
Inactive employees entitled to but not yet receiving benefit payments	7
Active employees	<u>52</u>
Total	<u><u>76</u></u>

Total OPEB Liability of \$137,961 was measured as of December 31, 2017.

L. SUPPLEMENTAL DEATH BENEFITS FUND -continued

Actuarial assumptions and other inputs: The total OPEB liability in the December 31, 2017 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*	3.31%
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	<p style="text-align: center;">RP2000 Combined Mortality Table with Blue Collar Adjustment</p> <p style="text-align: center;">with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females.</p> <p style="text-align: center;">The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to 3% floor.</p>

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

L. SUPPLEMENTAL DEATH BENEFITS FUND -continued

Changes in Total OPEB Liability	Total OPEB Liability (a)
Balance at 12/31/2017	\$ 118,789
Changes for the Year:	
Service cost	5,673
Interest	4,573
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	10,235
Contributions - employer	-
Contributions - employee	-
Net investment income	-
Benefit payments **	(1,309)
Administrative expense	-
Other charges	-
Net change in pension liability	<u>\$ 19,172</u>
Balance at 12/31/2017 *	<u><u>\$ 137,961</u></u>

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

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:

	<u>1% Decrease in Discount Rate (2.31%)</u>	<u>Discount Rate (3..31%)</u>	<u>1% Decrease in Discount Rate (4.31%)</u>
City's Net Pension Liability	\$ 164,080	\$ 137,961	\$ 117,603

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

For the year ended September 30, 2018, the City recognized OPEB expense related to supplemental death benefits of \$12,339.

L. SUPPLEMENTAL DEATH BENEFITS FUND -continued

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions and other inputs	8,142	0
Contributions made subsequent to measurement date	4,232	0
Total	\$ 12,374	\$ 0

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, 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:	Net deferred outflows (inflows) of resources
2018	\$ 2,093
2019	2,093
2020	2,093
2021	1,863
2022	0
Thereafter	-
Total	\$ 8,142

M. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources reported only in the General Fund financial statements at September 30, 2018 consisted of property tax revenue assessed but not collected in the amount of \$157,007 less allowance for uncollectible accounts of \$76,388 for net deferred inflows of \$80,619.

N. 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	\$ 2,600	\$ -	\$ -	\$ 2,600
Court costs, fees and charges	643	-	-	643
Street Lighting	151,149	-	-	151,149
Cemetery Services	43,350	-	-	43,350
Water	-	-	1,262,187	1,262,187
Sewer	-	-	470,560	470,560
Solid Waste	-	-	997,689	997,689
Other Services	-	-	142,873	142,873
Service related income	<u>\$ 197,742</u>	<u>\$ -</u>	<u>\$ 2,873,309</u>	<u>\$ 3,071,051</u>
Property Taxes	\$ 663,257	\$ -	\$ -	\$ 663,257
General Sales & Use Tax	1,090,563	-	-	1,090,563
Franchise Tax	277,757	-	-	277,757
Hotel/Motel Tax	-	199,610	-	199,610
Penalties & Interest	41,482	-	-	41,482
Tax-related income	<u>\$ 2,073,059</u>	<u>\$ 199,610</u>	<u>\$ -</u>	<u>\$ 2,272,669</u>
Contributions from Private Sources	\$ 19,550	\$ 200	\$ -	\$ 19,750
State Revenue	\$ 5,227	\$ 1,393	\$ -	\$ 6,620
Fines	\$ 183,888	\$ 8,261	\$ -	\$ 192,149
Licenses and Permits	38,695	-	-	38,695
Special assessments	-	-	365,054	365,054
Other Revenue	32,665	13,244	4,646	50,555
Fund Raisers	42,499	-	-	42,499
Recovery of Damage	3,261	-	17,986	21,247
Sale of Cemetery Lots	13,070	-	-	13,070
Sale of City Owned Property	-	-	-	-
Other revenue	<u>\$ 314,078</u>	<u>\$ 21,505</u>	<u>\$ 387,686</u>	<u>\$ 723,269</u>
Investment Earnings	\$ 9,132	\$ 205	\$ 3,807	\$ 13,144
Totals	<u>\$ 2,618,788</u>	<u>\$ 222,913</u>	<u>\$ 3,264,802</u>	<u>\$ 6,106,503</u>

O. 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 law suit on June 15, 2017.

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.

This lawsuit is highly contested, and there does not appear to be any potential for settlement at this time. As of June 05,2019 there was no date set for trial. The parties have exchanged an extensive amount of written discovery during course of the litigation and Legal representation is pursuing a summary judgment motion to end case. The City officials expect to pay no more than required reserve remaining in the Construction Account, a total of \$324,966.

P. 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, 2018.

Q. 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 2018, the City purchased commercial insurance to cover general liabilities.

For the year ended September 30, 2018, 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.

R. PRIOR PERIOD ADJUSTMENTS

The Government-wide Fund Financial and Business-type activities statements experienced the following prior period entries:

	<u>Exhibit B-1</u>	<u>Exhibit D-2</u>
Implementation of Governmental Accounting Standards Board Statement Number 75 for valuing and reporting post employment death benefits liability:	(73,649)	(45,139)

COMBINING STATEMENTS

CITY OF KERMIT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2018

Data Control Codes	152 Police Department LEOSE	160 Child Safety Fund	165 Kermit Recreational Council	180 Hotel/Motel Tax	
ASSETS					
1150	Accounts Receivable (Net)	\$ -	\$ -	\$ -	\$ 48,247
1300	Due from Other Funds	-	88	-	-
Restricted Assets:					
1611	Temporarily Restricted Cash	3,668	10,286	10,520	29,626
1000	Total Assets	<u>\$ 3,668</u>	<u>\$ 10,374</u>	<u>\$ 10,520</u>	<u>\$ 77,873</u>
LIABILITIES					
2010	Accounts Payable	\$ -	\$ -	\$ -	\$ 53,265
2080	Due to Other Funds	-	-	-	-
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,265</u>
FUND BALANCES					
3490	Other Restricted Fund Balance	-	9,856	-	13,480
3590	Other Assigned Fund Balance	3,668	518	10,520	11,129
3000	Total Fund Balances	<u>3,668</u>	<u>10,374</u>	<u>10,520</u>	<u>24,609</u>
4000	Total Liabilities and Fund Balances	<u>\$ 3,668</u>	<u>\$ 10,374</u>	<u>\$ 10,520</u>	<u>\$ 77,874</u>

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

185	191	193	Total	194	Total
Moorehead Derrick	Court Technology	Court Security	Nonmajor Special Revenue Funds	Cemetery Expansion	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 48,247	\$ -	\$ 48,247
-	-	-	88	-	88
1,809	4,480	7,535	67,924	-	67,924
<u>\$ 1,809</u>	<u>\$ 4,480</u>	<u>\$ 7,535</u>	<u>\$ 116,259</u>	<u>\$ -</u>	<u>\$ 116,259</u>
\$ -	\$ -	\$ -	\$ 53,265	\$ -	\$ 53,265
-	-	-	-	9	9
-	-	-	53,265	9	53,274
-	600	20,394	44,330	-	44,330
1,809	3,881	(12,859)	18,666	(9)	18,657
1,809	4,481	7,535	62,996	(9)	62,987
<u>\$ 1,809</u>	<u>\$ 4,481</u>	<u>\$ 7,535</u>	<u>\$ 116,261</u>	<u>\$ -</u>	<u>\$ 116,261</u>

CITY OF KERMIT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

Data Control Codes	152 Police Department LEOSE	160 Child Safety Fund	165 Kermit Recreational Council	180 Hotel/Motel Tax
REVENUES:				
Taxes:				
5180 Other Taxes	\$ -	\$ -	\$ -	\$ 273,882
5300 Intergovernmental Revenue and Grants	1,319	-	-	-
5510 Fines	-	446	-	-
5610 Investment Earnings	50	136	-	465
5640 Contributions & Donations from Private Sources	-	-	-	-
5700 Other Revenue	-	-	3,900	-
5020 Total Revenues	<u>1,369</u>	<u>582</u>	<u>3,900</u>	<u>274,347</u>
EXPENDITURES:				
Current:				
General Government:				
0120 Municipal Court	-	-	-	-
Public Safety:				
0210 Police Department	572	-	-	-
0250 Child Safety Education	-	65	-	-
Street, Humane and City Shop Departments:				
0350 Summer Rec Program	-	-	2,458	-
0650 Economic Development and Assistance	-	-	-	263,218
6030 Total Expenditures	<u>572</u>	<u>65</u>	<u>2,458</u>	<u>263,218</u>
1200 Net Change in Fund Balance	797	517	1,442	11,129
0100 Fund Balance - October 1 (Beginning)	<u>2,872</u>	<u>9,856</u>	<u>9,078</u>	<u>13,480</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 3,669</u>	<u>\$ 10,373</u>	<u>\$ 10,520</u>	<u>\$ 24,609</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
\$ -	\$ -	\$ -	\$ 273,882	\$ -	\$ 273,882
-	-	-	1,319	-	1,319
-	-	-	446	-	446
9	30	180	870	-	870
1,600	-	-	1,600	-	1,600
-	5,794	4,351	14,045	-	14,045
<u>1,609</u>	<u>5,824</u>	<u>4,531</u>	<u>292,162</u>	<u>-</u>	<u>292,162</u>
-	1,943	17,390	19,333	-	19,333
-	-	-	572	-	572
-	-	-	65	-	65
-	-	-	2,458	-	2,458
-	-	-	263,218	-	263,218
-	<u>1,943</u>	<u>17,390</u>	<u>285,646</u>	<u>-</u>	<u>285,646</u>
1,609	3,881	(12,859)	6,516	-	6,516
<u>200</u>	<u>600</u>	<u>20,394</u>	<u>56,480</u>	<u>(9)</u>	<u>56,471</u>
<u>\$ 1,809</u>	<u>\$ 4,481</u>	<u>\$ 7,535</u>	<u>\$ 62,996</u>	<u>\$ (9)</u>	<u>\$ 62,987</u>

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
A. Total Pension Liability				
Service Cost	\$ 350,657	\$ 356,071	\$ 353,182	\$ 265,828
Interest (on the Total Pension Liability)	745,290	694,670	674,305	646,756
Changes of Benefit Terms	-	-	-	-
Difference between Expected and Actual Experience	98,597	96,798	(65,959)	(128,875)
Changes of Assumptions	-	-	94,582	-
Benefit Payments, including refunds of employee contributions	(393,751)	(396,073)	(402,060)	(465,614)
Net change in Total Pension Liability	\$ 800,793	\$ 751,466	\$ 654,050	\$ 318,095
Total Pension Liability - Beginning	11,062,877	10,311,411	9,657,361	9,339,266
Total Pension Liability - Ending	\$ 11,863,670	\$ 11,062,877	\$ 10,311,411	\$ 9,657,361
B. Total Fiduciary Net Position				
Contributions - Employer	\$ 329,928	\$ 343,853	\$ 331,836	\$ 376,311
Contributions - Employee	152,744	157,328	154,036	140,865
Net Investment Income	1,164,656	525,652	11,346	413,564
Benefit Payments, including refunds of employee contributions	(393,751)	(396,073)	(402,060)	(465,614)
Administrative Expense	(6,035)	(5,936)	(6,911)	(4,317)
Other	(306)	(320)	(341)	(355)
Net Change in Plan Fiduciary Net Position	\$ 1,247,236	\$ 624,504	\$ 87,906	\$ 460,454
Plan Fiduciary Net Position - Beginning	8,401,602	7,777,098	7,689,192	7,228,738
Plan Fiduciary Net Position - Ending	\$ 9,648,838	\$ 8,401,602	\$ 7,777,098	\$ 7,689,192
C. Net Pension Liability	\$ 2,214,832	\$ 2,661,275	\$ 2,534,313	\$ 1,968,169
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	81.33%	75.94%	75.42%	79.62%
E. Covered Payroll	\$ 2,182,059	\$ 2,226,836	\$ 2,200,508	\$ 2,012,360
F. Net Pension Liability as a Percentage of Covered Payroll	101.50%	119.51%	115.17%	97.80%

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 four 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."

CITY OF KERMIT
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE FISCAL YEAR 2018

EXHIBIT F-2

	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 344,912	\$ 330,373	\$ 356,887	\$ 337,764
Contributions in Relation to the Actuarially Determined Contributions	344,912	330,373	356,887	337,764
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 2,233,024	\$ 2,172,204	\$ 2,335,131	\$ 2,108,423
Contributions as a Percentage of Covered Payroll	15.45%	15.20%	15.28%	16.02%

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."

City of Kermit, Texas
Notes to the Schedule of Contributions
Year Ended September 30, 2018

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.

CITY OF KERMIT
 SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

	FY 2018 Plan Year 2017
Total OPEB Liability	
Service Cost	\$ 5,673
Interest on the Total OPEB Liability	4,573
Changes of Benefit Terms	-
Difference between Expected and Actual Experience	-
Changes of Assumptions	10,235
Benefit Payments*	(1,309)
Net change in Total OPEB Liability	19,172
Total OPEB Liability - Beginning	118,789
Total OPEB Liability - Ending	\$ 137,961
Covered Payroll	\$ 2,182,059
Total OPEB Liability as a Percentage of Covered Payroll	6.32%

*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.



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

SMITH & RIVES, PC
Certified Public Accountants

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

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

Independent Auditor's Report

City Council
City of Kermit, TX
110 S. Tornillo
Kermit, Texas 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, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report on them dated August 20, 2019.

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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 of 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*.

The City of Kermit's Administration's responses to the findings in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 *Governmental 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 79756
August 20, 2019

City of Kermit, Texas
Schedule of Findings and Responses
For the Year Ended September 30, 2018

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, 2018
(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, 2018**

(Prepared by the City's Administration)

No findings requiring corrective action for Year Ended September 20, 2018.