
CITY OF KERMIT, TEXAS

FINANCIAL STATEMENTS
AND OTHER FINANCIAL
INFORMATION

For the Fiscal Year Ended
September 30, 2022

whitleypenn

CPAs and Professional Consultants



CITY OF KERMIT, TEXAS

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CERTIFICATE OF BOARD

City of Kermit, Texas
Name of City

Winkler
County

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

Signature of Mayor

Signature of City Manager

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



INDEPENDENT AUDITOR'S REPORT

City Council
City of Kermit, Texas

Report on the Audit of the Financial Statements

Opinions

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

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

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, general fund budgetary comparison schedule, pension information, and other-post employment benefit information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

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

Whitley Penn LLP

Odessa, Texas
March 30, 2023



CITY OF KERMIT, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

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

Using this Annual Report

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

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

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

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

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 16 and provide detailed information about the most significant funds – not the City as a whole. Laws and contracts require the City to establish some funds, such as grants received from a government agency. The City's administration establishes many other funds to help it control and manage money for particular purposes. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

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

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

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

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

CONDENSED SCHEDULE OF CHANGES IN NET POSITION
For the Year Ended September 30, 2022 and 2021

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues:						
Program revenues:						
Charges for services	\$ 740,137	675,320	\$ 5,068,520	4,823,465	\$ 5,808,657	\$ 5,498,785
Operating grants and contributions	1,588	271,832	-	-	1,588	271,832
Capital grants and contributions	-	-	58,725	-	58,725	-
General revenues:						
Property tax	802,258	744,564	-	-	802,258	744,564
Sales tax	2,042,807	1,439,123	-	-	2,042,807	1,439,123
Mixed beverage	933	768	-	-	933	768
Franchise taxes	279,004	254,722	-	-	279,004	254,722
Occupancy taxes	882,635	532,976	-	-	882,635	532,976
Unrestricted investment earnings	61,145	26,058	6,607	2,605	67,752	28,663
Miscellaneous	187,967	106,988	5,299	8,039	193,266	115,027
Total Revenue	4,998,474	4,052,351	5,139,151	4,834,109	10,137,625	8,886,460
Expenses:						
General government	544,895	973,115	-	-	544,895	973,115
Public safety	2,475,027	2,381,165	-	-	2,475,027	2,381,165
Culture and recreation	352,575	546,446	-	-	352,575	546,446
Public works	950,324	969,966	-	-	950,324	969,966
Water utility system	-	-	1,942,931	1,738,424	1,942,931	1,738,424
Solid waste system	-	-	1,307,813	1,331,921	1,307,813	1,331,921
Total Expenses	4,322,821	4,870,692	3,250,744	3,070,345	7,573,565	7,941,037
Increase (decrease) in net position before transfers	675,653	(818,341)	1,888,407	1,763,764	2,564,060	945,423
Transfers between governmental and business-type activities	863,509	(298,045)	(863,509)	298,045	-	-
Net Increase (decrease) in net position	1,539,162	(1,116,386)	1,024,898	2,061,809	2,564,060	945,423
Net Position - Beginning of Year	2,347,859	3,464,245	10,000,499	7,938,690	12,348,358	11,402,935
Prior period adjustment	147,580	-	-	-	147,580	-
Net Position - End of Year	\$ 4,034,601	\$ 2,347,859	\$ 11,025,397	\$ 10,000,499	\$ 15,059,998	\$ 12,348,358

The cost of all governmental activities this year was \$4,322,821. However, as shown in the Statement of Activities on page 14, some of the costs were paid by those who directly benefited from the programs (\$740,137).

The City's Funds

As the City completed the year, its governmental funds, on page 16, reported a fund balance of \$1,962,149 while it reported a prior year fund balance of \$2,670,273 (as restated).

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

Capital Asset and Debt Administration

Capital Assets

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

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

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

Long-Term Debt

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

Economic factors and next year's budget and rates

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

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

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

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

Contacting the City's financial management

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

BASIC FINANCIAL STATEMENTS



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

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Current Assets:			
Cash and cash equivalents	\$ 3,665,730	\$ 8,147,372	\$ 11,813,102
Receivables, net of allowances:			
Accounts	371,116	381,011	752,127
Property taxes	84,741	-	84,741
Other taxes	101,529	38,747	140,276
Internal balances	(170,447)	170,447	-
Prepays	39,615	11,195	50,810
Total Current Assets	4,092,284	8,748,772	12,841,056
Noncurrent Assets:			
Capital assets - net:			
Land and nondepreciable land improvements	74,664	6,300	80,964
Construction in progress	2,252,206	-	2,252,206
Buildings and improvements	727,540	-	727,540
Water and Sewer System	-	7,466,035	7,466,035
Machinery and equipment	643,783	592,278	1,236,061
Total capital assets - net	3,698,193	8,064,613	11,762,806
Total Noncurrent Assets	3,698,193	8,064,613	11,762,806
Total Assets	7,790,477	16,813,385	24,603,862
Deferred Outflows of Resources			
Deferred outflows - OPEB	23,899	10,800	34,699
Deferred outflows - Pension	237,434	107,001	344,435
Total Deferred Outflows of Resources	261,333	117,801	379,134
Liabilities			
Current Liabilities:			
Accounts payable	\$ 268,346	\$ 431,893	\$ 700,239
Deposits and other liabilities	109,158	44,074	153,232
Customer deposits	-	228,665	228,665
Retainage payable	91,552	-	91,552
Compensated absences	50,002	10,776	60,778
Unearned revenue	1,526,336	-	1,526,336
Accrued interest payable	-	12,181	12,181
Bonds payable	-	564,000	564,000
Total Current Liabilities	2,045,394	1,291,589	3,336,983
Noncurrent Liabilities:			
Bonds payable	-	3,725,000	3,725,000
Total OPEB liability	147,415	66,500	213,915
Net pension liability	1,076,898	485,600	1,562,498
Total Noncurrent Liabilities	1,224,313	4,277,100	5,501,413
Total Liabilities	3,269,707	5,568,689	8,838,396
Deferred Inflows of Resources			
Deferred inflows - OPEB	13,516	6,100	19,616
Deferred inflows - Pension	733,986	331,000	1,064,986
Total Deferred Inflows of Resources	747,502	337,100	1,084,602
Net Position			
Net investment in capital assets	3,698,193	4,889,664	8,587,857
Restricted for:			
Municipal court technology & security	28,311	-	28,311
Economic Development	589,692	-	589,692
Public safety	11,712	-	11,712
Debt service	-	551,819	551,819
Unrestricted	(293,307)	5,583,914	5,290,607
Total Net Position	\$ 4,034,601	\$ 11,025,397	\$ 15,059,998

CITY OF KERMIT, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2022

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General government	\$ 544,895	\$ 495,921	\$ 1,588	\$ -
Public safety	2,475,027	244,216	-	-
Culture and recreation	352,575	-	-	-
Public works	950,324	-	-	-
Total Governmental Activities	4,322,821	740,137	1,588	-
Business-Type Activities:				
Water Utility System	1,942,931	3,725,525	-	58,725
Solid Waste System	1,307,813	1,342,995	-	-
Total Business-Type Activities	3,250,744	5,068,520	-	58,725
Total Primary Government	\$ 7,573,565	\$ 5,808,657	\$ 1,588	\$ 58,725

CITY OF KERMIT, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2022

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
Primary Government			
Governmental Activities:			
General government	\$ (47,386)	\$ -	\$ (47,386)
Public safety	(2,230,811)	-	(2,230,811)
Culture and recreation	(352,575)	-	(352,575)
Public works	(950,324)	-	(950,324)
Total governmental activities	(3,581,096)	-	(3,581,096)
Business-Type activities:			
Water Utility System	-	1,841,319	1,841,319
Solid Waste System	-	35,182	35,182
Total business-type activities	-	1,876,501	1,876,501
Total primary government	\$ (3,581,096)	\$ 1,876,501	\$ (1,704,595)
General revenue:			
Taxes:			
Property	802,258	-	802,258
Sales	2,042,807	-	2,042,807
Mixed beverage	933	-	933
Franchise	279,004	-	279,004
Occupancy	882,635	-	882,635
Unrestricted investment earnings	61,145	6,607	67,752
Miscellaneous	187,967	5,299	193,266
Transfers between governmental and business-type activities	863,509	(863,509)	-
Total general revenue and transfers	5,120,258	(851,603)	4,268,655
Change in net position	1,539,162	1,024,898	2,564,060
Net position - beginning of year	2,347,859	10,000,499	12,348,358
Prior period adjustment	147,580	-	147,580
Net position - end of year	\$ 4,034,601	\$ 11,025,397	\$ 15,059,998

CITY OF KERMIT, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
September 30, 2022

	General Fund	Hotel/Motel Fund	American Rescue Plan Act	Other Governmental	Total Governmental
Assets					
Cash and cash equivalents	\$ 807,949	\$ 779,631	\$ 1,551,108	\$ 527,042	\$ 3,665,730
Receivables, net of allowance:					
Accounts	371,116	-	-	-	371,116
Property taxes	84,741	-	-	-	84,741
Other taxes	-	101,529	-	-	101,529
Due from other funds	105,282	106	-	343,014	448,402
Prepaid items	39,469	-	-	146	39,615
Total Assets	\$ 1,408,557	\$ 881,266	\$ 1,551,108	\$ 870,202	\$ 4,711,133
Liabilities					
Accounts payable	\$ 23,134	\$ 211,111	\$ 23,555	\$ 10,546	\$ 268,346
Retainage payable	-	91,552	-	-	91,552
Deposits and other liabilities	109,158	-	-	-	109,158
Compensated absences	50,002	-	-	-	50,002
Due to other funds	414,621	-	-	204,228	618,849
Unearned revenue	-	-	1,523,646	2,690	1,526,336
Total Liabilities	596,915	302,663	1,547,201	217,464	2,664,243
Deferred Inflows of Resources					
Unavailable revenue - property taxes	84,741	-	-	-	84,741
Total Deferred Inflows of Resources	84,741	-	-	-	84,741
Fund Balance					
Nonspendable:					
Prepays	\$ 39,469	\$ -	\$ -	\$ 146	\$ 39,615
Restricted:					
Municipal court technology & security	-	-	-	37,246	37,246
Grants	-	-	3,907	-	3,907
Promotional & economic development	-	578,603	-	37,506	616,109
Public safety	-	-	-	319	319
Assigned:					
Recreation center	-	-	-	10,847	10,847
Capital projects	-	-	-	540,524	540,524
Police	-	-	-	26,150	26,150
Unassigned	687,432	-	-	-	687,432
Total Fund Balance	726,901	578,603	3,907	652,738	1,962,149
Total Liabilities, Deferred Inflows and Fund Balance	\$ 1,408,557	\$ 881,266	\$ 1,551,108	\$ 870,202	\$ 4,711,133

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

Total Fund balances - governmental funds	\$	1,962,149
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities resources are not financial resources and, therefore, are not reported as net positions in governmental funds.	3,698,193
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Certain other unavailable assets and deferred outflows or resources are not available to pay current period expenditures and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position

Unavailable revenue	84,741
Deferred outflows related to pension activities	237,434
Deferred outflows related to OPEB activities	23,899

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

Net pension liability	(1,076,898)
Total OPEB liability	(147,415)
Deferred inflows related to pension activities	(733,986)
Deferred inflows related to OPEB activities	(13,516)
	<hr/>
Total net position - governmental activities	\$ <u>4,034,601</u>

CITY OF KERMIT, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended September 30, 2022

	<u>General Fund</u>	<u>Hotel/Motel Fund</u>	<u>American Rescue Plan</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Revenues					
Property Tax	\$ 780,253	\$ -	\$ -	\$ -	\$ 780,253
General Sales and Use tax	2,042,807	-	-	-	2,042,807
Franchise tax	279,004	-	-	-	279,004
Other Taxes	-	882,635	-	-	882,635
Licenses and permits	238,171	-	-	7,538	245,709
Donations/Contributions	-	-	-	70,525	70,525
Intergovernmental revenue and grants	1,588	-	85,082	-	86,670
Fine and fees	244,216	-	-	8,895	253,111
Charges for services	211,860	-	-	-	211,860
Investment income	58,125	11,669	3,859	817	74,470
Other	46,323	-	-	12,982	59,305
Total Revenues	<u>3,902,347</u>	<u>894,304</u>	<u>88,941</u>	<u>100,757</u>	<u>4,986,349</u>
Expenditures					
General government	659,035	-	-	2,269	661,304
Public safety	2,171,185	-	-	88,352	2,259,537
Street, humane and city shop	804,199	-	-	3,141	807,340
Street lighting	80,453	-	-	-	80,453
Parks and cemetery	337,554	-	-	-	337,554
County ambulance	15,400	-	-	-	15,400
Tax department	8,032	-	-	-	8,032
Economic development and assistance	-	42,427	85,082	-	127,509
Capital outlay:					
General government	52,868	1,872,231	-	335,754	2,260,853
Total Expenditures	<u>4,128,726</u>	<u>1,914,658</u>	<u>85,082</u>	<u>429,516</u>	<u>6,557,982</u>
Excess (deficiency) of revenues over expenditures	(226,379)	(1,020,354)	3,859	(328,759)	(1,571,633)
Other Financing Sources (Uses)					
Transfers in	863,509	-	-	311,913	1,175,422
Transfers out	(311,913)	-	-	-	(311,913)
Total Other Financing Sources (Uses)	<u>551,596</u>	<u>-</u>	<u>-</u>	<u>311,913</u>	<u>863,509</u>
Net change in fund balance (deficit)	<u>325,217</u>	<u>(1,020,354)</u>	<u>3,859</u>	<u>(16,846)</u>	<u>(708,124)</u>
Fund Balance - Beginning of Year	458,333	1,573,919	48	612,935	2,645,235
Prior year restatement	(56,649)	25,038	-	56,649	25,038
Fund Balance - Beginning of Year (as restated)	<u>401,684</u>	<u>1,598,957</u>	<u>48</u>	<u>669,584</u>	<u>2,670,273</u>
Fund Balance - End of Year	<u>\$ 726,901</u>	<u>\$ 578,603</u>	<u>\$ 3,907</u>	<u>\$ 652,738</u>	<u>\$ 1,962,149</u>

CITY OF KERMIT, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2022**

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

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 2,060,598

A transfer of capital assets from governmental activities to business-type activities is not reported in the governmental funds but is reported as a interfund transfer of fixed assets in governmental activities. (58,725)

Certain deferred inflows of resources were earned in prior year but not yet available for fund level activity. This increase/(decrease) is due to the deferred inflows becoming available in current year. 22,005

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

Pension related activities 275,309
OPEB related activities (51,901)

Change in net position of governmental activities. \$ 1,539,162

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

	Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise
Assets			
Current Assets:			
Cash and cash equivalents	\$ 7,422,872	\$ 724,500	\$ 8,147,372
Accounts receivable, net of allowances:			
Billed	276,566	104,445	381,011
Other	32,924	5,823	38,747
Due from other funds	386,627	216,434	603,061
Prepaid items	6,313	4,882	11,195
Total Current Assets	8,125,302	1,056,084	9,181,386
Noncurrent Assets:			
Capital assets - net:			
Land	6,300	-	6,300
Buildings and improvements	13,936	-	13,936
Water and sewer system	12,052,306	-	12,052,306
Machinery and equipment	1,293,941	1,732,598	3,026,539
Accumulated depreciation	(5,653,262)	(1,381,206)	(7,034,468)
Total capital assets - net	7,713,221	351,392	8,064,613
Total Noncurrent Assets	7,713,221	351,392	8,064,613
Total Assets	15,838,523	1,407,476	17,245,999
Deferred Outflows of Resources			
Deferred outflows - OPEB	6,607	4,193	10,800
Deferred outflows - Pension	65,705	41,296	107,001
Total Deferred Outflows of Resources	72,312	45,489	117,801
Liabilities			
Current Liabilities:			
Accounts payable	\$ 364,494	\$ 67,399	\$ 431,893
Accrued expenses	28,887	15,187	44,074
Due to other fund	224,602	208,012	432,614
Accrued interest payable	12,181	-	12,181
Customer deposits	228,665	-	228,665
Compensated absences	6,983	3,793	10,776
Bonds payable	564,000	-	564,000
Total Current Liabilities	1,429,812	294,391	1,724,203
Noncurrent Liabilities:			
Bonds payable	3,725,000	-	3,725,000
Total OPEB liability	40,296	26,204	66,500
Net pension liability	299,769	185,831	485,600
Total Noncurrent Liabilities	4,065,065	212,035	4,277,100
Total Liabilities	5,494,877	506,426	6,001,303
Deferred Inflows of Resources			
Deferred inflows - OPEB	3,669	2,431	6,100
Deferred inflows - Pension	197,420	133,580	331,000
Total Deferred Inflows of Resources	201,089	136,011	337,100
Net Position			
Net investment in capital assets	4,538,272	347,599	4,885,871
Restricted for debt service	551,819	-	551,819
Unrestricted net position	5,124,778	462,929	5,587,707
Total Net Position	\$ 10,214,869	\$ 810,528	\$ 11,025,397

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

	Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise
Operating Revenues			
Charges for services:			
Water and sewer service	\$ 3,344,307	\$ 1,342,995	\$ 4,687,302
Fees and permits	381,218	-	381,218
Miscellaneous revenues	5,300	-	5,300
Total Operating Revenues	<u>3,730,825</u>	<u>1,342,995</u>	<u>5,073,820</u>
Operating Expenses			
Contractual services	369,367	416,629	785,996
Materials & Supplies	478,183	201,845	680,028
Personnel services	690,276	507,115	1,197,391
Other Operating	2,028	30,531	32,559
Depreciation	301,179	151,693	452,872
Total Operating Expenses	<u>1,841,033</u>	<u>1,307,813</u>	<u>3,148,846</u>
Operating income	<u>1,889,792</u>	<u>35,182</u>	<u>1,924,974</u>
Nonoperating Revenues (Expenses)			
Investment income	6,606	-	6,606
Interest and fiscal charges	(101,898)	-	(101,898)
Total Nonoperating Revenues (Expenses)	<u>(95,292)</u>	<u>-</u>	<u>(95,292)</u>
Income before transfers	<u>1,794,500</u>	<u>35,182</u>	<u>1,829,682</u>
Transfers and Contributions			
Capital contributions	58,725	-	58,725
Transfers out	(770,366)	(93,143)	(863,509)
Total Transfers and Contributions - Net	<u>(711,641)</u>	<u>(93,143)</u>	<u>(804,784)</u>
Change in net position	1,082,859	(57,961)	1,024,898
Net Position - Beginning of Year	<u>9,132,010</u>	<u>868,489</u>	<u>10,000,499</u>
Net Position - End of Year	<u>\$ 10,214,869</u>	<u>\$ 810,528</u>	<u>\$ 11,025,397</u>

CITY OF KERMIT, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2022

	Enterprise Funds		Total Enterprise
	Water Utility System	Solid Waste System	
Cash Flows from Operating Activities:			
Receipts from customers	\$ 3,749,362	\$ 1,350,944	\$ 5,100,306
Other operating revenue	5,300	-	5,300
Receipts from (payments to) suppliers	(530,224)	(620,705)	(1,150,929)
Payments to employees	(758,691)	(542,317)	(1,301,008)
Net Cash Provided by (Used in) Operating Activities	2,465,747	187,922	2,653,669
Cash Flows from Noncapital Financing Activities:			
Net transfers to other funds	(869,980)	(46,134)	(916,114)
Net Cash Provided by (Used in) Noncapital and Related Financing Activities	(869,980)	(46,134)	(916,114)
Cash Flows from Capital Financing Activities:			
Principal paid on capital debt	(553,000)	-	(553,000)
Interest paid on capital debt	(103,383)	-	(103,383)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(656,383)	-	(656,383)
Cash Flows from Investing Activities:			
Interest and dividends received	6,606	-	6,606
Net Cash Provided by (Used in) Investing Activities	6,606	-	6,606
Net increase in cash and cash equivalents	945,990	141,788	1,087,778
Cash and cash equivalents, beginning of year	6,476,882	582,712	7,059,594
Cash and cash equivalents, end of year	7,422,872	724,500	8,147,372
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:			
Operating income	1,889,792	35,182	1,924,974
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:			
Depreciation expense	301,179	151,693	452,872
(Increase) decrease in accounts receivable	10,967	7,949	18,916
(Increase) decrease in prepaid items	(5,840)	(4,616)	(10,456)
(Increase) decrease in OPEB deferred outflows	2,577	1,772	4,349
(Increase) decrease in pension deferred outflows	36,035	24,786	60,821
Increase (decrease) in accounts payable	317,232	33,304	350,536
Increase (decrease) in accrued expenses	7,962	(388)	7,574
Increase (decrease) in compensated absences	(17,287)	(31)	(17,318)
Increase (decrease) in deposits payable	12,870	-	12,870
Increase (decrease) in other post employment benefits	823	566	1,389
Increase (decrease) in net pension liability	(231,319)	(159,119)	(390,438)
Increase (decrease) in OPEB deferred inflows	1,229	846	2,075
Increase (decrease) in pension deferred inflows	139,527	95,978	235,505
Total Adjustments	575,955	152,740	728,695
Net Cash Provided by Operating Activities	\$ 2,465,747	\$ 187,922	\$ 2,653,669

CITY OF KERMIT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS

A. Summary of Significant Accounting Policies

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

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

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

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

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

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

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

A. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, And Financial Statement Presentation

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

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

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

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

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

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

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

A. Summary of Significant Accounting Policies (continued)

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

Fund Accounting

The City reports the following major governmental funds:

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

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

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

The City reports the following non-major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

Other Accounting Policies

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

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

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

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

A. Summary of Significant Accounting Policies (continued)

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

Other Accounting Policies (continued)

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

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

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

Net position flow assumptions - Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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

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

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

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

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

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

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

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

A. Summary of Significant Accounting Policies (continued)

Other Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

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

A. Summary of Significant Accounting Policies (continued)

Deferred outflows/inflows of resources

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

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

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

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

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

CITY OF KERMIT, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (continued)

A. Summary of Significant Accounting Policies (continued)

Budgetary Data

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

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

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

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

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

Implementation of New Accounting Standards

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

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

CITY OF KERMIT, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (continued)

B. Deposits and Investments (continued)

The City maintains an entity wide cash and investment pool that is available for use by all funds. Each fund’s portion of the pool is displayed on the statement of net position as “Cash and Cash Equivalents”. Major controls stipulated in the Investment Policy include: depository limitations require Federal Deposit Insurance Corporation (“FDIC”) insurance or full 100 percent collateralization; depositories are limited to Texas banking institutions; all collateral for repurchase agreements and deposits held by independent third party trustees; all settlement is delivery versus payment; all authorized investments are defined; and diversification guidelines are set as are maximum maturity and maximum weighted average maturity.

State statutes require all time and demand deposits to be fully insured or collateralized. At September 30, 2022 the carrying amount of the City's deposits was \$10,859,872 and the bank balance was \$11,141,235. In addition, the City carries \$953,230 in cash equivalent investments. The City's cash deposits at September 30, 2022 and throughout the year, were covered by FDIC Insurance or by pledged collateral held by the City's agent bank in Kermit, Texas. The City’s cash and cash equivalents as of September 30, 2022 are shown in the table below:

	Bank Deposits & Petty Cash	Cash Equivalent Investments	Totals
Governmental Activities:			
General Fund	\$ 4,869	\$ 803,080	\$ 807,949
Hotel/Motel Fund	779,631	-	779,631
American Rescue Plan Act	1,551,108	-	1,551,108
Other governmental funds	527,042	-	527,042
Total Governmental Activities	2,862,650	803,080	3,665,730
Business-type Activities:			
Water Utility System	7,272,722	150,150	7,422,872
Solid Waste System	724,500	-	724,500
Total Business-type Activities	7,997,222	150,150	8,147,372
Total	10,859,872	953,230	11,813,102

City Policies and Legal and Contractual Provision Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent bank.

The City holds certificates of deposits at Prosperity Bank, South West Heritage Credit Union, Frost Bank, and West Texas National Bank. At September 30, 2022, these certificates of deposit was \$802,807 and the custodial risk for these certificate of deposits was \$0.

Compliance with the Public Funds Investment Act

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

CITY OF KERMIT, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (continued)

B. Deposits and Investments (continued)

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

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

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

C. Property Taxes

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

D. Delinquent Taxes Receivable

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

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

E. Interfund Balances and Transfers

The City recorded the following interfund transfers for the fiscal year ended September 30, 2022:

	<u>Transfer in:</u>		<u>Total</u>
	<u>General Fund</u>	<u>Other Governmental</u>	
Transfers out:			
Governmental:			
General Fund	\$ -	\$ 311,913	\$ 311,913
Subtotal governmental funds	<u>-</u>	<u>311,913</u>	<u>311,913</u>
Proprietary:			
Water Utility System Fund	770,366	-	770,366
Solid Waste Fund	93,143	-	93,143
Subtotal enterprise funds	<u>863,509</u>	<u>-</u>	<u>863,509</u>
Grand total	<u>\$ 863,509</u>	<u>\$ 311,913</u>	<u>\$ 1,175,422</u>

Interfund receivables and payables at September 30, 2022 consisted of the following:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental:		
General Fund	\$ 105,282	\$ 414,621
Hotel/Motel	106	-
Other governmental	343,014	204,228
Total governmental funds	<u>\$ 448,402</u>	<u>\$ 618,849</u>
Business-type funds		
Water utility sewer fund	\$ 386,705	\$ 224,680
Solid waste fund	216,434	208,012
Total Business-type funds	<u>\$ 603,139</u>	<u>\$ 432,692</u>
Total Government-wide	<u>\$ 1,051,541</u>	<u>\$ 1,051,541</u>

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

F. Receivables and Unearned Revenue

Receivables at September 30, 2022 were as follows:

	<u>General Fund</u>	<u>Hotel/Motel Fund</u>	<u>Total</u>
Accounts	\$ 495,206	\$ -	\$ 495,206
Property taxes	84,741	-	84,741
Other taxes	-	101,529	101,529
Total	<u>579,947</u>	<u>101,529</u>	<u>681,476</u>
Allowance	<u>(124,090)</u>	<u>-</u>	<u>(124,090)</u>
Total (net of allowance)	<u>\$ 455,857</u>	<u>\$ 101,529</u>	<u>\$ 557,386</u>

Proprietary Funds:

	<u>Water Utility System</u>	<u>Solid Waste System</u>	<u>Total</u>
Billed	330,587	132,836	\$ 463,423
Other	37,016	5,823	42,839
Total	<u>367,603</u>	<u>138,659</u>	<u>506,262</u>
Allowance	<u>(58,113)</u>	<u>(28,391)</u>	<u>(86,504)</u>
Total (net of allowance)	<u>\$ 309,490</u>	<u>\$ 110,268</u>	<u>\$ 419,758</u>

Unearned revenues at September 30, 2022 were as follows:

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

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

G. Capital Assets

Capital asset activity for the year ended September 30, 2022, was as follows:

	Beginning Balance (as restated)	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital assets, nondepreciable:					
Land	\$ 74,664	\$ -	\$ -	\$ -	\$ 74,664
Construction in progress	379,975	1,872,231	-	-	2,252,206
Total nondepreciable	454,639	1,872,231	-	-	2,326,870
Capital assets, depreciable:					
Buildings and improvements	1,228,108	68,775	-	-	1,296,883
Infrastructure	2,535,671	-	-	-	2,535,671
Machinery and equipment	2,470,091	319,847	-	(58,725)	2,731,213
Office furniture and equipment	233,050	-	-	-	233,050
Total depreciable	6,466,920	388,622	-	(58,725)	6,796,817
Less accumulated depreciation for:					
Buildings & improvements	(534,588)	(34,755)	-	-	(569,343)
Infrastructure	(2,535,671)	-	-	-	(2,535,671)
Machinery and equipment	(1,936,681)	(162,287)	-	-	(2,098,968)
Office furniture and equipment	(218,299)	(3,213)	-	-	(221,512)
Total accumulated depreciation	(5,225,239)	(200,255)	-	-	(5,425,494)
Total Depreciable - Net	1,241,681	188,367	-	(58,725)	1,371,323
Governmental Activities - Net	\$ 1,696,320	\$ 2,060,598	\$ -	\$ (58,725)	\$ 3,698,193
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital assets, nondepreciable:					
Land	\$ 6,300	\$ -	\$ -	\$ -	\$ 6,300
Total nondepreciable	6,300	-	-	-	6,300
Capital assets, depreciable:					
Buildings and improvements	13,936	-	-	-	13,936
Water and sewer system	12,052,306	-	-	-	12,052,306
Machinery and equipment	2,874,877	-	-	81,360	2,956,237
Office Furniture & equipment	92,937	-	-	(22,635)	70,302
Total depreciable	15,034,056	-	-	58,725	15,092,781
Less accumulated depreciation for:					
Buildings and improvements	(13,936)	-	-	-	(13,936)
Water and sewer system	(4,343,816)	(242,455)	-	-	(4,586,271)
Machinery and equipment	(2,153,542)	(210,417)	-	-	(2,363,959)
Office Furniture & equipment	(70,302)	-	-	-	(70,302)
Total accumulated depreciation	(6,581,596)	(452,872)	-	-	(7,034,468)
Total Depreciable - Net	8,452,460	(452,872)	-	58,725	8,058,313
Business-Type Activities - Net	\$ 8,458,760	\$ (452,872)	\$ -	\$ 58,725	\$ 8,064,613

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

G. Capital Assets (continued)

Depreciation expense was charges to functions as follows:

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

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

H. Long-Term Liabilities

Tax and Revenue Certificates of Obligation - 2008

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

Tax and Revenue Certificates of Obligation - 2019

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

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

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

H. Long-Term Obligations (continued)

Long-term liability activity for the year ended September 30, 2022 is reflected as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 64,498	\$ -	\$ (14,496)	\$ 50,002	\$ 50,002
Net pension liability	1,975,239	-	(898,341)	1,076,898	-
Total OPEB liability	<u>146,810</u>	<u>605</u>	<u>-</u>	<u>147,415</u>	<u>-</u>
Total Governmental Activities	<u>\$ 2,186,547</u>	<u>\$ 605</u>	<u>\$ (912,837)</u>	<u>\$ 1,274,315</u>	<u>\$ 50,002</u>
Business-type Activities:					
Bonds payable:					
Certificate of obligation 2008	\$ 1,850,000	\$ -	\$ (245,000)	\$ 1,605,000	\$ 250,000
Certificate of obligation 2019	2,992,000	-	(308,000)	2,684,000	314,000
Compensated absences	28,094	-	(17,318)	10,776	10,776
Net pension liability	876,038	-	(390,438)	485,600	-
Total OPEB liability	<u>65,111</u>	<u>1,389</u>	<u>-</u>	<u>66,500</u>	<u>-</u>
Total Business-type Activities	<u>\$ 5,811,243</u>	<u>\$ 1,389</u>	<u>\$ (960,756)</u>	<u>\$ 4,851,876</u>	<u>\$ 574,776</u>

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
Series 2019	1.65-2.15%	\$ 2,684,000
Series 2008	1.60-2.85%	<u>1,605,000</u>
		<u>\$ 4,289,000</u>

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

<u>Year Ending September 30,</u>	<u>Series 2019</u>		<u>Series 2008</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 314,000	\$ 50,162	\$ 250,000	\$ 41,140
2024	319,000	44,465	260,000	34,318
2025	325,000	38,507	265,000	27,164
2026	331,000	32,192	270,000	19,740
2027	338,000	25,584	275,000	12,041
2028 - 2032	<u>1,057,000</u>	<u>33,974</u>	<u>285,000</u>	<u>4,061</u>
	<u>\$ 2,684,000</u>	<u>\$ 224,884</u>	<u>\$ 1,605,000</u>	<u>\$ 138,464</u>

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

I. Defined Benefit Pension Plan

Plan Description

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

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

Benefits Provided

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

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

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

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

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

Contributions

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

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

I. Defined Benefit Pension Plan (continued)

Contributions (continued)

Employees for the City of Kermit were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Kermit were 15.66% and 16.11% in calendar years 2021 and 2022, respectively. The City's contributions to TMRS for the year ended were \$474,152 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2021, 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, 2021 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 Years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5% per year
Investment rate of return	6.75%

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

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

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

I. Defined Benefit Pension Plan (continued)

Actuarial Assumptions (continued)

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

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

Discount Rate

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

Basis of Allocation

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

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

I. Defined Benefit Pension Plan (continued)

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2020	\$ 15,012,105	\$ 12,160,828	\$ 2,851,277
Changes for the year:			
Service cost	487,747	-	487,747
Interest	1,009,941	-	1,009,941
Difference between expected and actual experience	(515,662)	-	(515,662)
Contributions - employer	-	479,480	(479,480)
Contributions - employee	-	214,327	(214,327)
Net investment income	-	1,584,285	(1,584,285)
Benefits payments, including refunds of employee contributions	(587,780)	(587,780)	-
Administrative expense	-	(7,335)	7,335
Other changes	-	48	(48)
Net changes	394,246	1,683,025	(1,288,779)
Balance at December 31, 2021	\$ 15,406,351	\$ 13,843,853	\$ 1,562,498

Sensitivity of the Net Pension Liability

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	\$ 3,640,481	\$ 1,562,498	\$ (147,641)

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.

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

I. Defined Benefit Pension Plan (continued)

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

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

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

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

The \$344,435 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in a pension expense as follows:

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

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

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

Plan Description

Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers 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. The City has elected to participate in the SDBF for its active members including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded single-employer OPEB plan (i.e. no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75) for City reporting.

Benefits Provided

The death benefit for active employees provides 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). The death benefit for retirees is considered another postemployment benefit (“OPEB”) and is a fixed amount of \$7,500. At the December 31, 2021, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	18
Inactive employees entitled to but not yet receiving benefits	12
Active employees	54
Total	84

Benefits Contributions

The member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the 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.

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a two-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year.

Contribution rates to the SDBF for the City were 0.31% and 0.27% for calendar years 2021 and 2022, respectively. The City’s contributions to the SDBF for the year ended September 30, 2022, totaled \$8,340 and equaled the required contributions.

Total OPEB Liability

The City’s Total OPEB Liability (TOL) of \$213,915 was measured as of December 31, 2021 and was determined by an actuarial valuation

CITY OF KERMIT, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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

Inflation	2.50%
Salary Increases	3.5% to 11.5% including inflation
Discount rate*	1.84%
Retirees' share of benefit related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates – disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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

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

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

Changes in Total OPEB Liability	Total OPEB Liability
Balance at December 31, 2020	\$ 211,921
Changes for the year	
Service cost	11,635
Interest	4,300
Difference between expected and actual experience	(14,853)
Changes of assumptions	6,423
Benefits payments	(5,511)
Net changes	1,994
Balance at December 31, 2021	\$ 213,915

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

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

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

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 (0.84 percent) or 1-percentage-point higher (2.84 percent) than the current discount rate:

	<u>1% Decrease in Discount Rate (0.84%)</u>	<u>Discount Rate (1.84%)</u>	<u>1% Increase in Discount Rate (2.84%)</u>
City's Total OPEB Liability	\$ 261,458	\$ 213,915	\$ 177,618

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

For the year ended September 30, 2022, the City recognized OPEB expense related to supplemental death benefits of \$24,695.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$ -
Difference in assumption changes	\$ 31,129	\$ 1,746
Differences between expected and actual experience	576	17,870
Contributions subsequent to the measurement date	2,994	-
	<u>\$ 34,699</u>	<u>\$ 19,616</u>

An amount of \$2,994 reported as deferred outflows of resources related to supplemental death benefits resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability as of September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2023	\$ 7,044
2024	6,349
2025	(350)
2026	(954)
	<u>\$ 12,089</u>

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

K. Deferred Inflows of Resources

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

L. Litigation

As of September 30, 2022, there was one pending lawsuit involving the city: Cause No. DC15-16788-CCD, In the 109th Judicial District Court of Winkler County, Texas styled *Hoover Construction Company, Inc. v. City of Kermit, Texas*.

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

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

M. Risk Management

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

N. Prior Period Adjustment

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

	<u>General Fund</u>	<u>Hotel/Motel Fund</u>	<u>Community Development Fund</u>	<u>PD Special Fund</u>	<u>Governmental Activities</u>
Beginning Fund Balance/Net Position	\$ 458,333	\$ 1,573,919	\$ -	\$ -	\$ 12,348,358
Prior period adjustment – recording of taxes on the modified accrual basis	-	25,038	-	-	25,038
Prior period adjustment - reporting of special revenue funds separately from the general fund	(56,649)	-	45,737	10,912	-
Prior period adjustment – restatement of net position as a fixed asset (CIP)	-	-	-	-	122,542
Beginning Fund Balance/Net Position as Restated	<u>\$ 401,684</u>	<u>\$ 1,598,957</u>	<u>\$ 45,737</u>	<u>\$ 10,912</u>	<u>\$ 12,495,938</u>

CITY OF KERMIT, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (continued)

N. Prior Period Adjustment (continued)

The restatement of \$(56,649) in the general fund is to report the beginning balance of the community development fund and PD special fund, new special revenue funds previously reported in the general fund.

The restatement of \$25,038 in the hotel/motel fund is to record additional prior year occupancy tax revenue on a modified accrual basis.

The restatement of \$122,542 in net position is due to a restatement of capital assets.

O. Subsequent event

Subsequent to the end of the fiscal year, the City reached a settlement agreement related to pending litigation as of September 30, 2022. The City paid \$364,494 as a result of the settlement agreement. The City's financial statements as of September 30, 2022, reflect a liability for this amount and a corresponding expense for the year then ended.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KERMIT, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended September 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes:				
Property taxes (penalties & interest included)	\$ 707,000	\$ 707,000	\$ 780,253	\$ 73,253
City sales taxes	1,440,000	1,135,219	2,042,807	907,588
Franchise taxes	281,000	281,000	279,004	(1,996)
Sub-total taxes	<u>2,428,000</u>	<u>2,123,219</u>	<u>3,102,064</u>	<u>978,845</u>
Non-tax revenues:				
Licenses and permits	221,648	221,648	238,171	16,523
Intergovernmental revenue and grants	-	-	1,588	1,588
Fines and fees	125,000	17,224	244,216	226,992
Charges for services	209,040	209,040	211,860	2,820
Sub-total non-tax revenues	<u>555,688</u>	<u>447,912</u>	<u>695,835</u>	<u>247,923</u>
Other appropriations:				
Investment earnings	21,957	21,957	58,125	36,168
Other revenue	39,888	39,888	46,323	6,435
Sub-total other appropriations	<u>61,845</u>	<u>61,845</u>	<u>104,448</u>	<u>42,603</u>
Total Revenues	<u>3,045,533</u>	<u>2,632,976</u>	<u>3,902,347</u>	<u>1,269,371</u>
Expenditures				
Current				
City Hall	263,322	301,472	290,726	10,746
Municipal court	49,414	73,464	71,145	2,319
Administration	239,855	297,854	297,164	690
Police department	1,685,425	1,880,671	1,854,319	26,352
Fire department	124,271	175,283	163,710	11,573
Inspections	170,951	170,951	153,156	17,795
Street department	441,280	587,840	467,176	120,664
Human department	77,288	119,420	110,963	8,457
Shop department	212,874	226,060	226,060	-
Street lighting	75,000	75,000	80,453	(5,453)
Parks & cemetery	326,918	359,286	337,554	21,732
County ambulance	14,400	16,800	15,400	1,400
Tax department	10,000	10,000	8,032	1,968
Capital outlay	2,000	-	52,868	(52,868)
Total Expenditures	<u>3,692,998</u>	<u>4,294,101</u>	<u>4,128,726</u>	<u>165,375</u>
Other Financing Sources (Uses)				
Transfers in	-	-	863,509	863,509
Transfers out	(216,000)	(286,914)	(311,913)	(24,999)
Total Other Financing Sources (Uses)	<u>(216,000)</u>	<u>(286,914)</u>	<u>551,596</u>	<u>838,510</u>
Net Increase (Decrease)	<u>\$ (863,465)</u>	<u>\$ (1,948,039)</u>	<u>\$ 325,217</u>	<u>\$ 1,942,506</u>

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

General Budget Policies

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

Excess of Expenditures over appropriations

<u>Legally Adopted Fund</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>	<u>Explanation</u>
General Fund				
Street lighting	75,000	80,453	(5,453)	Primarily related to increases in utility rates.
Capital outlay	-	52,868	(52,868)	Primarily related to an increase in costs related to animal shelter addition paid out of general fund instead of capital projects fund (fund 11).

REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
For the Last Eight Measurement Years

	Measurement Year December 31,			
	2021	2020	2019	2018
Total Pension Liability				
Service cost	\$ 487,747	\$ 506,009	\$ 469,377	\$ 379,780
Interest (on the total pension liability)	1,009,941	922,098	844,188	798,744
Difference between expected and actual experience	(515,662)	414,758	343,160	(86,539)
Change of assumptions	-	-	(39,132)	-
Benefit payments, including refunds of employee contributions	(587,780)	(476,929)	(486,447)	(440,632)
Net Change in Total Pension Liability	394,246	1,365,936	1,131,146	651,353
Total Pension Liability - Beginning	15,012,105	13,646,169	12,515,023	11,863,670
Total Pension Liability - Ending (a)	\$ 15,406,351	\$ 15,012,105	\$ 13,646,169	\$ 12,515,023
Plan Fiduciary Net Position				
Contributions - employer	\$ 479,480	\$ 496,837	\$ 472,716	\$ 364,766
Contributions - employee	214,327	221,379	204,840	164,204
Net investment income	1,584,285	840,921	1,459,487	(289,123)
Benefit payments, including refunds of employee contributions	(587,780)	(476,929)	(486,447)	(440,632)
Administrative expense	(7,335)	(5,444)	(8,248)	(5,586)
Other	48	(213)	(248)	(292)
Net Change in Plan Fiduciary Net Position	1,683,025	1,076,551	1,642,100	(206,663)
Plan Fiduciary Net Position - Beginning	12,160,828	11,084,277	9,442,177	9,648,840
Plan Fiduciary Net Position - Ending (b)	\$ 13,843,853	\$ 12,160,828	\$ 11,084,277	\$ 9,442,177
Net Pension Liability - Ending (a) - (b)	\$ 1,562,498	\$ 2,851,277	\$ 2,561,892	\$ 3,072,846
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	89.86%	81.01%	81.23%	75.45%
Covered Payroll	\$ 3,061,813	\$ 3,162,558	\$ 2,926,289	\$ 2,345,768
Net Pension Liability as a Percentage of Covered Payroll	51.03%	90.16%	87.55%	131.00%

Notes to the schedule:

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

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

CITY OF KERMIT, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
For the Last Eight Measurement Years

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

Notes to the schedule:

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

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

CITY OF KERMIT, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM PLAN
SCHEDULE OF PENSION CONTRIBUTIONS
For the Last Eight Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Actuarially determined contribution	\$ 474,152	\$ 480,352	\$ 471,269	\$ 459,252
Contributions in relation to the actuarially determined contribution	474,152	480,352	471,269	459,252
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	2,966,350	3,078,715	3,029,539	2,865,254
Contributions as a percentage of covered payroll	15.98%	15.60%	15.56%	16.03%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 344,912	\$ 330,373	\$ 356,887	\$ 337,764
Contributions in relation to the actuarially determined contribution	344,912	330,373	356,887	337,764
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	2,233,024	2,172,204	2,335,131	2,108,423
Contributions as a percentage of covered payroll	15.45%	15.21%	15.28%	16.02%

Notes:

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

Methods and Assumptions Used to Determine Contribution Rate:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 Years (longest amortization ladder)
Asset Valuation Method	10 Year Smoothed Market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables. with the Public Safety table used
Other Information:	There were no benefit changes during the year.

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

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

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

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

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

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

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

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

CITY OF KERMIT, TEXAS
REQUIRED OTHER POST-EMPLOYMENT BENEFITS SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF OPEB CONTRIBUTIONS
For the Last Five Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Actuarially determined contribution	\$ 8,340	\$ 9,121	\$ 7,877	\$ 7,479
Contributions in relation to the actuarially determined contribution	<u>8,340</u>	<u>9,121</u>	<u>7,877</u>	<u>7,479</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,966,350	\$ 3,078,715	\$ 3,029,539	\$ 2,865,254
Contributions as a percentage of covered payroll	0.28%	0.30%	0.26%	0.26%

	<u>2018</u>
Actuarially determined contribution	\$ 5,583
Contributions in relation to the actuarially determined contribution	<u>5,583</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered payroll	\$ 2,233,024
Contributions as a percentage of covered payroll	0.25%

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

Notes:

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

Valuation Date: December 31, 2021

Methods and Assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 Years (longest amortization ladder)
Asset Valuation Method	10 Year smoothed market, 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Discount rate*	1.84%

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

Notes

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

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



OTHER SUPPLEMENTARY INFORMATION

	Special Revenue				
	Community Development Fund	Police Department Lease	Police Department Special Fund	Child Safety Fund	Recreation Fund
Assets					
Cash and cash equivalents	\$ 50,680	\$ 319	\$ 14,500	\$ 11,048	\$ 8,596
Due from other funds	-	-	-	664	-
Prepaid items	-	-	-	146	-
Total Assets	\$ 50,680	\$ 319	\$ 14,500	\$ 11,858	\$ 8,596
Liabilities					
Accounts payable	\$ 10,484	-	\$ -	\$ 62	\$ -
Due to other funds	-	-	-	-	-
Unearned revenue	2,690	-	-	-	-
Total Liabilities	13,174	-	-	62	-
Fund Balance					
Nonspendable:					
Prepays	-	-	-	146	-
Restricted:					
Municipal court technology & security	-	-	-	-	-
Promotional & economic development	37,506	-	-	-	-
Public safety	-	319	-	-	-
Assigned:					
Recreation center	-	-	-	-	8,596
Capital projects	-	-	-	-	-
Police	-	-	14,500	11,650	-
Total Fund Balance	37,506	319	14,500	11,796	8,596
Total Liabilities, Deferred Inflows and Fund Balance	\$ 50,680	\$ 319	\$ 14,500	\$ 11,858	\$ 8,596

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

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

CITY OF KERMIT, TEXAS

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

	Special Revenue				
	Community Development Fund	Police Department Lease	Police Department Special Fund	Child Safety Fund	Recreation Fund
Revenues					
Licenses and permits	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and fess	-	-	-	-	-
Donation/Contributions	14,950	-	55,575	-	-
Investment income	286	2	106	67	63
Miscellaneous	9,823	-	4	107	-
Total Revenues	25,059	2	55,685	174	63
Expenditures					
General government	-	-	-	67	-
Public safety	33,290	30	52,097	-	-
Culture and recreation	-	-	-	-	3,141
Capital outlay:					
General government	-	-	-	-	-
Total Expenditures	33,290	30	52,097	67	3,141
Excess (deficiency) of revenues over expenditures	(8,231)	(28)	3,588	107	(3,078)
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-
Net change in fund balance (deficit)	(8,231)	(28)	3,588	107	(3,078)
Fund Balance - Beginning of Year	-	347	-	11,689	11,674
Prior period adjustment	45,737	-	10,912	-	-
Fund Balance - Beginning of Year (as restated)	45,737	347	10,912	11,689	11,674
Fund Balance - End of Year	\$ 37,506	\$ 319	\$ 14,500	\$ 11,796	\$ 8,596

CITY OF KERMIT, TEXAS

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

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



GOVERNMENT AUDITING STANDARDS REPORT SECTION



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

To the City Council
City of Kermit, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas (the City) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 30, 2023.

Report on Internal Control over Financial Reporting

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

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

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

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

To the City Council
City of Kermit, Texas

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether The City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Kermit's Response to Findings

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

Purpose of this Report

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

Handwritten signature of Whitley Penn LLP in black ink.

Odessa, Texas
March 30, 2023

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

Finding 2022-01

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

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

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

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

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

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

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

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

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

Finding 2022-02

Significant Deficiency in Internal Control over Financial Reporting—Segregation of Duties – Cash Disbursement

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

Condition: The City maintains 15 checking accounts. The cash disbursement approval and review processes are not consistent for 9 out of the 15 accounts. All authorized signors should be reviewing supporting documentation prior to signing checks.

Context: We observed inadequate segregation of duties by inquiring and observing the cash disbursement process related to nonpayroll activities.

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

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

Recommendation: We recommend the City establish consistent procedures for all cash disbursement processes. In response to the identified risks, we recommend the authorized signors review supporting documentation prior to signing checks. The accounts payable department should prepare a voucher packet (invoice, purchase order, receiving info) to accompany any request for disbursement of funds.

Views of Responsible Official(s) and Planned Corrective Actions: Management has taken immediate corrective action in regard to internal control/separation of duties for the remaining 6 accounts.

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

Finding 2022-03

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

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

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

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

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

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

Repeat Finding: Yes.

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

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

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

Finding 2022-04

Significant Deficiency in Internal Control over Financial Reporting—Fixed Asset System

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

Condition: The City should maintain a detail of the fixed assets, including construction in progress, and routinely inventory such items. There are no formal procedures to report disposal of fixed assets to the accounting department as they occur. Additionally, there is no system in place in the accounting department to track changes to fixed assets and calculate the depreciation there of.

Context: During the evaluation of internal control, testing identified the City does not have adequate systems in place to adequately monitor and record fixed asset activity. This resulted in a necessary prior period adjustment to net position of governmental activities due to the City not reconciling capital assets activity.

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

Cause: The entity's limited size and staffing resources have made it difficult for management to implement the fixed asset module for FY 2022.

Repeat Finding: Yes.

Recommendation: We recommend that the City review its internal control procedures over financial reporting to ensure that controls are in place to properly identify and reconcile their financial accounts and account for all the activity during the reporting period. We recommend the City establish a formal policy on the reporting of fixed assets. We also recommend the City establish procedures for tracking construction projects, changes to activity and related retainage. Additionally, because of the lack of formal procedures over disposals, we recommend the City complete a physical inventory of all fixed assets.

Views of Responsible Official(s) and Planned Corrective Actions: Previous Administrations had off-loaded the fixed asset records to the Auditing firm at the time. Records of additions/deletions from fixed assets were accumulated throughout the year and passed along to the Auditors at the end of the fiscal year. Current Management agrees that fixed assets should be housed at City Hall and procedures for additions/deletions in place along with a Fixed Asset Policy. Additionally, Management agrees that a physical inventory of all assets should be performed to establish an accurate record of assets. Therefore, staffing needs within City Hall need to be addressed in order ensure timely and accurate recording of asset stays current. A fixed asset computerized system will be added to the accounting system. A physical inventory of current assets on file will be conducted to ensure accuracy. Proper policy for additions/deletions will be put in place. The City purchased the Fixed Assets module to its Accounting system and instituted a fixed asset policy to address this weakness. However, Tyler Technologies could not complete the installation of the software before the end of fiscal year 2021-2022. The fixed asset system became operational on 11.01.2022. Going forward, the City plans to do a full physical inventory to compare against our financial records.

CITY OF KERMIT, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2022

I. Prior Audit Findings

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

- Corrected in FY 2022.

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

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

Finding 2021-03 – Use of purchase order system

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

Finding 2021-04 – Use of fixed asset system

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

Finding 2021-05 – Excess of expenditures over appropriations

- Corrected in FY 2022.