

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

C E R T I F I E D P U B L I C A C C O U N T A N T S

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LUBBOCK, TEXAS 79423-1954

February 3, 2026

Mayor and City Council
City of Kermit, Texas
Kermit, Texas

We have audited the financial statements of City of Kermit, Texas (the City) for the year ended September 30, 2025, and have issued our report thereon dated February 3, 2026. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 18, 2025. Professional standards require that we provide you with the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in the notes to the financial statements.

The District adopted the guidance of GASB Statement No. 101 – *Compensated Absences*. The application of existing policies during the year was not changed during the year ended September 30, 2025.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for doubtful accounts and lives used to calculate depreciation on distribution plant in service. Management's estimate for the allowance for doubtful accounts is based on an evaluation of past due accounts. Management's estimate of the net pension and total OPEB liabilities.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are disclosed in notes and relate to pension liabilities and total OPEB liabilities.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. All misstatements detected as a result of the audit were corrected by management and are attached to this letter.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 3, 2026.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to contact us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of

preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the City Council and management of the City of Kermit, Texas and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Client: **41148 - City of Kermit**
Engagement: **2025 City of Kermit**
Period Ending: **9/30/2025**
Trial Balance: **017 W - Trial Balance**
Workpaper: **017 W - Adjusting Journal Entries Report**

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
To roll forward fund balances.			
20-3-00-0301	CURRENT FUND BALANCE	14,619.86	
20-2-00-0214	WAGES PAYABLE		14,619.86
Total		<u>14,619.86</u>	<u>14,619.86</u>
Adjusting Journal Entries JE # 2			
To accrue property taxes receivable balances for 2025 audit.			
10-1-00-0119	DELINQUENT TAXES	14,672.31	
10-1-00-0127	RESERVE FOR D		9,713.08
10-2-00-0234	DEFERRED REVENUES		4,959.23
Total		<u>14,672.31</u>	<u>14,672.31</u>
Adjusting Journal Entries JE # 3			
To adjust franchise taxes receivable for 2025 amounts owed.			
10-5-00-5021	Franchise Fees	19,095.11	
10-1-00-1032	ACCTS REC FRANCHISE FEE		19,095.11
Total		<u>19,095.11</u>	<u>19,095.11</u>
Adjusting Journal Entries JE # 4			
To adjust hotel and motel occupancy taxes receivable for 2025.			
80-1-00-0125	DUE FROM CITY HOTELS/MOTELS	50,488.87	
80-5-00-5003	HOTEL / MOTEL		50,488.87
Total		<u>50,488.87</u>	<u>50,488.87</u>
Adjusting Journal Entries JE # 5			
To book a receivable from KISD for SRO Vehicles at 50% for 3 years, 2 years remaining in 2025.			
10-1-00-1121	SRO RECEIVABLE KISD	114,530.00	
10-2-00-0233	DEFERRED INFLOWS - SRO OFFICER		114,530.00
Total		<u>114,530.00</u>	<u>114,530.00</u>
Adjusting Journal Entries JE # 6			
To clear out old receivables with no activity.			
40-5-00-5223	ROLL OFF RENTAL / DAILY FEE	1,998.09	
40-1-00-0126.20	Roll Off Containers AR		1,998.09
Total		<u>1,998.09</u>	<u>1,998.09</u>

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Account	Description	Debit	Credit
Adjusting Journal Entries JE # 7			
To adjust interest receivable to zero.			
10-5-00-5093	Interest Income	6,461.36	
20-5-00-5093	Interest Income	18,528.35	
40-5-00-5093	Interest Income	1,824.51	
55-5-00-5093	Interest Income	184.44	
80-5-00-5093	Interest Income	3,591.08	
90-5-00-5093	Interest Income	76.23	
10-1-00-0165	Accrued Interest Receivable		6,461.36
20-1-00-0165	Accrued Interest Receivable		18,528.35
40-1-00-0165	Accrued Interest Receivable		1,824.51
55-1-00-0165	Accrued Interest Receivable		184.44
80-1-00-0165	Accrued Interest Receivable		3,591.08
90-1-00-0165	Accrued Interest Receivable		76.23
Total		<u>30,665.97</u>	<u>30,665.97</u>
Adjusting Journal Entries JE # 8			
To reverse prior year audit entry for additional payables booked.			
10-2-00-0203	ACCOUNTS PAYABLE	53,458.11	
20-2-00-0203	ACCOUNTS PAYABLE	6,577.84	
40-2-00-0203	ACCOUNTS PAYABLE	13.82	
10-6-11-6104	Salaries and Wages		979.54
10-6-11-6105	Contribution to water accts		1,024.98
10-6-11-6301	Professional Services		5,000.00
10-6-11-6301	Professional Services		26,939.17
10-6-11-6312	Utilities		766.27
10-6-16-6105	Contribution to water accts		9,480.83
10-6-16-6312	Utilities		594.55
10-6-20-6312	Utilities		8,184.67
10-6-21-6312	Utilities		97.60
10-6-22-6312	Utilities		339.83
10-6-23-6312	Utilities		50.67
20-6-25-6312	Utilities		6,577.84
40-6-24-6312	Utilities		13.82
Total		<u>60,049.77</u>	<u>60,049.77</u>
Adjusting Journal Entries JE # 9			
To adjust court cost payable to actual @ year end.			
10-5-00-5087	Municipal Court Fines	82,109.21	
10-2-00-0250	STATE CRIM/COST FEES		82,109.21
Total		<u>82,109.21</u>	<u>82,109.21</u>

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Account	Description	Debit	Credit
Adjusting Journal Entries JE # 10			
To adjust insurance payable liability to actual.			
10-2-00-0225	PAYROLL INSURANCE PAYABLE	24,621.79	
10-6-12-6117	GROUP HEALTH INSURANCE		2,746.96
10-6-14-6117	GROUP HEALTH INSURANCE		555.07
10-6-15-6117	GROUP HEALTH INSURANCE		10,774.95
10-6-18-6117	GROUP HEALTH INSURANCE		935.29
10-6-19-6117	GROUP HEALTH INSURANCE		3,908.44
10-6-21-6117	GROUP HEALTH INSURANCE		1,088.62
10-6-22-6117	GROUP HEALTH INSURANCE		1,002.59
10-6-23-6117	GROUP HEALTH INSURANCE		3,609.87
Total		24,621.79	24,621.79
Adjusting Journal Entries JE # 11			
To adjust other payroll liability accounts to zero.			
10-1-00-0100	CLAIM ON CASH	3,745.58	
10-6-00-6117.01	EyeMed Vision Insurance	410.63	
10-6-15-6118	HSA CONTRIBUTION EMPL	1,650.80	
10-2-00-0224	TMRS payable		3,369.39
10-2-00-0225.01	EyeMed Payable		410.63
10-2-00-0225.02	HSA Payable		1,650.80
10-6-12-6116	RETIREMENT COSTS		376.19
Total		5,807.01	5,807.01
Adjusting Journal Entries JE # 12			
To adjust accrued interest payable to actual at year end.			
20-2-00-0210	Accrued Bond Interest	1,682.82	
20-6-00-6921	Bond Interest		1,682.82
Total		1,682.82	1,682.82
Adjusting Journal Entries JE # 13			
To adjust payroll liability account to zero (February health insurance payment not expensed)			
10-6-00-6117	United Healthcare exp	21,988.35	
10-6-12-6117	GROUP HEALTH INSURANCE	3,550.66	
10-6-14-6117	GROUP HEALTH INSURANCE	717.47	
10-6-15-6117	GROUP HEALTH INSURANCE	13,940.84	
10-6-18-6117	GROUP HEALTH INSURANCE	1,210.40	
10-6-19-6117	GROUP HEALTH INSURANCE	5,052.03	
10-6-21-6117	GROUP HEALTH INSURANCE	1,407.13	
10-6-22-6117	GROUP HEALTH INSURANCE	1,295.93	
10-6-23-6117	GROUP HEALTH INSURANCE	4,666.01	
10-2-00-0224.01	TMRS payable Feb 2025 payroll		53,828.82
Total		53,828.82	53,828.82

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Account	Description	Debit	Credit
Adjusting Journal Entries JE # 14			
To adjust Pension related accounts to actual at year end.			
20-2-00-2580	OPEB Liability	95,248.16	
20-2-00-2602	DEFERRED INFLOW RELATED TO	8,225.46	
40-2-00-2580	NET PENSION LIABILITY	33,850.05	
40-2-00-2602	DEFERRED INFLOW RELATED TO	3,023.44	
20-1-00-1997	DEFERRED OUTFLOW RELATED TO		41,121.94
20-6-25-6116	TMRS		62,351.68
40-1-00-1997	DEFERRED OUTFLOW RELATED TO		18,298.20
40-6-24-6116	TMRS		18,575.29
Total		140,347.11	140,347.11
Adjusting Journal Entries JE # 15			
To adjust OPEB accounts to actual at year end.			
20-2-00-2585	NET OPEB LIABILITY	6,062.21	
20-2-00-2603	DEFERRED REVENUES	3,912.11	
40-2-00-2585	NET OPEB LIABILITY	324.79	
40-2-00-2603	DEFERRED REVENUES	2,691.40	
20-1-00-1998	DEFERRED OUTFLOW OPEB		1,338.59
20-6-25-6116	TMRS		8,635.73
40-1-00-1998	DEFERRED OUTFLOW OPEB		741.89
40-6-24-6116	TMRS		2,274.30
Total		12,990.51	12,990.51
Adjusting Journal Entries JE # 16			
To record additional accounts payable.			
10-6-11-6301	Professional Services	12,000.00	
10-2-00-0200	DUE TO POOLED CASH (A/P)		12,000.00
Total		12,000.00	12,000.00
Adjusting Journal Entries JE # 17			
To adjust accrued vacation to actual at year end.			
20-2-00-0240	ACCRUED VACATION	19,588.10	
20-6-25-6104	Salaries and wages	8,203.15	
20-6-26-6104	SALARIES AND WAGES	4,157.32	
40-2-00-0240	VACATION PAYABLE	20,245.24	
40-6-24-6104	Salaries and wages	19,085.35	
20-2-00-0240	ACCRUED VACATION		12,360.47
20-6-00-6117	United Healthcare exp		10,469.66
20-6-25-6115	FICA		800.93
20-6-25-6116	TMRS		1,498.21
20-6-26-6104	SALARIES AND WAGES		5,591.43
20-6-26-6115	FICA		427.74
20-6-26-6116	TMRS		800.13
40-2-00-0240	VACATION PAYABLE		19,085.35
40-6-24-6104	Salaries and wages		16,599.90
40-6-24-6115	FICA		1,269.89
40-6-24-6115	FICA		2,375.45
Total		71,279.16	71,279.16

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Account	Description	Debit	Credit
Adjusting Journal Entries JE # 18			
To adjust wages payable to actual at year end.			
10-6-12-6104	SALARIES AND WAGES	4,084.03	
10-6-14-6104	SALARIES AND WAGES	300.98	
10-6-15-6104	SALARIES AND WAGES	37,045.34	
10-6-19-6104	SALARIES AND WAGES	4,389.21	
10-6-21-6104	SALARIES AND WAGES	1,177.72	
10-6-23-6104	SALARIES AND WAGES	4,253.74	
20-2-00-0214	WAGES PAYABLE	105.52	
20-6-26-6104	SALARIES AND WAGES	3,704.94	
40-6-24-6104	Salaries and wages	4,445.91	
10-2-00-0214	WAGES PAYABLE		44,672.87
10-6-18-6104	SALARIES AND WAGES		2,793.66
10-6-22-6104	SALARIES AND WAGES		3,784.49
20-6-25-6104	Salaries and wages		3,810.46
40-2-00-0214	WAGES PAYABLE		4,445.91
Total		59,507.39	59,507.39
Adjusting Journal Entries JE # 19			
To adjust sales tax payable.			
40-5-00-5219	Trash Collection	5,289.69	
40-2-00-0205	SALES TAX PAYABLE		5,289.69
Total		5,289.69	5,289.69
Adjusting Journal Entries JE # 20			
To reclassify Axon principal payment to correct account.			
10-6-15-6535	PRINCIPAL PAYMENTS ON DEBT	11,053.76	
10-6-15-6500	CAPITAL OUTLAY/OVER 5 000		11,053.76
Total		11,053.76	11,053.76
Adjusting Journal Entries JE # 21			
To record financing lease of vehicles from Enterprise Fleet management			
10-6-11-6500	CAPITAL OUTLAY/OVER 5,000	67,566.52	
10-6-15-6500	CAPITAL OUTLAY/OVER 5 000	313,610.00	
10-6-16-6500	CAPITAL OUTLAY/OVER 5 000	71,739.96	
10-6-18-6500	CAPITAL OUTLAY/OVER 5,000	42,070.40	
10-6-19-6500	CAPITAL OUTLAY/OVER 5 000	124,138.15	
10-6-21-6500	CAPITAL OUTLAY/OVER 5 000	88,589.60	
10-6-22-6500	CAPITAL OUTLAY/OVER 5,000	90,255.98	
10-6-23-6500	CAPITAL OUTLAY/OVER 5 000	202,594.88	
20-1-00-0146	MACHINERY & EQUIPMNET	275,110.90	
40-1-00-0146	MACHINERY & EQUIPMENT	38,283.80	
10-5-00-5317	OTHER FINANCING SOURCES		1,000,565.49
20-2-00-0258	ENTERPRISE LEASE LIABILITY		240,110.90
20-6-25-6502	Master Lease Payment		35,000.00
40-2-00-0258	ENTERPRISE LEASE LIABILITY		38,283.80
Total		1,313,960.19	1,313,960.19

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Account	Description	Debit	Credit
Adjusting Journal Entries JE # 22			
To record government capital lease agreements for sanitation trucks.			
40-1-00-0146	MACHINERY & EQUIPMENT	688,373.80	
40-2-00-0257	GOVERNMENT CAPITAL CORP LEASE LIABILITY		688,373.80
Total		688,373.80	688,373.80

Adjusting Journal Entries JE # 23

To reclassify Winkler County contribution to correct account.

10-5-00-5317	OTHER FINANCING SOURCES	50,000.00	
10-5-00-5112	Winkler Co contributions		50,000.00
Total		50,000.00	50,000.00

Adjusting Journal Entries JE # 24

To reclassify down payments on lease agreements to proper capital outlay accounts and reclassify down payment on water dept vehicles to correct fund.

10-6-00-6923	TRANSFER TO FUND 11	35,000.00	
10-6-15-6500	CAPITAL OUTLAY/OVER 5 000	38,815.00	
10-6-16-6500	CAPITAL OUTLAY/OVER 5 000	6,054.95	
10-6-21-6500	CAPITAL OUTLAY/OVER 5 000	8,000.00	
10-6-22-6500	CAPITAL OUTLAY/OVER 5,000	7,000.00	
10-6-23-6500	CAPITAL OUTLAY/OVER 5 000	7,000.00	
20-6-25-6502	Master Lease Payment	35,000.00	
10-6-15-6502	Master Lease Payment		6,054.95
10-6-15-6502	Master Lease Payment		7,000.00
10-6-15-6502	Master Lease Payment		7,000.00
10-6-15-6502	Master Lease Payment		8,000.00
10-6-15-6502	Master Lease Payment		35,000.00
10-6-15-6502	Master Lease Payment		38,815.00
20-5-00-7911	TRANSFER FROM 30		35,000.00
Total		136,869.95	136,869.95

Adjusting Journal Entries JE # 25

To reclassify principal and interest payments on Enterprise Lease Agreements.

10-6-00-6536	PRINCIPAL PAYMENTS ON ENTERPRISE LEASES	267,825.04	
10-6-00-6537	INTEREST ON ENTERPRISE LEASES	90,292.39	
10-6-00-6923	TRANSFER TO FUND 11	12,744.66	
20-2-00-0258	ENTERPRISE LEASE LIABILITY	23,940.65	
20-6-00-6925	INTEREST ON LEASES	9,271.55	
40-2-00-0258	ENTERPRISE LEASE LIABILITY	2,752.33	
40-6-00-6925	INTEREST ON LEASES	973.52	
10-6-11-6502	Master Lease Payment		5,527.03
10-6-12-6502	Master Lease Payment		4,578.89
10-6-15-6502	Master Lease Payment		323,735.22
10-6-18-6502	Master Lease Payment		1,565.14
10-6-19-6502	Master Lease Payment		12,304.44
10-6-21-6502	Master Lease Payment		4,417.02
10-6-23-6502	Master Lease Payment		18,734.35
20-5-00-7911	TRANSFER FROM 30		12,744.66
20-6-25-6502	Master Lease Payment		20,467.54
40-6-24-6502	Master Lease Payment		3,725.85
Total		407,800.14	407,800.14

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Account	Description	Debit	Credit
Adjusting Journal Entries JE # 26			
To adjust transfer accounts to actual.			
90-5-00-5960	TRANSFER FROM FUND 60	403.00	
90-5-00-5082	TECHNOLOGY FEE		403.00
Total		403.00	403.00

Adjusting Journal Entries JE # 27			
To reclassify fixed assets to balance sheet accounts.			
20-1-00-0140	CONSTRUCTION IN PROGRESS	1,614,925.00	
20-1-00-0142	WATER-SEWER SYSTEM	40,036.58	
20-1-00-0144	BUILDINGS	60,900.00	
20-1-00-0146	MACHINERY & EQUIPMNET	60,072.95	
20-1-00-0147	ACCUM DEPR-MACH-EQUIP	4,059.63	
20-1-00-0147	ACCUM DEPR-MACH-EQUIP	90,345.71	
20-5-00-5313	Sale of City Assets	10,514.29	
20-6-25-6475	DEPRECIATION	395,643.48	
40-1-00-0144	BUILDINGS & IMPROVEMENTS	89,050.00	
40-1-00-0146	MACHINERY & EQUIPMENT	147,018.57	
40-1-00-0147	ACCUM DEPR - MACHINERY & EQUIP	5,936.67	
40-1-00-0147	ACCUM DEPR - MACHINERY & EQUIP	292,385.00	
40-5-00-5313	Sale of City Assets	102,114.00	
40-6-24-6475	Depreciation	142,019.94	
20-1-00-0143	ACCUM DEPR-WATER-SEWER SYSTEM		265,653.21
20-1-00-0146	MACHINERY & EQUIPMNET		100,860.00
20-1-00-0147	ACCUM DEPR-MACH-EQUIP		129,990.27
20-1-00-0151	DEPRECIATION BUILDING		4,059.63
20-6-25-6248	Water/WW system materials		9,166.62
20-6-25-6302	Property Damage Repairs		7,900.00
20-6-25-6500	CAPITAL OUTLAY/OVER 5 000		11,472.95
20-6-25-6500	CAPITAL OUTLAY/OVER 5 000		26,000.00
20-6-25-6500	CAPITAL OUTLAY/OVER 5 000		27,000.00
20-6-25-6500	CAPITAL OUTLAY/OVER 5 000		30,869.96
20-6-25-6500	CAPITAL OUTLAY/OVER 5 000		48,600.00
20-6-25-6500	CAPITAL OUTLAY/OVER 5 000		1,614,925.00
40-1-00-0146	MACHINERY & EQUIPMENT		89,050.00
40-1-00-0146	MACHINERY & EQUIPMENT		394,499.00
40-1-00-0147	ACCUM DEPR - MACHINERY & EQUIP		142,019.94
40-1-00-0151	ACCUMULATED DEPR BUILDINGS & IMPROVEMENTS		5,936.67
40-6-24-6218	Equipment & tools under 5000		5,968.26
40-6-24-6302	Property damage repairs		9,450.00
40-6-24-6302	Property damage repairs		9,500.00
40-6-24-6302	Property damage repairs		10,300.00
40-6-24-6500	Vehicle equip bldg over 5000		13,432.31
40-6-24-6500	Vehicle equip bldg over 5000		14,880.00
40-6-24-6500	Vehicle equip bldg over 5000		29,900.00
40-6-24-6500	Vehicle equip bldg over 5000		29,900.00
40-6-24-6501	Capital under 5000		23,688.00
Total		3,055,021.82	3,055,021.82

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Account	Description	Debit	Credit
Adjusting Journal Entries JE # 28			
To record sales tax and mixed beverage tax receivable at year end.			
10-1-00-0136	AR Sales Tax & Mixed Bev	359,493.98	
46-1-00-0136	SALES TAXES RECEIVABLE	63,169.04	
10-5-00-5014	Sales Tax		357,957.86
10-5-00-5050	Mixed Beverage Tax		1,536.12
46-5-00-5014	Sales Tax		63,169.04
Total		<u>422,663.02</u>	<u>422,663.02</u>

Adjusting Journal Entries JE # 29			
To record receivable and payables for CDBG grant and reclassify expenditures to general fund.			
10-5-00-5093	Interest Income	3,060.61	
10-6-19-6301	Professional Services	44,561.29	
79-1-00-0100	Claim on Cash	47,621.90	
79-1-00-0134	ACCOUNTS RECEIVABLE	55,193.75	
79-6-00-6502	Project Management	9,000.00	
79-6-00-6504	Construction	46,193.75	
10-1-00-0100	CLAIM ON CASH		47,621.90
79-2-00-0200	DUE TO POOLED CASH (A/P)		55,193.75
79-5-00-5093	Interest Income		3,060.61
79-5-00-5340	Grant Proceeds		55,193.75
79-6-00-6503	Engineering Services		44,561.29
Total		<u>205,631.30</u>	<u>205,631.30</u>

Adjusting Journal Entries JE # 30			
To record additional payable for Parkhill Invoice.			
10-6-19-6256	Concrete & aggregate	149,900.07	
10-2-00-0200	DUE TO POOLED CASH (A/P)		149,900.07
Total		<u>149,900.07</u>	<u>149,900.07</u>

Client: **41148 - City of Kermit**
Engagement: **2025 City of Kermit**
Period Ending: **9/30/2025**
Trial Balance: **017 W - Trial Balance**
Workpaper: **017 W - Adjusting Journal Entries Report**

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 31			
To book unbilled utility billing revenues for FY 2025 - billed in October 2025.			
10-1-00-0125	ACCTS REC ST LI	13,807.23	
20-1-00-0120	ACCTS REC-WATER CHARGES	192,725.90	
20-1-00-0120.01	ACCTS REC-BULK WATER	7,235.48	
20-1-00-0121	ACCTS REC-SEWER SERVICES	57,487.98	
20-1-00-0122	ACCTS REC-PENALTY	6,225.00	
20-1-00-0124	ACCTS REC-OVERPAYMENTS	96.15	
20-1-00-0128	A/R SEWER BOND ASSESSMENT	34,236.17	
40-1-00-0126	ACCTS REC-TRASH COLLECTION	118,695.08	
10-5-00-5220	STREET LIGHTING SERVICES		13,807.23
20-1-00-0119	ACCTS REC-MISC.		1,430.00
20-2-00-0221.01	REFUNDS PAYABLE		1,104.74
20-5-00-5050	Water Assmt for 2019 bonds		34,166.25
20-5-00-5509	Bulk Water Sales - Pine St		7,235.48
20-5-00-5510	Sewer Assmt for 2008 bonds		34,767.00
20-5-00-5511	Metered Sales		155,112.77
20-5-00-5513	Sewer Service Sales		57,935.44
20-5-00-5518	Late Fees		6,255.00
40-5-00-5219	Trash Collection		118,695.08
Total		430,508.99	430,508.99

Adjusting Journal Entries JE # 32

To update allowances for doubtful accounts for 2025.

10-5-00-5220	STREET LIGHTING SERVICES	3,464.76	
20-5-00-5511	Metered Sales	75,524.92	
40-5-00-5219	Trash Collection	27,574.99	
10-1-00-0139	ALLOWANCE FOR DOUBTFUL ACCTS		3,464.76
20-1-00-0125	ALLOWANCE FOR DOUBTFUL ACCTS		75,524.92
40-1-00-0139	ALLOWANCE FOR DOUBTFUL ACCTS		27,574.99
Total		106,564.67	106,564.67

CITY OF KERMIT, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2025

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
LUBBOCK, TEXAS

CITY OF KERMIT, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2025

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

CITY OF KERMIT, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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CITY OF KERMIT, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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FINANCIAL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

Mayor and City Council
City of Kermit, Texas
Kermit, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas, as of and for the fiscal year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Kermit, Texas' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas, as of September 30, 2025, 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 (GAAP).

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 of Kermit, Texas (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 GAAP, 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

GAAP requires that management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer contributions, schedule of changes in the total OPEB liability and related ratios, and budgetary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the combining statements and budgetary comparison schedules 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 February 3, 2026, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering of the City's internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

February 3, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF KERMIT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

City Council Members and Citizens of the City of Kermit, Texas (the City).

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, 2025. 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 26,507,256 (*net position*). Of this amount, \$8,319,181 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors. Governmental activities report an unrestricted net position of \$245,220.
- The government's total net position increased by \$271,600 due to an increase in property tax revenues.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,640,516, a decrease of \$2,353,074 from the prior year. Approximately 33.27% of the combined fund balance, or \$1,211,060, 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 11.20% of total general fund expenditures.
- The City's long-term liabilities increased by \$1,104,348 over the prior year primarily due to right-of-use leases for vehicles and equipment entered into in the current fiscal year.
- During the year, the City's governmental funds had \$6,961,267 generated in tax, grants and contributions, and other revenues for the governmental programs. Operating expenditures exceeded revenues by \$5,197,721 before transfers and proceeds from financing leases. This compares to last year when revenues exceeded expenditures by \$1,337,590, before transfers and proceeds from financing leases and loans.
- The fund balance for all governmental funds ended the year at \$3,640,516 and the ending fund balance from last year was \$5,993,590.
- In the City's enterprise funds, operating revenues decreased by \$387,749 while operating expenses increased \$286,941 from the prior year.

Using this Annual Report

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 - 11). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

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

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

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting, which is the basis used by private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who pay for the costs of programs (such as utility funds) and grants provided by outside parties and agencies (program revenues), and revenues provided by the taxpayers or other unrestricted sources (general revenues). All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (page 10) and changes in net position (page 12) of the City's governmental and business-type activities.

Net Position of the City's governmental activities was \$10,751,078. 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 of \$245,220 at September 30, 2025 and restricted portion of \$2,167,002 for economic development, municipal court technology & security, and public safety.

Net Position of the City's business-type activities was \$15,756,180, which included \$8,073,961 in unrestricted net position, \$593,633 restricted for debt service and \$7,088,586 in investment in capital assets, net of related debt. The net position of the business-type activities increased by \$253,959.

Table I
City of Kermit, Texas
CONDENSED STATEMENT OF NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Current and Other Assets	\$ 4,478,731	\$ 6,405,570	\$ 9,438,532	\$ 11,207,898	\$ 13,917,263	\$ 17,613,468
Capital Assets, net	9,636,820	6,623,500	10,584,661	8,310,232	20,221,481	14,933,732
Total Assets	\$ 14,115,551	\$ 13,029,070	\$ 20,023,193	\$ 19,518,130	\$ 34,138,744	\$ 32,547,200
Deferred Outflows of Resources	\$ 665,543	\$ 556,171	\$ 145,677	\$ 207,178	\$ 811,220	\$ 763,349
Long-Term Liabilities	\$ 3,259,889	\$ 2,265,996	\$ 3,969,887	\$ 3,763,685	\$ 7,229,776	\$ 6,029,681
Other Liabilities	643,244	336,498	403,452	402,199	1,046,696	738,697
Total Liabilities	\$ 3,903,133	\$ 2,602,494	\$ 4,373,339	\$ 4,165,884	\$ 8,276,472	\$ 6,768,378
Deferred Inflows of Resources	\$ 126,883	\$ 153,563	\$ 39,351	\$ 57,203	\$ 166,234	\$ 210,766
Net Position:						
Invested in Capital Assets	\$ 8,338,856	\$ 6,047,223	\$ 7,088,586	\$ 5,164,232	\$ 15,427,442	\$ 11,211,455
Restricted	2,167,002	2,048,721	593,633	580,950	2,760,635	2,629,671
Unrestricted	245,220	2,733,240	8,073,961	9,757,039	8,319,181	12,490,279
Total Net Position	\$ 10,751,078	\$ 10,829,184	\$ 15,756,180	\$ 15,502,221	\$ 26,507,258	\$ 26,331,405

Table II
City of Kermit, Texas
CONDENSED SCHEDULE OF CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Revenues:						
Program Revenues:						
Charges for Services	\$ 786,709	\$ 637,346	\$ 5,062,461	\$ 5,446,227	\$ 5,849,170	\$ 6,083,573
Operating Grants and Contributions	58,900	332,711			58,900	332,711
Capital Grants and Contributions	454,883				454,883	
General Revenues:						
Property Taxes	952,651	840,932			952,651	840,932
Sales Tax	3,059,321	6,477,955			3,059,321	6,477,955
Franchise Taxes	274,568	293,603			274,568	293,603
Occupancy Taxes	815,605	953,154			815,605	953,154
Unrestricted Contributions	240,342	75,880			240,342	75,880
Unrestricted Investment Earnings	182,582	276,768	472,243	339,657	654,825	616,425
Gain/(Loss) on Disposal of Assets	141,825	6,000	(107,901)		33,924	6,000
Miscellaneous	255,199	94,651	30,979	34,962	286,178	129,613
Total Revenue	\$ 7,222,585	\$ 9,989,000	\$ 5,457,782	\$ 5,820,846	\$ 12,680,367	\$ 15,809,846
Expenses:						
City Hall	\$ 659,608	\$ 947,947			\$ 659,608	\$ 947,947
General Administration	779,959	765,671			779,959	765,671
Tax Department	7,636	7,638			7,636	7,638
Municipal Court	186,650	148,801			186,650	148,801
Police Department	3,569,120	2,168,429			3,569,120	2,168,429
Fire Department	374,211	224,538			374,211	224,538
Code Enforcement	191,900	155,843			191,900	155,843
Street Department	897,774	710,861			897,774	710,861
Street Lighting	104,843	94,182			104,843	94,182
Animal Control	249,507	192,003			249,507	192,003
Fleet Maintenance	268,657	253,714			268,657	253,714
Parks and Cemetery	562,592	452,069			562,592	452,069
Professional and Insurance	83,458				83,458	
Recreation	75,836	75,659			75,836	75,659
Economic Development	805,157	204,068			805,157	204,068
Interest and Other Fees	90,292				90,292	
Water Utility System			1,796,539	1,572,555	1,796,539	1,572,555
Solid Waste System			1,705,028	1,644,975	1,705,028	1,644,975
Total Expenses	\$ 8,907,200	\$ 6,401,423	\$ 3,501,567	\$ 3,217,530	\$ 12,408,767	\$ 9,618,953
Increase (Decrease) in Net Position	\$ (1,684,615)	\$ 3,587,577	\$ 1,956,215	\$ 2,603,316	\$ 271,600	\$ 6,190,893
Transfers Between Governmental and Business-Type Activities	1,702,256		(1,702,256)			
Net Increase (Decrease) in Net Position	\$ 17,641	\$ 3,587,577	\$ 253,959	\$ 2,603,316	\$ 271,600	\$ 6,190,893
Net Position - Beginning of Year	10,829,184	7,241,607	15,502,221	12,898,905	26,331,405	20,140,512
Prior Period Adjustment	(95,747)				(95,747)	
Net Position at September 30	\$ 10,751,078	\$ 10,829,184	\$ 15,756,180	\$ 15,502,221	\$ 26,507,258	\$ 26,331,405

The cost of all governmental activities this year was \$8,907,200. However, as shown in the Statement of Activities on page 11, some of the costs were paid by those who directly benefited from the programs (\$1,300,492).

The City's Funds

As the City completed the year, its governmental funds, on page 14, reported a fund balance of \$3,640,516 while it reported a prior year fund balance of \$5,993,590.

Capital Asset and Debt Administration Capital Assets

At September 30, 2025, the City had \$20,231,481, net of accumulated depreciation and amortization, invested in a broad range of capital assets, including land, building and improvements, infrastructure, machinery and equipment, and the water system and sewer system as follows:

Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Capital Assets, net						
Land and Land Improvements	\$ 432,243	\$ 74,664	\$ 6,300	\$ 6,300	\$ 438,543	\$ 80,964
Constructions in Progress	1,256,484		1,614,925		2,871,409	0
Buildings and Improvements	4,180,754	3,569,461	139,953		4,320,707	3,569,461
Infrastructure	1,090,285	1,125,513			1,090,285	1,125,513
Water and Sewer System			7,543,352	7,768,968	7,543,352	7,768,968
Machinery and Equipment	2,685,155	1,848,750	1,280,131	534,964	3,965,286	2,383,714
Office Furniture and Equipment	1,899	5,112			1,899	5,112
Total Capital Assets, net	\$ 9,646,820	\$ 6,623,500	\$ 10,584,661	\$ 8,310,232	\$ 20,231,481	\$ 14,933,732

The net amount of capital assets increased by \$5,297,749 primarily due to financing of vehicles and equipment and new construction projects.

Long-Term Debt

At fiscal year-end, total certificates of obligations for Business-type activities amounted to \$2,556,000 which will primarily be paid with water and sewer revenues. The City also added notes payable and financing lease obligations for vehicles for Governmental Activities and Business-type activities. Long-term debt obligations increased by \$131,687.

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Certificates of Obligation						
Certificate of Obligation 2008	\$	\$	\$ 830,000	\$ 1,095,000	\$ 830,000	\$ 1,095,000
Certificate of Obligation 2019			1,726,000	2,051,000	1,726,000	2,051,000
Notes Payable	33,161	44,215			33,161	44,215
Right to Use Lease Obligation	1,264,803	532,062	940,075		1,264,803	532,062
Total Outstanding Debt	\$ 1,297,964	\$ 576,277	\$ 3,496,075	\$ 3,146,000	\$ 3,853,964	\$ 3,722,277

Economic Factors and Next Year's Budget and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2025-2026 budget and tax rate. One of those factors is the economy and, in particular, the oil and 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.

Contacting the City's Financial Management

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

BASIC FINANCIAL STATEMENTS

-10-
CITY OF KERMIT, TEXAS

EXHIBIT A-1

**GOVERNMENT-WIDE - STATEMENT OF NET POSITION
SEPTEMBER 30, 2025**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 3,670,053	\$ 8,982,696	\$ 12,652,749
Receivables, net of allowances:			
Accounts	677,748	455,836	1,133,584
Property Taxes	80,441		80,441
Other Taxes	50,489		50,489
Total Current Assets	\$ 4,478,731	\$ 9,438,532	\$ 13,917,263
Noncurrent Assets:			
Nondepreciable	\$ 1,678,727	\$ 1,621,225	\$ 3,299,952
Depreciable, Net	7,958,093	8,963,436	16,921,529
Total Noncurrent Assets	\$ 9,636,820	\$ 10,584,661	\$ 20,221,481
Total Assets	\$ 14,115,551	\$ 20,023,193	\$ 34,138,744
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred Outflows - Pension (TMRS)	\$ 458,760	\$ 142,278	\$ 601,038
Deferred Outflows - Pension (TESRS)	195,820		195,820
Deferred Outflows - OPEB	10,963	3,399	14,362
Total Deferred Outflows of Resources	\$ 665,543	\$ 145,677	\$ 811,220
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 453,824	\$ 53,901	\$ 507,725
Accrued Wages	188,670	58,253	246,923
Customer Deposits	750	283,931	284,681
Accrued Interest Payable		7,367	7,367
Total Current Liabilities	\$ 643,244	\$ 403,452	\$ 1,046,696
Noncurrent Liabilities			
Due Within One Year	\$ 265,136	\$ 774,870	\$ 1,040,006
Due in More Than One Year	1,166,913	2,752,650	3,919,563
Net Pension Liability - TMRS	1,294,298	401,410	1,695,708
Net Pension Liability - TESRS	401,483		401,483
Total OPEB Liability	132,059	40,957	173,016
Total Noncurrent Liabilities	\$ 3,259,889	\$ 3,969,887	\$ 7,229,776
Total Liabilities	\$ 3,903,133	\$ 4,373,339	\$ 8,276,472
DEFERRED INFLOWS OF RESOURCES:			
Deferred Inflows - Pension (TMRS)	\$ 109,052	\$ 33,821	\$ 142,873
Deferred Inflows - OPEB	17,831	5,530	23,361
Total Deferred Inflows of Resources	\$ 126,883	\$ 39,351	\$ 166,234
NET POSITION			
Net Investment in Capital Assets	\$ 8,338,856	\$ 7,088,586	\$ 15,427,442
Restricted For:			
Municipal Court Technology & Security	74,030		74,030
Economic Development	2,001,194		2,001,194
Public Safety	91,778		91,778
Debt Service		593,633	593,633
Unrestricted	245,220	8,073,961	8,319,181
Total Net Position	\$ 10,751,078	\$ 15,756,180	\$ 26,507,258

The accompanying notes are an integral part of this statement.

**GOVERNMENT-WIDE - STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:							
Governmental Activities:							
City Hall	\$ 659,608	\$	\$	\$	\$ (659,608)	\$	\$ (659,608)
General Administration	779,959	110,680			(669,279)		(669,279)
Tax Department	7,636				(7,636)		(7,636)
Municipal Court	186,650	34,342			(152,308)		(152,308)
Police Department	3,569,120	412,162			(3,156,958)		(3,156,958)
Fire Department	374,211		58,900		(315,311)		(315,311)
Code Enforcement	191,900				(191,900)		(191,900)
Street Department	897,774			454,883	(442,891)		(442,891)
Street Lighting	104,843	161,275			56,432		56,432
Animal Control	249,507				(249,507)		(249,507)
Fleet Maintenance	268,657				(268,657)		(268,657)
Parks and Cemetery	562,592	58,050			(504,542)		(504,542)
Professional and Insurance	83,458				(83,458)		(83,458)
Recreation	75,836				(75,836)		(75,836)
Economic Development	805,157	10,200			(794,957)		(794,957)
Interest and Other Fees	90,292				(90,292)		(90,292)
Total Governmental Activities	\$ 8,907,200	\$ 786,709	\$ 58,900	\$ 454,883	\$ (7,606,708)	\$ 0	\$ (7,606,708)
Business-Type Activities:							
Water Utility System	\$ 1,796,539	\$ 3,629,614	\$	\$	\$	\$ 1,833,075	\$ 1,833,075
Solid Waste System	1,705,028	1,432,847				(272,181)	(272,181)
Total Business-Type Activities	\$ 3,501,567	\$ 5,062,461	\$ 0	\$ 0	\$ 0	\$ 1,560,894	\$ 1,560,894
Total Primary Government	\$ 12,408,767	\$ 5,849,170	\$ 58,900	\$ 454,883	\$ (7,606,708)	\$ 1,560,894	\$ (6,045,814)
General Revenues:							
Taxes:							
Property					\$ 952,651	\$	\$ 952,651
Sales					3,059,321		3,059,321
Franchise					274,568		274,568
Occupancy					815,605		815,605
Unrestricted Contributions					240,342		240,342
Unrestricted Investment Earnings					182,582	472,243	654,825
Gain/(Loss) on Disposal of Assets					141,825	(107,901)	33,924
Miscellaneous					255,199	30,979	286,178
Transfers Between Governmental and Business Type Activities					1,702,256	(1,702,256)	0
Total General Revenue and Transfers					\$ 7,624,349	\$ (1,306,935)	\$ 6,317,414
Change in Net Position					\$ 17,641	\$ 253,959	\$ 271,600
Net Position - Beginning					10,829,184	15,502,221	26,331,405
Prior Period Adjustment					(95,747)		(95,747)
Net Position - Ending					\$ 10,751,078	\$ 15,756,180	\$ 26,507,258

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

EXHIBIT A-3

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2025

	<u>General Fund</u>	<u>Hotel/Motel Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Cash and Cash Equivalents	\$ 1,522,534	\$ 1,980,316	\$ 167,203	\$ 3,670,053
Receivables, net of allowance:				
Accounts	622,554		55,194	677,748
Property Taxes	80,441			80,441
Other Taxes		<u>50,489</u>		<u>50,489</u>
Total Assets	<u>\$ 2,225,529</u>	<u>\$ 2,030,805</u>	<u>\$ 222,397</u>	<u>\$ 4,478,731</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:				
LIABILITIES:				
Accounts Payable	\$ 367,624	\$ 29,611	\$ 56,589	\$ 453,824
Accrued Wages	188,670			188,670
Deposits and Other Liabilities	<u>750</u>			<u>750</u>
Total Liabilities	<u>\$ 557,044</u>	<u>\$ 29,611</u>	<u>\$ 56,589</u>	<u>\$ 643,244</u>
DEFERRED INFLOWS OF RESOURCES:				
Property Taxes	\$ 80,441	\$	\$	\$ 80,441
SRO Revenue	<u>114,530</u>			<u>114,530</u>
Total Deferred Inflows of Resources	<u>\$ 194,971</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 194,971</u>
FUND BALANCES:				
Committed Fund Balances:				
Economic Development Corp	\$ 262,454	\$	\$	\$ 262,454
Restricted:				
Municipal Court Technology & Security	\$	\$	\$ 74,030	\$ 74,030
Economic Development		2,001,194		2,001,194
Public Safety			91,778	91,778
Unassigned	<u>1,211,060</u>			<u>1,211,060</u>
Total Fund Balances	<u>\$ 1,473,514</u>	<u>\$ 2,001,194</u>	<u>\$ 165,808</u>	<u>\$ 3,640,516</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,225,529</u>	<u>\$ 2,030,805</u>	<u>\$ 222,397</u>	<u>\$ 4,478,731</u>

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

EXHIBIT A-4

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

Total Fund Balances - Governmental Funds Balance Sheet	\$	3,640,516
Amounts reported for governmental activities in the Statement of Net Position (SNP) are different because:		
Capital assets used in governmental activities are not reported in the funds.		9,636,820
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		80,441
SRO receivable unavailable to pay for current period expenditures are deferred in the funds.		114,530
Deferred outflows and inflows of resources related to pension and OPEB are not reported in the funds.		538,660
Payables for loan principal and financing lease principal which are not due in the current period are not reported in the funds.		(1,297,964)
Net Pension Liabilities are not reported in the funds.		(1,695,781)
Total OPEB Liabilities are not reported in the funds.		(132,059)
Payables for compensated absences which are not reported in the funds.		<u>(134,085)</u>
Net Position of Governmental Activities - Statement of Net Position	\$	<u><u>10,751,078</u></u>

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

EXHIBIT A-5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	General Fund	Hotel/Motel Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue:				
Taxes:				
Property Tax	\$ 947,692	\$	\$	\$ 947,692
General Sales and Use Taxes	3,059,321			3,059,321
Franchise Tax	274,568			274,568
Other Taxes		815,605		815,605
Licenses and Permits	105,713			105,713
Contributions and Donations	205,620		34,722	240,342
Intergovernmental Revenue and Grants	58,900		454,883	513,783
Fines and Fees	302,596		34,342	336,938
Charges for Services	219,324			219,324
Investment Income	82,708	93,164	6,710	182,582
Rents and Royalties		10,200		10,200
Other	255,199			255,199
Total Revenues	<u>\$ 5,511,641</u>	<u>\$ 918,969</u>	<u>\$ 530,657</u>	<u>\$ 6,961,267</u>
Expenditures:				
Current:				
City Hall	\$ 1,580,202	\$	\$	\$ 1,580,202
General Administration	783,896			783,896
Tax Department	7,636			7,636
Municipal Court	187,944			187,944
Police Department	3,807,634		43,035	3,850,669
Fire Department	307,191			307,191
Code Enforcement	233,011			233,011
Street Department	1,010,628		464,838	1,475,466
Street Lighting	104,843			104,843
Animal Control	435,406			435,406
Fleet Maintenance	353,186			353,186
Parks and Cemetery	1,349,028			1,349,028
Professional and Insurance	83,458			83,458
Recreation	3,480			3,480
Economic Development and Assistance	200,974	833,427		1,034,401
Debt Service:				
Principal Retirement	278,879			278,879
Interest and Fiscal Charges	90,292			90,292
Total Expenditures	<u>\$ 10,817,688</u>	<u>\$ 833,427</u>	<u>\$ 507,873</u>	<u>\$ 12,158,988</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (5,306,047)</u>	<u>\$ 85,542</u>	<u>\$ 22,784</u>	<u>\$ (5,197,721)</u>
Other Financing Sources:				
Transfers In (Out)	\$ 1,692,301	\$	\$ 9,955	\$ 1,702,256
Proceeds from Disposal of Assets	141,825			141,825
Proceeds from Financing Lease	1,000,566			1,000,566
Total Other Financing Sources (Uses)	<u>\$ 2,834,692</u>	<u>\$ 0</u>	<u>\$ 9,955</u>	<u>\$ 2,844,647</u>
Net Change in Fund Balances	<u>\$ (2,471,355)</u>	<u>\$ 85,542</u>	<u>\$ 32,739</u>	<u>\$ (2,353,074)</u>
Fund Balances - Beginning	<u>\$ 3,944,869</u>	<u>\$ 1,915,652</u>	<u>\$ 133,069</u>	<u>\$ 5,993,590</u>
Fund Balances - Ending	<u>\$ 1,473,514</u>	<u>\$ 2,001,194</u>	<u>\$ 165,808</u>	<u>\$ 3,640,516</u>

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

EXHIBIT A-6

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, 2025

Net Change in Fund Balances - Total Governmental Funds	\$ (2,353,074)
Amounts reported for governmental activities in the Statement Of Activities (SOA) are different because:	
Capital asset additions are not reported as expenses in the SOA.	3,883,431
The depreciation of capital assets used in governmental activities is not reported in the funds.	(867,753)
Loss on the retirement of capital assets are not recorded in the funds.	(2,358)
Certain revenues are deferred in the funds. This is the change in these amounts this year.	119,489
Proceeds from financing leases do not provide revenue in the SOA, but are reported as current resources in the funds.	(1,000,566)
Repayments of loan principal are expenditures in the funds but not an expense in the SOA.	278,879
Change related to pension liabilities and deferred inflows and outflows is not recorded in the funds.	(103,893)
Changes related to total OPEB liabilities and deferred inflows and outflows is not recorded in the funds.	59,087
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	<u>4,395</u>
Change in Net Position of Governmental Activities - Statement of Activities	<u>\$ 17,637</u>

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

EXHIBIT A-7

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2025

	Business-Type Activities		Total Proprietary Funds
	Water Utility System	Solid Waste System	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 8,276,776	\$ 705,920	\$ 8,982,696
Accounts Receivable, net of allowance Billed & Unbilled	341,213	114,623	455,836
Total Current Assets	<u>\$ 8,617,989</u>	<u>\$ 820,543</u>	<u>\$ 9,438,532</u>
Noncurrent Assets:			
Capital Assets			
Nondepreciable	\$ 1,621,225		\$ 1,621,225
Depreciable, Net	8,067,775	895,661	8,963,436
Total Noncurrent Assets	<u>\$ 9,689,000</u>	<u>\$ 895,661</u>	<u>\$ 10,584,661</u>
Total Assets	<u>\$ 18,306,989</u>	<u>\$ 1,716,204</u>	<u>\$ 20,023,193</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred Outflows - Pension	\$ 67,562	\$ 74,716	\$ 142,278
Deferred Outflows - OPEB	1,614	1,785	3,399
Total Deferred Outflows of Resources	<u>\$ 69,176</u>	<u>\$ 76,501</u>	<u>\$ 145,677</u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 34,441	\$ 19,460	\$ 53,901
Accrued Wages	26,453	31,800	58,253
Accrued Interest Payable	7,367		7,367
Customer Deposits	283,931		283,931
Compensated Absences	12,360	19,085	31,445
Lease Payable - Current	43,349	130,521	173,870
Bonds Payable- Current	601,000		601,000
Total Current Liabilities	<u>\$ 1,008,901</u>	<u>\$ 200,866</u>	<u>\$ 1,209,767</u>
Noncurrent Liabilities:			
Bonds Payable Long-Term	\$ 1,955,000		\$ 1,955,000
Lease Payable Long-Term	172,821	593,384	766,205
Net Pension Liability	190,614	210,796	401,410
Total OPEB Liability	19,449	21,508	40,957
Total Noncurrent Liabilities	<u>\$ 2,337,884</u>	<u>\$ 825,688</u>	<u>\$ 3,163,572</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred Inflows - Pension	\$ 16,060	\$ 17,761	\$ 33,821
Deferred Inflows - OPEB	2,626	2,904	5,530
Total Deferred Inflows of Resources	<u>\$ 18,686</u>	<u>\$ 20,665</u>	<u>\$ 39,351</u>
NET POSITION:			
Net Investment in Capital Assets	\$ 6,916,830	\$ 171,756	\$ 7,088,586
Restricted for Debt Service	593,633		593,633
Unrestricted Net Position	<u>7,500,231</u>	<u>573,730</u>	<u>8,073,961</u>
Total Net Position	<u>\$ 15,010,694</u>	<u>\$ 745,486</u>	<u>\$ 15,756,180</u>

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

EXHIBIT A-8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise
OPERATING REVENUES:			
Charges for Services			
Water and Sewer Service	\$ 3,463,508	\$ 1,381,854	\$ 4,845,362
Fees and Permits	166,106	50,993	217,099
Miscellaneous Revenues	1,023	29,956	30,979
Total Operating Revenues	\$ 3,630,637	\$ 1,462,803	\$ 5,093,440
OPERATING EXPENSES:			
Contractual Services	\$ 414,415	\$ 664,727	\$ 1,079,142
Materials & Supplies	181,199	146,963	328,162
Personnel Services	652,109	750,344	1,402,453
Other Operating	78,759		78,759
Depreciation	395,643	142,020	537,663
Total Operating Expenses	\$ 1,722,125	\$ 1,704,054	\$ 3,426,179
Operating Income (Loss)	\$ 1,908,512	\$ (241,251)	\$ 1,667,261
NON-OPERATING REVENUES (EXPENSES):			
Investment Income	\$ 439,634	\$ 32,609	\$ 472,243
Loss on Sale of Assets	(10,014)	(97,887)	(107,901)
Interest and Fiscal Charges	(74,414)	(974)	(75,388)
Total Non-Operating Revenues (Expenses)	\$ 355,206	\$ (66,252)	\$ 288,954
Income (Loss) Before Transfers	\$ 2,263,718	\$ (307,503)	\$ 1,956,215
TRANSFERS AND CONTRIBUTIONS			
Transfers In (Out)	\$ (1,702,256)	\$ 0	\$ (1,702,256)
Total Transfers and Contributions - Net	\$ (1,702,256)	\$ 0	\$ (1,702,256)
Change in Net Position	\$ 561,462	\$ (307,503)	\$ 253,959
Total Net Position - Beginning	14,449,232	1,052,989	15,502,221
Total Net Position - Ending	\$ 15,010,694	\$ 745,486	\$ 15,756,180

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

EXHIBIT A-9

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 3,795,042	\$ 1,492,014	\$ 5,287,056
Cash Payments to Employees and for Benefits	(730,823)	(767,907)	(1,498,730)
Cash Payments to Other Suppliers for Goods and Services	(660,621)	(850,482)	(1,511,103)
Other Operating Cash Receipts	1,023	29,956	30,979
Net Cash from Operating Activities	<u>\$ 2,404,621</u>	<u>\$ (96,419)</u>	<u>\$ 2,308,202</u>
Cash Flows from Non-Capital Financing Activities:			
Net Transfers to Other Funds	<u>\$ (1,702,256)</u>	<u>\$</u>	<u>\$ (1,702,256)</u>
Net Cash from Non-Capital Financing Activities	<u>\$ (1,702,256)</u>	<u>\$ 0</u>	<u>\$ (1,702,256)</u>
Cash Flows from Capital and Related Financing Activities:			
Principal Paid on Debt	\$ (613,941)	\$ (2,752)	\$ (616,693)
Interest Paid on Debt	(76,097)	(974)	(77,071)
Proceeds from Sale of Assets	501	(3,843)	(3,342)
Acquisition or Construction of Capital Assets	(1,810,934)	(147,018)	(1,957,952)
Net Cash from Capital and Related Financing Activities	<u>\$ (2,500,471)</u>	<u>\$ (154,587)</u>	<u>\$ (2,655,058)</u>
Cash Flows from Investing Activities:			
Interest and Dividends Received	<u>\$ 439,634</u>	<u>\$ 32,609</u>	<u>\$ 472,243</u>
Net Cash from Investing Activities	<u>\$ 439,634</u>	<u>\$ 32,609</u>	<u>\$ 472,243</u>
Net Change in Cash and Cash Equivalents	\$ (1,358,472)	\$ (218,397)	\$ (1,576,869)
Cash and Cash Equivalents - Beginning of Year	9,635,248	924,317	10,559,565
Cash and Cash Equivalents - End of Year	<u>\$ 8,276,776</u>	<u>\$ 705,920</u>	<u>\$ 8,982,696</u>
Reconciliation of Operating Income to Net Cash from Operating Activities:			
Operating Income (Loss)	<u>\$ 1,908,512</u>	<u>\$ (241,251)</u>	<u>\$ 1,667,261</u>
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities			
Depreciation and Amortization Expense	\$ 395,643	\$ 142,020	\$ 537,663
Change in Assets and Liabilities:			
Decrease (Increase) in Accounts Receivable	141,399	59,167	200,566
Decrease (Increase) in OPEB Deferred Outflows	1,339	742	2,081
Decrease (Increase) in Pension Deferred Outflows	41,122	18,298	59,420
Increase (Decrease) in Accounts Payable	13,752	(38,792)	(25,040)
Increase (Decrease) in Accrued Wages	(499)	4,446	3,947
Increase (Decrease) in Compensated Absences	(7,228)	(1,160)	(8,388)
Increase (Decrease) in Deposits Payable	24,029		24,029
Increase (Decrease) in Total OPEB Liability	(6,062)	(325)	(6,387)
Increase (Decrease) in Net Pension Liability	(95,248)	(33,850)	(129,098)
Increase (Decrease) in OPEB Deferred Inflows	(3,912)	(2,691)	(6,603)
Increase (Decrease) in Pension Deferred Inflows	(8,226)	(3,023)	(11,249)
Total Adjustments	<u>\$ 496,109</u>	<u>\$ 144,832</u>	<u>\$ 640,941</u>
Net Cash from Operating Activities	<u>\$ 2,404,621</u>	<u>\$ (96,419)</u>	<u>\$ 2,308,202</u>

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 1 - 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 of the City have been prepared in conformity with accounting principles applicable to governmental unites which are generally accepted in the United State of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting 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's 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.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

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

Measurement Focus, Basis of Accounting, And Financial Statement Presentation

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

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

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.

NOTES TO FINANCIAL STATEMENTS

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. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the fund Statement of Net Position. The fund equity is segregated into (1) investments in capital assets, net of related debt, (2) restricted by debt covenants and (3) unrestricted net position.

Fund Accounting

The City reports the following major governmental funds:

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

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

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.

The City reports the following major proprietary funds:

Water Utility System Fund – The Water Utility System 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 System Fund – The Solid Waste System 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.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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;

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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 designee.

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.

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.

Financial Statement Amounts

Cash and Cash Equivalents

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.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

The City has no recurring fair value measurements as of September 30, 2025 as the City's investments are not measured at fair value but rather the investments in TexPool and TexStar are valued at amortized cost.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. 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.

Capital Assets

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, and intangibles of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Category</u>	<u>Estimated Useful Lives (Years)</u>
Land	N/A
Buildings	22-45
Building and Improvements	15
Water, Sewer System and Other Infastructure	10-45
Water and Sewer System	10-45
Office Equipment	7-10
Computer Equipment	5-10

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Receivable and Payable Balances

The City believes that sufficient detail of payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. Details of receivables are provided in these Notes to Financial Statements.

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 assets 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 assets 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.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

- Deferred inflows of resources for other post-employment benefits – 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.

Interfund Activity

Interfund activity results from loans, services provided, reimbursements, or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Interfund Balances" line of the government-wide statement of net position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Pension

For purposes of measuring the net pension asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and the Texas Emergency Services Retirement System (TESRS) and additions to/deductions from TMRS's and TESRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS and TESRS.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

OPEB

For purposes of measuring the net OPEB liability, deferred outflows and deferred inflows of resources related to OPEBs, and net OPEB expense, information about the TMRS – Supplemental Death Benefit Plan have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms.

Compensated Absences

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. The City reassessed these benefits in accordance with GASB Statement 101, *Compensated Absences*; however, its adoption did not have a material impact. Unused sick leave benefits will not be paid to the employees upon resignation or termination of employment.

Note 2 – Deposits and Investments

Custodial Credit Risk for Deposits

State laws 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. Since the City complied with this law for the year ended September 30, 2025, it had no custodial risk for deposits.

Compliance with the Public Funds Investment Act

The *Public Funds Investment Act* (the 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 FINANCIAL STATEMENTS

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 30, 2025, the carrying amount of the City's deposits in TexSTAR was \$173,109.

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 30, 2025, the carrying amount of the City's deposits in TexPool was \$9,295,048.

Note 3 – Interfund Balances and Transfers

The City recorded the following interfund transfers for the fiscal year ended September 30, 2025:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Water Utility System	\$ 1,702,256	Administration
General Fund	Other Governmental Funds	9,955	Administration
Net Transfers		<u>\$ 1,712,211</u>	

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 4 – Receivables and Unearned Revenues

Receivables at September 30, 2025 were as follows:

	General Fund	Hotel/Motel Fund	Other Governmental Funds	Total
Governmental Funds:				
Accounts	\$ 636,648	\$	\$ 55,194	\$ 691,842
Property Taxes	282,460			282,460
Other Taxes		50,489		50,489
Total	\$ 919,108	\$ 50,489	\$ 55,194	\$ 1,024,791
Allowance	(216,113)			(216,113)
Total (Net of Allowance)	\$ 702,995	\$ 50,489	\$ 55,194	\$ 808,678

	Water Utility System	Solid Waste System	Total
Proprietary Funds:			
Billed & Unbilled	\$ 456,454	\$ 166,232	\$ 622,686
Total	\$ 456,454	\$ 166,232	\$ 622,686
Allowance	(115,241)	(51,609)	(166,850)
Total (Net of Allowance)	\$ 341,213	\$ 114,623	\$ 455,836

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2025, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital Assets Not Being Depreciated				
Land	\$ 74,664	\$ 347,579	\$	\$ 422,243
Construction in Progress		<u>1,256,484</u>		<u>1,256,484</u>
Total Capital Assets Not Being Depreciated	<u>\$ 74,664</u>	<u>\$ 1,604,063</u>	<u>\$ 0</u>	<u>\$ 1,678,727</u>
Capital Assets Being Depreciated				
Buildings and Improvements	\$ 4,312,354	\$ 798,456	\$	\$ 5,110,810
Infrastructure	3,696,412			3,696,412
Machinery and Equipment	4,423,715	1,480,912	183,335	5,721,292
Office Furniture and Equipment	<u>233,050</u>			<u>233,050</u>
Total Capital Assets Being Depreciated and Amortized	<u>\$ 12,665,531</u>	<u>\$ 2,279,368</u>	<u>\$ 183,335</u>	<u>\$ 14,761,564</u>
Less Accumulated Depreciation and Amortization for:				
Buildings and Improvements	\$ (742,893)	\$ (187,163)	\$	\$ (930,056)
Infrastructure	(2,570,899)	(35,228)		(2,606,127)
Machinery and Equipment	(2,574,965)	(642,149)	180,977	(3,036,137)
Office Furniture and Equipment	<u>(227,938)</u>	<u>(3,213)</u>		<u>(231,151)</u>
Total Accumulated Depreciation and Amortization	<u>\$ (6,116,695)</u>	<u>\$ (867,753)</u>	<u>\$ 180,977</u>	<u>\$ (6,803,471)</u>
Total Capital Assets Being Depr and Amortized, Net	<u>\$ 6,548,836</u>	<u>\$ 3,147,121</u>	<u>\$ 2,358</u>	<u>\$ 7,958,093</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,623,500</u>	<u>\$ 4,751,184</u>	<u>\$ 2,358</u>	<u>\$ 9,636,820</u>

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Capital asset activity for the year ended September 30, 2025, was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Business-Type Activities:				
Capital Assets Not Being Depreciated				
Land	\$ 6,300			\$ 6,300
Construction in Progress		1,614,925		1,614,925
Total Capital Assets Not Being Depreciated	<u>\$ 6,300</u>	<u>\$ 1,614,925</u>	<u>\$ 0</u>	<u>\$ 1,621,225</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	\$ 13,936	\$ 149,950		\$ 163,886
Water and Sewer System	12,854,707	40,037		12,894,744
Machinery and Equipment	3,156,696	1,119,810	495,359	3,781,147
Office Furniture and Equipment	70,302			70,302
Total Capital Assets Being Depreciated	<u>\$ 16,095,641</u>	<u>\$ 1,309,797</u>	<u>\$ 495,359</u>	<u>\$ 16,910,079</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ (13,936)	\$ (9,997)		\$ (23,933)
Water and Sewer System	(5,085,739)	(265,653)		(5,351,392)
Machinery and Equipment	(2,621,732)	(262,013)	382,729	(2,501,016)
Office Furniture and Equipment	(70,302)			(70,302)
Total Accumulated Depreciation	<u>\$ (7,791,709)</u>	<u>\$ (537,663)</u>	<u>\$ 382,729</u>	<u>\$ (7,946,643)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 8,303,932</u>	<u>\$ 772,134</u>	<u>\$ 112,630</u>	<u>\$ 8,963,436</u>
Business-Type Activities Capital Assets, Net	<u>\$ 8,310,232</u>	<u>\$ 2,387,059</u>	<u>\$ 112,630</u>	<u>\$ 10,584,661</u>

Depreciation and amortization expense was charged to functions as follows:

Governmental Activities:	
City Hall	\$ 53,904
Police Department	350,306
Fire Department	88,994
Street Department	114,394
Fleet Maintenance	20,520
Parks/ Cemetery	113,554
Economic Development	13,258
Animal Control	32,053
Recreation	72,356
Code Enforcement	8,414
Governmental Activities	<u>\$ 867,753</u>
Business-Type Activities:	
Water Utility System	\$ 395,643
Solid Waste System	<u>142,020</u>
Business-Type Activities	<u>\$ 537,663</u>

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 6 – Long-Term Liabilities

Certificates of Obligation

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 \$27,164.

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 1.95% 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 \$38,507.

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

Purpose	Interest Rates	Principal Amount
Series 2019	1.95-2.15%	\$ 1,726,000
Series 2008	2.75-2.85%	830,000
		\$ 2,556,000

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

	Business-Type Activities			
	Series 2019		Series 2008	
	Principal	Interest	Principal	Interest
Year Ending September 30,				
2026	\$ 331,000	\$ 32,192	\$ 270,000	\$ 19,740
2027	338,000	25,585	275,000	12,041
2028	345,000	18,668	285,000	4,061
2029	352,000	11,436		
2030	360,000	3,870		
Total	\$ 1,726,000	\$ 91,751	\$ 830,000	\$ 35,842

Notes Payable

During the current fiscal year, the City entered into a note payable for the purchase of tasers for the police department in the amount of \$55,269. The note is due in annual payments of \$11,054 over five years. The note carries an interest rate of 0%.

Annual debt service requirements for the note payable are as follows:

	Governmental Activities		
	Principal	Interest	Total
Year Ending September 30,			
2026	\$ 11,054	\$	\$ 11,054
2027	11,054		11,054
2028	11,053		11,053
Total	\$ 33,161	\$ 0	\$ 33,161

Right to Use Lease Obligation

During the prior fiscal year, the City entered into a right to use lease for six police vehicles in the amount of \$532,062. A down payment of \$102,600 was paid in October 2024 and the remaining balance is due in sixty monthly payments of \$9,310. The lease carries an interest rate of 10.87%.

During the current fiscal year, the City entered into various right of use leases for twenty-nine vehicles and sanitation trucks in the amount of \$1,967,334. The leases will be due in sixty monthly payments ranging from \$747 to \$1,435. The leases carry interest rates ranging from 5.37% to 10.64%.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements for the right to use lease obligation are as follows:

	Governmental Activities		
	Principal	Interest	Total
Year Ending September 30,			
2026	\$ 254,082	\$ 101,464	\$ 355,546
2027	277,601	77,945	355,546
2028	303,418	52,128	355,546
2029	331,767	23,779	355,546
2030	97,935	2,094	100,029
Total	<u>\$ 1,264,803</u>	<u>\$ 257,410</u>	<u>\$ 1,522,213</u>

	Enterprise Activities		
	Principal	Interest	Total
Year Ending September 30,			
2026	\$ 173,870	\$ 52,716	\$ 226,586
2027	184,071	42,516	226,587
2028	194,880	31,706	226,586
2029	206,335	20,251	226,586
2030	180,919	8,729	189,648
Total	<u>\$ 940,075</u>	<u>\$ 155,918</u>	<u>\$ 1,095,993</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2025 is reflected as follows:

	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 138,480	\$	\$ 4,395	\$ 134,085	\$
Notes Payable	44,215		11,054	33,161	11,054
Right to Use Lease Obligation	532,062	1,000,566	267,825	1,264,803	254,082
Total Governmental Activities	<u>\$ 714,757</u>	<u>\$ 1,000,566</u>	<u>\$ 283,274</u>	<u>\$ 1,432,049</u>	<u>\$ 265,136</u>
Business-Type Activities:					
Bonds Payable:					
Certificates of Obligation 2008	\$ 1,095,000	\$	\$ 265,000	\$ 830,000	\$ 270,000
Certificates of Obligation 2019	2,051,000		325,000	1,726,000	331,000
Compensated Absences	39,833		8,388	31,445	
Right to Use Lease Obligation		966,769	26,694	940,075	173,870
Total Business-Type Activities	<u>\$ 3,185,833</u>	<u>\$ 966,769</u>	<u>\$ 625,082</u>	<u>\$ 3,527,520</u>	<u>\$ 774,870</u>

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 7 – Defined Benefit Pension Plan

Texas Municipal Retirement System (TMRS)

Plan Description

The City participates as one of 942 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.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Employees Covered by Benefit Terms

At the December 31, 2024 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	44
Inactive Employees Entitled to but not Yet Receiving Benefits	94
Active Employees	<u>65</u>
Total Plan Employees	<u><u>203</u></u>

Contributions

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

Employees for the City of Kermit were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.86% and 13.77% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the year ended were \$634,761 and was equal to the required contribution.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2024, 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, 2024 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	21 Years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5% per year
Overall Payroll Growth	3.6% to 11.85% per year
Investment Rate of Return	6.75%

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with 110% of the Public Safety table used for males and 100% of 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 the most recent Scale MP-2021 (with immediate convergence) 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 the most recent Scale MP-2021 (with immediate convergence) 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 period ending December 31, 2022. They were adopted by the Board in 2023 and were first used in the December 31, 2023 actuarial valuation. The Actuarial Experience Investigation Study report dated September 28, 2023 details the analysis. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	35.00%	7.10%
Core Fixed Income	6.00%	5.00%
Non-Core Fixed Income	6.00%	6.80%
Hedge Funds	5.00%	6.40%
Private Equity	13.00%	8.50%
Private Debt	13.00%	8.20%
Real Estate	12.00%	6.70%
Infrastructure	6.00%	6.00%
Other Private Markets	4.00%	7.30%

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Discount Rate

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

Changes in Net Pension Liability

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance 12/31/2023	\$ 15,863,604	\$ 13,908,950	\$ 1,954,654
Service Cost	637,312		637,312
Interest	1,065,943		1,065,943
Difference Between Expected and Actual Experience	288,896		288,896
Contributions - Employer		546,298	(546,298)
Contributions - Employee		273,189	(273,189)
Net Investment Income		1,441,095	(1,441,095)
Benefit Payments, Including Refunds of Employee Contributions	(781,011)	(781,011)	
Administrative Expense		(9,269)	9,269
Other Changes		(216)	216
Balance 12/31/2024	<u>\$ 17,074,744</u>	<u>\$ 15,379,036</u>	<u>\$ 1,695,708</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

<u>1% Decrease Discount Rate (5.75%)</u>	<u>Discount Rate (6.75%)</u>	<u>1% Increase in Discount Rate (7.75%)</u>
\$ 3,997,577	\$ 1,695,708	\$ (192,723)

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.tmrs.com.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Pension Expense, Deferred Outflows, and Deferred Inflows Related to Pensions

For the year ended September 30, 2025, the City recognized pension expense of \$488,491 and calculated as shown below:

Total Service Cost	\$	637,312
Interest on the Total Pension Liability		1,065,943
Employee Contributions (Reduction of Expense)		(273,189)
Projected Earnings on Plan Investments (Reduction of Expense)		(938,854)
Administrative Expense		9,269
Other Changes in Fiduciary Net Position		217
Recognition of Current Year Outflow (Inflow) of Resources- Liabilities		(7,325)
Recognition of Current Year Outflow (Inflow) of Resources- Assets		(4,882)
Total Pension Expense	\$	<u>488,491</u>

At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Pension Plan Adjustments</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 130,161	\$
Differences between projected and actual investment earnings		142,873
Contributions Subsequent to the Measurement Date	470,877	
	\$ <u>601,038</u>	\$ <u>142,873</u>

The \$470,877 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, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in a pension expense as follows:

<u>Plan Year</u>	<u>Net Deferred Outflows/(Inflows) of Resources</u>
2025	\$ 143,828
2026	166,350
2027	(222,445)
2028	(100,445)
2029	
	\$ <u>(12,712)</u>

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Texas Emergency Services Retirement System (TESRS)

Plan Description

The City participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by the Texas Emergency Services Retirement System (TESRS) and established and administered by the State of Texas (the "State") to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2024, there were 244 contributing fire and/or volunteer emergency services personnel who are members in good standing of a member department.

As of August 31, 2024, which is the most recent actuarial valuation date, the pension system membership consisted of 4,122 retirees and beneficiaries currently receiving benefits, 1,806 terminated members entitled to but not yet receiving benefits, and 3,394 active participants.

Pension Plan Fiduciary Net Position

Detailed information about the TESRS's fiduciary net position is available in a separately- issued Annual Comprehensive Financial Report that includes financial statements and required supplementary information. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and required supplementary information, which can be obtained at www.tesrs.org. The separately issued actuarial valuations that may be of interest are also available at the same link.

The information provided in the Notes to the Financial Statements in the 2024 Annual Financial Report for TESRS provides the following information regarding the Pension Plan fiduciary net pension as of August 31, 2024:

Total Pension Liability	\$ 245,843,265
Less: Plan Fiduciary Net Position	<u>(138,468,453)</u>
Net Pension Liability	<u><u>107,374,812</u></u>

Net Position as a Percentage of	
Total Pension Liability	56.30%

Benefits Provided

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees (the "Board") authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by Board rule. The benefit provisions include retirement benefits, as well as death and disability benefits. Members are 50 percent vested after the tenth year of service, with the vesting percentage increasing ten percent for each of the next five years of service so that a member becomes 100 percent vested with 15 years of service.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

The Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the TESRS contribution that directly impacts future retiree annuities.

The state is required to contribute an amount necessary to make TESRS "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended in 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the August 31, 2024, actuarial valuation, even the maximum 15% Part Two contributions are not enough to have an adequate contribution arrangement.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to 15 years of credit for prior service per member. Prior service must have occurred before the department began participation in TESRS.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into TESRS. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by TESRS.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Ultimately, the contribution policy also depends upon the total return of TESRS's assets, which varies from year to year. Investment policy decisions are established and maintained by the board of trustees. For the year ending August 31, 2024, the money-weighted rate of return on pension plan investments was 11.85%. This measurement of the investment performance is net of investment-related expenses, reflecting the effect of the timing of the contributions received and the benefits paid during the year.

Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by Board rule, and there is no maximum contribution rate. For the measurement year ending August 31, 2024, total contributions (dues, prior service, and interest on prior service financing) of \$19,300 were paid by the City. The State appropriated \$1,292,763 for the measurement year ending August 31, 2024 to the plan as a whole.

Actuarial Assumptions

The total pension liability in the August 31, 2024 valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar, open
Remaining Amortization Period	29 Years
Asset Valuation Method	Market Value smoothed by a 5-year deferred recognition method with an 80%/120% corridor on market value
Inflation	2.75% per year
Salary Increases	N/A
Investment Rate of Return	7.25%

Mortality rates were based on the PubS-2010 (public safety) below-median income mortality tables for employees and for retirees, projected for mortality improvement generationally using projection scale MP-2019.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (currently 4.60%) and by adding expected inflation (2.75%). In addition, the final 7.25% assumption was selected by rounding down. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Equities		
Large Cap Domestic	20.00%	5.71%
Small/Mid Cap Domestic	10.00%	5.98%
Developed International	15.00%	6.19%
Emerging Markets	5.00%	7.38%
Global Infrastructure	5.00%	6.63%
Real Estate	10.00%	4.50%
Multi Asset Income	5.00%	3.75%
Fixed Income	30.00%	1.97%
Cash	0.00%	0.00%
Total	<u>100.00%</u>	
Weighted Average		4.60%

Discount Rate

The discount rate used to measure the total pension liability was 5.38%. The projection of cash flows used to determine the discount rate assumed that contributions of the governing bodies will be made at the contribution rate as of August 31, 2024 and that state contributions will be made as assumed in the August 31, 2024 actuarial valuation. Based on those assumptions, the City's fiduciary net position was projected to make projected future benefit payments of current active and inactive employees through 2051. Therefore, the discount rate of 5.38% is the single rate of return that results in a present value of all projected benefits equal to the sum of (a) the present value of benefits through 2051 discounted at the long-term expected rate of return of 7.25% and (b) the present value of benefits after 2051 discounted at the 3.87% discount rate based on the Bond Buyer Index of general obligation bonds with 20 years to maturity at/near August 31, 2024.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 5.38%, in comparison to what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.38%) or one percentage point higher (6.38%) than the current rate:

	<u>1% Decrease Discount Rate (4.38%)</u>	<u>Discount Rate (5.38%)</u>	<u>1% Increase in Discount Rate (6.38%)</u>
City's Proportionate Share of the Net Pension Liability	\$ 554,085	\$ 401,483	\$ 281,015

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources

At September 30, 2024, the City reported a liability of \$401,483 for its proportionate share of the plan's net pension liability. The amount recognized by the City as its proportionate share of the net pension Liability, the related State support, and the total portion of the net pension liability that was associated with the City were as follows:

City's Proportionate Share of the Collective Net Pension Liability	\$	401,483
* State's Proportionate Share that is associated with the City		100,576
	\$	<u>502,059</u>

* Calculated using the City's proportionate share of contributions multiplied by the State's share of the collective NPL.

The TPL used to calculate the NPL was determined by an actuarial valuation as of August 31, 2024. GASB Statement No. 68 requires the net pension liability to be measured as of a date no earlier than the end of the employer's prior fiscal year. TESRS did not roll forward (nor did they provide the necessary information for the participants to roll forward) the NPL to be measured as of a date no earlier than the end of the City's prior fiscal year. While the City acknowledges that the measurement date does not fall within this 12-month period, the City elected to honor the conservatism principle and report a NPL measured as of August 31, 2024. The City used the assumption that any differences in the NPL measured as of August 31, 2024 versus September 30, 2024 would be immaterial. The employer's proportion of the NPL was based on the employer's contributions relative to the contributions of all employers to the plan for the period September 1, 2023 through September 30, 2024.

At September 30, 2025, the employer's proportion of the collective NPL was 0.374%, which was an increase of 0.02% from its proportion measured as of September 30, 2024.

Changes of assumptions or other inputs reflect a change in the discount rate from 2024 to 2025.

There were no changes of benefit terms that affected measurement of the TPL during the measurement period.

For the measurement year ended August 31, 2024, the City recognized pension expense of \$132,519. On behalf revenues and expenses were immaterial and not recognized by the City.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

At September 30, 2024, the City reported its proportionate share of the TESRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Pension Plan Adjustments	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 13,444	\$
Changes in Assumptions	143,016	
Differences between projected and actual investment earnings	21,560	
Contributions Subsequent to the Measurement Date	17,800	
	\$ 195,820	\$ 0

The \$17,800 in contributions paid to TESRS subsequent to the measurement date of the net pension liability but before the end of the City's reporting period will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year	Net Deferred Outflows/(Inflows) of Resources
2025	\$ 105,710
2026	78,766
2027	(2,401)
2028	(4,055)
	\$ 178,020

Note 8 – Other Postemployment Benefits (OPEB) – Supplemental Death Benefits Fund

Texas Municipal Retirement System (TMRS) administers a defined 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. 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 an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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 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.

Benefits Provided

The plan provides a \$7,500 post-retirement death benefit to beneficiaries of service retirees and disability retirees of employers that have elected participation in the SDBF. The OPEB benefit is a fixed \$7,500 lump-sum benefit and no future increases are assumed in the benefit amount.

The SDBF fund does not meet the requirements of a trust under Paragraph 4b of GASB No. 75, as the assets of the SDBF can be used to pay active SDBF benefits which are not part of the OPEB plan. The contributions for retiree SDBF coverage are assigned to the OPEB plan under GASB 75 and are used to determine the benefit payments shown in the changes in the total OPEB liability.

Benefit terms are established under the TMRS Act. Participation in the retiree SDBF is optional and the employer may elect to opt out of (or opt into) coverage as of January 1 each year. The City's contribution rate for the retiree SDBF program is calculated annually on an actuarial basis, and is equal to the cost of providing a one-year death benefit equal to \$7,500.

Employees Covered by Benefit Terms

At the December 31, 2024 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees Currently Receiving Benefits	28
Inactive Employees Entitled to but not Yet Receiving Benefits	13
Active Employees	65
Total Plan Employees	<u>106</u>

Total OPEB Liability

The City's total OPEB liability of \$173,016 was measured as of December 31, 2024, and was determined by an actuarial valuation as of that date.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Actuarial Assumptions

Actuarial Cost Method	Entry Age Normal
Discount Rate	4.08% as of December 31, 2024 - Assumption Change
Inflation	2.50%
Salary Increases	3.60% to 11.85% including inflation
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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
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 the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.

The TMRS SDBF is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB No. 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 4.08% based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2024.

Annuity Purchase Rates:

Annuity purchase rates are used to determine the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) until 2027 are based on a mortality study performed in 2013, with the factors phasing into being based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. The current table of APRs is explicitly valued through 2032 and then it is assumed the APRs and the valuation mortality assumptions will be consistent over time. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Experience Studies:

Actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the period ending December 31, 2022. They were adopted by the Board in 2023 and were first used in the December 31, 2023 actuarial valuation. The Actuarial Experience Investigation Study report dated September 28, 2023 details the analysis. For determining the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the APRs are based on the Mortality Experience Investigation Study covering 2009 through 2011 and Dated December 31, 2013. TMRS uses the experience studies as a basis for determining assumptions, except where required to be treated different by GASB 75.

Changes in the Total OPEB Liability

Balance as of December 31, 2023	\$ 174,437
Changes for the year:	
Service Cost	10,537
Interest on Total OPEB Liability	6,620
Difference Between Expected and Actual Experience	(1,198)
Changes in Assumptions or Other Inputs	(9,184)
Benefit Payments	<u>(8,196)</u>
Balance as of December 31, 2024	<u>\$ 173,016</u>

Changes of assumptions or other inputs reflect a change in the discount rate from 2024 to 2025.

There were no changes of benefit terms that affected measurement during the measurement period.

Sensitivity Analysis

The following presents the Total OPEB Liability of the employer, calculated using the discount rate 4.08%, as well as what the Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.08%) or 1 percentage point higher (5.08%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

	1% Decrease in Discount Rate (3.08%)	Discount Rate (4.08%)	1% Increase in Discount Rate (5.08%)
Total OPEB Liability	\$ <u>205,106</u>	\$ <u>173,016</u>	\$ <u>147,802</u>

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

For the year ended September 30, 2025, the City recognized OPEB expense related to supplemental death benefits of \$363. At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in Assumptions or Other Inputs	\$	\$ 57
Contributions Subsequent to the Measurement Date		23,304
	<u>14,362</u>	
	<u>\$ 14,362</u>	<u>\$ 23,361</u>

An amount of \$14,362 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, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30,	<u>Amount</u>
2025	\$ (18,124)
2026	(3,636)
2027	<u>(1,601)</u>
	<u>\$ (23,361)</u>

Note 9 – Contingencies and Litigation

Contingencies

The City participates in grant programs which are governed by various regulations and rules of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to the compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Litigation and Claims

As of September 30, 2025, there were no claims or assessments nor any litigation pending against the City.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 10 – 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.

Note 11 – Prior Period Adjustment

<u>Description of prior period adjustment</u>	<u>Governmental Activities</u>
To reflect the addition of the Texas Emergency Services Retirement System (TESRS) liability and related deferred outflows and inflows that were not previously material to the City's financial statements.	\$ <u>(95,747)</u>
Increase (Decrease) in Net Position	\$ <u><u>(95,747)</u></u>

Note 12 – Subsequent Event

In October 2025, the City entered into a right to use lease agreement for two sanitation trucks in the amount of \$511,719. The lease will be repaid in five annual payments of \$119,892 and carries an interest rate of 5.156%.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

REQUIRED SUPPLEMENTARY INFORMATION

	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024
	Total Pension Liability									
Service Cost	\$ 353,182	\$ 356,071	\$ 350,657	\$ 379,780	\$ 469,377	\$ 506,009	\$ 487,747	\$ 466,327	\$ 485,391	\$ 637,312
Interest (on the total pension liability)	674,305	694,670	745,290	798,744	844,188	922,098	1,009,941	1,027,955	1,039,809	1,065,943
Differences Between Expected and Actual Experience	(65,959)	96,798	98,597	(86,539)	343,160	414,758	(515,662)	(435,021)	(169,603)	288,896
Changes in Assumptions	94,582				(39,132)				(171,259)	
Benefit Payments, Including Refunds of Employee Contributions	(402,060)	(396,073)	(393,751)	(440,632)	(486,447)	(476,929)	(587,780)	(821,101)	(965,245)	(781,011)
Net Change	\$ 654,050	\$ 751,466	\$ 800,793	\$ 651,353	\$ 1,131,146	\$ 1,365,936	\$ 394,246	\$ 238,160	\$ 219,093	\$ 1,211,140
Beginning Balance	9,657,361	10,311,411	11,062,877	11,863,670	12,515,023	13,646,169	15,012,105	15,406,351	15,644,511	15,863,604
Ending Balance	\$ 10,311,411	\$ 11,062,877	\$ 11,863,670	\$ 12,515,023	\$ 13,646,169	\$ 15,012,105	\$ 15,406,351	\$ 15,644,511	\$ 15,863,604	\$ 17,074,744
	Fiduciary Net Position									
Employer Contributions	\$ 331,836	\$ 343,853	\$ 329,928	\$ 364,766	\$ 472,716	\$ 496,837	\$ 479,480	\$ 476,079	\$ 498,891	\$ 546,298
Employee Contributions	154,036	157,328	152,744	164,204	204,840	221,379	214,327	206,863	219,776	273,189
Net Investment Income	11,346	525,652	1,164,656	(289,123)	1,459,487	840,921	1,584,285	(1,009,533)	1,467,093	1,441,095
Benefit Payments, Including Refunds of Employee Contributions	(402,060)	(396,073)	(393,751)	(440,632)	(486,447)	(476,929)	(587,780)	(821,101)	(965,245)	(781,011)
Administration Expenses	(6,911)	(5,936)	(6,035)	(5,586)	(8,248)	(5,444)	(7,335)	(8,745)	(9,349)	(9,269)
Other	(341)	(320)	(304)	(292)	(248)	(213)	48	10,434	(66)	(216)
Net Change	\$ 87,906	\$ 624,504	\$ 1,247,238	\$ (206,663)	\$ 1,642,100	\$ 1,076,551	\$ 1,683,025	\$ (1,146,003)	\$ 1,211,100	\$ 1,470,086
Beginning Balance	7,689,192	7,777,098	8,401,602	9,648,840	9,442,177	11,084,277	12,160,828	13,843,853	12,697,850	13,908,950
Ending Balance	\$ 7,777,098	\$ 8,401,602	\$ 9,648,840	\$ 9,442,177	\$ 11,084,277	\$ 12,160,828	\$ 13,843,853	\$ 12,697,850	\$ 13,908,950	\$ 15,379,036
Net Pension Liability	\$ 2,534,313	\$ 2,661,275	\$ 2,214,830	\$ 3,072,846	\$ 2,561,892	\$ 2,851,277	\$ 1,562,498	\$ 2,946,661	\$ 1,954,654	\$ 1,695,708
Fiduciary Net Position as a Percentage of Total Pension Liability	75.42%	75.94%	81.33%	75.45%	81.23%	81.01%	89.86%	81.16%	87.68%	90.07%
Covered Payroll	\$ 2,200,508	\$ 2,226,836	\$ 2,182,059	\$ 2,345,768	\$ 2,926,289	\$ 3,162,558	\$ 3,061,813	\$ 2,955,180	\$ 3,139,656	\$ 3,902,706
Net Pension Liability as a Percentage of Covered Payroll	115.17%	119.51%	101.50%	131.00%	87.55%	90.16%	51.03%	99.71%	62.26%	43.45%

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

REQUIRED SUPPLEMENTARY INFORMATION

	<u>8/31/2015</u>	<u>8/31/2016</u>	<u>8/31/2017</u>	<u>8/31/2018</u>	<u>8/31/2019</u>	<u>8/31/2020</u>	<u>8/31/2021</u>	<u>8/31/2022</u>	<u>8/31/2023</u>	<u>8/31/2024</u>
	<u>Total Pension Liability</u>									
City's proportion of the Net Pension Liability	0.283%	0.291%	0.281%	0.271%	0.285%	0.360%	0.355%	0.368%	0.354%	0.374%
City's Proportionate Share of the Net Pension Liability	\$ 75,540	\$ 84,763	\$ 67,445	\$ 58,673	\$ 80,785	\$ 90,759	\$ 38,035	\$ 150,991	\$ 153,236	\$ 41,583
State's Proportionate Share of the Net Pension Liability	26,184	29,303	22,087	16,284	23,963	25,873	10,530	39,194	40,614	100,576
Total	\$ 101,724	\$ 114,066	\$ 89,532	\$ 74,957	\$ 104,748	\$ 116,632	\$ 48,565	\$ 190,185	\$ 193,850	\$ 142,159
City's Covered Payroll *	N/A									
City's Net Pension Liability as a Percentage of Covered Payroll	N/A									
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.90%	76.30%	81.40%	84.30%	80.20%	83.20%	93.10%	75.20%	74.60%	56.30%

* Active members are volunteers without significant pay.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

REQUIRED SUPPLEMENTARY INFORMATION

	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2018</u>	<u>9/30/2019</u>	<u>9/30/2020</u>	<u>9/30/2021</u>	<u>9/30/2022</u>	<u>9/30/2023</u>	<u>9/30/2024</u>	<u>9/30/2025</u>
Actuarially Determined Contribution	\$ 356,887	\$ 330,373	\$ 344,912	\$ 459,252	\$ 471,269	\$ 480,352	\$ 474,152	\$ 459,209	\$ 519,961	\$ 634,761
Actual Contributions	<u>356,887</u>	<u>330,373</u>	<u>344,912</u>	<u>459,252</u>	<u>471,269</u>	<u>480,352</u>	<u>474,152</u>	<u>485,967</u>	<u>536,270</u>	<u>634,761</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ (26,758)</u>	<u>\$ (16,309)</u>	<u>\$ 0</u>						
Covered Payroll	\$ 2,335,131	\$ 2,172,204	\$ 2,233,024	\$ 2,865,254	\$ 3,029,539	\$ 3,078,715	\$ 2,966,350	\$ 3,047,006	\$ 3,630,877	\$ 4,602,009
Contributions as a Percentage of Covered Payroll	15.28%	15.21%	15.45%	16.03%	15.56%	15.60%	15.98%	15.95%	14.77%	13.79%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

REQUIRED SUPPLEMENTARY INFORMATION

	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2018</u>	<u>9/30/2019</u>	<u>9/30/2020</u>	<u>9/30/2021</u>	<u>9/30/2022</u>	<u>9/30/2023</u>	<u>9/30/2024</u>	<u>9/30/2025</u>
Contractually Required Contributions	\$ 13,320	\$ 13,572	\$ 12,999	\$ 12,777	\$ 16,780	\$ 17,050	\$ 17,900	\$ 16,850	\$ 19,300	\$ 13,200
Contributions in Relation to Contractually Required Contribution	13,320	13,572	12,999	12,777	16,780	17,050	17,900	16,850	19,300	13,200
Contribution Deficiency (Excess)	<u>\$ 0</u>									
City's Covered Payroll	N/A									
Contributions as a Percentage of Payroll	N/A									

* Active members are volunteers without significant pay.

**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
SUPPLEMENTAL DEATH BENEFIT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

REQUIRED SUPPLEMENTARY INFORMATION

	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2020</u>	<u>12/31/2021</u>	<u>12/31/2022</u>	<u>12/31/2023</u>	<u>12/31/2024</u>
	Total OPEB Liability							
Service Cost	\$ 5,673	\$ 7,037	\$ 7,316	\$ 11,385	\$ 11,635	\$ 12,412	\$ 8,163	\$ 10,537
Interest on the Total OPEB Liability	4,573	4,660	5,359	4,999	4,300	4,012	6,333	6,620
Differences between Expected and Actual Experience		3,156	(5,879)	(7,864)	(14,853)	3,667	2,734	(1,198)
Changes in Assumptions	10,235	(9,594)	30,639	28,415	6,423	(74,743)	7,732	(9,184)
Benefit Payments**	<u>(1,309)</u>	<u>(1,407)</u>	<u>(2,048)</u>	<u>(2,214)</u>	<u>(5,511)</u>	<u>(4,137)</u>	<u>(5,651)</u>	<u>(8,196)</u>
Net Change	\$ 19,172	\$ 3,852	\$ 35,387	\$ 34,721	\$ 1,994	\$ (58,789)	\$ 19,311	\$ (1,421)
Beginning Balance	<u>118,789</u>	<u>137,961</u>	<u>141,813</u>	<u>177,200</u>	<u>211,921</u>	<u>213,915</u>	<u>155,126</u>	<u>174,437</u>
Ending Balance	\$ <u>137,961</u>	\$ <u>141,813</u>	\$ <u>177,200</u>	\$ <u>211,921</u>	\$ <u>213,915</u>	\$ <u>155,126</u>	\$ <u>174,437</u>	\$ <u>173,016</u>
Total OPEB Liability	\$ <u>137,961</u>	\$ <u>141,813</u>	\$ <u>177,200</u>	\$ <u>211,921</u>	\$ <u>213,915</u>	\$ <u>155,126</u>	\$ <u>174,437</u>	\$ <u>173,016</u>
Covered Payroll	\$ 2,182,059	\$ 2,345,768	\$ 2,926,289	\$ 3,162,558	\$ 3,061,813	\$ 2,955,180	\$ 3,139,656	\$ 3,902,706
Total OPEB Liability as a Percentage of Covered Payroll	6.32%	6.05%	6.06%	6.70%	6.99%	5.25%	5.56%	4.43%

Note: Only eight years of GASB 75 data available as of 12/31/2024. The remaining three years of data will be built on a go forward basis.

Notes to RSI:

1. This plan does not have assets accumulated in a trust that meets the criteria in GASBS No. 75.
2. Changes in Assumptions are due to updating discount rate based on the requirements of GASBS No. 75.

CITY OF KERMIT, TEXAS

EXHIBIT B-6

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED SEPTEMBER 30, 2025
 REQUIRED SUPPLEMENTARY INFORMATION

	Original	Final	Actual	Variance with Final Budget Positive (Negative)
Revenue:				
Taxes:				
Property Tax	\$ 874,490	\$ 1,085,209	\$ 947,692	\$ (137,517)
General Sales and Use Taxes	3,500,000	3,500,000	3,059,321	(440,679)
Franchise Tax	413,000	413,000	274,568	(138,432)
Licenses and Permits	97,000	99,500	105,713	6,213
Contributions and Donations			205,620	205,620
Intergovernmental Revenue and Grants	5,000	5,000	58,900	53,900
Fines and Fees	226,000	233,500	302,596	69,096
Charges for Services	197,500	222,500	219,324	(3,176)
Investment Earnings	200,000	202,500	82,708	(119,792)
Other Revenue	20,000	20,000	255,199	235,199
	<u>\$ 5,532,990</u>	<u>\$ 5,781,209</u>	<u>\$ 5,511,641</u>	<u>\$ (269,568)</u>
Expenditures:				
Current:				
City Hall	\$ 494,650	\$ 506,650	\$ 1,580,202	\$ (1,073,552)
General Administration	726,208	726,208	783,896	(57,688)
Tax Department	7,500		7,636	(7,636)
Municipal Court	160,532	163,032	187,944	(24,912)
Police	3,081,878	3,117,603	3,807,634	(690,031)
Fire Department	207,200	214,850	307,191	(92,341)
County Ambulance	15,500	15,500		15,500
Code Enforcement	181,156	183,656	233,011	(49,355)
Street Department	521,469	550,544	1,010,628	(460,084)
Street Lighting	90,000	90,000	104,843	(14,843)
Animal Control	475,443	486,643	435,406	51,237
Fleet Maintenance	255,882	267,332	353,186	(85,854)
Parks and Cemetery	962,579	982,529	1,349,028	(366,499)
Professional and Insurance			83,458	(83,458)
Recreation			3,480	(3,480)
Economic Development and Assistance		136,022	200,974	(64,952)
Debt Service:				
Principal Retirement			278,879	(278,879)
Interest and Fiscal Charges			90,292	
Total Expenditures	<u>\$ 7,179,997</u>	<u>\$ 7,440,569</u>	<u>\$ 10,817,688</u>	<u>\$ (3,286,827)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (1,647,007)</u>	<u>\$ (1,659,360)</u>	<u>\$ (5,306,047)</u>	<u>\$ (3,556,395)</u>
Other Financing Sources (Uses):				
Transfers In (Out)	\$ 1,750,000	\$ 1,750,000	\$ 1,692,301	\$ (57,699)
Proceeds from Disposal of Assets			141,825	141,825
Proceeds from Financing Lease			1,000,566	1,000,566
Total Other Financing Sources	<u>\$ 1,750,000</u>	<u>\$ 1,750,000</u>	<u>\$ 2,834,692</u>	<u>\$ 1,084,692</u>
Net Change in Fund Balances	\$ 102,993	\$ 90,640	\$ (2,471,355)	<u>\$ (2,471,703)</u>
Fund Balances - Beginning	<u>3,944,869</u>	<u>3,944,869</u>	<u>3,944,869</u>	
Fund Balances - Ending	<u>\$ 4,047,862</u>	<u>\$ 4,035,509</u>	<u>\$ 1,473,514</u>	

CITY OF KERMIT, TEXAS

EXHIBIT B-7

HOTEL/MOTEL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2025

REQUIRED SUPPLEMENTARY INFORMATION

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenue:				
Taxes:				
Other Taxes	\$ 875,000	\$ 875,000	\$ 815,605	\$ (59,395)
Investment Earnings			93,164	93,164
Rents and Royalties			10,200	10,200
	<u>\$ 875,000</u>	<u>\$ 875,000</u>	<u>\$ 918,969</u>	<u>\$ 43,969</u>
Expenditures:				
Current:				
Economic Development and Assistance	\$ 418,750	\$ 418,750	\$ 833,427	\$ (414,677)
Total Expenditures	<u>\$ 418,750</u>	<u>\$ 418,750</u>	<u>\$ 833,427</u>	<u>\$ (414,677)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 456,250</u>	<u>\$ 456,250</u>	<u>\$ 85,542</u>	<u>\$ (370,708)</u>
Net Change in Fund Balances	\$ 456,250	\$ 456,250	\$ 85,542	<u>\$ (370,708)</u>
Fund Balances - Beginning	<u>1,915,652</u>	<u>1,915,652</u>	<u>1,915,652</u>	
Fund Balances - Ending	<u>\$ 2,371,902</u>	<u>\$ 2,371,902</u>	<u>\$ 2,001,194</u>	

**CITY OF KERMIT, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	20 Years (longest amortization ladder)
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.60% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that vary by age. Last updated for the 2023

valuation pursuant to an experience study of the period ending 2022.

Mortality Rates:

Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021. Pre-retirement: PUB(10) mortality tables, with 110% of the Public Safety table used for males and 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).

Other Information:

Changes in Assumptions: There were no changes in assumptions during the year.

Benefit Changes: There were no benefit changes during the year.

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**CITY OF KERMIT, TEXAS
GENERAL FUND BUDGETARY COMPARISON SCHEDULE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2025**

BUDGETARY DATA

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least 10 days public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of an ordinance by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. The legal level of control is at the fund level. During the year, the budget was amended as necessary. All budget appropriations lapse at year end.

The budget is presented on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

The excess expenditures over appropriations are covered by available unassigned fund balance.

COMBINING NONMAJOR FUND FINANCIAL STATEMENTS

CITY OF KERMIT, TEXAS

EXHIBIT C-1

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2025

ASSETS	<u>Police Department Donations</u>	<u>Texas CDBG Grant</u>	<u>Municipal Court Fund</u>	<u>Total Nonmajor Funds (See Exhibit A-3)</u>
Assets:				
Cash and Cash Equivalents	\$ 93,173	\$	\$ 74,030	\$ 167,203
Receivables, net of allowance Accounts	<u> </u>	55,194	<u> </u>	55,194
Total Assets	<u>\$ 93,173</u>	<u>\$ 55,194</u>	<u>\$ 74,030</u>	<u>\$ 222,397</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 1,395	\$ 55,194	\$	\$ 56,589
Total Liabilities	<u>\$ 1,395</u>	<u>\$ 55,194</u>	<u>\$ 0</u>	<u>\$ 56,589</u>
Fund Balances:				
Restricted:				
Municipal Court Technology & Security	\$	\$	\$ 74,030	\$ 74,030
Public Safety	91,778	<u> </u>	<u> </u>	91,778
Total Fund Balances	<u>\$ 91,778</u>	<u>\$ 0</u>	<u>\$ 74,030</u>	<u>\$ 165,808</u>
Total Liabilities and Fund Balances	<u>\$ 93,173</u>	<u>\$ 55,194</u>	<u>\$ 74,030</u>	<u>\$ 222,397</u>

CITY OF KERMIT, TEXAS

EXHIBIT C-2

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Special Revenue			Total Nonmajor Funds (See Exhibit A-5)
	Police Department Donations	Texas CDBG Grant	Municipal Court Fund	
Revenue:				
Intergovernmental Revenue and Grants	\$	\$ 454,883	\$	\$ 454,883
Fines and Fees			34,342	34,342
Contributions and Donations	34,722			34,722
Investment Income	4,478		2,232	6,710
Total Revenue	<u>\$ 39,200</u>	<u>\$ 454,883</u>	<u>\$ 36,574</u>	<u>\$ 530,657</u>
Expenditures:				
Police Department	\$ 43,035	\$	\$	\$ 43,035
Street Department		464,838		464,838
Total Expenditures	<u>\$ 43,035</u>	<u>\$ 464,838</u>	<u>\$ 0</u>	<u>\$ 507,873</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (3,835)</u>	<u>\$ (9,955)</u>	<u>\$ 36,574</u>	<u>\$ 22,784</u>
Other Financing Sources (Uses):				
Transfers In (Out)	\$	\$ 9,955	\$	\$ 9,955
Total Other Financing Sources (Uses)	<u>\$ 0</u>	<u>\$ 9,955</u>	<u>\$ 0</u>	<u>\$ 9,955</u>
Net Change in Fund Balances (Deficit)	\$ (3,835)	\$ 0	\$ 36,574	\$ 32,739
Fund Balances - Beginning	<u>95,613</u>	<u>0</u>	<u>37,456</u>	<u>133,069</u>
Fund Balances - Ending	<u><u>\$ 91,778</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 74,030</u></u>	<u><u>\$ 165,808</u></u>

OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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LUBBOCK, TEXAS 79423-1954

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

City Council
City of Kermit, Texas
Kermit, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kermit, Texas, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise City of Kermit, Texas' basic financial statements, and have issued our report thereon dated February 3, 2026.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items [2025-01, 2025-02, 2025-03 and 2025-04] that we considered to be material weaknesses.

Report on Compliance and Other Matters

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

City of Kermit, Texas – Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

February 3, 2026

CITY OF KERMIT, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Financial Statement Findings:

2025-01	Utility Billing is not in line with rate ordinances.
Condition and Criteria:	Certain rates in the utility billing system do not align with the approved rate ordinance.
Cause:	Utility billing software has not been fully reconciled to the rate ordinances and vice a versa.
Effect:	The City is missing revenues that should be billed based on the language of the ordinance.
Recommendation:	The City needs to approve a rate ordinance that encompasses all scenarios with in the City limits and out of the City limits. The rate ordinance then needs to be audited on an account by account basis to ensure all charges, fees, etc. are being charged to customers.

View of Responsible Officials and Planned Corrective Actions–

2025-01	Management will recommend to Council to execute a Utility Rate study to bring the ordinance and the utility rates in line, as well as evaluation for possible changes to utility rates.
Contact:	Mike Arismendez, City Manager

CITY OF KERMIT, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Financial Statement Findings:

2025-02 Internal Controls- Review before Approval

Condition and Criteria: During our testing, we became aware that certain transactions were recorded during the year without proper approval and review. The City should have a review process in place on all processes to ensure that proper amounts are billed, paid, reported, etc.

Cause: Software rights and privileges should be adjusted to better reflect the need of the approval processes.

Effect: The City could disburse funds or adjust customer bills without proper budget or managerial approval.

Recommendation: The City needs to perform a review of user rights and privileges in the City's accounting software to ensure that front end controls exist. Specifically focusing the review on processes and adjustments that should be approved prior to posting.

View of Responsible Officials and Planned Corrective Actions--

2025-02 Management has implemented processes to ensure that supervisors are responsible for the requested funds, have signed off on each invoice, and has compared to existing budget balances.

Contact: Mike Arismendez, City Manager

CITY OF KERMIT, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Financial Statement Findings:

2025-03 Pooled Cash Disbursement Fund Bank Reconciliation

Condition and Criteria: During our testing, we noted that the City was unable to produce a bank reconciliation for the pooled cash disbursement account that reconciled the balance per the bank statement to their accounting system. The City's internal controls over financial reporting should be sufficient to assure that bank reconciliations are being accurately prepared and reviewed by another individual independent of the bank reconciliation process.

Cause: The City did not have sufficient internal controls in place to ensure the accurate preparation of the pooled cash disbursement account.

Effect: The City's pooled cash disbursement reconciliations prepared for the year had erroneous reconciling items and Fund 99 was not being reconciled to the other funds.

Recommendation: We recommend the City ensure that pooled cash disbursement account bank reconciliations are accurately prepared monthly and reviewed by an independent individual outside of the bank reconciliation preparation process.

View of Responsible Officials and Planned Corrective Actions--

2025-03 Management has implemented processes to ensure that all bank accounts are timely and accurately reconciled. A contract with a finance consultant has been entered into to assist the City with reviewing the City's software and helping to make corrections as necessary.

Contact: Mike Arismendez, City Manager

CITY OF KERMIT, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Financial Statement Findings:

2025-04	Policies and Procedures
Condition and Criteria:	During our testing, we became aware that the City does not have proper formal written policies and procedures in place. As a result, practices are inconsistent and rely on informal guidance or employee knowledge.
Cause:	Management has not established or formally documented policies and procedures. This appears to be due to limited resources and the absence of a formal policy development process.
Effect:	Without documented policies and procedures, the City is at increased risk of errors, inefficiencies, inconsistent application of processes, and noncompliance with applicable laws, regulations, or internal requirements.
Recommendation:	We recommend that management develop, approve, and implement formal written policies and procedures. Policies should be communicated to relevant staff and reviewed periodically to ensure they remain current and effective.

View of Responsible Officials and Planned Corrective Actions–

2025-04	Management has implemented processes to review the current policy and procedure manual for the City and to begin updating as necessary.
Contact:	Mike Arismendez, City Manager

CITY OF KERMIT, TEXAS

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Prior Year's Findings and Status-

2024-01- Not Implemented

2024-02- Not Implemented