

CITY OF KERMIT, TEXAS

ANNUAL FINANCIAL AND
COMPLIANCE REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2017

CITY OF KERMIT, TEXAS
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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LETTER OF TRANSMITTAL

City of Kermit, Texas
Name of City

Winkler
County

We, the undersigned, certify that the attached Annual Financial and Compliance Report of the above named city was reviewed and (check one) approved disapproved for the year ended September 30, 2017 at a meeting of the Council of such city on the 31st day of August 23, 2018.

Jerry K. Phillips
Signature of Mayor

Frankie Davis - Interim
Signature of City Manager City Manager

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



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

SMITH & RIVES, PC
Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT

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

Members of the Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas (the "City") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

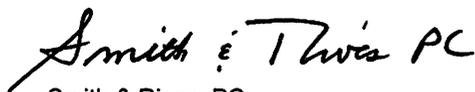
Other Information

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

The combining and individual nonmajor fund financial statements are the responsibility of management, and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Smith & Rives, PC
Monahans, Texas
August 23, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of the City of Kermit, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2017. Please read it in conjunction with the Independent Auditor's Report on page 1, and the City's Basic Financial Statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

The City's net position increased by \$ 446,197 as a result of this year's operations. Net position of our governmental funds decreased by \$386,731, or 136%, and net position of our business-type activities increased by \$832,928, or approximately 21%. (Exhibit B-1)

During the year, the City had operating expenditures that were \$483,539 more than the \$2,825,370 generated in tax and other revenues for the governmental programs. (Exhibit C-3) This compares to last year when expenditures exceeded revenues by \$1,453,116.

In the City's business-type activities, revenues increased by \$67,042, while operating expenses increased by \$59,975.

Total cost of the City's programs was \$5,697,775 while last year's cost was 5,648,195. (Exhibit B-1)

The fund balance for all Governmental Funds ended the year at (\$561,849) and the ending fund balance from last year was (\$138,536).(Exhibit C-1)

The resources available for appropriation were \$117,362 more than budgeted for the General Fund.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 and 11-12). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

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

The notes to the financial statements (starting on page 22) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting, which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who pay for the costs of programs (such as utility funds) and grants provided by outside parties and agencies (program revenues), and revenues provided by the taxpayers or other unrestricted sources (general revenues). All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

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

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

Governmental Activities: Most of the City's basic services are reported here. Property, Sales & Use, and Franchise Taxes finance most of these activities.

Business-type Activities: The City charges a fee to customers to help it cover all or most of the cost of services it provides in the Water Utility System and Solid Waste Funds.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Position of the City's governmental activities was (\$671,379). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - were \$ -1,810,972,109 at September 30, 2017.

Net Position of the City's business-type activities were \$4,732,536, which included \$1,554,035 in unrestricted net position, \$461,440 in net position restricted by Enabling Legislation and \$2,717,061 in Investment in capital assets, net of related debt. The net position of the business-type activities decreased by \$832,928.

**Table I
Net Position**

| | Governmental Activities | | Business-type Activities | |
|---|-------------------------|---------------------|--------------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Current and other assets | \$ (208,723) | \$ 441,366 | \$ 3,082,438 | \$ 2,405,445 |
| Capital assets | 1,407,123 | 1,404,038 | 5,575,925 | 5,890,256 |
| Deferred Outflows | 435,258 | 512,274 | 239,132 | 280,602 |
| Total assets | \$ 1,633,658 | \$ 2,357,678 | \$ 8,897,495 | \$ 8,576,303 |
| Long-term liabilities | \$ 1,928,147 | \$ 2,071,006 | \$ 3,784,574 | \$ 4,310,545 |
| Other liabilities | 369,997 | 531,499 | 339,648 | 343,533 |
| Deferred Inflows | 6,893 | 39,821 | 40,737 | 22,617 |
| Total liabilities | \$ 2,305,037 | \$ 2,642,326 | \$ 4,164,959 | \$ 4,676,695 |
| Net Position: | | | | |
| Invested in capital assets, net of related debt | \$ 1,083,123 | \$ 958,123 | \$ 2,717,061 | \$ 2,461,831 |
| Restricted | 56,470 | 285,338 | 461,440 | 45,852 |
| Unrestricted | (1,810,972) | (1,528,109) | 1,554,035 | 1,391,925 |
| Total Net Position | \$ (671,379) | \$ (284,648) | \$ 4,732,536 | \$ 3,899,608 |

**Table II
Changes in Net Position**

| | Governmental Activities | | Business-type Activities | |
|---------------------------------------|-------------------------|---------------------|--------------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues: | | | | |
| Program Revenues: | | | | |
| Charges for Services | \$ 463,046 | \$ 369,340 | \$ 2,877,960 | \$ 2,810,643 |
| General Revenues: | | | | |
| Maintenance and Operations Taxes | 703,982 | 537,341 | - | - |
| General Sales Taxes | 1,090,563 | 991,115 | - | - |
| Franchise Taxes | 277,757 | 276,948 | - | - |
| Other Taxes | 199,610 | 135,218 | - | - |
| Penalty & Interest | 41,482 | 33,978 | - | - |
| Grants & Contributions not restricted | 6,620 | 4,152 | - | - |
| Capital Grants | - | - | - | - |
| Contribution to Paint Water Tower | 19,750 | - | - | - |
| Miscellaneous | 66,922 | 52,705 | 17,986 | - |
| Special Assessments | - | - | 365,054 | 379,234 |
| Investment Earnings | 9,433 | 6,860 | 3,807 | 590 |
| Total Revenue | \$ 2,879,165 | \$ 2,407,657 | \$ 3,264,807 | \$ 3,190,467 |

Table II
Changes in Net Position
Continued

| | Governmental Activities | | Business-type Activities | |
|---|-------------------------|---------------------|--------------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Expenses: | | | | |
| Sewerage | \$ - | \$ - | \$ 830,504 | \$ 830,504 |
| Utility Office | - | - | 123,708 | 123,708 |
| Finance | - | - | 77,688 | 77,688 |
| Solid Waste/Sanitation | - | - | 867,436 | 867,436 |
| City Hall | 217,537 | 182,890 | - | - |
| Municipal Court | 41,831 | 39,942 | - | - |
| Administration | 178,357 | 170,015 | - | - |
| Child Safety Education | 1,266,467 | 1,260,800 | - | - |
| Police | 137,647 | 173,261 | - | - |
| Fire Department | 156,498 | 149,143 | - | - |
| Inspections | 666 | 260 | - | - |
| Street, Humane and City Shop | 676,898 | 809,306 | - | - |
| Street Lights | 76,860 | 80,974 | - | - |
| Cemetery and Parks | 314,602 | 275,664 | - | - |
| Summer Rec Program | 2,200 | | | |
| EMS | 12,000 | 12,000 | - | - |
| Economic Development | 224,775 | 143,239 | - | - |
| Debt Interest and Expenses | 6,715 | 13,600 | 82,241 | 94,595 |
| Depreciation | - | - | 347,677 | 343,170 |
| Total Expenses | <u>\$ 3,313,053</u> | <u>\$ 3,311,094</u> | <u>\$ 2,384,720</u> | <u>\$ 2,337,101</u> |
| Increase (Decrease) in Net Position before Transfers and Special Items | \$ (433,888) | \$ (903,437) | \$ 880,087 | \$ 853,366 |
| Transfers | 47,157 | (51,932) | (47,157) | 51,932 |
| Litigation Settlement | - | - | - | - |
| Increase (Decrease) in Net Position | <u>\$ (386,731)</u> | <u>\$ (955,369)</u> | <u>\$ 832,930</u> | <u>\$ 905,298</u> |
| Net Position - October 1 | (284,648) | 663,464 | 3,899,606 | 2,994,308 |
| Prior Period Adjustments | - | 7,257 | - | - |
| Net Position - September 30 | <u>\$ (671,379)</u> | <u>\$ (284,648)</u> | <u>\$ 4,732,536</u> | <u>\$ 3,899,606</u> |

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

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a fund balance of (\$561,849) while it reported a fund balance of (\$138,536) last year.

Over the course of the year, the City Council made revisions to the City's budget. These budget amendments added \$30,000 to budgeted expenditures for the year for an additional budgeted decrease in fund balance for all governmental funds of (\$30,000).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2017, the City had \$16,343, 919 invested in a broad range of capital assets, including land, the water system, sewer system and the solid waste fund as follows:

| | |
|---------------------------|-----------------------------|
| General Fund | \$ 5,742,599 |
| Water Utility System Fund | \$ 9,251,218 |
| Solid Waste Fund | <u>1,350,102</u> |
| Total Business-Type Funds | <u>\$ 10,601,320</u> |
| | |
| Total | <u><u>\$ 16,343,919</u></u> |

This amount represents a net increase of \$232,906 or 1.45%.

This year's net additions included:

Additions:

Governmental Funds:

| | |
|---|-------------------|
| Cemetery Expansion -placed into service | \$ 669,942 |
| Current Year Cemetery Expansion CIP | \$ 10,445 |
| Cop sync Camera System | 18,640 |
| Cop sync Patrol Car Computers | 53,967 |
| Computer Server 2008R2 STD | 6,505 |
| TYMCO 600BAH Sweeper (used) | <u>110,000</u> |
| Total Governmental Funds | <u>\$ 869,499</u> |

Business-Type Funds

Solid Waste Fund Additions:

| | |
|------------------------------------|------------------|
| 36 - 3 yard side loader containers | \$ 17,439 |
| 24 - 3 yard & 1 30 yard containers | <u>15,909</u> |
| Total Solid Waste Fund Additions | <u>\$ 33,348</u> |
| | |
| Total Additions | \$ 902,847 |

Dispositions (cost):

Total Expenditures for Cemetery CIP placed into service \$ (669,942)

Net Additions

\$ 232,905

Debt

The loans for a Copsync and 2014 Freightliner were decreased by \$15,386 (paid in full) and \$24,571 (3 years remaining) respectively.

General Obligation Bonds for Water System Utility Fund

During the fiscal year ending September 30, 2008 the City passed an ordinance whereby \$4,595,000 in General Obligation Bonds was sold to the Texas Water Development Board. The proceeds of these bonds were designated to construct a new wastewater treatment system. This construction was mandatory because the City's wastewater treatment system was considered deficient under state requirements.

The bond repayments are funded by a specially-assessed charge to the residents of the City who have a water meter connection. The additional charge to each resident is \$12 per water meter per month. City managers project that the revenue from this assessment will be sufficient to make the required payments on the debt. The City reduced this bond debt by \$220,000 and paid \$76,055 in bond interest for the year ended September 30, 2017. The City has eleven years of bond payments left on these notes.

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

Tax Notes for Solid Waste Fund

During the fiscal year ended September 30, 2012, the City issued \$930,000 in tax notes to fund garbage collection equipment. The City terminated its contract with an outside party to collect and dispose of the city's solid waste and began operating the sanitation function internally in July 2012. City administration felt citizens would be much better served in this capacity by City personnel. Additionally, administration determined that the City could recognize some savings by taking the sanitation service in house.

The bond repayments are funded by the net revenue generated by the operation of the solid waste collection service provided by the City and by property taxes if the net revenue generated by operations fails to be adequate. The City authorized a bond prepayment Resolution to call (redeem) note on February 08, 2017. The city paid \$325,000 principal and \$ 3,904.51 in bond interest. Prepaying the note saved the city \$ 4,282.99 in interest, less \$1,000 in Attorney fees, for net savings of \$ 3,282.99.

Tax Notes for Cemetery Expansion Project

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

The bond repayments are funded by the City's taxes and revenues. However, the City did not assess a separate tax levy for the payment of these bonds. The City reduced this bond debt by \$104,000 and paid \$9,212 in bond interest for the September 30, 2017. The City has three years of bond payments remaining on these notes.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2017-2018 budget and tax rate. One of those factors is the economy and, in particular, the oil & gas industry. The price of crude oil and natural gas has stabilized over the course of the current year, which contributes heavily upon the valuation of properties on the mineral roll. The City's population has held at a small, steady increase in recent years. However, administration is fully aware of the volatility of the oil and gas industry and has attempted to adopt a conservative approach to the City's financial operations.

These indicators were taken into account when adopting the General Fund budget for 2017-2018. The City's General Fund projects a deficit budget of revenues vs. expenditures of (\$686,335). Compared to fiscal year 2016-2017 adopted budget, this is a decrease of \$228,884, or about 25%. The tax rate was set at \$0.441074 per \$100 valuation.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CITY OF KERMIT, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

EXHIBIT A-1

| Data Control Codes | Primary Government | | | |
|--------------------------------------|--|--------------------------------|---------------------|---------------------|
| | Governmental Activities | Business Type Activities | Total | |
| ASSETS | | | | |
| 1010 | Cash and Cash Equivalents | \$ (386,514) | \$ 1,865,693 | \$ 1,479,179 |
| 1070 | Taxes Receivable - Delinquent | 169,923 | - | 169,923 |
| 1071 | Allowance for Uncollectible Delinquent Taxes | (80,794) | - | (80,794) |
| 1150 | Accounts Receivable (Net) | 37,473 | 277,518 | 314,991 |
| 1151 | Allowance for Uncollectible Accts Receivable | (4,602) | - | (4,602) |
| 1300 | Due from Other Funds | (30,838) | 30,838 | - |
| 1430 | Prepaid Items | 16,734 | 8,620 | 25,354 |
| | Restricted Assets: | | | |
| 1611 | Temporarily Restricted Cash | 69,895 | 887,192 | 957,087 |
| | Capital Assets: | | | |
| 1710 | Land Purchase and Improvements | 74,664 | 6,300 | 80,964 |
| 1720 | Infrastructure (Net) | 159,755 | - | 159,755 |
| 1730 | Buildings (Net) | 713,058 | 7,488 | 720,546 |
| 1740 | Improvements other than Buildings (Net) | - | 4,621,315 | 4,621,315 |
| 1750 | Furniture and Equipment (Net) | 459,646 | 940,822 | 1,400,468 |
| 1000 | Total Assets | <u>1,198,400</u> | <u>8,645,786</u> | <u>9,844,186</u> |
| DEFERRED OUTFLOW OF RESOURCES | | | | |
| 1997 | Deferred Outflow Related to Pension Plan | 435,258 | 239,132 | 674,390 |
| 1500 | Total Deferred Outflows of Resources | <u>435,258</u> | <u>239,132</u> | <u>674,390</u> |
| LIABILITIES | | | | |
| 2010 | Accounts Payable | 158,217 | 84,136 | 242,353 |
| 2020 | Wages and Salaries Payable | 28,703 | 16,699 | 45,402 |
| 2022 | Payroll Deductions & Withholdings Payable | 674 | 432 | 1,106 |
| 2030 | Compensated Absences Payable | 52,908 | 31,361 | 84,269 |
| 2070 | Intergovernmental Payable | 23,495 | 6,280 | 29,775 |
| 2140 | Accrued Interest Payable | - | 10,878 | 10,878 |
| 2240 | Notes Payable - Current | - | 25,408 | 25,408 |
| 2250 | Bonds Payable - Current | 106,000 | - | 106,000 |
| 2400 | Liabilities Payable from Restricted Assets | - | 151,877 | 151,877 |
| | Noncurrent Liabilities: | | | |
| 2501 | Debt Due Within One Year | - | 225,000 | 225,000 |
| 2502 | Bonds Payable - Noncurrent | 218,000 | 2,608,446 | 2,826,446 |
| 2580 | Net Pension Liability | 1,710,147 | 951,128 | 2,661,275 |
| 2000 | Total Liabilities | <u>2,298,144</u> | <u>4,111,645</u> | <u>6,409,789</u> |
| DEFERRED INFLOW OF RESOURCES | | | | |
| 2602 | Deferred Inflow Related to Pension Plan | 6,893 | 40,737 | 47,630 |
| 2500 | Total Deferred Inflows of Resources | <u>6,893</u> | <u>40,737</u> | <u>47,630</u> |
| NET POSITION | | | | |
| 3200 | Net Investment in Capital Assets | 1,083,123 | 2,717,061 | 3,800,184 |
| | Restricted for: | | | |
| 3810 | Restricted by Enabling Legislation | 47,412 | - | 47,412 |
| 3820 | Restricted by Debt Covenants | 9,058 | 461,440 | 470,498 |
| 3900 | Unrestricted Net Position | (1,810,972) | 1,554,035 | (256,937) |
| 3000 | Total Net Position | <u>\$ (671,379)</u> | <u>\$ 4,732,536</u> | <u>\$ 4,061,157</u> |

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

CITY OF KERMIT, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| Data Control Codes | Program Revenues | | |
|--|------------------|-------------------------|--|
| | Expenses | Charges for Services | Operating Grants and Contributions |
| Primary Government: | | | |
| GOVERNMENTAL ACTIVITIES: | | | |
| 110 City Hall | \$ 217,537 | \$ 700 | \$ - |
| 120 Municipal Court | 41,831 | 7,670 | - |
| 130 Administration | 178,357 | - | - |
| 210 Police Department | 1,266,467 | 186,065 | 6,620 |
| 220 Fire Department | 137,647 | - | - |
| 240 Inspections | 156,498 | 36,646 | - |
| 250 Child Safety Education | 666 | 399 | - |
| 300 Street, Humane and City Shop Departments | 676,898 | 154,044 | - |
| 310 Street Lighting | 76,860 | - | - |
| 330 Parks and Cemetary | 314,602 | 56,998 | - |
| 350 Summer Rec Program | 2,200 | - | - |
| 400 County Ambulance | 12,000 | - | - |
| 650 Economic Development and Assistance | 224,775 | 20,524 | - |
| 720 Interest on Debt | 6,715 | - | - |
| Total Governmental Activities | 3,313,053 | 463,046 | 6,620 |
| BUSINESS-TYPE ACTIVITIES: | | | |
| 701 Water Utility System | 1,401,812 | 1,875,621 | - |
| 702 Solid Waste System | 982,910 | 970,911 | - |
| Total Business-Type Activities | 2,384,722 | 2,846,532 | - |
| TOTAL PRIMARY GOVERNMENT | \$ 5,697,775 | \$ 3,309,578 | \$ 6,620 |

| | |
|---------|--|
| Data | General Revenues: |
| Control | Taxes: |
| Codes | 5010 Property Taxes, Levied for General Purposes |
| | 5120 General Sales and Use Taxes |
| | 5170 Franchise Tax |
| | 5180 Other Taxes |
| | 5190 Penalty and Interest on Taxes |
| | 5600 Investment Earnings |
| | 5640 Contributions & Doanations |
| | 5700 Miscellaneous Revenue |
| | 5800 Transfers In (Out) |
| | Total General Revenues and Transfers |
| | Change in Net Position |
| | Net Position - Beginning |
| | Net Position--Ending |

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

| Net (Expense) Revenue and Changes in Net Position | | |
|--|-----------------------------|---------------------|
| Primary Government | | |
| Governmental Activities | Business-Type Activities | Total |
| \$ (216,837) | \$ - | \$ (216,837) |
| (34,161) | - | (34,161) |
| (178,357) | - | (178,357) |
| (1,073,782) | - | (1,073,782) |
| (137,647) | - | (137,647) |
| (119,852) | - | (119,852) |
| (267) | - | (267) |
| (522,854) | - | (522,854) |
| (76,860) | - | (76,860) |
| (257,604) | - | (257,604) |
| (2,200) | - | (2,200) |
| (12,000) | - | (12,000) |
| (204,251) | - | (204,251) |
| (6,715) | - | (6,715) |
| <u>(2,843,387)</u> | <u>-</u> | <u>(2,843,387)</u> |
| - | 473,809 | 473,809 |
| - | (11,999) | (11,999) |
| - | 461,810 | 461,810 |
| <u>(2,843,387)</u> | <u>461,810</u> | <u>(2,381,577)</u> |
| 703,982 | - | 703,982 |
| 1,090,563 | - | 1,090,563 |
| 277,757 | - | 277,757 |
| 199,610 | - | 199,610 |
| 41,482 | - | 41,482 |
| 9,433 | 3,807 | 13,240 |
| 19,750 | - | 19,750 |
| 66,922 | 414,468 | 481,390 |
| 47,157 | (47,157) | - |
| <u>2,456,656</u> | <u>371,118</u> | <u>2,827,774</u> |
| (386,731) | 832,928 | 446,197 |
| (284,648) | 3,899,608 | 3,614,960 |
| <u>\$ (671,379)</u> | <u>\$ 4,732,536</u> | <u>\$ 4,061,157</u> |

CITY OF KERMIT, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

| Data Control Codes | General Fund | Other Funds | Total Governmental Funds |
|--|---------------------|------------------|--------------------------------|
| ASSETS | | | |
| 1010 Cash and Cash Equivalents | \$ (386,514) | \$ - | \$ (386,514) |
| 1070 Taxes Receivable - Delinquent | 169,923 | - | 169,923 |
| 1071 Allowance for Uncollectible Delinquent Taxes | (80,794) | - | (80,794) |
| 1150 Accounts Receivable (Net) | 19,274 | 18,199 | 37,473 |
| 1151 Allowance for Uncollectible Accts Receivable | (4,602) | - | (4,602) |
| 1300 Interfund Receivables/Payables | 4,019 | 88 | 4,107 |
| 1430 Prepaid Items | 16,734 | - | 16,734 |
| 1611 Temporarily Restricted Cash | - | 69,895 | 69,895 |
| 1000 Total Assets | <u>\$ (261,960)</u> | <u>\$ 88,182</u> | <u>\$ (173,778)</u> |
| LIABILITIES | | | |
| 2010 Accounts Payable | \$ 127,155 | \$ 31,062 | \$ 158,217 |
| 2020 Wages and Salaries Payable | 28,703 | - | 28,703 |
| 2022 Payroll Deductions & Withholdings Payabel | 674 | - | 674 |
| 2030 Compensated Absences Payable | 52,908 | - | 52,908 |
| 2070 Intergovernmental Payable | 22,854 | 641 | 23,495 |
| 2080 Due to Other Funds | 34,936 | 9 | 34,945 |
| 2000 Total Liabilities | <u>267,230</u> | <u>31,712</u> | <u>298,942</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| 2601 Unavailable Revenue - Property Taxes | 89,129 | - | 89,129 |
| 2600 Total Deferred Inflows of Resources | <u>89,129</u> | <u>-</u> | <u>89,129</u> |
| FUND BALANCES | | | |
| 3490 Other Restricted Fund Balance | - | 47,412 | 47,412 |
| 3590 Other Assigned Fund Balance | - | 9,058 | 9,058 |
| 3600 Unassigned Fund Balance | (618,319) | - | (618,319) |
| 3000 Total Fund Balances | <u>(618,319)</u> | <u>56,470</u> | <u>(561,849)</u> |
| 4000 Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ (261,960)</u> | <u>\$ 88,182</u> | <u>\$ (173,778)</u> |

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

CITY OF KERMIT, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2017

| | | |
|---|-----------|------------------|
| Total Fund Balances - Governmental Funds | \$ | (561,849) |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position. | | (194,515) |
| Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2017 capital outlays and debt principal payments is to increase (decrease) net position. | | 318,942 |
| This is the third year of the implementation of GASB 68 for the TMRS Pension plan. This fiscal year required that the City report their net pension liability in the Government Wide Statement of Net Position. The items reported as a result of this implementation included a net pension liability of \$82,525 and a Deferred Resource Outflow of \$77,017 and inflow of \$32,927. The net effect of these was to decrease the ending net position by \$126,615 | | (126,615) |
| The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. | | (196,471) |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position. | | 89,129 |
| Net Position of Governmental Activities | \$ | (671,379) |

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

CITY OF KERMIT, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT C-3

| Data Control Codes | General Fund | Other Funds | Total Governmental Funds |
|--|---------------------|------------------|--------------------------|
| REVENUES: | | | |
| Taxes: | | | |
| 5110 Property Taxes | \$ 663,257 | \$ - | \$ 663,257 |
| 5120 General Sales and Use Taxes | 1,090,563 | - | 1,090,563 |
| 5170 Franchise Tax | 277,757 | - | 277,757 |
| 5180 Other Taxes | - | 199,610 | 199,610 |
| 5190 Penalty and Interest on Taxes | 41,482 | - | 41,482 |
| 5200 Licenses and Permits | 38,695 | - | 38,695 |
| 5300 Intergovernmental Revenue and Grants | 5,227 | 1,393 | 6,620 |
| 5400 Charges for Services | 197,742 | - | 197,742 |
| 5510 Fines | 183,888 | 399 | 184,287 |
| 5610 Investment Earnings | 9,132 | 301 | 9,433 |
| 5640 Contributions & Donations from Private Sources | 19,550 | 200 | 19,750 |
| 5700 Other Revenue | 60,506 | 10,262 | 70,768 |
| 5701 Misc Income | 14,656 | 10,750 | 25,406 |
| 5020 Total Revenues | <u>2,602,455</u> | <u>222,915</u> | <u>2,825,370</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| General Government: | | | |
| 0110 City Hall | 214,173 | - | 214,173 |
| 0120 Municipal Court | 37,511 | 8,165 | 45,676 |
| 0130 Administration | 168,520 | - | 168,520 |
| Public Safety: | | | |
| 0210 Police Department | 1,218,731 | 1,123 | 1,219,854 |
| 0220 Fire Department | 133,287 | - | 133,287 |
| 0240 Inspections | 139,344 | - | 139,344 |
| 0250 Child Safety Education | - | 666 | 666 |
| 0300 Street, Humane and City Shop Departments | 666,868 | - | 666,868 |
| 0310 Street Lighting | 76,860 | - | 76,860 |
| 0330 Parks and Cemetery | 268,130 | 10,455 | 278,585 |
| 0350 Summer Rec Program | - | 2,200 | 2,200 |
| 0400 County Ambulance | 12,000 | - | 12,000 |
| 0650 Economic Development and Assistance | 11,618 | 213,157 | 224,775 |
| Debt Service: | | | |
| 0710 Principal on Debt | 119,386 | - | 119,386 |
| 0720 Interest on Debt | 6,715 | - | 6,715 |
| 6030 Total Expenditures | <u>3,073,143</u> | <u>235,766</u> | <u>3,308,909</u> |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(470,688)</u> | <u>(12,851)</u> | <u>(483,539)</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| 7912 Sale of Real and Personal Property | 13,070 | - | 13,070 |
| 7915 Transfers | 35,512 | 11,645 | 47,157 |
| 7080 Total Other Financing Sources (Uses) | <u>48,582</u> | <u>11,645</u> | <u>60,227</u> |
| 1200 Net Change in Fund Balances | (422,106) | (1,206) | (423,312) |
| 0100 Fund Balance - October 1 (Beginning) | <u>(196,214)</u> | <u>57,677</u> | <u>(138,537)</u> |
| 3000 Fund Balance - September 30 (Ending) | <u>\$ (618,320)</u> | <u>\$ 56,471</u> | <u>\$ (561,849)</u> |

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

CITY OF KERMIT, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | | |
|--|-----------|------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ | (423,312) |
| Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2017 capital outlays and debt principal payments is to increase the change in net position. | | 318,942 |
| The City is required by GASB Statement No. 68 to recognize its net pension liability. The items reported as a result of this implementation included a net pension liability of \$ 82,525, a deferred resource outflow of \$ 77,017 and inflow of \$ 32,927. | | (126,615) |
| The net effect is to decrease net pension. | | |
| Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position. | | (196,471) |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease the change in net position. | | (40,725) |
| Change in Net Position of Governmental Activities | \$ | (386,731) |

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

CITY OF KERMIT, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| Data Control Codes | Budgeted Amounts | | Actual (GAAP BASIS) | Variance With Final Budget Positive or (Negative) | |
|--|---|---------------------|------------------------|--|-------------------|
| | Original | Final | | | |
| REVENUES: | | | | | |
| Taxes: | | | | | |
| 5110 | Property Taxes | \$ 662,095 | \$ 662,095 | \$ 663,257 | \$ 1,162 |
| 5120 | General Sales and Use Taxes | 1,072,773 | 1,072,773 | 1,090,563 | 17,790 |
| 5170 | Franchise Tax | 276,975 | 276,975 | 277,757 | 782 |
| 5190 | Penalty and Interest on Taxes | 41,000 | 41,000 | 41,482 | 482 |
| 5200 | Licenses and Permits | 30,110 | 30,110 | 38,695 | 8,585 |
| 5300 | Intergovernmental Revenue and Grants | - | - | 5,227 | 5,227 |
| 5400 | Charges for Services | 192,700 | 192,700 | 197,742 | 5,042 |
| 5510 | Fines | 180,000 | 180,000 | 183,888 | 3,888 |
| 5610 | Investment Earnings | 4,300 | 4,300 | 9,132 | 4,832 |
| 5640 | Contributions & Donations from Private Sources | 6,000 | 6,000 | 19,550 | 13,550 |
| 5700 | Other Revenue | 18,140 | 18,140 | 60,506 | 42,366 |
| 5701 | Misc Income | 1,000 | 1,000 | 14,656 | 13,656 |
| 5020 | Total Revenues | <u>2,485,093</u> | <u>2,485,093</u> | <u>2,602,455</u> | <u>117,362</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0110 | City Hall | 175,128 | 175,128 | 214,173 | (39,045) |
| 0120 | Municipal Court | 41,414 | 41,414 | 37,511 | 3,903 |
| 0130 | Administration | 178,743 | 178,743 | 168,520 | 10,223 |
| 0210 | Police Department | 1,244,758 | 1,274,758 | 1,218,731 | 56,027 |
| 0220 | Fire Department | 70,725 | 70,725 | 133,287 | (62,562) |
| 0240 | Inspections | 151,449 | 151,449 | 139,344 | 12,105 |
| 0300 | Street, Humane and City Shop Departments | 826,226 | 826,226 | 666,868 | 159,358 |
| 0310 | Street Lighting | 91,000 | 91,000 | 76,860 | 14,140 |
| 0330 | Parks and Cemetary | 313,210 | 313,210 | 268,130 | 45,080 |
| 0400 | County Ambulance | 12,000 | 12,000 | 12,000 | - |
| 0650 | Economic Development and Assistance | 9,610 | 9,610 | 11,618 | (2,008) |
| Debt Service: | | | | | |
| 0710 | Principal on Debt | - | - | 119,386 | (119,386) |
| 0720 | Interest on Debt | 119,838 | 119,838 | 6,715 | 113,123 |
| 6030 | Total Expenditures | <u>3,234,101</u> | <u>3,264,101</u> | <u>3,073,143</u> | <u>190,958</u> |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(749,008)</u> | <u>(779,008)</u> | <u>(470,688)</u> | <u>308,320</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 7912 | Sale of Real and Personal Property | 24,000 | 24,000 | 13,070 | (10,930) |
| 7915 | Transfers | 163,585 | 163,585 | 35,512 | (128,073) |
| 8911 | Transfers Out (Use) | (163,585) | (163,585) | - | 163,585 |
| 7080 | Total Other Financing Sources (Uses) | <u>24,000</u> | <u>24,000</u> | <u>48,582</u> | <u>24,582</u> |
| 1200 | Net Change in Fund Balances | (725,008) | (755,008) | (422,106) | 332,902 |
| 0100 | Fund Balance - October 1 (Beginning) | - | (196,214) | (196,214) | - |
| 3000 | Fund Balance - September 30 (Ending) | <u>\$ (725,008)</u> | <u>\$ (951,222)</u> | <u>\$ (618,320)</u> | <u>\$ 332,902</u> |

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

CITY OF KERMIT, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

| | Business-Type Activities - Enterprise Funds | | |
|--|---|--------------------------|------------------------------|
| | Water Utility System | Soild Waste System | Total Enterprise Funds |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | \$ 1,728,047 | \$ 137,646 | \$ 1,865,693 |
| Restricted Assets - Current: | | | |
| Temporarily Restricted Cash | 887,192 | - | 887,192 |
| Accounts Receivable (Net) | 191,000 | 86,518 | 277,518 |
| Interfund Receivables/Payables | 2,968 | 40,447 | 43,415 |
| Prepaid Items | 5,262 | 3,358 | 8,620 |
| Total Current Assets | <u>2,814,469</u> | <u>267,969</u> | <u>3,082,438</u> |
| Noncurrent Assets: | | | |
| Capital Assets: | | | |
| Land Purchase and Improvements | 6,300 | - | 6,300 |
| Buildings | 13,909 | - | 13,909 |
| Accumulated Depreciation - Buildings | (6,421) | - | (6,421) |
| Improvements other than Buildings | 8,267,801 | - | 8,267,801 |
| Accumulated Depreciation - Other Improvements | (3,646,486) | - | (3,646,486) |
| Furniture and Equipoment | 963,209 | 1,350,101 | 2,313,310 |
| Accumulated Depreciation - Furniture & Equipment | (729,455) | (643,033) | (1,372,488) |
| Total Noncurrent Assets | <u>4,868,857</u> | <u>707,068</u> | <u>5,575,925</u> |
| Total Assets | <u>7,683,326</u> | <u>975,037</u> | <u>8,658,363</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred Outflow Related to Pension Plan | 144,717 | 94,415 | 239,132 |
| Total Deferred Outflows of Resources | <u>144,717</u> | <u>94,415</u> | <u>239,132</u> |

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

CITY OF KERMIT, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

| | Business-Type Activities - Enterprise Funds | | |
|--|---|--------------------------|------------------------------|
| | Water Utility System | Soild Waste System | Total Enterprise Funds |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts Payable | 47,579 | 36,557 | 84,136 |
| Wages and Salaries Payable | 10,843 | 5,856 | 16,699 |
| Payroll Deductions & Withholdings Payabel | 295 | 137 | 432 |
| Compensated Absences Payable | 24,375 | 6,986 | 31,361 |
| Intergovernmental Payable | - | 6,280 | 6,280 |
| Due to Other Funds | 12,577 | - | 12,577 |
| Accrued Interest Payable | 9,205 | 1,673 | 10,878 |
| Notes Payable - Current | - | 25,408 | 25,408 |
| Bonds Payable - Current | 225,000 | - | 225,000 |
| Payable from Restricted Assets - Current: | | | |
| Liabilities Payable from Restricted Assets | 151,877 | - | 151,877 |
| Total Current Liabilities | <u>481,751</u> | <u>82,897</u> | <u>564,648</u> |
| Noncurrent Liabilities: | | | |
| Bonds Payable - Noncurrent | 2,555,000 | - | 2,555,000 |
| Other Long Term Debt Payable - Noncurrent | - | 53,446 | 53,446 |
| Payable from Restricted Assets - Noncurrent: | | | |
| Net Pension Liability | 578,550 | 372,578 | 951,128 |
| Total Noncurrent Liabilities | <u>3,133,550</u> | <u>426,024</u> | <u>3,559,574</u> |
| Total Liabilities | <u>3,615,301</u> | <u>508,921</u> | <u>4,124,222</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred Inflow Related to Pension Plan | 24,747 | 15,990 | 40,737 |
| Total Deferred Inflows of Resources | <u>24,747</u> | <u>15,990</u> | <u>40,737</u> |
| NET POSITION | | | |
| Net Investment in Capital Assets | 2,088,847 | 628,214 | 2,717,061 |
| Restricted by Debt Covenants | 461,440 | - | 461,440 |
| Unrestricted Net Position | 1,637,708 | (83,673) | 1,554,035 |
| Total Net Position | <u>\$ 4,187,995</u> | <u>\$ 544,541</u> | <u>\$ 4,732,536</u> |

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

CITY OF KERMIT, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT D-2 (Cont'd)

| | Business-Type Activities - Enterprise Funds | | |
|---|---|--------------------------|------------------------------|
| | Water Utility System | Solid Waste System | Total Enterprise Funds |
| OPERATING REVENUES: | | | |
| Charges for Services | \$ 1,875,621 | \$ 970,911 | \$ 2,846,532 |
| Other Revenue | - | 26,782 | 26,782 |
| Misc Income | 4,646 | - | 4,646 |
| Total Operating Revenues | <u>1,880,267</u> | <u>997,693</u> | <u>2,877,960</u> |
| OPERATING EXPENSES: | | | |
| Personnel Services - Salaries and Wages | | | |
| Water/Sewer Department | 381,531 | - | 381,531 |
| Utility Office | 60,744 | - | 60,744 |
| Finance | 57,169 | - | 57,169 |
| Solid Waste | - | 286,221 | 286,221 |
| Total Personnel Services - Salaries and Wages | <u>499,444</u> | <u>286,221</u> | <u>785,665</u> |
| Personnel Services - Employee Benefits | | | |
| Water/Sewer Department | 179,856 | - | 179,856 |
| Utility Office | 36,478 | - | 36,478 |
| Finance | 25,702 | - | 25,702 |
| Solid Waste | - | 146,282 | 146,282 |
| Total Personnel Services - Employee Benefits | <u>242,036</u> | <u>146,282</u> | <u>388,318</u> |
| Purchased Professional & Technical Services | | | |
| Water/Sewer Department | 32,131 | - | 32,131 |
| Utility Office | 38,107 | - | 38,107 |
| Finance | 4,342 | - | 4,342 |
| Solid Waste | - | 1,717 | 1,717 |
| Total Purchased Professional & Technical Services | <u>74,580</u> | <u>1,717</u> | <u>76,297</u> |
| Purchased Property Services | | | |
| Water/Sewer Department | 119,789 | - | 119,789 |
| Solid Waste | - | 65,131 | 65,131 |
| Total Purchased Property Services | <u>119,789</u> | <u>65,131</u> | <u>184,920</u> |
| Other Operating Costs | | | |
| Water/Sewer Department | 33,813 | - | 33,813 |
| Utility Office | 2,037 | - | 2,037 |
| Finance | 558 | - | 558 |
| Solid Waste | - | 278,354 | 278,354 |
| Total Other Operating Costs | <u>36,408</u> | <u>278,354</u> | <u>314,762</u> |
| Supplies | | | |
| Water/Sewer Department | 134,603 | - | 134,603 |
| Utility Office | 5,556 | - | 5,556 |
| Finance | 1,205 | - | 1,205 |
| Solid Waste | - | 63,478 | 63,478 |
| Total Supplies | <u>141,364</u> | <u>63,478</u> | <u>204,842</u> |
| Depreciation | 211,841 | 135,836 | 347,677 |
| Total Operating Expenses | <u>1,325,462</u> | <u>977,019</u> | <u>2,302,481</u> |
| Operating Income | <u>554,805</u> | <u>20,674</u> | <u>575,479</u> |

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

CITY OF KERMIT, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Business-Type Activities - Enterprise Funds | | |
|--|---|--------------------------|------------------------------|
| | Water Utility System | Solid Waste System | Total Enterprise Funds |
| NONOPERATING REVENUES (EXPENSES): | | | |
| Investment Earnings | 3,807 | - | 3,807 |
| Insurance Recovery | 17,986 | - | 17,986 |
| Special Assesments for Bond Retirement | 365,054 | - | 365,054 |
| Bond Interest | (75,450) | (2,889) | (78,339) |
| Agency Fees for Bond Retirement | (900) | - | (900) |
| Loan Interest | - | (3,002) | (3,002) |
| Total Nonoperating Revenue (Expenses) | <u>310,497</u> | <u>(5,891)</u> | <u>304,606</u> |
| Income Before Transfers | 865,302 | 14,783 | 880,085 |
| Non-Operating Transfers In | - | 347,718 | 347,718 |
| Transfers Out (Use) | (379,208) | (15,667) | (394,875) |
| Change in Net Position | <u>486,094</u> | <u>346,834</u> | <u>832,928</u> |
| Total Net Position - October 1 (Beginning) | <u>3,701,901</u> | <u>197,707</u> | <u>3,899,608</u> |
| Total Net Position - September 30 (Ending) | <u>\$ 4,187,995</u> | <u>\$ 544,541</u> | <u>\$ 4,732,536</u> |

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

CITY OF KERMIT, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Business-Type Activities | | |
|--|--------------------------|-------------------|---------------------|
| | Water | Soild | Total |
| | Utility System | Waste System | Enterprise Funds |
| <u>Cash Flows from Operating Activities:</u> | | | |
| Cash Received from User Charges | \$ 1,877,616 | \$ 982,624 | \$ 2,860,240 |
| Cash Payments to Employees for Services | (494,546) | (286,286) | (780,832) |
| Cash Payments for Suppliers | (553,289) | (540,057) | (1,093,346) |
| Net Cash Provided by Operating Activities | <u>829,781</u> | <u>156,281</u> | <u>986,062</u> |
| <u>Cash Flows from Non-Capital Financing Activities:</u> | | | |
| Operating Transfer Out | (350,552) | - | (350,552) |
| Operating Transfers In | - | 332,215 | 332,215 |
| Net Cash Provided by (Used for) Non-Capital Financing Activities | <u>(350,552)</u> | <u>332,215</u> | <u>(18,337)</u> |
| <u>Cash Flows from Capital and Related Financing Activities:</u> | | | |
| Acquisition of Capital Assets | - | (33,514) | (33,514) |
| Bond Interest Paid | (74,845) | (4,430) | (79,275) |
| Bond Principal Retirements | (220,000) | (325,000) | (545,000) |
| Loan Interest Retirements | - | (24,571) | (24,571) |
| Loan Interest Paid | - | (3,002) | (3,002) |
| Bond Maintenance Costs | (925) | - | (925) |
| Special Assesments for Bond Retirement | 370,712 | - | 370,712 |
| Net Cash Provided by (Used for) Capital and Related Financing Activities | <u>74,942</u> | <u>(390,517)</u> | <u>(315,575)</u> |
| <u>Cash Flows from Investing Activities:</u> | | | |
| Interest and Dividends on Investments | 3,807 | - | 3,807 |
| Net Increase in Cash and Cash Equivalents | 557,978 | 97,979 | 655,957 |
| Cash and Cash Equivalents at the Beginning of the Year | <u>2,057,261</u> | <u>39,667</u> | <u>2,096,928</u> |
| Cash and Cash Equivalents at the End of the Year | <u>\$ 2,615,239</u> | <u>\$ 137,646</u> | <u>\$ 2,752,885</u> |

CITY OF KERMIT, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

| | Business-Type Activities | | |
|---|--------------------------|-------------------|-------------------|
| | Water | Soild | Total |
| | Utility | Waste | Enterprise |
| | System | System | Funds |
| <u>Reconciliation of Operating Income to Net Cash</u> | | | |
| <u>Provided By Operating Activities:</u> | | | |
| Operating Income | \$ 554,805 | \$ 20,674 | \$ 575,479 |
| Adjustments to Reconcile Operating Income | | | |
| To Net Cash Provided by Operating Activities: | | | |
| Depreciation | 211,841 | 135,836 | 347,677 |
| Effect of Increases and Decreases in Current | | | |
| Assets and Liabilities: | | | |
| Increase (decrease) in Meter Deposits | (4,074) | - | (4,074) |
| Decrease (increase) in Receivables | (2,650) | 2,960 | 310 |
| Decrease (increase) in Due from Other Funds | - | (18,025) | (18,025) |
| Decrease (increase) in Prepaid Expenses | (5,262) | (3,358) | (8,620) |
| Increase (decrease) in Accounts Payable | 7,875 | (23,169) | (15,294) |
| Increase (decrease) in Net Pension Liability | 62,416 | 41,611 | 104,027 |
| Increase (decrease) in Payroll-Related Liabilities | 295 | 137 | 432 |
| Increase (decrease) in Wages Payable | 1,670 | 397 | 2,067 |
| Increase (decrease) in Accrued Vacation | 2,865 | (882) | 1,983 |
| Increase (decrease) in Sales Tax Payable | - | 100 | 100 |
| Net Cash Provided by Operating | <u>\$ 829,781</u> | <u>\$ 156,281</u> | <u>\$ 986,062</u> |
| Activities | | | |

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

CITY OF KERMIT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements presented in the report conform to the reporting requirements of the Governmental Accounting Standards Board (GASB), which establishes combined statements as the required reporting level for government entities that present financial statements in accordance with generally accepted accounting principles. These statements also comply with the requirements of the appropriate version of Texas's uniform accounting requirements and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS-continued

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

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

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

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

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

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

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

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

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting

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

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

E. FUND ACCOUNTING

The City reports the following major governmental funds:

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

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

Capital Projects Fund - The City accounts for resources restricted to construction of capital projects, such as the Cemetery Expansion Project, in a capital projects fund.

The City reports the following major proprietary funds:

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

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

F. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of twelve months or less when purchased.
2. Net position on the Statement of Net Position includes the following:
 - *Net investment in capital assets* - the component of net position that reports capital assets less both the accumulated depreciation and the outstanding balance of debt and is directly attributable to the acquisition, construction, or improvement of these capital assets.

E. OTHER ACCOUNTING POLICIES-continued

- *Restricted by debt covenants* - the component of net position that may not be spent without specific authorization by the oversight agency, Texas Water Development Board, and must adhere to requirements of the debt covenant issued pursuant to bond indebtedness.
- *Restricted by enabling legislation* - the component of net position that reports the funds received from taxpayers, defendants and various other entities that were legally imposed taxes or fees by statutes or local taxpayer election. These funds are restricted as to use and ultimate disposal.
- *Unrestricted net position* - the difference between the assets and liabilities that are not reported in net position net investment in capital assets, or restricted net position.
- *Net position flow assumptions* - Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

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

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

- Non-spendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority, to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by a governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose, positive amounts are reported only in the general fund.

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

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

E. OTHER ACCOUNTING POLICIES-continued

- 3. In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type financial statement of net position.
- 4. It is the City's policy to permit full-time employees to accumulate earned but unused vacation and sick pay benefits. These employees may accumulate up to 240 hours of unused vacation benefits and up to 720 hours of unused sick leave benefits. Unused sick leave benefits will not be paid to the employees upon resignation or termination of employment.

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

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

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

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

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

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

E. OTHER ACCOUNTING POLICIES - continued

7. Deferred outflows/inflows of resources

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

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

8. Pensions

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY DATA

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

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

BUDGETARY DATA - continued

2. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to October 1, the Council legally enacts the budget through passage of a resolution. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Council, and are not made after fiscal year-end.

The City Council approved and adopted the budget for the year ending September 30, 2017 on September 15, 2016.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

At September 30, 2017, the carrying amount of the City's deposits with the designated depository bank was \$1,795,368 and the bank's collected balance was \$1,795,471. The City's cash deposits with the designated depository bank at September 30, 2017 and the City's deposits on the day of the highest daily cash balance, September 22, 2017 were adequately covered by FDIC insurance or by pledged collateral by the depository bank.

Cash and cash equivalents held by the City at September 30, 2017 other than operating deposits held by the City's agent bank include:

| | | |
|--|----|----------------|
| TexSTAR (LGIP) | \$ | 114 |
| TexPool | | 142 |
| West Texas Community Credit Union | | |
| Regular Shares | | 25 |
| Platinum Bank CD # 9954 | | 245,227 |
| Southwest Heritage Credit Union | | 100,880 |
| Commercial State Bank CD | | 200,000 |
| Complex Community Federal Credit Union | | 29 |
| TexSTAR Escrow | | 141,251 |
| | \$ | <u>688,668</u> |

The City also had approximately \$1,989 in petty cash on hand at September 30, 2017.

A. DEPOSITS AND INVESTMENTS - continued

Restricted Cash

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

| | |
|-------------------------------------|--------------------------|
| Restricted by enabling legislation: | |
| Municipal Court Security Fund | \$ 20,394 |
| Police Department LEOSE | 2,972 |
| Court Technology Fund | 600 |
| Child Safety Fund Cash | 10,409 |
| Hotel/Motel Fund | 26,342 |
| Total | <u>\$ 60,717</u> |
| Restricted by debt covenants: | |
| Wastewater Sewer Bond | \$ 234,276 |
| Wastewater Construction | 320,594 |
| Wastewater Escrow | 141,251 |
| Total | <u>\$ 696,121</u> |
| Other Restricted | |
| Kermit Recreational Council | \$ 9,078 |
| Moorehead Derrick | 200 |
| Meter Deposits by Customers | 151,877 |
| | <u>\$ 161,155</u> |
| Total temporarily restricted cash | <u><u>\$ 917,993</u></u> |

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

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

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

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

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

A. DEPOSITS AND INVESTMENTS - continued

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

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

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

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

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

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

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent bank. The City was at risk at a maximum of \$547,921 during the year for deposits held in a certificates of deposit held at Platinum Bank, Southwest Heritage Credit Union, Complex Credit Union and Wes Texas Credit Union during the year. At September 30, 2017, the custodial risk for that certificate of deposit was \$0.

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

A. DEPOSITS AND INVESTMENTS - continued

City Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

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

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

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

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

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

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

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

D. INTER-FUND BALANCES AND TRANSFERS

The City recorded the following inter-fund transfers for the fiscal year ended September 30, 2017:

| | <u>Transfers In</u> | <u>Transfers Out</u> | <u>Net Transfers</u> | <u>Purpose</u> |
|-----------------------------------|---------------------|----------------------|----------------------|-------------------------------------|
| Governmental-wide statements (B1) | \$ 47,157 | \$ - | \$ 47,157 | To Supplement Governmental Fund |
| Business-Type Funds | - | 47,157 | (47,157) | To Supplement Governmental Fund |
| | <u>\$ 47,157</u> | <u>\$ 47,157</u> | <u>\$ -</u> | |
| Business-Type Funds (D2) | | | | |
| Water Utility System | \$ - | \$ 332,051 | \$ (332,051) | Transfer of Solid Waste Collections |
| General Fund | - | 35,512 | (35,512) | To Supplement General Fund |
| Special Revenue Fund | | 11,645 | (11,645) | To Supplement Municipal Court |
| Solid Waste System | 332,051 | - | 332,051 | Transfer of Solid Waste Collections |
| | <u>\$ 332,051</u> | <u>\$ 379,208</u> | <u>\$ (47,157)</u> | |
| Governmental Funds (C-3) | | | | |
| General Fund | \$ 35,512 | \$ - | \$ 35,512 | To Supplement General Fund |
| Special Revenue Fund | 11,645 | | 11,645 | To Supplement Municipal Court |
| | <u>\$ 47,157</u> | <u>\$ -</u> | <u>\$ 47,157</u> | |

D. INTER-FUND BALANCES AND TRANSFERS - continued

Interfund receivables and payables at September 30, 2017 consisted of the following:

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

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2017 were as follows:

| | <u>General Fund</u> | <u>Special Revenue Funds</u> | <u>Total</u> |
|-----------------------------|--------------------------|------------------------------|--------------------------|
| Governmental Funds: | | | |
| Property Taxes | \$ 169,923 | \$ - | \$ 169,923 |
| Hotel/Motel Taxes | - | 18,199 | 18,199 |
| Services Receivable | <u>19,274</u> | <u>-</u> | <u>19,274</u> |
| Gross Receivables | \$ 189,197 | \$ 18,199 | \$ 207,396 |
| Allowance for Uncollectible | <u>85,396</u> | <u>-</u> | <u>85,396</u> |
| Net Receivables | <u><u>\$ 274,593</u></u> | <u><u>\$ 18,199</u></u> | <u><u>\$ 292,792</u></u> |

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES - continued

| | Water System Utility Fund | Solid Waste Fund | Total |
|--------------------------------|------------------------------|------------------|-------------------|
| Business-Type Funds: | | | |
| Services Receivable | \$ 198,561 | \$ 115,724 | \$ 314,285 |
| Special Assessments Receivable | 35,364 | - | 35,364 |
| Gross Receivables | \$ 233,925 | \$ 115,724 | \$ 349,649 |
| Allowance for Uncollectible | (42,925) | (29,206) | (72,131) |
| Net Receivables | <u>\$ 191,000</u> | <u>\$ 86,518</u> | <u>\$ 277,518</u> |

Payables at September 30, 2017 were as follows:

| | General | Special Revenue Funds | Total |
|---|--------------------|-----------------------------|-------------------|
| Governmental Funds: | | | |
| General Accounts | \$ 127,155 | \$ - | \$ 127,155 |
| Hotel/Motel Tax due to Kermit Chamber of Commerce | - | 31,062 | 31,062 |
| Total General Accounts Payable | \$ 127,155 | \$ 31,062 | \$ 158,217 |
| Wages Payable | \$ 2,870 | \$ - | \$ 2,870 |
| Payroll Insurance Payable | - | - | - |
| AFLAC Payable | 674 | - | 674 |
| Total Payroll Costs Payable | \$ 3,544 | \$ - | \$ 3,544 |
| Accrued Vacation Payable | 52,908 | - | 52,908 |
| Total Accounts Payable | <u>\$ 183,607</u> | <u>\$ 31,062</u> | <u>\$ 214,669</u> |
| | Water and Sewer | Solid Waste | Total |
| Business-Type Funds: | | | |
| General Accounts | \$ 47,579 | \$ 36,557 | \$ 84,136 |
| Wages Payable | \$ 10,843 | \$ 5,856 | \$ 16,699 |
| AFLAC Payable | 295 | 137 | 432 |
| Total Payroll Costs Payable | \$ 11,138 | \$ 5,993 | \$ 17,131 |
| Accrued Vacation Payable | \$ 24,375 | \$ 6,986 | \$ 31,361 |
| Total Accounts Payable | <u>\$ 83,092</u> | <u>\$ 49,536</u> | <u>\$ 132,628</u> |

F. CAPITAL ASSETS

Capital asset activity for the City for the year ended September 30, 2017 was as follows:

Governmental Activities:

| | Beginning Balance | Additions/ Adjustments | Retirements/ Adjustments | Ending Balance |
|--------------------------------|----------------------|---------------------------|-----------------------------|---------------------|
| Land | \$ 74,664 | \$ - | \$ - | \$ 74,664 |
| Buildings & Improvements | 399,294 | 669,942 | - | 1,069,236 |
| Office Furniture & Equipment | 205,662 | 6,505 | - | 212,167 |
| Machinery & Equipment | 1,668,256 | 182,606 | - | 1,850,862 |
| Infrastructure | 2,535,671 | - | - | 2,535,671 |
| Construction in Progress | 659,497 | 10,445 | 669,942 | - |
| Total General Fixed Assets | <u>\$ 5,543,044</u> | <u>\$ 869,498</u> | <u>\$ 669,942</u> | <u>\$ 5,742,600</u> |
| Less: Accumulated Depreciation | | | | |
| Buildings & Improvements | \$ (328,558) | \$ (27,620) | \$ - | \$ (356,178) |
| Office Furniture & Equipment | (181,947) | (13,749) | - | (195,696) |
| Machinery & Equipment | (1,301,743) | (105,942) | - | (1,407,685) |
| Infrastructure | <u>(2,326,757)</u> | <u>(49,160)</u> | <u>-</u> | <u>(2,375,917)</u> |
| Total Accumulated Depreciation | <u>(4,139,005)</u> | <u>(196,471)</u> | <u>-</u> | <u>(4,335,476)</u> |
| Governmental Activities | | | | |
| Capital Assets - Net | <u>\$ 1,404,039</u> | <u>\$ 673,027</u> | <u>\$ 669,942</u> | <u>\$ 1,407,124</u> |

Business-type Activities:

Water & Sewer System:

| | | | | |
|--|---------------------|-------------|-------------|---------------------|
| Land | \$ 6,300 | \$ - | \$ - | \$ 6,300 |
| Buildings & Improvements | 13,908 | - | - | 13,908 |
| Water & Sewer System Machinery and Equipment | 8,267,802 | - | - | 8,267,802 |
| Office Furniture and Equipment | 892,908 | - | - | 892,908 |
| Total Water & Sewer System | <u>70,302</u> | <u>-</u> | <u>-</u> | <u>70,302</u> |
| | <u>\$ 9,251,220</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,251,220</u> |

Solid Waste:

| | | | | |
|-----------------------|----------------------|------------------|-------------|----------------------|
| Machinery & Equipment | <u>\$ 1,316,754</u> | <u>\$ 33,348</u> | <u>\$ -</u> | <u>\$ 1,350,102</u> |
| Total Fixed Assets | <u>\$ 10,567,974</u> | <u>\$ 33,348</u> | <u>\$ -</u> | <u>\$ 10,601,322</u> |

F. CAPITAL ASSETS - continued

Less Accumulated Depreciation:

Water & Sewer System:

| | | | | |
|--|-----------------------|---------------------|-------------|-----------------------|
| Buildings & Improvements | \$ (5,901) | \$ (518) | \$ - | \$ (6,419) |
| Water & Sewer System Machinery and Equipment | (3,488,876) | (157,613) | - | (3,646,489) |
| Other Equipment | (70,300) | - | - | (70,300) |
| Total Water & Sewer System | <u>\$ (4,170,522)</u> | <u>\$ (211,841)</u> | <u>\$ -</u> | <u>\$ (4,382,363)</u> |

Solid Waste:

| | | | | |
|--------------------------|----------------------------|----------------------------|--------------------|----------------------------|
| Machinery & Equipment | <u>\$ (507,196)</u> | <u>\$ (135,836)</u> | <u>\$ -</u> | <u>\$ (643,032)</u> |
| Total Accumulated Depr. | <u>(4,677,718)</u> | <u>(347,677)</u> | <u>-</u> | <u>(5,025,395)</u> |
| Business-type Activities | | | | |
| Capital Assets, Net | <u><u>\$ 5,890,256</u></u> | <u><u>\$ (314,329)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 5,575,927</u></u> |

Depreciation Expense was charged to functions as follows:

| Function | Governmental Activities | Business-type Activities |
|----------------------------------|--------------------------|--------------------------|
| Executive | \$ 3,364 | \$ - |
| Police | 58,380 | - |
| Streets, Animal Control and Shop | 92,214 | - |
| Parks and Cemetery | 32,864 | - |
| Code Enforcement | 8,569 | - |
| Fire | 1,080 | - |
| Water and Sewerage | - | 211,841 |
| Solid Waste | - | 347,677 |
| Total Depreciation | <u><u>\$ 196,471</u></u> | <u><u>\$ 559,518</u></u> |

G. LOANS PAYABLE

The City had the following loans during the year ended September 30, 2017:

1. The City financed the purchase of Copsync Software through Government Capital Corporation under Local Government Code Section 271.005 in July of 2013. The loan bears annual interest rate of 4.973% and is repayable by four annual payments of \$16,151; the first payment was made July 1, 2015 and final payment made July 1, 2017.
2. A sanitation truck was purchased August 13, 2013 which was also financed through Government Capital Corporation with an annual interest rate of 3.39% and seven annual payments of \$28,134; the first payment was made February 15, 2017.

G. LOANS PAYABLE - continued

A summary of the change in commitments under these loans for the year ended September 30, 2017 is as follows.

| Asset Purchased | Payable Amount Outstanding October 1, 2016 | Additions | Payments | Payable Amount Outstanding September 30, 2017 |
|--------------------------------------|--|-------------|------------------|---|
| Governmental Type Activities: | | | | |
| CopSync | 15,385 | | 15,385 | - |
| | <u>\$ 15,385</u> | <u>\$ -</u> | <u>\$ 15,385</u> | <u>\$ -</u> |
| Business Type Activities: | | | | |
| Solid Waste Fund: | | | | |
| 2014 Freightliner & Side loader* | <u>\$ 103,425</u> | <u>\$ -</u> | <u>\$ 24,571</u> | <u>\$ 78,854</u> |

Principal and interest requirements for future periods are as follows:

| Fiscal Year End | Principal | Interest | Total |
|--------------------------------|------------------|-----------------|------------------|
| Business Type Funds: | | | |
| 2014 Freightliner & Sideloader | | | |
| 2018 | 25,408 | 2,689 | 28,097 |
| 2019 | 26,275 | 1,822 | 28,097 |
| 2020 | 27,171 | 926 | 28,097 |
| | <u>\$ 78,854</u> | <u>\$ 5,437</u> | <u>\$ 84,291</u> |

H. TAX AND REVENUE OBLIGATION BONDS

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

A summary of changes in the bond obligations for the year ended September 30, 2017 is as follows:

| | Balance October 1, 2016 | Issued | Redeemed | Balance September 30, 2017 |
|-------|-------------------------------|-------------|-------------------|----------------------------------|
| Bonds | <u>\$ 3,000,000</u> | <u>\$ -</u> | <u>\$ 220,000</u> | <u>\$ 2,780,000</u> |

**H. TAX AND REVENUE OBLIGATION BONDS -
continued**

The debt service schedule for these bonds is as follows:

| Fiscal Years ended: | Principal | Interest | Total |
|------------------------|---------------------|-------------------|---------------------|
| 2018 | 225,000 | 71,048 | 296,048 |
| 2019 | 230,000 | 65,700 | 295,700 |
| 2020 | 235,000 | 60,002 | 295,002 |
| 2021 | 240,000 | 54,005 | 294,005 |
| 2022-2026 | 1,290,000 | 170,060 | 1,460,060 |
| 2027-2028 | 560,000 | 16,102 | 576,102 |
| | <u>\$ 2,780,000</u> | <u>\$ 436,917</u> | <u>\$ 3,216,917</u> |

Interest expense related to this debt reported in the Proprietary Fund financial statements and the Government-wide financial statements were \$75,450. Of this expense, \$9,810 accrued in the prior fiscal year. A total of \$76,055 was paid on February 15, 2017 and August 15, 2017 pursuant to the debt Service schedule and \$9,205 was accrued from August 15, 2017 to September 30, 2017.

I. TAX NOTES, SERIES 2011

The City issued \$930,000 in Tax Notes, series 2011, on November 11, 2011. The proceeds of these bonds were used to acquire capital equipment to conduct the solid waste collection function. The net revenues of the Solid Waste Fund serve as pledged collateral for this debt. In addition, property taxes collected by the City serve as pledged collateral and source of repayment if the net revenues from the Solid Waste operations fail to adequately cover the debt service requirement. The bonds carry a true interest rate of 2.50%. They are payable over a five year period with a maturity date of February 15, 2018. Interest payments are due every August 15 and principal and interest payments are due every February 15. The City chooses to prepay (redeem) series 2011 Tax note on February 8, 2017. The prepayment of the Note saved the city \$ 4,282.99 in interest, less \$ 1,000 in attorney Fees, for net savings of \$ 3,282.99.

A summary of changes in the bond obligations for the year ended September 30, 2017 is as follows:

| | Balance October 1, 2016 | Issued | Redeemed | Balance September 30, 2017 |
|-------|----------------------------|-------------|-------------------|----------------------------------|
| Bonds | <u>\$ 325,000</u> | <u>\$ -</u> | <u>\$ 325,000</u> | <u>\$ -</u> |

Interest expense related to this debt reported in the Proprietary Fund financial statements and the government-wide financial statements was \$3,905 paid on February 8, 2017.

J. TAX NOTES, SERIES 2014

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

A summary of changes in the bond obligations for the year ended September 30, 2017 is as follows:

| | Balance October 1, 2016 | Issued | Redeemed | Balance September 30, 2017 |
|-------|-------------------------------|--------|------------|----------------------------------|
| Bonds | \$ 428,000 | \$ - | \$ 104,000 | \$ 324,000 |

The debt service for these bonds is as follows:

| Fiscal Years ended: | Principal | Interest | Total |
|------------------------|-------------------|------------------|-------------------|
| 2018 | 106,000 | 6,639 | 112,639 |
| 2019 | 108,000 | 4,018 | 112,018 |
| 2020 | 110,000 | 1,348 | 111,348 |
| | <u>\$ 324,000</u> | <u>\$ 12,005</u> | <u>\$ 336,005</u> |

Interest expense related to this debt reported in the Governmental Fund financial statements was \$9,212. Of this expense, \$1,311 was accrued in the prior fiscal year; \$9,212 was paid on February 15, 2017 and August 15, 2017 pursuant to the debt service schedule.

K. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Upon termination of employment, the City pays employees for any unused vacation leave that has been earned through the last day of work if the employee terminates in good standing with proper notice. Each regular full-time employee may accumulate up to a maximum of 240 hours of unused vacation leave. The amount of accumulated unused vacation leaves at September 30, 2017 was \$84,269 in the government-wide financial statements.

L. DEFINED BENEFIT PENSION PLAN

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

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

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

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

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

L. DEFINED BENEFIT PENSION PLAN - continued

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

| | Plan year 2016 | Plan year 2017 |
|--|---------------------------|---------------------------|
| Employee deposit rate | 7.00% | 7.00% |
| Matching ratio (city to employee) | 2 to 1 | 2 to 1 |
| Years required for vesting | 5 | 5 |
| Service retirement eligibility (expresses as age/years of service) | 60/5, 0/25 | 60/5, 0/25 |
| Updated Service Credit | 100% Repeating, Transfers | 100% Repeating, Transfers |
| Annuity Increase (to retirees) | 70% of CPI Repeating | 70% of CPI Repeating |

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|------------|
| Inactive employees or beneficiaries currently receiving benefits | 25 |
| Inactive employees entitled to but not yet receiving benefits | 85 |
| Active employees | <u>49</u> |
| Total | <u>159</u> |

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

Employees for the City of Kermit were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Kermit were 15.36% and 15.14% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended were \$330, 3734, and were equal to the required contributions.

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

L. DEFINED BENEFIT PENSION PLAN - continued

Actuarial assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS (the actuary) focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

L. DEFINED BENEFIT PENSION PLAN - continued

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|-----------------------|-------------------|--|
| Domestic Equity | 17.5% | 4.55% |
| International Equity | 17.5% | 6.10% |
| Core Fixed Income | 10.0% | 1.00% |
| Non-Core Fixed Income | 20.0% | 3.65% |
| Real Return | 10.0% | 4.03% |
| Real Estate | 10.0% | 5.00% |
| Absolute Return | 10.0% | 4.00% |
| Private Equity | 5.0% | 8.00% |
| Total | <u>100.0%</u> | |

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

Changes in the Net Pension Liability

| | Increase (Decrease) | | |
|---|--------------------------------|---------------------------------------|-----------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)- (b) |
| Balance at 12/31/2015 | \$ 10,311,411 | \$ 7,777,098 | \$ 2,534,313 |
| Changes for the Year: | | | |
| Service cost | 356,071 | - | 356,071 |
| Interest | 694,670 | - | 694,670 |
| Changes of benefit terms | - | - | - |
| Difference between expected and actual experience | 96,798 | - | 96,798 |
| Changes of assumptions | - | - | - |
| Contributions - employer | - | 343,853 | (343,853) |
| Contributions - employee | - | 157,328 | (157,328) |
| Net investment income | - | 525,652 | (525,652) |
| Benefit payments, including refunds of employee contributions | (396,073) | (396,073) | - |
| Administrative expense | - | (5,936) | 5,936 |
| Other charges | - | (320) | 320 |
| Net change in pension liability | <u>\$ 751,466</u> | <u>\$ 624,504</u> | <u>\$ 126,962</u> |
| Balance at 12/31/2016 | <u>\$ 11,062,877</u> | <u>\$ 8,401,602</u> | <u>\$ 2,661,275</u> |

L. DEFINED BENEFIT PENSION PLAN - continued

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

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

| | 1% Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Decrease in Discount Rate (7.75%) |
|------------------------------|---|-----------------------|---|
| City's Net Pension Liability | \$ 4,229,250 | \$ 2,661,275 | \$ 1,374,411 |

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.

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

For the year ended September 30, 2017 the City recognized pension expense of \$526,975.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual economic experience | \$ 56,297 | \$ 11,221 |
| Changes in actuarial assumptions | 16,090 | - |
| Difference between projected and actual investment earnings | 352,559 | - |
| Contributions subsequent to the measurement date | 248,885 | - |
| Total | <u>\$ 673,831</u> | <u>\$ 11,221</u> |

\$248,885 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability as of September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:

| | |
|------------|-------------------|
| 2017 | \$ 169,099 |
| 2018 | 139,523 |
| 2019 | 105,241 |
| 2020 | (138) |
| 2021 | - |
| Thereafter | - |
| | <u>\$ 413,725</u> |

M. SUPPLEMENTAL DEATH BENEFITS FUND

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The City's schedule of contribution rates for the retiree-only portion is as follows:

| Plan/Calendar Year | Annual Required Contribution (Rate) | Actual Contribution Made (Rate) | Percentage of ARC Contributed |
|--------------------|-------------------------------------|---------------------------------|-------------------------------|
| 2014 | 0.10% | 0.10% | 100.00% |
| 2015 | 0.07% | 0.07% | 100.00% |
| 2016 | 0.07% | 0.07% | 100.00% |
| 2017 | 0.07% | 0.07% | 100.00% |

The City’s contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015 were \$5,291, \$5,179 and \$4,381, respectively, which equaled the required contributions each year.

N. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources reported only in the General Fund financial statements at September 30, 2017 consisted of property tax revenue assessed but not collected in the amount of \$169,923 less allowance for uncollectible accounts of \$80,794 for net deferred inflows of \$80,129.

O. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

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

P. LITIGATION

The City is in one pending lawsuit: Cause No. DC15-16788-CCD, in the 109th District, Winkler County, Texas styled Hoover Construction Company, Inc. v City of Kermit, Texas. Hoover filed against City on October 27, 2015, asserting a claim for breach of contract. The city filed counter law suit on June 15, 2017.

Hoover seeks to recover the retainage due under the Contract in the amount of \$383,343, as well as \$695,902 in damages it claims it suffered while trying to close the ponds. In addition Hoover is also seeking attorney's fees. The City is seeking to recover the liquidated damages in the amount of \$609,500, which represents \$500 per day Hoover failed to complete the project beyond certain date called for under the contract. Alternatively, the City seeks to recover its actual damages incurred in closure of the ponds of \$ 37,170, plus attorney's fees.

This lawsuit is highly contested. Trial was set for September 2018, but the parties have entered into agreement to stay all pending deadlines. Legal counsel is pursuing option to obtain summary judgement. The City officials expect to pay no more than required reserve remaining in the Construction Account, a total of \$320,594.

Q. OTHER COMMITMENTS AND CONTINGENCIES

Other than litigation disclosed in Note P in these financial statements, the City administration was not aware of any other significant contingencies or commitments at September 30, 2017.

R. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, thefts, damage or destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal 2017, the City purchased commercial insurance to cover general liabilities.

For the year ended September 30, 2017, the City was a participant in the Public Entity Risk Pool currently operating as the Texas Municipal League's modified self-funded pool. The coverage in this pool is for workers' compensation insurance, health insurance and unemployment.

S. PRIOR PERIOD ADJUSTMENTS

The City had no prior period adjustment for year ended September 30, 2017.

COMBINING STATEMENTS

CITY OF KERMIT, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2017

| Data Control Codes | 152 Police Department LEOSE | 160 Child Safety Fund | 165 Kermit Recreational Council | 180 Hotel/Motel Tax | |
|--------------------------|--------------------------------------|-----------------------------|--|---------------------------|------------------|
| ASSETS | | | | | |
| 1150 | Accounts Receivable (Net) | \$ - | \$ - | \$ - | \$ 18,199 |
| 1300 | Interfund Receivables/Payables | - | 88 | - | - |
| Restricted Assets: | | | | | |
| 1611 | Temporarily Restricted Cash | 2,872 | 10,409 | 9,078 | 26,342 |
| 1000 | Total Assets | <u>\$ 2,872</u> | <u>\$ 10,497</u> | <u>\$ 9,078</u> | <u>\$ 44,541</u> |
| LIABILITIES | | | | | |
| 2010 | Accounts Payable | \$ - | \$ - | \$ - | \$ 31,062 |
| 2070 | Intergovernmental Payable | - | 641 | - | - |
| 2080 | Due to Other Funds | - | - | - | - |
| 2000 | Total Liabilities | <u>-</u> | <u>641</u> | <u>-</u> | <u>31,062</u> |
| FUND BALANCES | | | | | |
| 3490 | Other Restricted Fund Balance | - | 10,072 | - | 16,147 |
| 3590 | Other Assigned Fund Balance | 2,872 | (216) | 9,078 | (2,667) |
| 3000 | Total Fund Balances | <u>2,872</u> | <u>9,856</u> | <u>9,078</u> | <u>13,480</u> |
| 4000 | Total Liabilities and Fund Balances | <u>\$ 2,872</u> | <u>\$ 10,497</u> | <u>\$ 9,078</u> | <u>\$ 44,542</u> |

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

| 185 | 191 | 193 | Total | 194 | Total |
|----------------------|---------------------|-------------------|--------------------------------------|-----------------------|-----------------------------------|
| Moorehead Derrick | Court Technology | Court Security | Nonmajor Special Revenue Funds | Cemetery Expansion | Nonmajor Governmental Funds |
| \$ - | \$ - | \$ - | \$ 18,199 | \$ - | \$ 18,199 |
| - | - | - | 88 | - | 88 |
| 200 | 600 | 20,394 | 69,895 | - | 69,895 |
| <u>\$ 200</u> | <u>\$ 600</u> | <u>\$ 20,394</u> | <u>\$ 88,182</u> | <u>\$ -</u> | <u>\$ 88,182</u> |
| \$ - | \$ - | \$ - | \$ 31,062 | \$ - | \$ 31,062 |
| - | - | - | 641 | - | 641 |
| - | - | - | - | 9 | 9 |
| - | - | - | 31,703 | 9 | 31,712 |
| - | 4,244 | 16,949 | 47,412 | - | 47,412 |
| 200 | (3,645) | 3,445 | 9,067 | (9) | 9,058 |
| 200 | 599 | 20,394 | 56,479 | (9) | 56,470 |
| <u>\$ 200</u> | <u>\$ 599</u> | <u>\$ 20,394</u> | <u>\$ 88,182</u> | <u>\$ -</u> | <u>\$ 88,182</u> |

CITY OF KERMIT, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

| Data Control Codes | 152 Police Department LEOSE | 160 Child Safety Fund | 165 Kermit Recreational Council | 180 Hotel/Motel Tax |
|---|--------------------------------------|-----------------------------|--|---------------------------|
| REVENUES: | | | | |
| Taxes: | | | | |
| 5180 Other Taxes | \$ - | \$ - | \$ - | \$ 199,610 |
| 5300 Intergovernmental Revenue and Grants | 1,393 | - | - | - |
| 5510 Fines | - | 399 | - | - |
| 5610 Investment Earnings | 14 | 52 | - | 130 |
| 5640 Contributions & Donations from Private Sources | - | - | - | - |
| 5700 Other Revenue | - | - | 2,400 | - |
| 5701 Misc Income | - | - | - | 10,750 |
| 5020 Total Revenues | <u>1,407</u> | <u>451</u> | <u>2,400</u> | <u>210,490</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government: | | | | |
| 0120 Municipal Court | - | - | - | - |
| Public Safety: | | | | |
| 0210 Police Department | 1,123 | - | - | - |
| 0250 Child Safety Education | - | 666 | - | - |
| Street, Humane and City Shop Departments: | | | | |
| 0330 Parks and Cemetary | - | - | - | - |
| 0350 Summer Rec Program | - | - | 2,200 | - |
| Conservation and Development: | | | | |
| 0650 Economic Development and Assistance | - | - | - | 213,157 |
| 6030 Total Expenditures | <u>1,123</u> | <u>666</u> | <u>2,200</u> | <u>213,157</u> |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>284</u> | <u>(215)</u> | <u>200</u> | <u>(2,667)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| 7915 Transfers | - | - | 1,200 | - |
| 7080 Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>1,200</u> | <u>-</u> |
| 1200 Net Change in Fund Balance | 284 | (215) | 1,400 | (2,667) |
| 0100 Fund Balance - October 1 (Beginning) | <u>2,587</u> | <u>10,072</u> | <u>7,678</u> | <u>16,147</u> |
| 3000 Fund Balance - September 30 (Ending) | <u>\$ 2,871</u> | <u>\$ 9,857</u> | <u>\$ 9,078</u> | <u>\$ 13,480</u> |

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

| 185 | 191 | 193 | Total | 194 | Total |
|----------------------|---------------------|-------------------|--------------------------------------|-----------------------|-----------------------------------|
| Moorehead Derrick | Court Technology | Court Security | Nonmajor Special Revenue Funds | Cemetery Expansion | Nonmajor Governmental Funds |
| \$ - | \$ - | \$ - | \$ 199,610 | \$ - | \$ 199,610 |
| - | - | - | 1,393 | - | 1,393 |
| - | - | - | 399 | - | 399 |
| - | 10 | 94 | 300 | 1 | 301 |
| 200 | - | - | 200 | - | 200 |
| - | 4,486 | 3,376 | 10,262 | - | 10,262 |
| - | - | - | 10,750 | - | 10,750 |
| <u>200</u> | <u>4,496</u> | <u>3,470</u> | <u>222,914</u> | <u>1</u> | <u>222,915</u> |
| - | 8,140 | 25 | 8,165 | - | 8,165 |
| - | - | - | 1,123 | - | 1,123 |
| - | - | - | 666 | - | 666 |
| - | - | - | - | 10,455 | 10,455 |
| - | - | - | 2,200 | - | 2,200 |
| - | - | - | 213,157 | - | 213,157 |
| - | 8,140 | 25 | 225,311 | 10,455 | 235,766 |
| <u>200</u> | <u>(3,644)</u> | <u>3,445</u> | <u>(2,397)</u> | <u>(10,454)</u> | <u>(12,851)</u> |
| - | - | - | 1,200 | 10,445 | 11,645 |
| - | - | - | 1,200 | 10,445 | 11,645 |
| 200 | (3,644) | 3,445 | (1,197) | (9) | (1,206) |
| - | 4,244 | 16,949 | 57,677 | - | 57,677 |
| <u>\$ 200</u> | <u>\$ 600</u> | <u>\$ 20,394</u> | <u>\$ 56,480</u> | <u>\$ (9)</u> | <u>\$ 56,471</u> |

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KERMIT, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2017

EXHIBIT F-1

| | FY 2017 Plan Year 2016 | FY 2016 Plan Year 2015 | FY 2015 Plan Year 2014 |
|--|---------------------------|---------------------------|---------------------------|
| A. Total Pension Liability | | | |
| Service Cost | \$ 356,071 | \$ 353,182 | \$ 265,828 |
| Interest (on the Total Pension Liability) | 694,670 | 674,305 | 646,756 |
| Changes of Benefit Terms | -0- | -0- | -0- |
| Difference between Expected and Actual Experience | 96,798 | (65,959) | (128,875) |
| Changes of Assumptions | -0- | 94,582 | -0- |
| Benefit Payments, including refunds of employee contributions | (396,073) | (402,060) | (465,614) |
| Net change in Total Pension Liability | \$ 751,466 | \$ 654,050 | \$ 318,095 |
| Total Pension Liability - Beginning | 10,311,411 | 9,657,361 | 9,339,266 |
| Total Pension Liability - Ending | \$ 11,062,877 | \$ 10,311,411 | \$ 9,657,361 |
| B. Total Fiduciary Net Position | | | |
| Contributions - Employer | \$ 343,853 | \$ 331,836 | \$ 376,311 |
| Contributions - Employee | 157,328 | 154,036 | 140,865 |
| Net Investment Income | 525,652 | 11,346 | 413,564 |
| Benefit Payments, including refunds of employee contributions | (396,073) | (402,060) | (465,614) |
| Administrative Expense | (5,936) | (6,911) | (4,317) |
| Other | (320) | (341) | (355) |
| Net Change in Plan Fiduciary Net Position | \$ 624,504 | \$ 87,906 | \$ 460,454 |
| Plan Fiduciary Net Position - Beginning | 7,777,098 | 7,689,192 | 7,228,738 |
| Plan Fiduciary Net Position - Ending | \$ 8,401,602 | \$ 7,777,098 | \$ 7,689,192 |
| C. Net Pension Liability | \$ 2,661,275 | \$ 2,534,313 | \$ 1,968,169 |
| D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 75.94% | 75.42% | 79.62% |
| E. Covered Employee Payroll | \$ 2,226,836 | \$ 2,200,508 | \$ 2,012,360 |
| F. Net Pension Liability as a Percentage of Covered Employee Payroll | 119.10% | 115.17% | 97.80% |

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

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

CITY OF KERMIT, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2017

EXHIBIT F-2

| | 2017 | 2016 | 2015 |
|---|---------------|---------------|---------------|
| Actuarially Determined Contribution | \$ 330,373 | \$ 356,887 | \$ 337,764 |
| Contributions in Relation to the Actuarially Determined Contributions | 330,373 | 356,887 | 337,764 |
| Contribution Deficiency (Excess) | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |
| Covered Employee Payroll | \$ 2,172,204 | \$ 2,335,131 | \$ 2,108,423 |
| Contributions as a Percentage of Covered Employee Payroll | 15.20% | 15.28% | 16.02% |

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

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

City of Kermit, Texas
Notes to the Schedule of Contributions
Year Ended September 30, 2017

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 | 29 years |
| Asset Valuation Method | 10 Year smoothed market, 15% soft corridor |
| Inflation | 2.50% |
| Salary Increases | 3.50% to 10.50%, including inflation |
| Investment Rate of Return | 6.75% |
| Retirement Age | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014 |
| Mortality | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplies by 103% and projected on a fully generational basis with scale BB |

Other Information:

Notes There were no benefit changes during the year.

FEDERAL AWARDS SECTION



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

SMITH & RIVES, PC
Certified Public Accountants

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

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

Independent Auditor's Report

City Council
City of Kermit, TX
110 S. Tornillo
Kermit, Texas 79745

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report on them dated August 23, 2018.

Internal Control over Financial Reporting

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

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

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

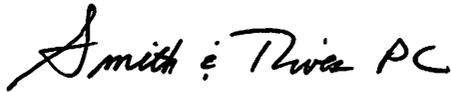
Compliance and Other Matters

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

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

Purpose of this Report

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



Smith & Rives, PC
Monahans, Texas 79756
August 23, 2018

City of Kermit, Texas
Schedule of Findings and Responses
For the Year Ended September 30, 2017

I. Summary of the Auditor's Results

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

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

No Findings

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

No Findings