

CITY OF KERMIT, TEXAS

ANNUAL FINANCIAL AND
COMPLIANCE REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2015

CITY OF KERMIT, TEXAS
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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FOR THE YEAR ENDED SEPTEMBER 30, 2015

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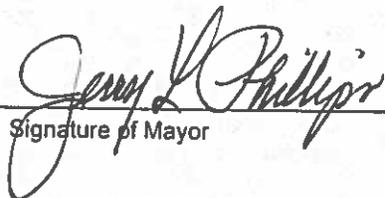
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LETTER OF TRANSMITTAL

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, 2015 at a meeting of the Council of such city on the 15th day of September, 2016.


Signature of Mayor


Signature of City Manager

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



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, 2015, 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, 2015, 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.

Emphasis of Matters

As discussed in Note I to the financial statements, in 2015, the City adopted new accounting guidance prescribed by GASB Statement No. 68 for its pension plan, an agent multiple-employer, cost-sharing, defined benefit pension plan. Because GASB No. 68 implements new measurement criteria and reporting provisions, significant information has been added to the Government Wide Statements. Exhibit A-1 discloses the City's Net Pension Liability and some deferred resource outflows and deferred resource inflows related to the District's pension plan. Exhibit B-1 discloses the adjustment to the District's Beginning Net Position. Our opinion is not modified with respect to the matter.

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 48 - 50 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.

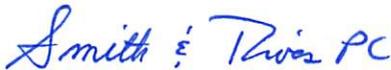
Other Information

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 and budget and actual comparison of the water utility system and solid waste fund 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 and budget and actual comparison of the water utility system and solid waste fund 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 and budget and actual comparison of the water utility system and solid waste fund 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 September 9, 2016, 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
September 9, 2016

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, 2015. 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 \$348,416 as a result of this year's operations. Net position of our governmental funds decreased by \$200,157, or 11%, and net position of our business-type activities increased by \$548,573, or approximately 18%. (Exhibit B-1)

During the year, the City had operating expenditures that were \$535,060 more than the \$2,747,777 generated in tax and other revenues for the governmental programs. (Exhibit C-3) This compares to last year when expenditures exceeded revenues by \$927,716.

In the City's business-type activities, revenues increased by \$109,886, while operating expenses increased by \$893.

Total cost of the City's programs was \$5,516,465 while last year's cost was \$5,572,602. (Exhibit B-1)

The fund balance for the General Fund ended the year at \$1,338,704 and the ending fund balance from last year was \$1,068,607.

The resources available for appropriation were \$54,763 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's enterprise funds are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net Position of the City's governmental activities was \$663,464. 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 \$-92,202 at September 30, 2015. The deficit in the unrestricted net position for the City was a result of a change in accounting principle required by Governmental Accounting Standards Board (GASB) Statement Number 68 which required the City to value and report the net pension liability for the current and former city employees. The accounting change decreased the City's Governmental Unrestricted Net Position by \$1,039,019.

Net Position of the City's business-type activities were \$2,994,308, which included \$236,342 in unrestricted net position, \$459,841 in net position restricted by debt covenants and meter deposit funds and \$2,298,125 in Investment in capital assets, net of related debt. The net position of the business-type activities decreased by \$622,181 as a result of the accounting change mandated by GASB 68.

**Table I
Net Position**

	Governmental Activities		Business-type Activities	
	2015	2014	2015	2014
Current and other assets	\$ 1,995,316	\$ 1,478,044	\$ 1,641,652	\$ 1,456,121
Capital assets	849,044	878,347	6,120,310	6,302,229
Deferred Outflows	198,055	-	111,406	
Total assets	\$ 3,042,415	\$ 2,356,391	\$ 7,873,368	\$ 7,758,350
Long-term liabilities	\$ 1,841,287	\$ 51,659	\$ 4,506,966	\$ 3,822,185
Other liabilities	488,793	402,092	344,604	868,249
Deferred Inflows	48,871	-	27,490	
Total liabilities	\$ 2,378,951	\$ 453,751	\$ 4,879,060	\$ 4,690,434
Net Position:				
Invested in capital assets, net of related debt	\$ 264,855	\$ 798,160	\$ 2,298,125	\$ 2,092,066
Restricted	490,811	29,601	459,841	459,812
Unrestricted	(92,202)	1,074,879	236,342	516,038
Total Net Position	\$ 663,464	\$ 1,902,640	\$ 2,994,308	\$ 3,067,916

**Table II
Changes in Net Position**

	Governmental Activities		Business-type Activities	
	2015	2014	2015	2014
Revenues:				
Program Revenues:				
Charges for Services	\$ 452,768	\$ 202,083	\$ 2,706,471	\$ 2,594,830
General Revenues:				
Maintenance and Operations Taxes	635,274	610,338	-	-
General Sales Taxes	1,174,774	890,962	-	-
Franchise Taxes	274,621	267,574	-	-
Other Taxes	152,883	55,470	-	-
Penalty & Interest	30,875	35,004	-	-
Grants & Contributions not restricted	49,695	35,660	-	-
Capital Grants	-	5,000	-	-
Contribution to Paint Water Tower	100	-	-	1,200
Miscellaneous	9,039	239,618	-	439
Special Assessments	-	-	371,506	351,497
Investment Earnings	6,698	4,359	177	559
Total Revenue	\$ 2,786,727	\$ 2,346,068	\$ 3,078,154	\$ 2,948,525

Table II
Changes in Net Position
Continued

	Governmental Activities		Business-type Activities	
	2015	2014	2015	2014
Expenses:				
Sewerage	\$ -	\$ -	\$ 812,227	\$ 818,215
Utility Office	-	-	124,326	134,292
Finance	-	-	74,769	78,733
Solid Waste/Sanitation	-	-	831,166	815,598
City Hall	216,248	198,649	-	-
Municipal Court	41,069	38,487	-	-
Administration	158,125	237,653	-	-
Child Safety Education	990	1,604	-	-
Police	1,170,816	1,165,989	-	-
Fire Department	129,044	213,386	-	-
Inspections	126,948	117,353	-	-
Street, Humane and City Shop	762,179	719,033	-	-
Street Lights	82,841	84,807	-	-
Cemetary and Parks	299,998	279,669	-	-
EMS	12,000	105,278	-	-
Economic Development	206,224	102,842	-	-
Debt Interest and Expenses	14,758	5,018	103,758	112,260
Depreciation	-	-	348,979	343,736
Total Expenses	<u>\$ 3,221,240</u>	<u>\$ 3,269,768</u>	<u>\$ 2,295,225</u>	<u>\$ 2,302,834</u>
Increase (Decrease) in Net Position before Transfers and Special Items	\$ (434,513)	\$ (923,700)	\$ 782,929	\$ 645,691
Transfers	234,356	1,112,359	(234,356)	(1,112,359)
Litigation Settlement	-	-	-	(41,000)
Increase (Decrease) in Net Position	\$ (200,157)	\$ 188,659	\$ 548,573	\$ (507,668)
Net Position - October 1	1,902,640	1,717,479	3,067,916	3,580,641
Prior Period Adjustments	(1,039,019)	(3,498)	(622,181)	(5,057)
Net Position - September 30	<u>\$ 663,464</u>	<u>\$ 1,902,640</u>	<u>\$ 2,994,308</u>	<u>\$ 3,067,916</u>

The cost of all governmental activities this year was \$3,282,837. (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 (\$452,768).

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 \$1,338,704 while it reported a fund balance of \$1,068,607 last year.

Over the course of the year, the City Council made revisions to the City's budget. These budget amendments added \$172,447 to budgeted expenditures and \$790,998 to budgeted revenues for the year for an additional budgeted increase in fund balance for all governmental funds of \$618,551.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2015, the City had \$15,264,149 invested in a broad range of capital assets, including land, the water system, sewer system and the solid waste fund as follows:

Governmental Funds:	
General Fund	\$ 4,756,060
Cemetery Expansion Fund	<u>53,233</u>
Total General Fund	<u>4,809,293</u>
Business-Type Funds:	
Water Utility System Fund	\$ 9,170,305
Solid Waste Fund	<u>1,284,551</u>
Total Business-Type Funds	<u>\$ 10,454,856</u>
Total	<u><u>\$ 15,264,149</u></u>

This amount represents a net increase of \$319,914 or 2.1%.

This year's net additions included:

Additions:

Governmental Funds:

New air conditioning at City Hall	\$ 6,423
2015 Ford F150 for Code Enforcement	20,599
2015 Ford F150 for Streets and Parks	20,599
2016 F250 for Shop	31,399
2015 Ford F150 for Cemetery	20,599
Architecture services for New Cemetery Design	<u>53,233</u>
Total Governmental Funds	<u>\$ 152,852</u>

Business-Type Funds

Solid Waste Fund Additions:

18 - 3 yard side loader containers	\$ 8,992
20 - 30 yard containers	9,030
36 side loaders	<u>17,756</u>
Total Solid Waste Fund Additions	<u>\$ 35,778</u>

Water & Sewer Utility Fund Additions:

2015 Ford F15	\$ 20,599
1998 Backhoe	22,000
JET Rodder	55,685
Costs to cover and close old ponds	<u>33,000</u>
Total Water & Sewer Utility Fund Additions	<u>\$ 131,284</u>

Total Business-Type Funds

	<u>\$ 167,062</u>
--	-------------------

Total Additions

	<u>\$ 319,914</u>
--	-------------------

Dispositions (cost):

None	<u>\$ -</u>
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Net Additions

	<u><u>\$ 319,914</u></u>
--	--------------------------

Debt

The loans for a Ford F750 dump truck, Copsync and 2014 Freightliner were decreased by \$13,885, \$13,963 and \$22,976, 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 \$210,000 and paid \$85,250 in bond interest for the year ended September 30, 2015. The City has eighteen 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 prior 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 reduced this bond debt by \$155,000 and paid \$13,937 in bond interest for the year ended September 30, 2015. The City has three years of bond payments left on these notes.

Tax Notes for Cemetery Expansion Project

During the current fiscal year, 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. No reduction in principal was made on these bonds and \$9,811 in interest was paid on these bonds for the year ended September 30, 2015. The City has five 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 2015-2016 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 drastically fallen during the course of the current year, which substantially impacts the evaluation 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 2015-2016. Amounts available for appropriation in the General Fund budget are \$2,283,210, a decrease of 9.7% under the final 2014-2015 budget of \$2,529,476. Budgeted expenditures are expected to decrease by 7.8% to \$3,196,859 from \$3,468,922 in 2014-2015. The budgeted inter-fund transfer from the System Fund and the Solid Waste Fund to the General Fund is \$341,825.

If these estimates are realized, the City's budgetary General Fund Balance is expected to decrease by \$571,824 by the close of 2015-2016 fiscal year.

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, 2015

EXHIBIT A-1

Data Control Codes	Primary Government			
	Governmental Activities	Business Type Activities	Total	
ASSETS				
1010	Cash and Cash Equivalents	\$ 1,311,249	\$ 318,699	\$ 1,629,948
1150	Receivables (net of allowance for uncollectibles)	192,738	256,822	449,560
1300	Interfund Receivables/Payables	(3,639)	3,639	-
	Restricted Assets:			
1611	Temporarily Restricted Cash	494,968	1,062,492	1,557,460
	Capital Assets:			
1710	Land	74,664	6,300	80,964
1720	Infrastructure, net	258,075	-	258,075
1730	Buildings, net	74,557	8,525	83,082
1740	Improvements other than Buildings, net	-	4,945,981	4,945,981
1750	Machinery and Equipment, net	388,514	1,159,504	1,548,018
1780	Construction in Progress	53,234	-	53,234
1000	Total Assets	<u>2,844,360</u>	<u>7,761,962</u>	<u>10,606,322</u>
DEFERRED OUTFLOW OF RESOURCES				
1997	Deferred Outflow Related to Pension Plan	198,055	111,406	309,461
1500	Total Deferred Outflows of Resources	<u>198,055</u>	<u>111,406</u>	<u>309,461</u>
LIABILITIES				
2020	Accounts Payable	464,468	143,821	608,289
2070	Intergovernmental Payable	21,795	6,233	28,028
2140	Accrued Interest Payable	2,530	14,584	17,114
2240	Notes Payable - Current	-	23,760	23,760
2400	Meter Deposits Payable	-	156,206	156,206
	Noncurrent Liabilities			
2501	Due Within One Year	130,962	370,000	500,962
2502	Due in More Than One Year	450,697	4,136,966	4,587,663
2580	Net Pension Liability	1,259,628	-	1,259,628
2000	Total Liabilities	<u>2,330,080</u>	<u>4,851,570</u>	<u>7,181,650</u>
DEFERRED INFLOW OF RESOURCES				
2602	Deferred Inflow Related to Pension Plan	48,871	27,490	76,361
2500	Total Deferred Inflows of Resources	<u>48,871</u>	<u>27,490</u>	<u>76,361</u>
NET POSITION				
3200	Net Investment in Capital Assets	264,855	2,298,125	2,562,980
	Restricted for:			
3810	Restricted by Enabling Legislation	39,644	459,841	499,485
3820	Restricted by Debt Covenants	451,167	-	451,167
3900	Unrestricted Net Position	(92,202)	236,342	144,140
3000	Total Net Position	<u>\$ 663,464</u>	<u>\$ 2,994,308</u>	<u>\$ 3,657,772</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, 2015

Data Control Codes	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
11 City Hall	\$ 216,248	\$ 11,263	\$ 100
12 Municipal Court	41,069	8,142	-
13 Administration	158,125	-	-
21 Police Department	1,170,816	158,816	1,544
22 Fire Department	129,044	-	-
24 Inspections	126,948	44,952	-
25 Child Safety Education	991	1,861	-
30 Street, Humane and City Shop Departments	762,179	125,258	-
31 Street Lighting	82,841	-	-
33 Parks and Cemetery	299,998	87,404	-
40 County Ambulance	12,000	-	-
65 Economic Development and Assistance	206,223	15,072	48,151
74 Other Debt Interest	14,758	-	-
Total Governmental Activities:	3,221,240	452,768	49,795
BUSINESS-TYPE ACTIVITIES:			
701 Water Utility System	1,317,801	1,703,234	-
702 Solid Waste System	977,424	1,003,237	-
Total Business-Type Activities:	2,295,225	2,706,471	-
TOTAL PRIMARY GOVERNMENT:	\$ 5,516,465	\$ 3,159,239	\$ 49,795

Data	General Revenues:
Control	Taxes:
Codes	5010 Property Taxes, Levied for General Purposes
	5120 Sales Taxes
	5170 Franchise Taxes
	5180 Other Taxes
	5190 Penalty and Interest
	5700 Miscellaneous Revenue
	5800 Investment Earnings
	5800 Transfers In (Out)
	Total General Revenues and Transfers
	Change in Net Position
	Net Position - Beginning
	Prior Period Adjustment
	Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (204,885)	\$ -	\$ (204,885)
(32,927)	-	(32,927)
(158,125)	-	(158,125)
(1,010,456)	-	(1,010,456)
(129,044)	-	(129,044)
(81,996)	-	(81,996)
870	-	870
(636,921)	-	(636,921)
(82,841)	-	(82,841)
(212,594)	-	(212,594)
(12,000)	-	(12,000)
(143,000)	-	(143,000)
(14,758)	-	(14,758)
<u>(2,718,677)</u>	<u>-</u>	<u>(2,718,677)</u>
-	385,433	385,433
-	25,813	25,813
-	411,246	411,246
<u>(2,718,677)</u>	<u>411,246</u>	<u>(2,307,431)</u>
635,274	-	635,274
1,174,774	-	1,174,774
274,621	-	274,621
152,883	-	152,883
30,875	-	30,875
9,039	371,506	380,545
6,698	177	6,875
234,356	(439,093)	(204,737)
<u>2,518,520</u>	<u>(67,410)</u>	<u>2,451,110</u>
(200,157)	343,836	143,679
1,902,640	3,067,916	4,970,556
(1,039,019)	(622,181)	(1,661,200)
<u>\$ 663,464</u>	<u>\$ 2,789,571</u>	<u>\$ 3,453,035</u>

CITY OF KERMIT, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

Data Control Codes	General Fund	Other Funds	Total Governmental Funds
ASSETS			
1010 Cash and Cash Equivalents	\$ 1,311,249	\$ -	\$ 1,311,249
1050 Taxes Receivable	173,678	-	173,678
1051 Allowance for Uncollectible Taxes (credit)	(3,329)	-	(3,329)
1150 Receivables (Net)	12,468	9,921	22,389
1611 Temporarily Restricted Cash	-	494,968	494,968
1000 Total Assets	<u>\$ 1,494,066</u>	<u>\$ 504,889</u>	<u>\$ 1,998,955</u>
LIABILITIES			
2010 Accounts Payable	\$ 294,308	\$ 13,148	\$ 307,456
2020 Wages and Salaries Payable	89,914	-	89,914
2030 Compensated Absences Payable	67,098	-	67,098
2070 Intergovernmental Payable	20,865	930	21,795
2080 Due to Other Funds	3,639	-	3,639
2000 Total Liabilities	<u>475,824</u>	<u>14,078</u>	<u>489,902</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	170,349	-	170,349
2600 Total Deferred Inflows of Resources	<u>170,349</u>	<u>-</u>	<u>170,349</u>
FUND BALANCES			
3460 Restricted by Enabling Legislation	-	39,644	39,644
3490 Restricted by Debt Covenants	-	451,167	451,167
3590 Assigned Fund Balance for Capital Acquisition	262,382	-	262,382
3600 Unassigned Fund Balance	585,511	-	585,511
3000 Total Fund Balances	<u>847,893</u>	<u>490,811</u>	<u>1,338,704</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,494,066</u>	<u>\$ 504,889</u>	<u>\$ 1,998,955</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, 2015

Total Fund Balances - Governmental Funds	\$	1,338,704
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$4,656,441 and the accumulated depreciation was \$1,778,094. 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.		798,160
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2015 capital outlays and debt principal payments is to increase (decrease) net position.		178,851
The 2015 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(182,156)
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.		(359,651)
The implementation of GASB 68 for this fiscal year required the City to revalue its net pension liability using actuarial standards. The revaluation resulted in a charge to prior periods' fund balance of \$1,039,019. The total effect of the implementation GASB 68 contained the following: Net pension liability of \$1,259,628; deferred outflow related to pension plan of \$198,055 and deferred inflow related to pension plan fo \$48,871.		(1,110,444)
Net Position of Governmental Activities	\$	663,464

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, 2015

EXHIBIT C-3

Data Control Codes	General Fund	Other Funds	Total Governmental Funds
REVENUES:			
Taxes:			
5110 Property Taxes	\$ 637,125	\$ -	\$ 637,125
5120 General Sales and Use Taxes	1,174,774	-	1,174,774
5170 Franchise Tax	274,621	-	274,621
5180 Other Taxes	-	152,883	152,883
5190 Penalty and Interest on Taxes	30,875	-	30,875
5200 Licenses and Permits	49,473	-	49,473
5300 Intergovernmental Revenue and Grants	1,419	-	1,419
5400 Charges for Services	182,101	-	182,101
5510 Fines	154,832	9,878	164,710
5610 Investment Earnings	6,698	-	6,698
5640 Contributions & Donations from Private Sources	48,376	-	48,376
5700 Other Revenue	23,945	777	24,722
5020 Total Revenues	<u>2,584,239</u>	<u>163,538</u>	<u>2,747,777</u>
EXPENDITURES:			
Current:			
General Government:			
0011 City Hall	213,121	-	213,121
0012 Municipal Court	35,292	5,777	41,069
0013 Administration	162,830	-	162,830
Public Safety:			
0021 Police Department	1,117,086	-	1,117,086
0022 Fire Department	129,044	-	129,044
0024 Inspections	151,753	-	151,753
0025 Child Safety Education	-	991	991
0030 Street, Humane and City Shop Departments	752,281	-	752,281
0031 Street Lighting	82,841	-	82,841
0033 Parks and Cemetery	294,009	78,833	372,842
0040 County Ambulance	12,000	-	12,000
Conservation and Development:			
0065 Economic Development and Assistance	59,496	146,727	206,223
Debt Service:			
0072 Other Debt Principal	27,848	-	27,848
0074 Other Debt Interest	12,908	-	12,908
6030 Total Expenditures	<u>3,050,509</u>	<u>232,328</u>	<u>3,282,837</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(466,270)</u>	<u>(68,790)</u>	<u>(535,060)</u>
OTHER FINANCING SOURCES (USES):			
7911 Capital-related Debt Issued (Regular Bonds)	-	530,000	530,000
7912 Sale of Real and Personal Property	40,801	-	40,801
7915 Transfers In	289,155	-	289,155
8911 Transfers Out (Use)	(54,799)	-	(54,799)
7080 Total Other Financing Sources (Uses)	<u>275,157</u>	<u>530,000</u>	<u>805,157</u>
1200 Net Change in Fund Balances	(191,113)	461,210	270,097
0100 Fund Balance - October 1 (Beginning)	<u>1,039,006</u>	<u>29,601</u>	<u>1,068,607</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 847,893</u>	<u>\$ 490,811</u>	<u>\$ 1,338,704</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, 2015

Total Net Change in Fund Balances - Governmental Funds	\$	270,097
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 2015 capital outlays and debt principal payments is to increase (decrease) the change in net position.		178,851
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.		(182,156)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.		(531,851)
Recognition of the current year's net pension expense and valuation of net pension liability under GASB 68 resulted in an increase in the change in net position.		64,902
Change in Net Position of Governmental Activities	<u>\$</u>	<u>(200,157)</u>

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, 2015

EXHIBIT C-5

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
Taxes:					
5110	Property Taxes	\$ 588,000	\$ 635,761	\$ 637,125	\$ 1,364
5120	General Sales and Use Taxes	550,000	1,174,773	1,174,774	1
5170	Franchise Tax	215,000	274,619	274,621	2
5190	Penalty and Interest on Taxes	27,000	30,504	30,875	371
5200	Licenses and Permits	26,050	48,116	49,473	1,357
5300	Intergovernmental Revenue and Grants	-	-	1,419	1,419
5400	Charges for Services	169,000	168,104	182,101	13,997
5510	Fines	134,000	153,744	154,832	1,088
5610	Investment Earnings	1,128	3,169	6,698	3,529
5640	Contributions & Donations from Private Sources	6,200	18,151	48,376	30,225
5700	Other Revenue	22,100	22,535	23,945	1,410
5020	Total Revenues	<u>1,738,478</u>	<u>2,529,476</u>	<u>2,584,239</u>	<u>54,763</u>
EXPENDITURES:					
Current:					
General Government:					
0011	City Hall	166,655	166,421	213,121	(46,700)
0012	Municipal Court	30,181	39,225	35,292	3,933
0013	Administration	200,799	175,007	162,830	12,177
Public Safety:					
0021	Police Department	1,037,498	1,172,070	1,117,086	54,984
0022	Fire Department	187,533	73,637	129,044	(55,407)
0024	Inspections	132,662	169,726	151,753	17,973
0030	Street, Humane and City Shop Departments	790,936	1,000,722	752,281	248,441
0031	Street Lighting	90,000	106,000	82,841	23,159
0033	Parks and Cemetery	337,702	348,519	294,009	54,510
0040	County Ambulance	12,000	12,000	12,000	-
Conservation and Development:					
0065	Economic Development and Assistance	23,560	35,560	59,496	(23,936)
Debt Service:					
0072	Other Debt Principal	251,656	141,960	27,848	114,112
0074	Other Debt Interest	35,293	28,075	12,908	15,167
6030	Total Expenditures	<u>3,296,475</u>	<u>3,468,922</u>	<u>3,050,509</u>	<u>418,413</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,557,997)</u>	<u>(939,446)</u>	<u>(466,270)</u>	<u>473,176</u>
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	30,000	30,000	40,801	10,801
7915	Transfers In	-	1,293,173	289,155	(1,004,018)
8911	Transfers Out (Use)	-	(120,000)	(54,799)	65,201
7080	Total Other Financing Sources (Uses)	<u>30,000</u>	<u>1,203,173</u>	<u>275,157</u>	<u>(928,016)</u>
1200	Net Change in Fund Balances	<u>(1,527,997)</u>	<u>263,727</u>	<u>(191,113)</u>	<u>(454,840)</u>
0100	Fund Balance - October 1 (Beginning)	<u>1,039,006</u>	<u>1,039,006</u>	<u>1,039,006</u>	<u>-</u>
3000	Fund Balance - September 30 (Ending)	<u>\$ (488,991)</u>	<u>\$ 1,302,733</u>	<u>\$ 847,893</u>	<u>\$ (454,840)</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, 2015

	Business-Type Activities - Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 210,770	\$ 107,929	\$ 318,699
Restricted Assets - Current:			
Temporarily Restricted Cash	1,062,492	-	1,062,492
Accounts Receivable-Net of Uncollectible Allowance	166,627	90,195	256,822
Due from Other Funds	3,639	-	3,639
Total Current Assets	<u>1,443,528</u>	<u>198,124</u>	<u>1,641,652</u>
Noncurrent Assets:			
Capital Assets:			
Land Purchase and Improvements	6,300	-	6,300
Buildings	13,909	-	13,909
Accumulated Depreciation - Buildings	(5,384)	-	(5,384)
Improvements other than Buildings	8,267,801	-	8,267,801
Accumulated Depreciation - Other Improvements	(3,321,820)	-	(3,321,820)
Machinery and Equipment	882,295	1,284,551	2,166,846
Accumulated Depreciation - Machinery & Equipment	(632,324)	(375,018)	(1,007,342)
Total Noncurrent Assets	<u>5,210,777</u>	<u>909,533</u>	<u>6,120,310</u>
Total Assets	<u>6,654,305</u>	<u>1,107,657</u>	<u>7,761,962</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to Pension Plan	68,082	43,324	111,406
Total Deferred Outflows of Resources	<u>68,082</u>	<u>43,324</u>	<u>111,406</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, 2015

	Business-Type Activities - Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise Funds
LIABILITIES			
Current Liabilities:			
Accounts Payable	31,170	40,475	71,645
Wages and Salaries Payable	23,097	14,313	37,410
Compensated Absences Payable	24,888	9,878	34,766
Intergovernmental Payable	-	6,233	6,233
Accrued Interest Payable	10,387	4,197	14,584
Notes Payable - Current	-	23,760	23,760
Bonds Payable - Current:			
Revenue Bonds Payable	215,000	155,000	370,000
Payable from Restricted Assets - Current:			
Meter Deposits Payable	156,206	-	156,206
Total Current Liabilities	<u>460,748</u>	<u>253,856</u>	<u>714,604</u>
NonCurrent Liabilities:			
Bonds Payable - Non-Current:			
Revenue Bonds Payable	3,000,000	325,000	3,325,000
Notes Payable - Noncurrent	-	103,425	103,425
Net Pension Liability	432,998	275,543	708,541
Total Noncurrent Liabilities	<u>3,432,998</u>	<u>703,968</u>	<u>4,136,966</u>
Total Liabilities	<u>3,893,746</u>	<u>957,824</u>	<u>4,851,570</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to Pension Plan	16,799	10,691	27,490
Total Deferred Inflows of Resources	<u>16,799</u>	<u>10,691</u>	<u>27,490</u>
NET POSITION			
Net Investment in Capital Assets	1,995,777	302,348	2,298,125
Restricted by Debt Covenants	459,841	-	459,841
Unrestricted Net Position	356,224	(119,882)	236,342
Total Net Position	<u>\$ 2,811,842</u>	<u>\$ 182,466</u>	<u>\$ 2,994,308</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, 2015

EXHIBIT D-2 (Cont'd)

	Business-Type Activities - Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Water Services	\$ 1,150,353	\$ -	\$ 1,150,353
Charges for Sewerage Service	412,761	-	412,761
Tapping Fees	21,450	-	21,450
Reconnection Fees	33,810	-	33,810
Late Fees	84,860	-	84,860
Sanitation Charges for Services	-	1,003,237	1,003,237
Other Revenue	-	443	443
Total Operating Revenues	1,703,234	1,003,680	2,706,914
OPERATING EXPENSES:			
Water/Sewer Department			
Personnel Services - Salaries and Wages	367,900	-	367,900
Personnel Services - Employee Benefits	130,601	-	130,601
Purchased Professional & Technical Services	47,054	-	47,054
Purchased Property Services	150,887	-	150,887
Other Operating Expenses	13,083	-	13,083
Supplies	102,702	-	102,702
Total Water/Sewer Department	812,227	-	812,227
Utility Office			
Personnel Services - Salaries and Wages	54,468	-	54,468
Personnel Services - Employee Benefits	24,479	-	24,479
Purchased Professional & Technical Services	35,347	-	35,347
Other Operating Expenses	4,935	-	4,935
Supplies	5,097	-	5,097
Total Utility Office	124,326	-	124,326
Finance			
Personnel Services - Salaries and Wages	50,843	-	50,843
Personnel Services - Employee Benefits	18,704	-	18,704
Purchased Professional & Technical Services	4,170	-	4,170
Other Operating Expenses	148	-	148
Supplies	904	-	904
Total Finance	74,769	-	74,769
Solid Waste			
Personnel Services - Salaries and Wages	-	302,000	302,000
Personnel Services - Employee Benefits	-	82,867	82,867
Purchased Professional & Technical Services	-	3,679	3,679
Purchased Property Services	-	48,708	48,708
Other Operating Expenses	-	303,621	303,621
Supplies	-	90,291	90,291
Total Solid Waste	-	831,166	831,166
Depreciation	220,807	128,172	348,979
Total Operating Expenses	1,232,129	959,338	2,191,467
Operating Income	471,105	44,342	515,447

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, 2015

	Business-Type Activities - Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise Funds
NON-OPERATING REVENUES (EXPENSES):			
Transfers In	42,599	162,138	204,737
Investment Earnings	177	-	177
Special Assessments for Bond Retirement	371,063	-	371,063
Agency Fees for Bond Retirement	(900)	-	(900)
Bank Service Charges on Bond Account	(60)	-	(60)
Bond Interest	(84,712)	(13,453)	(98,165)
Loan Interest	-	(4,633)	(4,633)
	<u>328,167</u>	<u>144,052</u>	<u>472,219</u>
Total Non-operating Revenue (Expenses)			
Income Before Transfers	799,272	188,394	987,666
Transfers Out	(439,093)	-	(439,093)
Change in Net Position	360,179	188,394	548,573
Total Net Position - October 1 (Beginning)	2,816,737	251,179	3,067,916
Prior Period Adjustment	(365,074)	(257,107)	(622,181)
Total Net Position - September 30 (Ending)	<u>\$ 2,811,842</u>	<u>\$ 182,466</u>	<u>\$ 2,994,308</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, 2015

EXHIBIT D-3

	Business-Type Activities		
	Water Utility System	Solid Waste System	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 1,699,628	\$ 998,223	\$ 2,697,851
Cash Payments to Employees for Services	(473,617)	(298,541)	(772,158)
Cash Payments for Suppliers	(684,485)	(541,322)	(1,225,807)
Net Cash Provided by Operating Activities	<u>541,526</u>	<u>158,360</u>	<u>699,886</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfer Out	(407,017)	-	(407,017)
Operating Transfers In	-	162,138	162,138
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(407,017)</u>	<u>162,138</u>	<u>(244,879)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Acquisition of Capital Assets	(131,283)	(35,778)	(167,061)
Special Assessments for Bond Retirement	368,547	-	368,547
Bond Principal Retirements	(210,000)	(155,000)	(365,000)
Bond Interest Paid	(85,250)	(13,937)	(99,187)
Bond Maintenance Costs	(960)	-	(960)
Loan Principal Retirements	-	(22,977)	(22,977)
Loan Interest Paid	-	(5,120)	(5,120)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(58,946)</u>	<u>(232,812)</u>	<u>(291,758)</u>
<u>Cash Flows from Investing Activities:</u>			
Interest and Dividends on Investments	178	-	178
Net Increase in Cash and Cash Equivalents	75,741	87,686	163,427
Cash and Cash Equivalents at Beginning of the Year:	1,197,521	20,243	1,217,764
Cash and Cash Equivalents at the End of the Year:	<u>\$ 1,273,262</u>	<u>\$ 107,929</u>	<u>\$ 1,381,191</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>			
Operating Income:	\$ 471,105	\$ 44,342	\$ 515,447
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	220,807	128,172	348,979
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	(3,606)	(5,459)	(9,065)
Increase (decrease) in Accounts Payable	(125,809)	2,043	(123,766)
Increase (decrease) in Net Pension Payable	(22,310)	(14,197)	(36,507)
Increase (decrease) in Meter Deposits	1,272	-	1,272
Increase (decrease) in Wages Payable	1,758	2,156	3,914
Increase (decrease) in Compensated Absences	(2,164)	1,303	(861)
Increase (decrease) in Payroll-Related Liabilities	473	-	473
Net Cash Provided by Operating Activities	<u>\$ 541,526</u>	<u>\$ 158,360</u>	<u>\$ 699,886</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, 2015

EXHIBIT D-3

	Business-Type Activities		
	Water Utility System	Solid Waste System	Total Enterprise Funds
<u>Reconciliation of Total Cash and Cash Equivalents:</u>			
Cash & Cash Equivalents - Statement of Net Assets	\$ 210,770	\$ 107,929	\$ 318,699
Restricted Cash - Statement of Net Assets	<u>1,062,492</u>	<u>-</u>	<u>1,062,492</u>
Total Cash and Cash Equivalents	<u>\$ 1,273,262</u>	<u>\$ 107,929</u>	<u>\$ 1,381,191</u>

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

CITY OF KERMIT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2015

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.

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.

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

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

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

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

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

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

D. 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.

E. 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.
 - *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.

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.

E. OTHER ACCOUNTING POLICIES - continued

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.
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. They represent contributions made to the pension plan by the City after the plan's measurement date, December 31, 2014, but before the City's fiscal year end, September 30, 2015.

E. OTHER ACCOUNTING POLICIES - continued

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.
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, 2015 on September 11, 2014.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

At September 30, 2015, the carrying amount of the City's deposits with the designated depository bank was \$2,241,143 and the bank's collected balance was \$2,350,923. The City's cash deposits with the designated depository bank at September 30, 2015 and the City's deposits on the day of the highest daily cash balance, March 19, 2015 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, 2015 other than operating deposits held by the City's agent bank include:

TexSTAR (LGIP)	\$	114
TexPool		141
West Texas Community Credit Union Regular Shares		186
West Texas Community Credit Union CD		100,401
Plantimum Bank CD # 5093		248,056
Tejas Bank CD		103,619
West Texas National Bank CD		250,000
Complex Community Federal Credit Union		100,936
TexSTAR Escrow		140,823
	<u>\$</u>	<u>944,276</u>

The City also had approximately \$1,989 in petty cash on hand at September 30, 2015.

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	\$ 14,665
Court Technology Fund	1,478
Child Safety Fund Cash	10,202
Hotel/Motel Fund	13,733
Total	<u>\$ 40,078</u>
Restricted by debt covenants:	
Wastewater Sewer Bond	\$ 445,160
Wastewater Construction	319,018
Wastewater Escrow	140,823
Cemetery Annexation	454,890
Total	<u>\$ 1,359,891</u>
Other Restricted	
Meter Deposits by Customers	<u>\$ 157,491</u>
Total temporarily restricted cash	<u><u>\$ 1,557,460</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.

Wastewater Construction Cash: This account may only be used for payment of construction costs of the wastewater treatment plant.

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.

Cemetery Annexation Cash: This account may only be used for payment of acquisition and construction costs of the cemetery annexation property.

A. DEPOSITS AND INVESTMENTS - continued

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 \$245,000 during the year for deposits held in a certificate of deposit held at TxBank during the year. At September 30, 2015, the custodial risk for that certificate of deposit was \$0.

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

City Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

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

Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings 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 180 days 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, 2015:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 465,371	\$ 231,015	\$ 234,356
Business-Type Funds	204,737	439,093	(234,356)
	<u>\$ 670,108</u>	<u>\$ 670,108</u>	<u>\$ -</u>

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Purpose</u>
Governmental Funds:			
Transfers to the General Fund from			
Water Utility System	\$ 289,155	-	Supplement General Fund activities
Transfers to the Capital Acquisition Fund from:			
General Fund	\$ 176,216	-	Set aside for future capital purchases
Transfers from the General Fund to:			
Solid Waste Fund	-	12,200	Supplement Solid Waste Fund activities
Capital Acquisition Fund	-	176,216	Set aside for future capital purchases
Transfers from the Capital Acquisition Fund to:			
Water Utility System		42,599	Purchase Equipment
Total Governmental Funds	<u>\$ 465,371</u>	<u>\$ 231,015</u>	
Business-Type Funds:			
Transfers to the Solid Waste Fund from:			
General Fund	\$ 12,200	-	Supplement Solid Waste Fund activities
Water Utility System	149,938		Supplement Solid Waste Fund activities
Transfers from Water Utility System to:			
General Fund	-	\$ 289,155	Supplement General Fund activities
Solid Waste Fund		149,938	Supplement Solid Waste Fund activities
Transfers to the Water Utility System from:			
Capital Acquisition Fund	\$ 42,599	-	Purchase Equipment
Total Business-Type Funds	<u>\$ 204,737</u>	<u>\$ 439,093</u>	
Total Transfers	<u>\$ 670,108</u>	<u>\$ 670,108</u>	

D. INTER-FUND BALANCES AND TRANSFERS - continued

Interfund receivables and payables at September 30, 2015 consisted of the following:

	Receivables	Payables	Reason
Governmental Funds:			
General Fund due to:			
Water Utility System Fund	\$ -	\$ 3,639	Collections due to Bond Fund
Total Governmental Funds	<u>\$ -</u>	<u>\$ 3,639</u>	
Business-Type Funds:			
Water Utility System Fund due from:			
General Fund	\$ 3,639	\$ -	Collections due to Bond Fund
Total Business-Type Funds	<u>\$ 3,639</u>	<u>\$ -</u>	

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2015 were as follows:

	General Fund	Special Revenue Funds	Total
Governmental Funds:			
Property Taxes	\$ 173,678	\$ -	\$ 173,678
Hotel/Motel Taxes	-	9,921	9,921
Services Receivable	19,384	-	19,384
Gross Receivables	<u>\$ 193,062</u>	<u>\$ 9,921</u>	<u>\$ 202,983</u>
Allowance for Uncollectibles	(10,245)	-	(10,245)
Net Receivables	<u>\$ 182,817</u>	<u>\$ 9,921</u>	<u>\$ 192,738</u>
	Water System Utility Fund	Solid Waste Fund	Total
Business-Type Funds:			
Services Receivable	\$ 198,401	\$ 133,569	\$ 331,970
Special Assessments Receivable	44,638	-	44,638
Gross Receivables	<u>\$ 243,039</u>	<u>\$ 133,569</u>	<u>\$ 376,608</u>
Allowance for Uncollectibles	(76,412)	(43,374)	(119,786)
Net Receivables	<u>\$ 166,627</u>	<u>\$ 90,195</u>	<u>\$ 256,822</u>

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES - continued

Payables at September 30, 2015 were as follows:

	General	Special Revenue Funds	Capital Acquisition Fund	Total
Governmental Funds:				
General Accounts	\$ 294,308	\$ -	\$ 3,723	\$ 298,031
Hotel/Motel Tax due to Kermit Chamber of Commerce	-	9,425	-	9,425
Total General Accounts Payable	<u>\$ 294,308</u>	<u>\$ 9,425</u>	<u>\$ 3,723</u>	<u>\$ 307,456</u>
Wages Payable	\$ 81,585	\$ -	\$ -	\$ 81,585
Payroll Insurance Payable	6,370	-	-	6,370
AFLAC Payable	1,959	-	-	1,959
Total Payroll Costs Payable	<u>\$ 89,914</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 89,914</u>
Accrued Vacation Payable	67,098	-	-	67,098
Total Accounts Payable	<u><u>\$ 451,320</u></u>	<u><u>\$ 9,425</u></u>	<u><u>\$ 3,723</u></u>	<u><u>\$ 464,468</u></u>
	Water and Sewer	Solid Waste	Total	
Business-Type Funds:				
General Accounts	\$ 31,170	\$ 40,475	\$ 71,645	
Wages Payable	\$ 22,281	\$ 14,174	\$ 36,455	
AFLAC Payable	816	139	955	
Total Payroll Costs Payable	<u>\$ 23,097</u>	<u>\$ 14,313</u>	<u>\$ 37,410</u>	
Accrued Vacation Payable	\$ 24,888	\$ 9,878	\$ 34,766	
Total Accounts Payable	<u><u>\$ 79,155</u></u>	<u><u>\$ 64,666</u></u>	<u><u>\$ 143,821</u></u>	

F. CAPITAL ASSETS

Capital asset activity for the City for the year ended September 30, 2015 was as follows:

Governmental Activities:

	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Land	\$ 74,664	\$ -	\$ -	\$ 74,664
Buildings & Improvements	387,471	-	-	387,471
Office Furniture & Equipment	205,662	-	-	205,662
Machinery & Equipment	1,452,973	99,619	-	1,552,592
Infrastructure	2,535,671	-	-	2,535,671
Constructoin in Progress	-	53,234	-	53,234
Total General Fixed Assets	<u>\$ 4,656,441</u>	<u>\$ 152,853</u>	<u>\$ -</u>	<u>\$ 4,809,294</u>
Less: Accumulated Depreciation				
Buildings & Improvements	\$ (311,478)	\$ (7,860)	\$ -	\$ (319,338)
Office Furniture & Equipment	(156,042)	(13,348)	-	(169,390)
Machinery & Equipment	(1,082,137)	(111,788)	-	(1,193,925)
Infrastructure	<u>(2,228,437)</u>	<u>(49,160)</u>	<u>-</u>	<u>(2,277,597)</u>
Total Accumulated Depreciation	<u>(3,778,094)</u>	<u>(182,156)</u>	<u>-</u>	<u>(3,960,250)</u>
Governmental Activities Capital Assets - Net	<u><u>\$ 878,347</u></u>	<u><u>\$ (29,303)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 849,044</u></u>

F. CAPITAL ASSETS - continued

Business-type Activities:

	Beginning Balance	Additions/ Adjustments	Retirements/ Adjustments	Ending Balance
Water & Sewer System:				
Land	\$ 6,300	\$ -	\$ -	\$ 6,300
Buildings & Improvements	13,908	-	-	13,908
Water & Sewer System	8,234,802	33,000	-	8,267,802
Machinery and Equipment	713,710	98,284	-	811,994
Office Furniture and Equipment	70,302	-	-	70,302
Total Water & Sewer System	<u>\$ 9,039,022</u>	<u>\$ 131,284</u>	<u>\$ -</u>	<u>\$ 9,170,306</u>
Solid Waste:				
Machinery & Equipment	\$ 1,248,774	\$ 35,778	\$ -	\$ 1,284,552
Total Fixed Assets	<u>\$ 10,287,796</u>	<u>\$ 167,062</u>	<u>\$ -</u>	<u>\$ 10,454,858</u>
Less Accumulated Depreciation:				
Water & Sewer System:				
Buildings & Improvements	\$ (4,865)	\$ (518)	\$ -	\$ (5,383)
Water & Sewer System	(3,130,493)	(191,330)	-	(3,321,823)
Machinery and Equipment	(535,974)	(26,062)	-	(562,036)
Other Equipment	(67,391)	(2,897)	-	(70,288)
Total Water & Sewer System	<u>\$ (3,738,723)</u>	<u>\$ (220,807)</u>	<u>\$ -</u>	<u>\$ (3,959,530)</u>
Solid Waste:				
Machinery & Equipment	\$ (246,846)	\$ (128,172)	\$ -	\$ (375,018)
Total Accumulated Depr.	<u>(3,985,569)</u>	<u>(348,979)</u>	<u>-</u>	<u>(4,334,548)</u>
Business-type Activities Capital Assets, Net	<u>\$ 6,302,227</u>	<u>\$ (181,917)</u>	<u>\$ -</u>	<u>\$ 6,120,310</u>

Depreciation Expense was charged to functions as follows:

Function	Governmental Activities	Business-type Activities
Executive	\$ 9,550	\$ -
Police	88,265	-
Streets, Animal Control and Shop	76,731	-
Parks and Cemetary	7,610	-
Water and Sewerage	-	220,807
Solid Waste	-	128,172
Total Depreciation	<u>\$ 182,156</u>	<u>\$ 348,979</u>

G. LOANS PAYABLE

The City had the following loans during the year ended September 30, 2015:

1. The City borrowed funds from WesTex Community Credit Union to acquire a Ford F750 dump truck in June 2012. The loan bears a 3.00% rate of interest and is repayable by twenty quarterly payments of \$3,698; an additional payment of \$3,475 was made July 11, 2014 which was applied to principal.
2. 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, 2014.

G. LOANS PAYABLE - continued

3. 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, 2014.

A summary of the change in commitments under these loans for the year ended September 30, 2015 is as follows.

Asset Purchased	Payable Amount Outstanding October 1, 2014	Additions	Payments	Payable Amount Outstanding September 30, 2015
Governmental Type Activities:				
2012 Ford F750 Dump Truck	35,501	-	13,885	21,616
CopSync	44,005		13,963	30,042
	<u>\$ 79,506</u>	<u>\$ -</u>	<u>\$ 27,848</u>	<u>\$ 51,658</u>
Business Type Activities:				
Solid Waste Fund:				
2014 Freightliner & Sideloader*	<u>\$ 150,162</u>	<u>\$ -</u>	<u>\$ 22,977</u>	<u>\$ 127,185</u>

Principal and interest requirements for future periods are as follows:

Fiscal Year End	Principal	Interest	Total
Governmental Funds:			
Ford F750 Dump Truck			
2016	4 14,305	\$ 489	\$ 14,794
2017	7,311	86	7,397
	<u>\$ 21,616</u>	<u>\$ 575</u>	<u>\$ 22,191</u>
CopSync			
2016	\$ 14,657	\$ 1,494	\$ 16,151
2017	15,385	766	16,151
	<u>\$ 30,042</u>	<u>\$ 2,260</u>	<u>\$ 32,302</u>
Total			
2016	\$ 28,962	\$ 1,983	30,945
2017	22,696	852	23,548
	<u>\$ 51,658</u>	<u>\$ 2,835</u>	<u>\$ 54,493</u>
Business Type Funds:			
2014 Freightliner & Sideloader			
2016	\$ 23,761	\$ 4,336	\$ 28,097
2017	24,571	3,526	28,097
2018	25,408	2,689	28,097
2019	26,275	1,822	28,097
2020	27,170	927	28,097
	<u>\$ 127,185</u>	<u>\$ 13,300</u>	<u>\$ 140,485</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, 2015 is as follows:

	Balance October 1, 2014	Issued	Redeemed	Balance September 30, 2015
Bonds	\$ 3,425,000	\$ -	\$ 210,000	\$ 3,215,000

The debt service schedule for these bonds is as follows:

Fiscal Years ended:	Principal	Interest	Total
2016	215,000	80,786	295,786
2017	220,000	76,055	296,055
2018	225,000	71,048	296,048
2019	230,000	65,700	295,700
2020	235,000	60,002	295,002
2021-2025	1,260,000	204,325	1,464,325
2026-2028	830,000	35,842	865,842
	<u>\$ 3,215,000</u>	<u>\$ 593,758</u>	<u>\$ 3,808,758</u>

Interest expense related to this debt reported in the Proprietary Fund financial statements and the government-wide financial statements was \$84,712. Of this expense, \$10,925 was accrued in the prior fiscal year. A total of \$85,250 was paid on February 15, 2015 and August 15, 2015 pursuant to the debt service schedule, and \$10,387 was accrued from August 15, 2015 to September 30, 2015.

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.

A summary of changes in the bond obligations for the year ended September 30, 2015 is as follows:

	Balance October 1, 2014	Issued	Redeemed	Balance September 30, 2015
Bonds	\$ 635,000	\$ -	\$ 155,000	\$ 480,000

I. TAX NOTES, SERIES 2011 - continued

The debt service schedule for these bonds is as follows:

Fiscal Years ended:	Principal	Interest	Total
2016	\$ 155,000	\$ 10,063	\$ 165,063
2017	160,000	6,125	166,125
2018	165,000	2,062	167,062
	<u>\$ 480,000</u>	<u>\$ 18,250</u>	<u>\$ 498,250</u>

Interest expense related to this debt reported in the Proprietary Fund financial statements and the government-wide financial statements was \$13,453. Of this expense, \$1,984 was accrued in the prior fiscal year, \$13,937 was paid on February 15, 2015 and August 15, 2015 pursuant to the debt service schedule and \$1,500 was accrued from August 15, 2015 to September 30, 2015.

J. TAX NOTES, SERIES 2014

The City issued \$530,000 in Tax Notes, series 2014, on November 13, 2014. The proceeds of these bonds will be 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, 2015 is as follows:

	Balance October 1, 2014	Issued	Redeemed	Balance September 30, 2015
Bonds	\$ -	\$ 530,000	\$ -	\$ 530,000

The debt service schedule for these bonds is as follows:

Fiscal Years ended:	Principal	Interest	Total
2016	\$ 102,000	\$ 11,735	\$ 113,735
2017	104,000	9,212	113,212
2018	106,000	6,639	112,639
2019	108,000	4,018	112,018
2020	110,000	1,348	111,348
	<u>\$ 530,000</u>	<u>\$ 32,952</u>	<u>\$ 562,952</u>

Interest expense related to this debt reported in the Governmental Fund financial statements was \$9,810 that was paid on February 15, 2015 and August 15, 2015 pursuant to the debt service schedule. An additional \$1,500 was accrued from from August 15, 2015 to September 30, 2015 for a total of \$11,310 interest expense reported related to this debt in the Government-Wide Statement of Activities.

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 leave in the General Fund is reported in the government fund financial statements because it is considered a short-term obligation.

L. DEFINED BENEFIT PENSION PLAN

Plan Description: The City of Kermit participates as one of 860 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.

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 2014	Plan year 2015
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, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	28
Inactive employees entitled to but not yet receiving benefits	64
Active employees	51
Total	143

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 18.93% and 15.28% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended were \$342,145, and were equal to the required contributions.

Net Pension Liability: The City's net pension liability (NPL) was measured as of December 31, 2014, 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, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, 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 Table, 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 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. 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. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.80%
International Equity	18%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10%	3.50%
Real Return	5%	1.75%
Real Estate	10%	5.25%
Absolute Return	5%	4.25%
Private Equity	5%	8.50%
Total	100.00%	

Discount Rate: The discount rate used to measure the Total Pension Liability was 7.0%. 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.

L. DEFINED BENEFIT PENSION PLAN - continued

Changes in the Net Pension Liability

	Total Pension Liability	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)- (b)
Balance at 12/31/2013	\$ 9,339,266	\$ 7,228,738	\$ 2,110,528
Changes for the Year:			
Service cost	265,828	-	265,828
Interest	646,756	-	646,756
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(128,875)	-	(128,875)
Changes of assumptions	-	-	-
Contributions - employer	-	376,311	(376,311)
Contributions - employee	-	140,865	(140,865)
Net investment income	-	413,564	(413,564)
Benefit payments, including refunds of employee contributions	(465,614)	(465,614)	-
Administrative expense	-	(4,317)	4,317
Other charges	-	(355)	355
Net change in pension liability	<u>\$ 318,095</u>	<u>\$ 460,454</u>	<u>\$ (142,359)</u>
Balance at 12/31/2014	<u>\$ 9,657,361</u>	<u>\$ 7,689,192</u>	<u>\$ 1,968,169</u>

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7%)	1% Decrease in Discount Rate (8.0%)
City's Net Pension Liability	\$ 3,363,213	\$ 1,968,169	\$ 829,177

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, 2015 the City recognized pension expense of \$236,355.

At September 30, 2015, 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	\$ 73,958	\$ -
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	76,361
Contributions subsequent to the measurement date	235,503	-
Total	<u>\$ 309,461</u>	<u>\$ 76,361</u>

L. DEFINED BENEFIT PENSION PLAN - continued

\$235,503 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, 2015. 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:		
2015	\$	(34,024)
2016		(5,357)
2017		18,490
2018		18,488
2019		-
Thereafter		-
	\$	<u>(2,403)</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
2013	0.15%	0.15%	100.00%
2014	0.10%	0.10%	100.00%
2015	0.07%	0.07%	100.00%

The City's contributions to the TMRS SDBF for the years ended 2015, 2014 and 2013 were \$4,381, \$5,056 and \$4,777, 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, 2015 consisted of property tax revenue assessed but not collected in the amount of \$173,678 less allowance for uncollectible accounts of \$3,329 for net deferred inflows of \$170,349.

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	\$ 2,305	\$ -	\$ -	\$ 2,305
Court costs, fees and charges	733	-	-	733
Street Lighting	122,463	-	-	122,463
Cemetery Services	56,600	-	-	56,600
Water	-	-	1,150,353	1,150,353
Sewer	-	-	412,761	412,761
Solid Waste	-	-	1,003,237	1,003,237
Other Services	-	-	140,120	140,120
Service related income	<u>\$ 182,101</u>	<u>\$ -</u>	<u>\$ 2,706,471</u>	<u>\$ 2,888,572</u>
Property Taxes	\$ 637,125	\$ -	\$ -	\$ 637,125
General Sales & Use Tax	1,174,774	-	-	1,174,774
Franchise Tax	274,621	-	-	274,621
Hotel/Motel Tax	-	152,883	-	152,883
Penalties & Interest	30,875	-	-	30,875
Tax-related Income	<u>\$ 2,117,395</u>	<u>\$ 152,883</u>	<u>\$ -</u>	<u>\$ 2,270,278</u>
Contributions from Private Sources	\$ 48,376	\$ -	\$ -	\$ 48,376
State Revenue	\$ 1,419	\$ -	\$ -	\$ 1,419
Fines	\$ 154,832	\$ 9,878	\$ -	\$ 164,710
Licenses and Permits	49,473	-	-	49,473
Special assessments	-	-	371,063	371,063
Other Revenue	23,945	777	443	25,165
Sale of Cemetery Lots	30,050	-	-	30,050
Sale of City Owned Property	10,751	-	-	10,751
Other revenue	<u>\$ 269,051</u>	<u>\$ 10,655</u>	<u>\$ 371,506</u>	<u>\$ 651,212</u>
Investment Earnings	<u>\$ 6,698</u>	<u>\$ -</u>	<u>\$ 177</u>	<u>\$ 6,875</u>
Totals	<u>\$ 2,625,040</u>	<u>\$ 163,538</u>	<u>\$ 3,078,154</u>	<u>\$ 5,866,732</u>

P. LITIGATION

The City is involved in negotiations with the Waste Water Treatment Plant construction contractor regarding the closure of the ponds at the old system. At issue are the costs to complete the closure, which the city stipulates was performed during the year ended September 20, 2015 at a cost of \$33,000. The Contractor stipulates that the City owes the company costs the contractor incurred on this project valued at over one million dollars. City officials cannot determine with any degree of certainty the outcome of these negotiations or the potential financial cost of these negotiations.

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, 2015.

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 2015, the City purchased commercial insurance to cover general liabilities.

For the year ended September 30, 2015, 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

As a result of implementing GASB 68, net position/(deficit) was restated at September 30, 2014. With the adoption of GASB 68, the City is reporting the difference between the Net Pension Obligation calculation and the Net Pension Liability calculation as a reduction to the prior year net position/(deficit).

	<u>Exhibit B-1</u>	<u>Exhibit C-3</u>	<u>Exhibit D-2</u>
Implementation of Governmental Accounting Standards Board Statement Number 68 for valuing and reporting net pension liability and annual pension expense:			
Governmental Funds:			
Net Pension Liability at September 30, 2014	\$ (1,039,019)	\$ -	\$ -
Business Type Funds:			
Net Pension Liability at September 30, 2014	(622,181)	-	(622,181)
	<u>\$ (1,661,200)</u>	<u>\$ -</u>	<u>\$ (622,181)</u>

COMBINING STATEMENTS

CITY OF KERMIT, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2015

Data Control Codes	160 Child Safety Fund	180 Hotel/Motel Tax	191 Court Technology	193 Court Security	
ASSETS					
1150	Receivables (Net)	\$ -	\$ 9,921	\$ -	\$ -
Restricted Assets:					
1611	Temporarily Restricted Cash	10,202	13,733	1,478	14,665
1000	Total Assets	<u>\$ 10,202</u>	<u>\$ 23,654</u>	<u>\$ 1,478</u>	<u>\$ 14,665</u>
LIABILITIES					
2010	Accounts Payable	\$ -	\$ 9,425	\$ -	\$ -
2070	Intergovernmental Payable	930	-	-	-
2000	Total Liabilities	<u>930</u>	<u>9,425</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
3460	Restricted by Enabling Legislation	9,272	14,229	1,478	14,665
3490	Restricted by Debt Covenants	-	-	-	-
3000	Total Fund Balances	<u>9,272</u>	<u>14,229</u>	<u>1,478</u>	<u>14,665</u>
4000	Total Liabilities and Fund Balances	<u>\$ 10,202</u>	<u>\$ 23,654</u>	<u>\$ 1,478</u>	<u>\$ 14,665</u>

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

Total Nonmajor Special Revenue Funds	194 Cemetery Expansion	Total Nonmajor Governmental Funds
\$ 9,921	\$ -	\$ 9,921
40,078	454,890	494,968
<u>\$ 49,999</u>	<u>\$ 454,890</u>	<u>\$ 504,889</u>
\$ 9,425	\$ 3,723	\$ 13,148
930	-	930
<u>10,355</u>	<u>3,723</u>	<u>14,078</u>
39,644	-	39,644
-	451,167	451,167
<u>39,644</u>	<u>451,167</u>	<u>490,811</u>
<u>\$ 49,999</u>	<u>\$ 454,890</u>	<u>\$ 504,889</u>

CITY OF KERMIT, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

Data Control Codes	160 Child Safety Fund	180 Hotel/Motel Tax	191 Court Technology	193 Court Security
REVENUES:				
Taxes:				
5180 Other Taxes	\$ -	\$ 152,883	\$ -	\$ -
5510 Fines	1,861	-	4,584	3,433
5700 Other Revenue	-	777	-	-
5020 Total Revenues	<u>1,861</u>	<u>153,660</u>	<u>4,584</u>	<u>3,433</u>
EXPENDITURES:				
Current:				
General Government:				
0012 Municipal Court	-	-	5,717	60
Public Safety:				
0025 Child Safety Education	991	-	-	-
Street, Humane and City Shop Departments:				
0033 Parks and Cemetery	-	-	-	-
Conservation and Development:				
0065 Economic Development and Assistance	-	146,727	-	-
6030 Total Expenditures	<u>991</u>	<u>146,727</u>	<u>5,717</u>	<u>60</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>870</u>	<u>6,933</u>	<u>(1,133)</u>	<u>3,373</u>
OTHER FINANCING SOURCES (USES):				
7911 Capital-related Debt Issued (Regular Bonds)	-	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	870	6,933	(1,133)	3,373
0100 Fund Balance - October 1 (Beginning)	<u>8,402</u>	<u>7,296</u>	<u>2,611</u>	<u>11,292</u>
3000 Fund Balance - September 30 (Ending)	<u><u>\$ 9,272</u></u>	<u><u>\$ 14,229</u></u>	<u><u>\$ 1,478</u></u>	<u><u>\$ 14,665</u></u>

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

Total Nonmajor Special Revenue Funds	194 Cemetery Expansion	Total Nonmajor Governmental Funds
\$ 152,883	\$ -	\$ 152,883
9,878	-	9,878
<u>777</u>	<u>-</u>	<u>777</u>
<u>163,538</u>	<u>-</u>	<u>163,538</u>
5,777	-	5,777
991	-	991
-	78,833	78,833
<u>146,727</u>	<u>-</u>	<u>146,727</u>
<u>153,495</u>	<u>78,833</u>	<u>232,328</u>
<u>10,043</u>	<u>(78,833)</u>	<u>(68,790)</u>
<u>-</u>	<u>530,000</u>	<u>530,000</u>
<u>-</u>	<u>530,000</u>	<u>530,000</u>
10,043	451,167	461,210
<u>29,601</u>	<u>-</u>	<u>29,601</u>
<u>\$ 39,644</u>	<u>\$ 451,167</u>	<u>\$ 490,811</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KERMIT, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2015

EXHIBIT F-1

	2015
A. Total Pension Liability	
Service Cost	\$ 265,828
Interest (on the Total Pension Liability)	646,756
Changes of Benefit Terms	-0-
Difference between Expected and Actual Experience	(128,875)
Changes of Assumptions	-0-
Benefit Payments, including refunds of employee contributions	(465,614)
	\$ 318,095
Net change in Total Pension Liability	\$ 318,095
Total Pension Liability - Beginning	9,339,266
Total Pension Liability - Ending	\$ 9,657,361
B. Total Fiduciary Net Position	
Contributions - Employer	\$ 376,311
Contributions - Employee	140,865
Net Investment Income	413,564
Benefit Payments, including refunds of employee contributions	(465,614)
Administrative Expense	(4,317)
Other	(355)
	\$ 460,454
Net Change in Plan Fiduciary Net Position	\$ 460,454
Plan Fiduciary Net Position - Beginning	7,228,738
Plan Fiduciary Net Position - Ending	\$ 7,689,192
C. Net Pension Liability	\$ 1,968,169
D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.62%
E. Covered Employee Payroll	\$ 2,012,360
F. Net Pension Liability as a Percentage of Covered Employee Payroll	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 one year of data is 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, 2015

EXHIBIT F-2

	<u>2015</u>
Actuarially Determined Contribution	\$ 337,764
Contributions in Relation to the Actuarially Determined Contributions	337,764
Contribution Deficiency (Excess)	<u>\$ -0-</u>
Covered Employee Payroll	\$ 2,108,453
Contributions as a Percentage of Covered Employee Payroll	16.02%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's current fiscal year as opposed to the time period covered by the measurement date.

Note: Only one year of data is presented in accordance with GASB 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
Notes to the Schedule of Contributions
Year Ended September 30, 2015

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	3.00%
Salary Increases	3.50% to 12.00%, including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009
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.

OTHER SUPPLEMENTARY INFORMATION

CITY OF KERMIT, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL - WATER UTILITY SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2015

EXHIBIT G-1

	Budgeted Amounts		Actual	Variance With
	Original	Final	GAAP BASIS (See Note)	Final Budget Positive or (Negative)
OPERATING REVENUES:				
Charges for Water Services	\$ 1,296,200	\$ 1,206,044	\$ 1,150,353	\$ (55,691)
Charges for Sewerage Service	1,030,260	425,000	412,761	(12,239)
Tapping Fees	6,000	21,050	21,450	400
Reconnection Fees	21,000	33,810	33,810	-
Late Fees	76,500	79,830	84,860	5,030
Investment Earnings	1,100	500	-	(500)
Total Operating Revenues	<u>2,431,060</u>	<u>1,766,234</u>	<u>1,703,234</u>	<u>(63,000)</u>
OPERATING EXPENSES:				
Water/Sewer Department				
Personnel Services - Salaries and Wages	290,357	378,882	367,900	10,982
Personnel Services - Employee Benefits	133,533	158,763	130,601	28,162
Purchased Professional & Technical Services	65,000	73,870	47,054	26,816
Purchased Property Services	186,700	188,550	150,887	37,663
Other Operating Expenses	8,300	8,300	13,083	(4,783)
Supplies	126,821	149,221	102,702	46,519
Total Water/Sewer Department	<u>810,711</u>	<u>957,586</u>	<u>812,227</u>	<u>145,359</u>
Utility Office				
Personnel Services - Salaries and Wages	55,160	56,689	54,468	2,221
Personnel Services - Employee Benefits	25,250	28,774	24,479	4,295
Purchased Professional & Technical Services	25,000	40,000	35,347	4,653
Purchased Property Services	7,700	-	-	-
Other Operating Expenses	3,400	4,688	4,935	(247)
Supplies	3,200	3,607	5,097	(1,490)
Total Utility Office	<u>119,710</u>	<u>133,758</u>	<u>124,326</u>	<u>9,432</u>
Finance				
Personnel Services - Salaries and Wages	44,500	52,092	50,843	1,249
Personnel Services - Employee Benefits	20,357	23,882	18,704	5,178
Purchased Professional & Technical Services	8,500	4,171	4,170	1
Purchased Property Services	100	-	-	-
Other Operating Expenses	160	100	148	(48)
Supplies	1,100	1,050	904	146
Total Finance	<u>74,717</u>	<u>81,295</u>	<u>74,769</u>	<u>6,526</u>
Depreciation	-	220,222	220,807	(585)
Total Operating Expenses	<u>1,005,138</u>	<u>1,392,861</u>	<u>1,232,129</u>	<u>160,732</u>
Operating Income (Loss)	<u>1,425,922</u>	<u>373,373</u>	<u>471,105</u>	<u>97,732</u>
NON-OPERATING REVENUES (EXPENSES):				
Transfers In	-	-	42,599	42,599
Investment Earnings	-	500	177	(323)
Special Assessments for Bond Retirement	300,000	333,249	371,063	37,814
Agency Fees for Bond Retirement	-	-	(900)	(900)
Bank Service Charges on Bond Account	110	-	(60)	(60)
Bond Interest	-	213,053	(84,712)	(297,765)
Total Non-operating Revenue (Expenses)	<u>300,110</u>	<u>546,802</u>	<u>328,167</u>	<u>(218,635)</u>
Income (Loss) Before Transfers	1,726,032	920,175	799,272	(120,903)
Transfers Out	-	1,099,388	(439,093)	(1,538,481)
Change in Net Position	<u>1,726,032</u>	<u>2,019,563</u>	<u>360,179</u>	<u>(1,659,384)</u>
Net Position - October 1 (Beginning)	2,816,737	(2,816,738)	2,816,737	5,633,475
Prior Period Adjustment	-	-	(365,074)	(365,074)
Net Position - September 30 (Ending)	<u>\$ 4,542,769</u>	<u>\$ (797,175)</u>	<u>\$ 2,811,842</u>	<u>\$ 3,609,017</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 NET POSITION
BUDGET AND ACTUAL - SOLID WASTE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

EXHIBIT G-2

	Budgeted Amounts		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final	GAAP BASIS (See Note)	
OPERATING REVENUES:				
Sanitation Charges for Services	\$ 883,474	\$ 929,268	\$ 1,003,237	\$ 73,969
Other Revenue	-	27	443	416
Total Operating Revenues	<u>883,474</u>	<u>929,295</u>	<u>1,003,680</u>	<u>74,385</u>
OPERATING EXPENSES:				
Solid Waste				
Personnel Services - Salaries and Wages	207,740	324,306	302,000	22,306
Personnel Services - Employee Benefits	77,684	120,945	82,867	38,078
Purchased Professional & Technical Services	8,000	8,000	3,679	4,321
Purchased Property Services	32,300	54,000	48,708	5,292
Other Operating Expenses	195,700	296,500	303,621	(7,121)
Supplies	111,750	94,000	90,291	3,709
Total Solid Waste	<u>633,174</u>	<u>897,751</u>	<u>831,166</u>	<u>66,585</u>
Depreciation	-	108,214	128,172	(19,958)
Total Operating Expenses	<u>633,174</u>	<u>1,005,965</u>	<u>959,338</u>	<u>46,627</u>
Operating Income (Loss)	<u>250,300</u>	<u>(76,670)</u>	<u>44,342</u>	<u>121,012</u>
NON-OPERATING REVENUES (EXPENSES):				
Transfers In	-	-	162,138	162,138
Bond Interest	-	14,169	(13,453)	(27,622)
Loan Interest	-	-	(4,633)	(4,633)
Total Non-operating Revenue (Expenses)	<u>-</u>	<u>14,169</u>	<u>144,052</u>	<u>129,883</u>
Change in Net Position	250,300	(62,501)	188,394	250,895
Net Position - October 1 (Beginning)	251,179	(251,179)	251,179	502,358
Prior Period Adjustment	-	-	(257,107)	(257,107)
Net Position - September 30 (Ending)	<u>\$ 501,479</u>	<u>\$ (313,680)</u>	<u>\$ 182,466</u>	<u>\$ 496,146</u>

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

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, 2015, 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 September 9, 2016.

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.

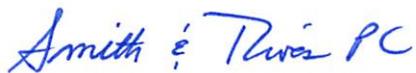
Compliance and Other Matters

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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2015-01.

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.

A handwritten signature in blue ink that reads "Smith & Rives PC". The signature is written in a cursive, flowing style.

Smith & Rives, PC
Monahans, Texas 79756
September 9, 2016

City of Kermit, Texas
Schedule of Findings and Responses
For the Year Ended September 30, 2015

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*.

2015-01: All deposits shall be insured by the FDIC, NCUA, FSLIC or secured by pledged collateral

Control deficiency
Noncompliance

Condition: Per review of activity in the City's cash and cash equivalents, one of the City's certificate of deposit was not adequately secured throughout the year by the bank that held it.

Criteria: The City's Investment Policy and the Public Funds Investment Act require that all deposits and investments of City funds be secured by pledged collateral and/or insured by the FDIC, NCUA or FSLIC.

Effect: Cash was exposed to custodial risk at a maximum of \$245,000 for a portion of the year.

Cause: The City did not investigate the financial institution's associations to determine the level of the City's investments placed with a single institution.

Recommendation: Monitor invested cash to ensure balances are adequately covered by insurance or pledged collateral. Follow the City's adopted Investment Policy.

View of Responsible Officials: The uninsured balance was redeemed at maturity and placed in an account that was totally insured. City will take steps to monitor coverage of all deposits on a consistent basis throughout the year.

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

No Findings

CITY OF KERMIT, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2015
(Prepared by the City's Administration)

Finding 2014-01: Cash Deposits Inadequately Insured

In the prior year, the City's deposits were not adequately secured by a bank that held a certificate of deposit. During the current year, the City's deposits were not adequately secured for a portion of the year.

CITY OF KERMIT, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2015

(Prepared by the City's Administration)

For the following corrective action plan, the responsible officials are Gloria Saenz, City Manager, and Frankie Davis, Finance Officer:

Finding 2015-01: Cash Deposits Inadequately Insured.

The City Manager redeemed the certificate of deposit before September 30, 2015. The City's cash deposits were adequately insured as of September 30, 2015.