

CITY OF KERMIT, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2024

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

CITY OF KERMIT, TEXAS

ANNUAL FINANCIAL REPORT

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ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2024

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FINANCIAL SECTION

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas, as of and for the fiscal year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the City of Kermit, Texas' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas, as of September 30, 2024, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2025, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering of the City's internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 24, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF KERMIT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

In this section of the Annual Financial and Compliance Report, we, the managers of the City of Kermit, Texas ("the City"), discuss and analyze the City's financial performance for the fiscal year ended September 30, 2024. Please read it in conjunction with the Independent Auditor's Report and the City's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$26,331,405 (*net position*). Of this amount, \$12,490,279 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors. Governmental activities report an unrestricted net position of \$2,733,240.
- The government's total net position increased by \$6,190,893 due to an increase in sales tax revenues and increase in investment earnings.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,993,590, an increase of \$1,930,921 from the prior year. Approximately 65.82% of the combined fund balance, or \$3,944,869, is *available for spending* at the government's discretion (*assigned and unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was 47.70% of total general fund expenditures.
- The City's long-term liabilities decreased by \$904,780 over the prior year primarily due to a decrease in total net pension liability of \$992,007.
- During the year, the City's governmental funds had \$10,005,903 generated in tax, grants and contributions, and other revenues for the governmental programs, that exceeded operating expenditures by \$1,337,590 before transfers. This compares to last year when revenues exceeded expenditures by \$602,688, before transfers.
- The fund balance for all governmental funds ended the year at \$5,993,590 and the ending fund balance from last year was \$4,062,669.
- In the City's enterprise funds, operating revenues decreased by \$240,337 while operating expenses increased \$47,329 from the prior year.

Using this Annual Report

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

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

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

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

Proprietary Funds: The City reports the activities for which it charges users (whether outside customers or units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the City'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 (page 10) and changes in net position (page 12) of the City's governmental and business-type activities.

Net Position of the City's governmental activities was \$10,829,184. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements of \$2,733,240 at September 30, 2024 and restricted portion of \$2,048,721 for economic development, municipal court technology & security, and public safety.

Net Position of the City's business-type activities was \$15,502,221, which included \$9,757,039 in unrestricted net position, \$580,950 restricted for debt service and \$5,164,232 in investment in capital assets, net of related debt. The net position of the business-type activities increased by \$2,603,316.

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

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Current and Other Assets	\$ 6,405,570	\$ 5,522,130	\$ 11,207,898	\$ 9,323,521	\$ 17,613,468	\$ 14,845,651
Capital Assets, net	6,623,500	4,648,325	8,310,232	8,486,766	14,933,732	13,135,091
Total Assets	\$ 13,029,070	\$ 10,170,455	\$ 19,518,130	\$ 17,810,287	\$ 32,547,200	\$ 27,980,742
Deferred Outflows of Resources	\$ 556,171	\$ 953,982	\$ 207,178	\$ 319,300	\$ 763,349	\$ 1,273,282
Long-Term Liabilities	\$ 2,265,996	\$ 2,416,112	\$ 3,763,685	\$ 4,518,349	\$ 6,029,681	\$ 6,934,461
Other Liabilities	336,498	1,275,742	402,199	648,433	738,697	1,924,175
Total Liabilities	\$ 2,602,494	\$ 3,691,854	\$ 4,165,884	\$ 5,166,782	\$ 6,768,378	\$ 8,858,636
Deferred Inflows of Resources	\$ 153,563	\$ 190,976	\$ 57,203	\$ 63,900	\$ 210,766	\$ 254,876
Net Position:						
Invested in Capital Assets	\$ 6,047,223	\$ 4,641,534	\$ 5,164,232	\$ 5,672,262	\$ 11,211,455	\$ 10,313,796
Restricted	2,048,721	1,377,355	580,950	568,355	2,629,671	1,945,710
Unrestricted	2,733,240	1,222,718	9,757,039	6,658,288	12,490,279	7,881,006
Total Net Position	\$ 10,829,184	\$ 7,241,607	\$ 15,502,221	\$ 12,898,905	\$ 26,331,405	\$ 20,140,512

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

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Revenues:						
Program Revenues:						
Charges for Services	\$ 637,346	\$ 594,573	\$ 5,446,227	\$ 5,514,842	\$ 6,083,573	\$ 6,109,415
Operating Grants and Contributions	332,711	1,464,515			332,711	1,464,515
General Revenues:						
Property Taxes	840,932	818,332			840,932	818,332
Sales Tax	6,477,955	2,726,963			6,477,955	2,726,963
Franchise Taxes	293,603	357,904			293,603	357,904
Occupancy Taxes	953,154	987,913			953,154	987,913
Unrestricted Contributions	75,880				75,880	
Unrestricted Investment Earnings	276,768	385,690	339,657	29,088	616,425	414,778
Gain on Disposal of Assets	6,000				6,000	
Miscellaneous	94,651	78,461	34,962	206,684	129,613	285,145
Total Revenue	\$ 9,989,000	\$ 7,414,351	\$ 5,820,846	\$ 5,750,614	\$ 15,809,846	\$ 13,164,965
Expenses:						
City Hall	\$ 947,947	\$ 588,187			\$ 947,947	\$ 588,187
General Administration	765,671	396,676			765,671	396,676
Tax Department	7,638	6,309			7,638	6,309
Municipal Court	148,801	110,897			148,801	110,897
Police Department	2,168,429	2,122,935			2,168,429	2,122,935
Fire Department	224,538	190,244			224,538	190,244
Code Enforcement	155,843	84,579			155,843	84,579
Street Department	710,861	470,728			710,861	470,728
Street Lighting	94,182	85,883			94,182	85,883
Animal Control	192,003	153,603			192,003	153,603
Fleet Maintenance	253,714	260,831			253,714	260,831
Parks and Cemetery	452,069	428,704			452,069	428,704
Recreation	75,659	3,200			75,659	3,200
Economic Development	204,068				204,068	
Water Utility System			1,572,555	1,516,870	1,572,555	1,516,870
Solid Waste System			1,644,975	1,664,805	1,644,975	1,664,805
Total Expenses	\$ 6,401,423	\$ 4,902,776	\$ 3,217,530	\$ 3,181,675	\$ 9,618,953	\$ 8,084,451
Increase (Decrease) in Net Position	\$ 3,587,577	\$ 2,511,575	\$ 2,603,316	\$ 2,568,939	\$ 6,190,893	\$ 5,080,514
Transfers Between Governmental and Business-Type Activities		695,431		(695,431)		
Net Increase (Decrease) in Net Position	\$ 3,587,577	\$ 3,207,006	\$ 2,603,316	\$ 1,873,508	\$ 6,190,893	\$ 5,080,514
Net Position - Beginning of Year	7,241,607	4,034,601	12,898,905	11,025,397	20,140,512	15,059,998
Net Position at September 30	\$ 10,829,184	\$ 7,241,607	\$ 15,502,221	\$ 12,898,905	\$ 26,331,405	\$ 20,140,512

The cost of all governmental activities this year was \$6,401,423. However, as shown in the Statement of Activities on page 11, some of the costs were paid by those who directly benefited from the programs (\$637,346).

The City's Funds

As the City completed the year, its governmental funds, on page 14, reported a fund balance of \$5,993,590 while it reported a prior year fund balance of \$4,062,669.

Capital Asset and Debt Administration Capital Assets

At September 30, 2024, the City had \$14,933,732, net of accumulated depreciation and amortization, invested in a broad range of capital assets, including land, building and improvements, infrastructure, machinery and equipment, and the water system and sewer system as follows:

	Capital Assets (Net of Accumulated Depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Capital Assets, net						
Land and Land Improvements	\$ 74,664	\$ 74,664	\$ 6,300	\$ 6,300	\$ 80,964	\$ 80,964
Constructions in Progress		2,923,808		802,401	0	3,726,209
Buildings and Improvements	3,569,461	690,406			3,569,461	690,406
Infrastructure	1,125,513	257,433			1,125,513	257,433
Water and Sewer System			7,768,968	7,223,580	7,768,968	7,223,580
Machinery and Equipment	1,848,750	686,966	534,964	454,485	2,383,714	1,141,451
Office Furniture and Equipment	5,112	8,325			5,112	8,325
SBITA Asset		6,723			0	6,723
Total Capital Assets, net	\$ 6,623,500	\$ 4,648,325	\$ 8,310,232	\$ 8,486,766	\$ 14,933,732	\$ 13,135,091

The net amount of capital assets increased by \$1,798,641 primarily due to financing of police vehicles.

Long-Term Debt

At fiscal year-end, total certificates of obligations for Business-type activities amounted to \$3,146,000 which will primarily be paid with water and sewer revenues. The City also added notes payable and financing lease obligations for police vehicles for Governmental Activities. Long-term debt obligations decreased by \$2,723.

	Governmental Activities		Business-Type Activities		Total	
	2024	2023	2024	2023	2024	2023
Certificates of Obligation						
Certificate of Obligation 2008	\$	\$	\$ 1,095,000	\$ 1,355,000	\$ 1,095,000	\$ 1,355,000
Certificate of Obligation 2019			2,051,000	2,370,000	2,051,000	2,370,000
Notes Payable	44,215				44,215	
Right to Use Lease Obligation	532,062				532,062	
Total Outstanding Debt	\$ 576,277	\$ 0	\$ 3,146,000	\$ 3,725,000	\$ 3,722,277	\$ 3,725,000

Economic Factors and Next Year's Budget and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year 2024-2025 budget and tax rate. One of those factors is the economy and, in particular, the oil and gas industry. The price of crude oil and natural gas has fluctuated over the course of the current year, which contributes heavily upon the valuation of properties on the mineral roll. The City's population has remained steady with only small increases in recent years. However, administration is fully aware of the volatility of the oil and gas industry and has attempted to adopt a conservative approach to the City's financial operations.

Contacting the City's Financial Management

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

BASIC FINANCIAL STATEMENTS

CITY OF KERMIT, TEXAS

EXHIBIT A-1

GOVERNMENT-WIDE - STATEMENT OF NET POSITION
SEPTEMBER 30, 2024

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 5,270,927	\$ 10,559,565	\$ 15,830,492
Receivables, net of allowances:			
Accounts	969,861	648,333	1,618,194
Property Taxes	75,482		75,482
Other Taxes	89,300		89,300
Total Current Assets	\$ 6,405,570	\$ 11,207,898	\$ 17,613,468
Noncurrent Assets:			
Nondepreciable	\$ 74,664	\$ 6,300	\$ 80,964
Depreciable, Net	6,548,836	8,303,932	14,852,768
Total Noncurrent Assets	\$ 6,623,500	\$ 8,310,232	\$ 14,933,732
Total Assets	\$ 13,029,070	\$ 19,518,130	\$ 32,547,200
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred Outflows - Pension	\$ 541,459	\$ 201,698	\$ 743,157
Deferred Outflows - OPEB	14,712	5,480	20,192
Total Deferred Outflows of Resources	\$ 556,171	\$ 207,178	\$ 763,349
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 170,450	\$ 78,941	\$ 249,391
Accrued Wages	164,798	54,306	219,104
Customer Deposits	1,250	259,902	261,152
Accrued Interest Payable		9,050	9,050
Total Current Liabilities	\$ 336,498	\$ 402,199	\$ 738,697
Noncurrent Liabilities			
Due Within One Year	\$ 182,029	\$ 590,000	\$ 772,029
Due in More Than One Year	532,728	2,595,833	3,128,561
Net Pension Liability	1,424,146	530,508	1,954,654
Total OPEB Liability	127,093	47,344	174,437
Total Noncurrent Liabilities	\$ 2,265,996	\$ 3,763,685	\$ 6,029,681
Total Liabilities	\$ 2,602,494	\$ 4,165,884	\$ 6,768,378
DEFERRED INFLOWS OF RESOURCES:			
Deferred Inflows - Pension	\$ 120,990	\$ 45,070	\$ 166,060
Deferred Inflows - OPEB	32,573	12,133	44,706
Total Deferred Inflows of Resources	\$ 153,563	\$ 57,203	\$ 210,766
NET POSITION			
Net Investment in Capital Assets	\$ 6,047,223	\$ 5,164,232	\$ 11,211,455
Restricted For:			
Municipal Court Technology & Security	37,456		37,456
Economic Development	1,915,652		1,915,652
Public Safety	95,613		95,613
Debt Service		580,950	580,950
Unrestricted	2,733,240	9,757,039	12,490,279
Total Net Position	\$ 10,829,184	\$ 15,502,221	\$ 26,331,405

The accompanying notes are an integral part of this statement.

-11-
CITY OF KERMIT, TEXAS

EXHIBIT A-2

**GOVERNMENT-WIDE - STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:						
Governmental Activities:						
City Hall	\$ 947,947	\$	\$	\$ (947,947)	\$	\$ (947,947)
General Administration	765,671	93,313	59,131	(613,227)		(613,227)
Tax Department	7,638			(7,638)		(7,638)
Municipal Court	148,801	15,168		(133,633)		(133,633)
Police Department	2,168,429	278,224		(1,890,205)		(1,890,205)
Fire Department	224,538		256,132	31,594		31,594
Code Enforcement	155,843			(155,843)		(155,843)
Street Department	710,861		17,448	(693,413)		(693,413)
Street Lighting	94,182	170,128		75,946		75,946
Animal Control	192,003	3,130		(188,873)		(188,873)
Fleet Maintenance	253,714			(253,714)		(253,714)
Parks and Cemetery	452,069	67,270		(384,799)		(384,799)
Recreation	75,659			(75,659)		(75,659)
Economic Development	204,068	10,113		(193,955)		(193,955)
Total Governmental Activities	<u>\$ 6,401,423</u>	<u>\$ 637,346</u>	<u>\$ 332,711</u>	<u>\$ (5,431,366)</u>	<u>\$ 0</u>	<u>\$ (5,431,366)</u>
Business-Type Activities:						
Water Utility System	\$ 1,572,555	\$ 3,937,855	\$	\$	\$ 2,365,300	\$ 2,365,300
Solid Waste System	1,644,975	1,508,372			(136,603)	(136,603)
Total Business-Type Activities	<u>\$ 3,217,530</u>	<u>\$ 5,446,227</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,228,697</u>	<u>\$ 2,228,697</u>
Total Primary Government	<u>\$ 9,618,953</u>	<u>\$ 6,083,573</u>	<u>\$ 332,711</u>	<u>\$ (5,431,366)</u>	<u>\$ 2,228,697</u>	<u>\$ (3,202,669)</u>
General Revenues:						
Taxes:						
Property				\$ 840,932	\$	\$ 840,932
Sales				6,477,955		6,477,955
Franchise				293,603		293,603
Occupancy				953,154		953,154
Unrestricted Contributions				75,880		75,880
Unrestricted Investment Earnings				276,768	339,657	616,425
Gain on Disposal of Assets				6,000		6,000
Miscellaneous				94,651	34,962	129,613
Total General Revenue and Transfers				<u>\$ 9,018,943</u>	<u>\$ 374,619</u>	<u>\$ 9,393,562</u>
Change in Net Position				\$ 3,587,577	\$ 2,603,316	\$ 6,190,893
Net Position - Beginning				<u>7,241,607</u>	<u>12,898,905</u>	<u>20,140,512</u>
Net Position - Ending				<u>\$ 10,829,184</u>	<u>\$ 15,502,221</u>	<u>\$ 26,331,405</u>

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

EXHIBIT A-3

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2024

	<u>General Fund</u>	<u>Hotel/Motel Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Cash and Cash Equivalents	\$ 3,299,075	\$ 1,838,640	\$ 133,212	\$ 5,270,927
Receivables, net of allowance:				
Accounts	959,812	3,591	6,458	969,861
Property Taxes	75,482			75,482
Other Taxes		89,300		89,300
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 4,334,369</u>	<u>\$ 1,931,531</u>	<u>\$ 139,670</u>	<u>\$ 6,405,570</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:				
LIABILITIES:				
Accounts Payable	\$ 148,470	\$ 15,379	\$ 6,601	\$ 170,450
Accrued Wages	164,798			164,798
Deposits and Other Liabilities	750	500		1,250
Total Liabilities	<u>\$ 314,018</u>	<u>\$ 15,879</u>	<u>\$ 6,601</u>	<u>\$ 336,498</u>
DEFERRED INFLOWS OF RESOURCES:				
Property Taxes	\$ 75,482	\$	\$	\$ 75,482
Total Deferred Inflows of Resources	<u>\$ 75,482</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 75,482</u>
FUND BALANCES:				
Restricted:				
Municipal Court Technology & Security	\$	\$	\$ 37,456	\$ 37,456
Economic Development		1,915,652		1,915,652
Public Safety			95,613	95,613
Unassigned	3,944,869			3,944,869
Total Fund Balances	<u>\$ 3,944,869</u>	<u>\$ 1,915,652</u>	<u>\$ 133,069</u>	<u>\$ 5,993,590</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 4,334,369</u>	<u>\$ 1,931,531</u>	<u>\$ 139,670</u>	<u>\$ 6,405,570</u>

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

EXHIBIT A-4

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2024

Total Fund Balances - Governmental Funds Balance Sheet	\$	5,993,590
Amounts reported for governmental activities in the Statement of Net Position (SNP) are different because:		
Capital assets used in governmental activities are not reported in the funds.		6,623,500
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		75,482
Deferred outflows and inflows of resources related to pension and OPEB are not reported in the funds.		402,608
Payables for loan principal and financing lease principal which are not due in the current period are not reported in the funds.		(576,277)
Net Pension Liabilities are not reported in the funds.		(1,424,146)
Total OPEB Liabilities are not reported in the funds.		(127,093)
Payables for compensated absences which are not reported in the funds.		<u>(138,480)</u>
Net Position of Governmental Activities - Statement of Net Position	\$	<u><u>10,829,184</u></u>

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

EXHIBIT A-5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2024

	General Fund	Hotel/Motel Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue:				
Taxes:				
Property Tax	\$ 863,835	\$	\$	\$ 863,835
General Sales and Use Taxes	6,477,955			6,477,955
Franchise Tax	293,603			293,603
Other Taxes		953,154		953,154
Licenses and Permits	133,804			133,804
Contributions and Donations	38,929		36,951	75,880
Intergovernmental Revenue and Grants	256,132		76,579	332,711
Fines and Fees	280,263		15,168	295,431
Charges for Services	197,998			197,998
Investment Income	222,627	47,521	6,620	276,768
Rents and Royalties		10,113		10,113
Other	68,756	20,184	5,711	94,651
Total Revenues	\$ 8,833,902	\$ 1,030,972	\$ 141,029	\$ 10,005,903
Expenditures:				
Current:				
City Hall	\$ 947,947	\$	\$	\$ 947,947
General Administration	811,199		41,560	852,759
Tax Department	7,638			7,638
Municipal Court	145,688		10,803	156,491
Police Department	3,478,184		22,908	3,501,092
Fire Department	662,018			662,018
Code Enforcement	168,073			168,073
Street Department	720,731		31,843	752,574
Street Lighting	94,182			94,182
Animal Control	202,996			202,996
Fleet Maintenance	361,003			361,003
Parks and Cemetery	656,616			656,616
Recreation	3,303			3,303
Economic Development and Assistance		290,567		290,567
Debt Service:				
Principal Retirement	11,054			11,054
Total Expenditures	\$ 8,270,632	\$ 290,567	\$ 107,114	\$ 8,668,313
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 563,270	\$ 740,405	\$ 33,915	\$ 1,337,590
Other Financing Sources:				
Transfers In (Out)	\$ 103,330	\$ (58,077)	\$ (45,253)	\$
Proceeds from Disposal of Assets	6,000			6,000
Proceeds from Financing Lease	532,062			532,062
Proceeds from Loans	55,269			55,269
Total Other Financing Sources (Uses)	\$ 696,661	\$ (58,077)	\$ (45,253)	\$ 593,331
Net Change in Fund Balances	\$ 1,259,931	\$ 682,328	\$ (11,338)	\$ 1,930,921
Fund Balances - Beginning	\$ 2,684,938	\$ 1,233,324	\$ 144,407	\$ 4,062,669
Fund Balances - Ending	<u>\$ 3,944,869</u>	<u>\$ 1,915,652</u>	<u>\$ 133,069</u>	<u>\$ 5,993,590</u>

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

EXHIBIT A-6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2024

Net Change in Fund Balances - Total Governmental Funds	\$ 1,930,921
Amounts reported for governmental activities in the Statement Of Activities (SOA) are different because:	
Capital asset additions are not reported as expenses in the SOA.	2,503,101
The depreciation of capital assets used in governmental activities is not reported in the funds.	(521,203)
Loss on the retirement of capital assets are not recorded in the funds.	(6,723)
Certain revenues are deferred in the funds. This is the change in these amounts this year.	(22,903)
Proceeds from financing leases do not provide revenue in the SOA, but are reported as current resources in the funds.	(532,062)
Proceeds from loans do not provide revenue in the SOA, but are reported as current resources in the funds.	(55,269)
Change in subscription obligations.	6,790
Repayments of loan principal are expenditures in the funds but not an expense in the SOA.	11,054
Change related to pension liabilities and deferred inflows and outflows is not recorded in the funds.	407,284
Changes related to total OPEB liabilities and deferred inflows and outflows is not recorded in the funds.	5,067
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	<u>(138,480)</u>
Change in Net Position of Governmental Activities - Statement of Activities	<u>\$ 3,587,577</u>

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

EXHIBIT A-7

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2024

	Business-Type Activities		Total Proprietary Funds
	Water Utility System	Solid Waste System	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 9,635,248	\$ 924,317	\$ 10,559,565
Accounts Receivable, net of allowance			
Billed	464,084	163,896	627,980
Other	18,528	1,825	20,353
Total Current Assets	<u>\$ 10,117,860</u>	<u>\$ 1,090,038</u>	<u>\$ 11,207,898</u>
Noncurrent Assets:			
Capital Assets			
Nondepreciable	\$ 6,300	\$	\$ 6,300
Depreciable, Net	8,037,813	266,119	8,303,932
Total Noncurrent Assets	<u>\$ 8,044,113</u>	<u>\$ 266,119</u>	<u>\$ 8,310,232</u>
Total Assets	<u>\$ 18,161,973</u>	<u>\$ 1,356,157</u>	<u>\$ 19,518,130</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred Outflows - Pension	\$ 108,684	\$ 93,014	\$ 201,698
Deferred Outflows - OPEB	2,953	2,527	5,480
Total Deferred Outflows of Resources	<u>\$ 111,637</u>	<u>\$ 95,541</u>	<u>\$ 207,178</u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 20,689	\$ 58,252	\$ 78,941
Accrued Wages	26,952	27,354	54,306
Accrued Interest Payable	9,050		9,050
Customer Deposits	259,902		259,902
Compensated Absences	19,588	20,245	39,833
Bonds Payable- Current	590,000		590,000
Total Current Liabilities	<u>\$ 926,181</u>	<u>\$ 105,851</u>	<u>\$ 1,032,032</u>
Noncurrent Liabilities:			
Bonds Payable Long-Term	\$ 2,556,000	\$	\$ 2,556,000
Net Pension Liability	285,862	244,646	530,508
Total OPEB Liability	25,511	21,833	47,344
Total Noncurrent Liabilities	<u>\$ 2,867,373</u>	<u>\$ 266,479</u>	<u>\$ 3,133,852</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred Inflows - Pension	\$ 24,286	\$ 20,784	\$ 45,070
Deferred Inflows - OPEB	6,538	5,595	12,133
Total Deferred Inflows of Resources	<u>\$ 30,824</u>	<u>\$ 26,379</u>	<u>\$ 57,203</u>
NET POSITION:			
Net Investment in Capital Assets	\$ 4,898,113	\$ 266,119	\$ 5,164,232
Restricted for Debt Service	580,950		580,950
Unrestricted Net Position	<u>8,970,169</u>	<u>786,870</u>	<u>9,757,039</u>
Total Net Position	<u>\$ 14,449,232</u>	<u>\$ 1,052,989</u>	<u>\$ 15,502,221</u>

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

EXHIBIT A-8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise
OPERATING REVENUES:			
Charges for Services			
Water and Sewer Service	\$ 3,791,305	\$ 1,462,896	\$ 5,254,201
Fees and Permits	146,550	45,476	192,026
Miscellaneous Revenues	7,171	27,791	34,962
Total Operating Revenues	\$ 3,945,026	\$ 1,536,163	\$ 5,481,189
OPERATING EXPENSES:			
Contractual Services	\$ 277,721	\$ 734,937	\$ 1,012,658
Materials & Supplies	200,326	229,022	429,348
Personnel Services	685,960	626,503	1,312,463
Other Operating	7,776		7,776
Depreciation	322,480	54,513	376,993
Total Operating Expenses	\$ 1,494,263	\$ 1,644,975	\$ 3,139,238
Operating Income (Loss)	\$ 2,450,763	\$ (108,812)	\$ 2,341,951
NON-OPERATING REVENUES (EXPENSES):			
Investment Income	\$ 235,588	\$ 104,069	\$ 339,657
Interest and Fiscal Charges	(78,292)		(78,292)
Total Non-Operating Revenues (Expenses)	\$ 157,296	\$ 104,069	\$ 261,365
Income (Loss) Before Transfers	\$ 2,608,059	\$ (4,743)	\$ 2,603,316
Change in Net Position	\$ 2,608,059	\$ (4,743)	\$ 2,603,316
Total Net Position - Beginning	11,841,173	1,057,732	12,898,905
Total Net Position - Ending	\$ 14,449,232	\$ 1,052,989	\$ 15,502,221

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

EXHIBIT A-9

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 3,804,459	\$ 1,471,459	\$ 5,275,918
Cash Payments to Employees and for Benefits	(770,803)	(634,669)	(1,405,472)
Cash Payments to Other Suppliers for Goods and Services	(617,987)	(1,076,904)	(1,694,891)
Other Operating Cash Receipts	7,171	27,791	34,962
Net Cash from Operating Activities	<u>\$ 2,422,840</u>	<u>\$ (212,323)</u>	<u>\$ 2,210,517</u>
Cash Flows from Capital and Related Financing Activities:			
Principal Paid on Debt	\$ (579,000)	\$	\$ (579,000)
Interest Paid on Debt	(79,887)		(79,887)
Acquisition or Construction of Capital Assets	(141,728)	(58,731)	(200,459)
Net Cash from Capital and Related Financing Activities	<u>\$ (800,615)</u>	<u>\$ (58,731)</u>	<u>\$ (859,346)</u>
Cash Flows from Investing Activities:			
Interest and Dividends Received	\$ 235,588	\$ 104,069	\$ 339,657
Net Cash from Investing Activities	<u>\$ 235,588</u>	<u>\$ 104,069</u>	<u>\$ 339,657</u>
Net Change in Cash and Cash Equivalents	\$ 1,857,813	\$ (166,985)	\$ 1,690,828
Cash and Cash Equivalents - Beginning of Year	7,777,435	1,091,302	8,868,737
Cash and Cash Equivalents - End of Year	<u>\$ 9,635,248</u>	<u>\$ 924,317</u>	<u>\$ 10,559,565</u>
Reconciliation of Operating Income to Net Cash from Operating Activities:			
Operating Income (Loss)	<u>\$ 2,450,763</u>	<u>\$ (108,812)</u>	<u>\$ 2,341,951</u>
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities			
Depreciation Expense	\$ 322,480	\$ 54,513	\$ 376,993
Change in Assets and Liabilities:			
Decrease (Increase) in Accounts Receivable	(162,971)	(36,913)	(199,884)
Decrease (Increase) in Prepaid Items	2,551	3,784	6,335
Decrease (Increase) in OPEB Deferred Outflows	626	(206)	420
Decrease (Increase) in Pension Deferred Outflows	84,570	27,132	111,702
Increase (Decrease) in Accounts Payable	(134,715)	(116,729)	(251,444)
Increase (Decrease) in Accrued Wages	(10,901)	(11,869)	(22,770)
Increase (Decrease) in Compensated Absences	10,466	13,818	24,284
Increase (Decrease) in Deposits Payable	29,575		29,575
Increase (Decrease) in Total OPEB Liability	2,271	6,173	8,444
Increase (Decrease) in Net Pension Liability	(170,440)	(37,952)	(208,392)
Increase (Decrease) in OPEB Deferred Inflows	(3,991)	(1,076)	(5,067)
Increase (Decrease) in Pension Deferred Inflows	2,556	(4,186)	(1,630)
Total Adjustments	<u>\$ (27,923)</u>	<u>\$ (103,511)</u>	<u>\$ (131,434)</u>
Net Cash from Operating Activities	<u>\$ 2,422,840</u>	<u>\$ (212,323)</u>	<u>\$ 2,210,517</u>

The accompanying notes are an integral part of this statement.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

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

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

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

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

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

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

Measurement Focus, Basis of Accounting, And Financial Statement Presentation

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all 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.

Fund Accounting

The City reports the following major governmental funds:

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

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

The City reports the following non-major governmental funds:

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

The City reports the following major proprietary funds:

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

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

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

Financial Statement Amounts

Cash and Cash Equivalents

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

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

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

The City has no recurring fair value measurements as of September 30, 2024 as the City's investments are not measured at fair value but rather the investments in TexPool and TexStar are valued at amortized cost.

CITY OF KERMIT, TEXAS

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Property Taxes

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

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Capital Assets

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

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

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

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

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Receivable and Payable Balances

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

Deferred Outflows/Inflows of Resources

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

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

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

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

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

Interfund Activity

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

Use of Estimates

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

Pension

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

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

OPEB

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

Compensated Absences

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

Note 2 – Deposits and Investments

Custodial Credit Risk for Deposits

State laws requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the City complied with this law for the year ended September 30, 2024, it had no custodial risk for deposits.

Compliance with the Public Funds Investment Act

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

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

Texas Short Term Asset Reserve Program (TexSTAR) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. JP Morgan Fleming Asset Management (USA), Inc. (JPMFAM) and First Southwest Asset Management, Inc. (FSAM) serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors. JPMFAM provides investment services, and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services Co. The TexSTAR Cash Reserve Fund is designed to be used by participants for investment of funds that require daily liquidity availability. TexSTAR is currently rated AAAM by Standard and Poor's. The state objective of TexSTAR is to maintain a stable average \$1.00 per unit net asset value; however the \$1.00 net asset value is not guaranteed or insured by TexSTAR, its board, the co-administrators, their agents or any governmental or other entity. At September 30, 2024, the carrying amount of the City's deposits in TexSTAR was \$165,650.

TexPool is a local government investment pool created on behalf of Texas entities whose investment objectives are preservation and safety of principal, liquidity and yield consistent with the Public Funds Investment Act. TexPool currently provides investment services to over 2,000 communities throughout the State. TexPool is currently rated AAAM by Standard and Poor's. These funds represent an investment in a pool and are not categorized as to risk because they are not evidenced by securities that exist in physical or book entry form. At September 30, 2024, the carrying amount of the City's deposits in TexPool was \$9,935,762.

Note 3 – Interfund Balances and Transfers

The City recorded the following interfund transfers for the fiscal year ended September 30, 2024:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Hotel/Motel Fund	\$ 58,077	Administration
General Fund	Other Governmental Funds	45,253	Administration
Net Transfers		<u>\$ 103,330</u>	

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 4 – Receivables and Unearned Revenues

Receivables at September 30, 2024 were as follows:

	General Fund	Hotel/Motel Fund	Other Governmental Funds	Total
Governmental Funds:				
Accounts	\$ 970,644	\$ 3,591	\$ 6,458	\$ 980,693
Property Taxes	267,788			267,788
Other Taxes		89,300		89,300
Total	\$ 1,238,432	\$ 92,891	\$ 6,458	\$ 1,337,781
Allowance	(203,138)			(203,138)
Total (Net of Allowance)	\$ 1,035,294	\$ 92,891	\$ 6,458	\$ 1,134,643

	Water Utility System	Solid Waste System	Total
Proprietary Funds:			
Billed & Unbilled	\$ 506,531	\$ 188,787	\$ 695,318
Other	18,528	1,825	20,353
Total	\$ 525,059	\$ 190,612	\$ 715,671
Allowance	(42,447)	(24,891)	(67,338)
Total (Net of Allowance)	\$ 482,612	\$ 165,721	\$ 648,333

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 5 – Capital Assets

Capital asset activity for the year ended September 30, 2024, was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Governmental Activities:					
Capital Assets Not Being Depreciated					
Land	\$ 74,664				\$ 74,664
Construction in Progress	2,923,808	30,499		(2,954,307)	
Total Capital Assets Not Being Depreciated	<u>\$ 2,998,472</u>	<u>\$ 30,499</u>	<u>\$ 0</u>	<u>\$ (2,954,307)</u>	<u>\$ 74,664</u>
Capital Assets Being Depreciated					
Buildings and Improvements	\$ 1,296,883	\$ 844,796		\$ 2,170,675	\$ 4,312,354
Infrastructure	2,793,104	119,676		783,632	3,696,412
Machinery and Equipment	2,915,585	1,508,130			4,423,715
Office Furniture and Equipment	233,050				233,050
SBITA Asset	18,249		18,249		
Total Capital Assets Being Depreciated and Amortized	<u>\$ 7,256,871</u>	<u>\$ 2,472,602</u>	<u>\$ 18,249</u>	<u>\$ 2,954,307</u>	<u>\$ 12,665,531</u>
Less Accumulated Depreciation and Amortization for:					
Buildings and Improvements	\$ (606,477)	\$ (136,416)			\$ (742,893)
Infrastructure	(2,535,671)	(35,228)			(2,570,899)
Machinery and Equipment	(2,228,619)	(346,346)			(2,574,965)
Office Furniture and Equipment	(224,725)	(3,213)			(227,938)
SBITA Asset	(11,526)		11,526		
Total Accumulated Depreciation and Amortization	<u>\$ (5,607,018)</u>	<u>\$ (521,203)</u>	<u>\$ 11,526</u>	<u>\$ 0</u>	<u>\$ (6,116,695)</u>
Total Capital Assets Being Depr and Amortized, Net	<u>\$ 1,649,853</u>	<u>\$ 2,993,805</u>	<u>\$ 6,723</u>	<u>\$ 2,954,307</u>	<u>\$ 6,548,836</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,648,325</u>	<u>\$ 3,024,304</u>	<u>\$ 6,723</u>	<u>\$ 0</u>	<u>\$ 6,623,500</u>

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CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Capital asset activity for the year ended September 30, 2024, was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Business-Type Activities:					
Capital Assets Not Being Depreciated					
Land	\$ 6,300	\$	\$	\$	\$ 6,300
Construction in Progress	802,401			(802,401)	
Total Capital Assets Not Being Depreciated	\$ 808,701	\$ 0	\$ 0	\$ (802,401)	\$ 6,300
Capital Assets Being Depreciated:					
Buildings and Improvements	\$ 13,936	\$	\$	\$	\$ 13,936
Water and Sewer System	12,052,306			802,401	12,854,707
Machinery and Equipment	2,956,237	200,459			3,156,696
Office Furniture and Equipment	70,302				70,302
Total Capital Assets Being Depreciated	\$ 15,092,781	\$ 200,459	\$ 0	\$ 802,401	\$ 16,095,641
Less Accumulated Depreciation for:					
Buildings and Improvements	\$ (13,936)	\$	\$	\$	\$ (13,936)
Water and Sewer System	(4,828,726)	(257,013)			(5,085,739)
Machinery and Equipment	(2,501,752)	(119,980)			(2,621,732)
Office Furniture and Equipment	(70,302)				(70,302)
Total Accumulated Depreciation	\$ (7,414,716)	\$ (376,993)	\$ 0	\$ 0	\$ (7,791,709)
Total Capital Assets Being Depreciated, Net	\$ 7,678,065	\$ (176,534)	\$ 0	\$ 802,401	\$ 8,303,932
Business-Type Activities Capital Assets, Net	\$ 8,486,766	\$ (176,534)	\$ 0	\$ 0	\$ 8,310,232

Depreciation and amortization expense was charged to functions as follows:

Governmental Activities:	
City Hall	\$ 9,110
Police Department	201,294
Fire Department	65,084
Street Department	107,573
Fleet Maintenance	1,068
Parks/ Cemetery	56,920
Economic Development	4,000
Animal Control	3,798
Recreation	72,356
Total Depreciation/Amortization Expense - Governmental Activities	\$ 521,203
Business-Type Activities:	
Water Utility System	\$ 322,480
Solid Waste System	54,513
Total Business-Type Activities	\$ 376,993

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 6 – Long-Term Liabilities

Certificates of Obligation

Tax and Revenue Certificates of Obligation - 2008

The City issued \$4,595,000 in Combination Tax and Revenue Certificates of Obligation, Series 2008, on March 11, 2008. The proceeds were used to construct a new wastewater treatment plant as required under state regulations promulgated by the Texas Commission on Environmental Quality (TCEQ). The net revenues of the Water and Sewer Fund serve as pledged collateral for this debt. In addition, the debt covenant allows the City to assess additional property taxes to cover the debt service of the obligations. The City has imposed an assessment of \$12 per water meter connection per month to cover the debt service. The certificates of obligation carry a true interest rate of 2.542%. They are payable over a twenty-year period with a maturity date of February 15, 2028. Interest payments are due every August 15 and principal and interest payments are due every February 15. Interest expense for the current fiscal year related to this debt reported in the Proprietary Fund financial statements and the government-wide financial statements was \$34,317.

Tax and Revenue Certificates of Obligation - 2019

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

Interest payments are due every August 15 and principal and interest payments are due every February 15. Interest expense for the current fiscal year related to this debt reported in the Proprietary Fund financial statements and the government- wide financial statements was \$43,975.

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
Series 2019	1.65-2.15%	\$ 2,051,000
Series 2008	1.60-2.85%	1,095,000
		<u>\$ 3,146,000</u>

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

Year Ending September 30,	Business-Type Activities			
	Series 2019		Series 2008	
	Principal	Interest	Principal	Interest
2025	\$ 325,000	\$ 38,507	\$ 265,000	\$ 27,164
2026	331,000	32,192	270,000	19,740
2027	338,000	25,585	275,000	12,041
2028	345,000	18,668	285,000	4,061
2029	352,000	11,436		
2030	360,000	3,870		
Total	\$ 2,051,000	\$ 130,258	\$ 1,095,000	\$ 63,006

Notes Payable

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

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

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2025	\$ 11,054	\$	\$ 11,054
2026	11,054		11,054
2027	11,054		11,054
2028	11,053		11,053
Total	\$ 44,215	\$ 0	\$ 44,215

Right to Use Lease Obligation

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

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2025	\$ 170,975	\$ 43,340	\$ 214,315
2026	76,189	35,527	111,716
2027	84,895	26,821	111,716
2028	94,597	17,119	111,716
2029	105,406	6,310	111,716
Total	<u>\$ 532,062</u>	<u>\$ 129,117</u>	<u>\$ 661,179</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2024 is reflected as follows:

	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 85,334	\$ 53,146	\$	\$ 138,480	\$
Notes Payable		55,269	11,054	44,215	11,054
Right to Use Lease Obligation		532,062		532,062	170,975
SBITA Liability	6,791		6,791		
Total Governmental Activities	<u>\$ 92,125</u>	<u>\$ 640,477</u>	<u>\$ 17,845</u>	<u>\$ 714,757</u>	<u>\$ 182,029</u>
Business-Type Activities:					
Bonds Payable:					
Certificates of Obligation 2008	\$ 1,355,000	\$	\$ 260,000	\$ 1,095,000	\$ 265,000
Certificates of Obligation 2019	2,370,000		319,000	2,051,000	325,000
Compensated Absences	15,549	24,284		39,833	
Total Business-Type Activities	<u>\$ 3,740,549</u>	<u>\$ 24,284</u>	<u>\$ 579,000</u>	<u>\$ 3,185,833</u>	<u>\$ 590,000</u>

Note 7 – Defined Benefit Pension Plan

Plan Description

The City participates as one of 936 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

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

Employees Covered by Benefit Terms

At the December 31, 2023 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	39
Inactive Employees Entitled to but not Yet Receiving Benefits	104
Active Employees	<u>55</u>
Total Plan Employees	<u><u>198</u></u>

Contributions

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

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Employees for the City of Kermit were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 16.11% and 13.86% in calendar years 2023 and 2024, respectively. The City opted for a higher contribution compared to minimum contribution rate of 14.69% in calendar year 2023. The City's contributions to TMRS for the year ended were \$536,270 and were in excess the required contributions by \$16,309.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2023, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	22 Years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5% per year
Overall Payroll Growth	3.6% to 11.85% per year
Investment Rate of Return	6.75%

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

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

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	35.00%	6.70%
Core Fixed Income	6.00%	4.70%
Non-Core Fixed Income	20.00%	8.00%
Other Public Private Markets	12.00%	8.00%
Real Estate	12.00%	7.60%
Hedge Funds	5.00%	6.40%
Private Equity	10.00%	11.60%
Total	<u>100.00%</u>	

Discount Rate

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

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance 12/31/2022	\$ 15,644,511	\$ 12,697,850	\$ 2,946,661
Service Cost	485,391		485,391
Interest	1,039,809		1,039,809
Difference Between Expected and Actual Experience	(169,603)		(169,603)
Change in Assumptions	(171,259)		(171,259)
Contributions - Employer		498,891	(498,891)
Contributions - Employee		219,776	(219,776)
Net Investment Income		1,467,093	(1,467,093)
Benefit Payments, Including Refunds of Employee Contributions	(965,245)	(965,245)	
Administrative Expense		(9,349)	9,349
Other Changes		(66)	66
Balance 12/31/2023	<u>\$ 15,863,604</u>	<u>\$ 13,908,950</u>	<u>\$ 1,954,654</u>

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

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

1% Decrease Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
\$ 4,071,532	\$ 1,954,654	\$ 215,343

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

For the year ended September 30, 2024, the City recognized pension expense of \$27,635 and calculated as shown below:

Total Service Cost	\$	485,391
Interest on the Total Pension Liability		1,039,809
Employee Contributions (Reduction of Expense)		(219,776)
Projected Earnings on Plan Investments (Reduction of Expense)		(857,105)
Administrative Expense		9,349
Other Changes in Fiduciary Net Position		65
Recognition of Current Year Outflow (Inflow) of Resources- Liabilities		(361,239)
Recognition of Current Year Outflow (Inflow) of Resources- Assets		(68,859)
Total Pension Expense	\$	<u>27,635</u>

At September 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Pension Plan Adjustments</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$	\$ 82,627
Changes in Assumptions		83,433
Differences between projected and actual investment earnings		354,486
Contributions Subsequent to the Measurement Date		388,671
	\$	<u>743,157</u>
		<u>\$ 166,060</u>

The \$388,671 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in a pension expense as follows:

<u>Plan Year</u>	<u>Net Deferred Outflows/(Inflows) of Resources</u>
2024	\$ (70,493)
2025	114,116
2026	266,799
2027	(121,996)
2028	
	<u>\$ 188,426</u>

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

Texas Municipal Retirement System (TMRS) administers a defined group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan.

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

Benefits Provided

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

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

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

Employees Covered by Benefit Terms

At the December 31, 2023 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees Currently Receiving Benefits	25
Inactive Employees Entitled to but not Yet Receiving Benefits	13
Active Employees	55
Total Plan Employees	<u>93</u>

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Total OPEB Liability

The City's total OPEB liability of \$174,437 was measured as of December 31, 2023, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

Actuarial Cost Method	Entry Age Normal
Amortization Method	
Recognition of Economic/Demographic Gains and Losses and Assumptions Changes or Inputs	Straight-Line Amortization over Expected Working Life
Inflation	2.5%
Salary Increases	3.60% to 11.85% including inflation
Discount Rate	3.77%
Retirees' Share of Benefit-Related Costs	\$0
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
Mortality rates – Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.

The TMRS SDBF is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB No. 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.77% based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2023.

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Annuity Purchase Rates:

Annuity purchase rates are used to determine the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) for 2014 are based on the UP-1984 Table with an age setback of two years for retirees and an age setback of eight years for beneficiaries. Beginning in 2027, the APRs will be based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries. From 2015 through 2026, the fully generational APRs will be phased into.

Experience Studies:

Actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. For determining the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the APRs until 2027 are based on a mortality study performed in 2019. TMRS uses the experience studies as a basis for determining assumptions, except where required to be treated different by GASB 75.

Changes in the Total OPEB Liability

Balance as of December 31, 2022	\$	155,126
Changes for the year:		
Service Cost		8,163
Interest on Total OPEB Liability		6,333
Difference Between Expected and Actual Experience		2,734
Changes in Assumptions or Other Inputs		7,732
Benefit Payments		<u>(5,651)</u>
Balance as of December 31, 2023	\$	<u>174,437</u>

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

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

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Sensitivity Analysis

The following presents the Total OPEB Liability of the employer, calculated using the discount rate 3.77%, as well as what the Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.77%) or 1 percentage point higher (4.77%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

	<u>1% Decrease in Discount Rate (2.77%)</u>	<u>Discount Rate (3.77%)</u>	<u>1% Increase in Discount Rate (4.77%)</u>
Total OPEB Liability	\$ <u>206,081</u>	\$ <u>174,437</u>	\$ <u>149,630</u>

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

For the year ended September 30, 2024, the City recognized OPEB expense related to supplemental death benefits of \$6,352. At September 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 4,018	\$ 5,555
Changes in Assumptions or Other Inputs	10,189	39,151
Contributions Subsequent to the Measurement Date	<u>5,985</u>	
	<u>\$ 20,192</u>	<u>\$ 44,706</u>

An amount of \$5,985 reported as deferred outflows of resources related to supplemental death benefits resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability as of September 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30,	<u>Amount</u>
2024	\$ (14,843)
2025	(15,447)
2026	(959)
2027	750
2028	
	<u>\$ (30,499)</u>

CITY OF KERMIT, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 9 – Contingencies and Litigation

Contingencies

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

Litigation and Claims

As of September 30, 2024, there were no claims or assessments nor any litigation pending against the City.

Note 10 – Risk Management

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

Note 11 – Subsequent Event

In October 2024, the City entered into a right to use lease agreement for two sanitation trucks in the amount of \$502,044. The lease will be repaid in five annual payments of \$117,138 and carries an interest rate of 5.367%.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

REQUIRED SUPPLEMENTARY INFORMATION

	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023
	Total Pension Liability									
Service Cost	\$ 265,828	\$ 353,182	\$ 356,071	\$ 350,657	\$ 379,780	\$ 469,377	\$ 506,009	\$ 487,747	\$ 466,327	\$ 485,391
Interest (on the total pension liability)	646,756	674,305	694,670	745,290	798,744	844,188	922,098	1,009,941	1,027,955	1,039,809
Differences Between Expected and Actual Experience	(128,875)	(65,959)	96,798	98,597	(86,539)	343,160	414,758	(515,662)	(435,021)	(169,603)
Changes in Assumptions		94,582				(39,132)				(171,259)
Benefit Payments, Including Refunds of Employee Contributions	(465,614)	(402,060)	(396,073)	(393,751)	(440,632)	(486,447)	(476,929)	(587,780)	(821,101)	(965,245)
Net Change	\$ 318,095	\$ 654,050	\$ 751,466	\$ 800,793	\$ 651,353	\$ 1,131,146	\$ 1,365,936	\$ 394,246	\$ 238,160	\$ 219,093
Beginning Balance	9,339,266	9,657,361	10,311,411	11,062,877	11,863,670	12,515,023	13,646,169	15,012,105	15,406,351	15,644,511
Ending Balance	\$ 9,657,361	\$ 10,311,411	\$ 11,062,877	\$ 11,863,670	\$ 12,515,023	\$ 13,646,169	\$ 15,012,105	\$ 15,406,351	\$ 15,644,511	\$ 15,863,604
	Fiduciary Net Position									
Employer Contributions	\$ 376,311	\$ 331,836	\$ 343,853	\$ 329,928	\$ 364,766	\$ 472,716	\$ 496,837	\$ 479,480	\$ 476,079	\$ 498,891
Employee Contributions	140,865	154,036	157,328	152,744	164,204	204,840	221,379	214,327	206,863	219,776
Net Investment Income	413,564	11,346	525,652	1,164,656	(289,123)	1,459,487	840,921	1,584,285	(1,009,533)	1,467,093
Benefit Payments, Including Refunds of Employee Contributions	(465,614)	(402,060)	(396,073)	(393,751)	(440,632)	(486,447)	(476,929)	(587,780)	(821,101)	(965,245)
Administration Expenses	(4,317)	(6,911)	(5,936)	(6,035)	(5,586)	(8,248)	(5,444)	(7,335)	(8,745)	(9,349)
Other	(355)	(341)	(320)	(304)	(292)	(248)	(213)	48	10,434	(66)
Net Change	\$ 460,454	\$ 87,906	\$ 624,504	\$ 1,247,238	\$ (206,663)	\$ 1,642,100	\$ 1,076,551	\$ 1,683,025	\$ (1,146,003)	\$ 1,211,100
Beginning Balance	7,228,738	7,689,192	7,777,098	8,401,602	9,648,840	9,442,177	11,084,277	12,160,828	13,843,853	12,697,850
Ending Balance	\$ 7,689,192	\$ 7,777,098	\$ 8,401,602	\$ 9,648,840	\$ 9,442,177	\$ 11,084,277	\$ 12,160,828	\$ 13,843,853	\$ 12,697,850	\$ 13,908,950
Net Pension Liability	\$ 1,968,169	\$ 2,534,313	\$ 2,661,275	\$ 2,214,830	\$ 3,072,846	\$ 2,561,892	\$ 2,851,277	\$ 1,562,498	\$ 2,946,661	\$ 1,954,654
Fiduciary Net Position as a Percentage of Total Pension Liability	79.62%	75.42%	75.94%	81.33%	75.45%	81.23%	81.01%	89.86%	81.16%	87.68%
Covered Payroll	\$ 2,012,360	\$ 2,200,508	\$ 2,226,836	\$ 2,182,059	\$ 2,345,768	\$ 2,926,289	\$ 3,162,558	\$ 3,061,813	\$ 2,955,180	\$ 3,139,656
Net Pension Liability as a Percentage of Covered Payroll	97.80%	115.17%	119.51%	101.50%	131.00%	87.55%	90.16%	51.03%	99.71%	62.26%

CITY OF KERMIT, TEXAS

EXHIBIT B-2

SCHEDULE OF EMPLOYER CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2024

REQUIRED SUPPLEMENTARY INFORMATION

	9/30/2015	9/30/2016	9/30/2017	9/30/2018	9/30/2019	9/30/2020	9/30/2021	9/30/2022	9/30/2023	9/30/2024
Actuarially Determined Contribution	\$ 337,764	\$ 356,887	\$ 330,373	\$ 344,912	\$ 459,252	\$ 471,269	\$ 480,352	\$ 474,152	\$ 459,209	\$ 519,961
Actual Contributions	337,764	356,887	330,373	344,912	459,252	471,269	480,352	474,152	485,967	536,270
Contribution Deficiency (Excess)	<u>0</u>	<u>(26,758)</u>	<u>(16,309)</u>							
Covered Payroll	\$ 2,108,423	\$ 2,335,131	\$ 2,172,204	\$ 2,233,024	\$ 2,865,254	\$ 3,029,539	\$ 3,078,715	\$ 2,966,350	\$ 3,047,006	\$ 3,630,877
Contributions as a Percentage of Covered Payroll	16.02%	15.28%	15.21%	15.45%	16.03%	15.56%	15.60%	15.98%	15.95%	14.77%

**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
SUPPLEMENTAL DEATH BENEFIT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

REQUIRED SUPPLEMENTARY INFORMATION

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

Note: Only seven years of GASB 75 data available as of 12/31/2023. The remaining three years of data will be built on a go forward basis.

Notes to RSI:

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

CITY OF KERMIT, TEXAS

EXHIBIT B-4

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2024

REQUIRED SUPPLEMENTARY INFORMATION

	Original	Final	Actual	Variance with Final Budget Positive (Negative)
Revenue:				
Taxes:				
Property Tax	\$ 839,000	\$ 839,000	\$ 863,835	\$ 24,835
General Sales and Use Taxes	1,800,000	3,579,625	6,477,955	2,898,330
Franchise Tax	290,000	290,000	293,603	3,603
Licenses and Permits	110,300	110,300	133,804	23,504
Contributions and Donations	16,000	16,000	38,929	22,929
Intergovernmental Revenue and Grants	4,400	4,400	256,132	251,732
Fines and Fees	209,700	209,700	280,263	70,563
Charges for Services	195,500	195,500	197,998	2,498
Investment Earnings	281,750	281,750	222,627	(59,123)
Other Revenue	2,000	2,000	68,756	66,756
	<u>\$ 3,748,650</u>	<u>\$ 5,528,275</u>	<u>\$ 8,833,902</u>	<u>\$ 3,305,627</u>
Expenditures:				
Current:				
City Hall	\$ 639,700	\$ 639,700	\$ 947,947	\$ (308,247)
General Administration	548,802	548,802	811,199	(262,397)
Tax Department	13,000	13,000	7,638	5,362
Municipal Court	149,779	149,779	145,688	4,091
Police	2,497,530	3,113,730	3,478,184	(364,454)
Fire Department	452,275	954,839	662,018	292,821
County Ambulance	15,500	15,500		15,500
Code Enforcement	159,242	159,242	168,073	(8,831)
Street Department	440,635	565,635	720,731	(155,096)
Street Lighting	95,000	95,000	94,182	818
Animal Control	225,220	225,220	202,996	22,224
Fleet Maintenance	280,117	280,117	361,003	(80,886)
Parks and Cemetery	655,454	655,454	656,616	(1,162)
Community Development	14,700	14,700		14,700
Recreation	3,200	3,200	3,303	(103)
Debt Service:				
Principal Retirement			11,054	(11,054)
Total Expenditures	<u>\$ 6,190,154</u>	<u>\$ 7,433,918</u>	<u>\$ 8,270,632</u>	<u>\$ (836,714)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (2,441,504)</u>	<u>\$ (1,905,643)</u>	<u>\$ 563,270</u>	<u>\$ 2,468,913</u>
Other Financing Sources (Uses):				
Transfers In (Out)	\$ 1,900,330	\$ 1,900,330	\$ 103,330	\$ (1,797,000)
Proceeds from Disposal of Assets			6,000	6,000
Proceeds from Financing Lease			532,062	532,062
Proceeds from Loans			55,269	55,269
Total Other Financing Sources	<u>\$ 1,900,330</u>	<u>\$ 1,900,330</u>	<u>\$ 696,661</u>	<u>\$ (1,203,669)</u>
Net Change in Fund Balances	\$ (541,174)	\$ (5,313)	\$ 1,259,931	<u>\$ 1,265,244</u>
Fund Balances - Beginning	<u>2,684,938</u>	<u>2,684,938</u>	<u>2,684,938</u>	
Fund Balances - Ending	<u>\$ 2,143,764</u>	<u>\$ 2,679,625</u>	<u>\$ 3,944,869</u>	

CITY OF KERMIT, TEXAS

EXHIBIT B-5

HOTEL/MOTEL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2024

REQUIRED SUPPLEMENTARY INFORMATION

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenue:				
Taxes:				
Other Taxes	\$ 675,000	\$ 675,000	\$ 953,154	\$ 278,154
Investment Earnings	15,000	15,000	47,521	32,521
Rents and Royalties			10,113	10,113
Other Revenue			20,184	20,184
	<u>\$ 690,000</u>	<u>\$ 690,000</u>	<u>\$ 1,030,972</u>	<u>\$ 340,972</u>
Expenditures:				
Current:				
Economic Development and Assistance	\$ 165,000	\$ 165,000	\$ 290,567	\$ (125,567)
Total Expenditures	<u>\$ 165,000</u>	<u>\$ 165,000</u>	<u>\$ 290,567</u>	<u>\$ (125,567)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 525,000</u>	<u>\$ 525,000</u>	<u>\$ 740,405</u>	<u>\$ 215,405</u>
Other Financing Sources (Uses):				
Transfers In (Out)	\$ _____	\$ _____	\$ (58,077)	\$ (58,077)
Net Change in Fund Balances	\$ 525,000	\$ 525,000	\$ 682,328	<u>\$ 157,328</u>
Fund Balances - Beginning	<u>1,233,324</u>	<u>1,233,324</u>	<u>1,233,324</u>	
Fund Balances - Ending	<u>\$ 1,758,324</u>	<u>\$ 1,758,324</u>	<u>\$ 1,915,652</u>	

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

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method

Entry Age Normal

Amortization Method

Level Percentage of Payroll, Closed

Remaining Amortization Period

N/A

Asset Valuation Method

10 Year smoothed market; 12% soft corridor

Inflation

2.50%

Salary Increases

3.60% to 11.85% including inflation

Investment Rate of Return

6.75%

Retirement Age

Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.

Mortality Rates:

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

Other Information:

Changes in Assumptions:

There were no changes in assumptions during the year.

Benefit Changes:

There were no benefit changes during the year.

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CITY OF KERMIT, TEXAS
GENERAL FUND BUDGETARY COMPARISON SCHEDULE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2024

BUDGETARY DATA

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

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

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

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

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

COMBINING NONMAJOR FUND FINANCIAL STATEMENTS

CITY OF KERMIT, TEXAS

EXHIBIT C-1

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2024

ASSETS	<u>Police Department Donations</u>	<u>Texas CDBG Grant</u>	<u>Municipal Court Fund</u>	<u>Total Nonmajor Funds (See Exhibit A-3)</u>
Assets:				
Cash and Cash Equivalents	\$ 95,429	\$	\$ 37,783	\$ 133,212
Receivables, net of allowance Accounts	<u>184</u>	<u>6,198</u>	<u>76</u>	<u>6,458</u>
Total Assets	<u>\$ 95,613</u>	<u>\$ 6,198</u>	<u>\$ 37,859</u>	<u>\$ 139,670</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	<u>\$</u>	<u>\$ 6,198</u>	<u>\$ 403</u>	<u>\$ 6,601</u>
Total Liabilities	<u>\$ 0</u>	<u>\$ 6,198</u>	<u>\$ 403</u>	<u>\$ 6,601</u>
Fund Balances:				
Restricted:				
Municipal Court Technology & Security	\$	\$	\$ 37,456	\$ 37,456
Public Safety	<u>95,613</u>	<u></u>	<u></u>	<u>95,613</u>
Total Fund Balances	<u>\$ 95,613</u>	<u>\$ 0</u>	<u>\$ 37,456</u>	<u>\$ 133,069</u>
Total Liabilities and Fund Balances	<u>\$ 95,613</u>	<u>\$ 6,198</u>	<u>\$ 37,859</u>	<u>\$ 139,670</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

	Special Revenue								Total Nonmajor Funds (See Exhibit A-5)
	Community Development Fund	Police Department Seizure Fund	American Rescue Plan Act	Police Department Donations	Child Safety Fund	Texas CDBG Grant	Municipal Technology Fund	Municipal Court Security Fund	
Revenue:									
Intergovernmental Revenue and Grants	\$	\$	\$ 59,131	\$	\$	\$ 17,448	\$	\$	\$ 76,579
Fines and Fees								\$ 15,168	\$ 15,168
Contributions and Donations				\$ 36,951					\$ 36,951
Investment Income			\$ 2,602	\$ 3,252				\$ 766	\$ 6,620
Other				\$ 5,711					\$ 5,711
Total Revenue	\$ 0	\$ 0	\$ 61,733	\$ 45,914	\$ 0	\$ 17,448	\$ 0	\$ 0	\$ 141,029
Expenditures:									
General Administration	\$	\$	\$ 41,560	\$	\$	\$	\$	\$	\$ 41,560
Municipal Court								\$ 10,803	\$ 10,803
Police Department				\$ 22,908					\$ 22,908
Street Department						\$ 31,843			\$ 31,843
Total Expenditures	\$ 0	\$ 0	\$ 41,560	\$ 22,908	\$ 0	\$ 31,843	\$ 0	\$ 0	\$ 107,114
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 0	\$ 0	\$ 20,173	\$ 23,006	\$ 0	\$ (14,395)	\$ 0	\$ 0	\$ 33,915
Other Financing Sources (Uses):									
Transfers In (Out)	\$ (39,373)	\$ (4,369)	\$ (20,173)	\$ 4,267	\$ (11,880)	\$ 14,395	\$ (12,557)	\$ (7,888)	\$ (45,253)
Total Other Financing Sources (Uses)	\$ (39,373)	\$ (4,369)	\$ (20,173)	\$ 4,267	\$ (11,880)	\$ 14,395	\$ (12,557)	\$ (7,888)	\$ (45,253)
Net Change in Fund Balances (Deficit)	\$ (39,373)	\$ (4,369)	\$ 0	\$ 27,273	\$ (11,880)	\$ 0	\$ (12,557)	\$ (7,888)	\$ (11,338)
Fund Balances - Beginning	39,373	4,369	0	68,340	11,880	0	12,557	7,888	144,407
Fund Balances - Ending	\$ 0	\$ 0	\$ 0	\$ 95,613	\$ 0	\$ 0	\$ 0	\$ 0	\$ 133,069

OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION

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

CERTIFIED PUBLIC ACCOUNTANTS

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FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

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

City Council
City of Kermit, Texas
Kermit, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kermit, Texas, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise City of Kermit, Texas' basic financial statements, and have issued our report thereon dated April 24, 2025.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items [2024-01 and 2024-02] that we considered to be material weaknesses.

Report on Compliance and Other Matters

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

City of Kermit, Texas – Response to Findings

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

Purpose of this Report

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

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 24, 2025

CITY OF KERMIT, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

Financial Statement Findings:

2024-01	Utility Billing is not in line with rate ordinances.
Condition and Criteria:	Certain rates in the utility billing system do not align with the approved rate ordinance.
Cause:	Utility billing software has not been fully reconciled to the rate ordinances and vice a versa.
Effect:	The City is missing revenues that should be billed based on the language of the ordinance.
Recommendation:	The City needs to approve a rate ordinance that encompasses all scenarios with in the City limits and out of the City limits. The rate ordinance then needs to be audited on an account by account basis to ensure all charges, fees, etc. are being charged to customers.

View of Responsible Officials and Planned Corrective Actions–

2024-01	Management will recommend to Council to execute a Utility Rate study to bring the ordinance and the utility rates in line, as well as evaluation for possible changes to utility rates.
Contact:	Mike Arismendez, City Manager

CITY OF KERMIT, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

Financial Statement Findings:

2024-02	Internal Controls- Review before Approval
Condition and Criteria:	During our testing, we became aware that certain transactions were recorded during the year without proper approval and review. The City should have a review process in place on all processes to ensure that proper amounts are billed, paid, reported, etc.
Cause:	Software rights and privileges should be adjusted to better reflect the need of the approval processes.
Effect:	The City could disburse funds or adjust customer bills without proper budget or managerial approval.
Recommendation:	The City needs to perform a review of user rights and privileges in the City's accounting software to ensure that front end controls exist. Specifically focusing the review on processes and adjustments that should be approved prior to posting.

View of Responsible Officials and Planned Corrective Actions–

2024-02	Management has implemented processes to ensure that supervisors are responsible for the requested funds, have signed off on each invoice, and has compared to existing budget balances.
Contact:	Mike Arismendez, City Manager

CITY OF KERMIT, TEXAS

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

Prior Year's Findings and Status-

2023-01- Implemented

2023-02- Not Implemented

2023-03- Not Implemented