

**CITY OF KERMIT, TEXAS**

**FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION**

**Year Ended September 30, 2023 With  
Independent Auditor's Report**



**CITY OF KERMIT, TEXAS**  
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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor, Members of  
City Council and City Manager  
City of Kermit, Texas

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas (the "City"), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

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

#### *Responsibilities of Management for the Financial Statements*

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

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

To the Honorable Mayor, Members of  
City Council and City Manager  
City of Kermit, Texas

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

***Required Supplementary Information***

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

To the Honorable Mayor, Members of  
City Council and City Manager  
City of Kermit, Texas

***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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is not a required part of the basic financial statements.

The combining nonmajor fund financial statements and schedules of expenditures of federal awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and schedule of expenditures of federal awards 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 June 11, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Whitley Penn LLP*

Odessa, Texas  
June 11, 2024



**CITY OF KERMIT, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

In this section of the Annual Financial and Compliance Report, we, the managers of the City of Kermit, Texas ("the City"), discuss and analyze the City's financial performance for the fiscal year ended September 30, 2023. 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 \$20.1 million (*net position*). Of this amount, \$7.9 million (*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 \$1.2 million.
- The government's total net position increased by \$5.1 million due to an increase in sales tax revenues, charges for services from utility billing, 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 \$4.1 million, an increase of \$2.1 million from the prior year. Approximately 66.0% of the combined fund balance, or \$2.7 million, is *available for spending* at the government's discretion (*assigned and unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was 55.1% of total general fund expenditures.
- The City's long-term liabilities increased by \$1.4 million over the prior year primarily due to an increase in total net pension liability of \$1.4 million.
- During the year, the City's governmental funds had \$7.4 million generated in tax, grants and contributions, and other revenues for the governmental programs, that exceeded operating expenditures by \$0.6 million before transfers. This compares to last year when expenditures exceeded revenues by \$1.6 million, before transfers.
- The fund balance for all governmental funds ended the year at \$4.1 million and the ending fund balance from last year was \$2.0 million.
- In the City's enterprise funds, operating revenues increased by \$0.6 million while operating expenses remained consistent 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 13 - 14). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

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

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

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

**Reporting the City as a Whole**

***The Statement of Net Position and the Statement of Activities***

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

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

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

Governmental Activities: Most of the City's basic services are reported here. Property, sales 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 16 and provide detailed information about the most significant funds – not the City as a whole. Laws and contracts require the City to establish some funds, such as grants received from a government agency. The City's administration establishes many other funds to help it control and manage money for particular purposes. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

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

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

Net Position of the City's governmental activities was \$7,241,607. 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 \$1,222,718 at September 30, 2023 and restricted portion of \$1,377,355 for economic development.

Net Position of the City's business-type activities was \$12,898,905, which included \$6,658,288 in unrestricted net position, \$568,355 restricted for debt service and \$5,672,262 in investment in capital assets, net of related debt. The net position of the business-type activities increased by \$1,873,508.

**CONDENSED STATEMENT OF NET POSITION**  
*As of September 30, 2023 and 2022*

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Current and other assets	\$ 5,522,130	\$ 4,092,284	\$ 9,323,521	\$ 8,748,772	\$ 14,845,651	\$ 12,841,056
Capital assets, net	4,648,325	3,698,193	8,486,766	8,064,613	13,135,091	11,762,806
<b>Total Assets</b>	<b>10,170,455</b>	<b>7,790,477</b>	<b>17,810,287</b>	<b>16,813,385</b>	<b>27,980,742</b>	<b>24,603,862</b>
<b>Total Deferred Outflows of Resources</b>	<b>953,982</b>	<b>261,333</b>	<b>319,300</b>	<b>117,801</b>	<b>1,273,282</b>	<b>379,134</b>
Long-term liabilities	2,416,112	1,224,313	4,518,349	4,277,100	6,934,461	5,501,413
Other liabilities	1,275,742	2,045,394	648,433	1,291,589	1,924,175	3,336,983
<b>Total Liabilities</b>	<b>3,691,854</b>	<b>3,269,707</b>	<b>5,166,782</b>	<b>5,568,689</b>	<b>8,858,636</b>	<b>8,838,396</b>
<b>Total Deferred Inflows of Resources</b>	<b>190,976</b>	<b>747,502</b>	<b>63,900</b>	<b>337,100</b>	<b>254,876</b>	<b>1,084,602</b>
<b>Net Position:</b>						
Net investments in capital assets	4,641,534	3,698,193	5,672,262	4,889,664	10,313,796	8,587,857
Restricted	1,377,355	629,715	568,355	551,819	1,945,710	1,181,534
Unrestricted	1,222,718	(293,307)	6,658,288	5,583,914	7,881,006	5,290,607
<b>Total Net Position</b>	<b>\$ 7,241,607</b>	<b>\$ 4,034,601</b>	<b>\$ 12,898,905</b>	<b>\$ 11,025,397</b>	<b>\$ 20,140,512</b>	<b>\$ 15,059,998</b>

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

**CONDENSED SCHEDULE OF CHANGES IN NET POSITION**  
**For the Year Ended September 30, 2023 and 2022**

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 594,573	740,137	\$ 5,514,842	5,068,520	\$ 6,109,415	\$ 5,808,657
Operating grants and contributions	1,464,515	1,588	-	-	1,464,515	1,588
Capital grants and contributions	-	-	-	58,725	-	58,725
General revenues:						
Property tax	818,332	802,258	-	-	818,332	802,258
Sales tax	2,726,963	2,042,807	-	-	2,726,963	2,042,807
Mixed beverage	3,659	933	-	-	3,659	933
Franchise taxes	357,904	279,004	-	-	357,904	279,004
Occupancy taxes	987,913	882,635	-	-	987,913	882,635
Unrestricted investment earnings	385,690	61,145	29,088	6,607	414,778	67,752
Miscellaneous	74,802	187,967	206,684	5,299	281,486	193,266
<b>Total Revenue</b>	<b>7,414,351</b>	<b>4,998,474</b>	<b>5,750,614</b>	<b>5,139,151</b>	<b>13,164,965</b>	<b>10,137,625</b>
<b>Expenses:</b>						
General government	2,139,831	544,895	-	-	2,139,831	544,895
Public safety	2,363,876	2,475,027	-	-	2,363,876	2,475,027
Culture and recreation	384,172	352,575	-	-	384,172	352,575
Public works	14,635	950,324	-	-	14,635	950,324
Interest and other fees	262	-	-	-	262	-
Water utility system	-	-	1,516,870	1,942,931	1,516,870	1,942,931
Solid waste system	-	-	1,664,805	1,307,813	1,664,805	1,307,813
<b>Total Expenses</b>	<b>4,902,776</b>	<b>4,322,821</b>	<b>3,181,675</b>	<b>3,250,744</b>	<b>8,084,451</b>	<b>7,573,565</b>
Increase (decrease) in net position before transfers	2,511,575	675,653	2,568,939	1,888,407	5,080,514	2,564,060
Transfers between governmental and business-type activities	695,431	863,509	(695,431)	(863,509)	-	-
<b>Net Increase (decrease) in net position</b>	<b>3,207,006</b>	<b>1,539,162</b>	<b>1,873,508</b>	<b>1,024,898</b>	<b>5,080,514</b>	<b>2,564,060</b>
<b>Net Position - Beginning of Year</b>	<b>4,034,601</b>	<b>2,347,859</b>	<b>11,025,397</b>	<b>10,000,499</b>	<b>15,059,998</b>	<b>12,348,358</b>
Prior period adjustment	-	147,580	-	-	-	147,580
<b>Net Position - End of Year</b>	<b>\$ 7,241,607</b>	<b>\$ 4,034,601</b>	<b>\$ 12,898,905</b>	<b>\$ 11,025,397</b>	<b>\$ 20,140,512</b>	<b>\$ 15,059,998</b>

The cost of all governmental activities this year was \$4,902,776. However, as shown in the Statement of Activities on page 14, some of the costs were paid by those who directly benefited from the programs (\$594,573).

**The City's Funds**

As the City completed the year, its governmental funds, on page 16, reported a fund balance of \$4,062,669 while it reported a prior year fund balance of \$1,962,149.

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

**Capital Asset and Debt Administration**

**Capital Assets**

At September 30, 2023, the City had \$13,135,091, net of accumulated depreciation and amortization, invested in a broad range of capital assets, including land, building and improvements, infrastructure, machinery and equipment, the water system and sewer system and subscription-based IT arrangements (SBITAs) as follows:

	Capital Assets (Net of Accumulated Depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
<b>Capital Assets, Net</b>						
Land and land improvements	\$ 74,664	\$ 74,664	\$ 6,300	\$ 6,300	\$ 80,964	\$ 80,964
Construction in progress	2,923,808	2,252,206	802,401	-	3,726,209	2,252,206
Buildings and improvements	690,406	727,540	-	-	690,406	727,540
Infrastructure	257,433	-	-	-	257,433	-
Water and sewer system	-	-	7,223,580	7,466,035	7,223,580	7,466,035
Machinery and equipment	686,966	632,245	454,485	592,278	1,141,451	1,224,523
Office furniture and equipment	8,325	11,538	-	-	8,325	11,538
SBITA Asset	6,723	18,249	-	-	6,723	18,249
<b>Total Capital Assets, Net</b>	<b>\$ 4,648,325</b>	<b>\$ 3,716,442</b>	<b>\$ 8,486,766</b>	<b>\$ 8,064,613</b>	<b>\$ 13,135,091</b>	<b>\$ 11,781,055</b>

The net amount of capital assets increased by \$1,354,036 primarily due to construction in progress for the water system improvements and road improvements.

**Long-Term Debt**

At fiscal year-end, total certificates of obligations for Business-type activities amounted to \$3,725,000 which will primarily be paid with water and sewer revenues. Long-term debt obligations decreased by \$564,000 due to principal payments made by the City.

	Outstanding Debt			
	Business-Type Activities		Total	
	2023	2022	2023	2022
<b>Certificates of obligation</b>				
Certificate of obligation 2008	\$ 1,355,000	\$ 1,605,000	\$ 1,355,000	\$ 1,605,000
Certificate of obligation 2019	2,370,000	2,684,000	2,370,000	2,684,000
<b>Total Outstanding Debt</b>	<b>\$ 3,725,000</b>	<b>\$ 4,289,000</b>	<b>\$ 3,725,000</b>	<b>\$ 4,289,000</b>

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

**Economic Factors and Next Year's Budget and Rates**

The City's elected and appointed officials considered many factors when setting the fiscal year 2023-2024 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.

These indicators were taken into account when adopting the General Fund budget for 2023-2024. The City's General Fund projects a balanced budget. Compared to fiscal year 2022-2023 budget surplus of \$1,962,263. The tax rate was set at \$0.373421 per \$100 valuation for fiscal year 2023-2024.

**Contacting the City's Financial Management**

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

**BASIC FINANCIAL STATEMENTS**



**CITY OF KERMIT, TEXAS**  
**STATEMENT OF NET POSITION**  
**September 30, 2023**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 4,529,424	\$ 8,868,737	\$ 13,398,161
Receivables, net of allowances:			
Accounts	803,035	402,870	1,205,905
Property taxes	98,386	-	98,386
Other taxes	85,707	45,579	131,286
Prepays	5,578	6,335	11,913
<b>Total Current Assets</b>	<b>5,522,130</b>	<b>9,323,521</b>	<b>14,845,651</b>
<b>Noncurrent Assets:</b>			
Capital assets - net	4,648,325	8,486,766	13,135,091
<b>Total Noncurrent Assets</b>	<b>4,648,325</b>	<b>8,486,766</b>	<b>13,135,091</b>
<b>Total Assets</b>	<b>10,170,455</b>	<b>17,810,287</b>	<b>27,980,742</b>
<b>Deferred Outflows of Resources</b>			
Deferred outflows - OPEB	17,444	5,900	23,344
Deferred outflows - Pension	936,538	313,400	1,249,938
<b>Total Deferred Outflows of Resources</b>	<b>953,982</b>	<b>319,300</b>	<b>1,273,282</b>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts payable	976,496	330,385	1,306,881
Accrued liabilities	82,305	67,444	149,749
Customer deposits	29,641	239,959	269,600
Retainage payable	126,974	-	126,974
Unearned revenue	60,326	-	60,326
Accrued interest payable	-	10,645	10,645
<b>Total Current Liabilities</b>	<b>1,275,742</b>	<b>648,433</b>	<b>1,924,175</b>
<b>Noncurrent Liabilities:</b>			
Due within one year:			
Compensated absences	85,334	15,549	100,883
Bonds payable	-	579,000	579,000
SBITA Liability	6,791	-	6,791
Due in more than one year:			
Bonds payable	-	3,146,000	3,146,000
Total OPEB liability	116,226	38,900	155,126
Net pension liability	2,207,761	738,900	2,946,661
<b>Total Noncurrent Liabilities</b>	<b>2,416,112</b>	<b>4,518,349</b>	<b>6,934,461</b>
<b>Total Liabilities</b>	<b>3,691,854</b>	<b>5,166,782</b>	<b>8,858,636</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows - OPEB	51,239	17,200	68,439
Deferred inflows - Pension	139,737	46,700	186,437
<b>Total Deferred Inflows of Resources</b>	<b>190,976</b>	<b>63,900</b>	<b>254,876</b>
<b>Net Position</b>			
Net investment in capital assets	4,641,534	5,672,262	10,313,796
Restricted for:			
Municipal court technology & security	20,445	-	20,445
Economic Development	1,272,697	-	1,272,697
Public safety	84,213	-	84,213
Debt service	-	568,355	568,355
Unrestricted	1,222,718	6,658,288	7,881,006
<b>Total Net Position</b>	<b>\$ 7,241,607</b>	<b>\$ 12,898,905</b>	<b>\$ 20,140,512</b>

**CITY OF KERMIT, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2023**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities:</b>			
General government	\$ 2,139,831	\$ 362,072	\$ -
Public safety	2,363,876	232,501	-
Culture and recreation	384,172	-	-
Public works	14,635	-	1,464,515
Interest and other fees	262	-	-
<b>Total Governmental Activities</b>	<b>4,902,776</b>	<b>594,573</b>	<b>1,464,515</b>
<b>Business-Type Activities:</b>			
Water Utility System	1,516,870	3,980,705	-
Solid Waste System	1,664,805	1,534,137	-
<b>Total Business-Type Activities</b>	<b>3,181,675</b>	<b>5,514,842</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 8,084,451</b>	<b>\$ 6,109,415</b>	<b>\$ 1,464,515</b>

**CITY OF KERMIT, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2023**

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>			
<b>Governmental Activities:</b>			
General government	\$ (1,777,759)	\$ -	\$ (1,777,759)
Public safety	(2,131,375)	-	(2,131,375)
Culture and recreation	(384,172)	-	(384,172)
Public works	1,449,880	-	1,449,880
Interest and other fees	(262)	-	(262)
<b>Total Governmental Activities</b>	<b>(2,843,688)</b>	<b>-</b>	<b>(2,843,688)</b>
<b>Business-Type Activities:</b>			
Water Utility System	-	2,463,835	2,463,835
Solid Waste System	-	(130,668)	(130,668)
<b>Total Business-Type Activities</b>	<b>-</b>	<b>2,333,167</b>	<b>2,333,167</b>
<b>Total Primary Government</b>	<b>\$ (2,843,688)</b>	<b>\$ 2,333,167</b>	<b>\$ (510,521)</b>
<b>General revenue:</b>			
<b>Taxes:</b>			
Property	818,332	-	818,332
Sales	2,726,963	-	2,726,963
Mixed beverage	3,659	-	3,659
Franchise	357,904	-	357,904
Occupancy	987,913	-	987,913
Unrestricted investment earnings	385,690	29,088	414,778
Miscellaneous	74,802	206,684	281,486
<b>Transfers Between Governmental and   Business-Type Activities</b>	<b>695,431</b>	<b>(695,431)</b>	<b>-</b>
<b>Total General Revenue and Transfers</b>	<b>6,050,694</b>	<b>(459,659)</b>	<b>5,591,035</b>
 Change in net position	 3,207,006	 1,873,508	 5,080,514
<b>Net Position - Beginning of Year</b>	<b>4,034,601</b>	<b>11,025,397</b>	<b>15,059,998</b>
<b>Net Position - End of Year</b>	<b>\$ 7,241,607</b>	<b>\$ 12,898,905</b>	<b>\$ 20,140,512</b>

**CITY OF KERMIT, TEXAS**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**September 30, 2023**

	<u>General Fund</u>	<u>Hotel/Motel Fund</u>	<u>American Rescue Plan Act</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 2,218,429	\$ 1,259,617	\$ 891,959	\$ 159,419	\$ 4,529,424
Receivables, net of allowance:					
Accounts	803,035	-	-	-	803,035
Property taxes	98,386	-	-	-	98,386
Other taxes	-	85,707	-	-	85,707
Prepaid items	5,202	-	-	376	5,578
<b>Total Assets</b>	<u>\$ 3,125,052</u>	<u>\$ 1,345,324</u>	<u>\$ 891,959</u>	<u>\$ 159,795</u>	<u>\$ 5,522,130</u>
<b>Liabilities</b>					
Accounts payable	\$ 144,449	\$ 20,448	\$ 797,406	\$ 14,193	\$ 976,496
Retainage payable	-	91,552	35,422	-	126,974
Deposits and other liabilities	111,946	-	-	-	111,946
Compensated absences	85,334	-	-	-	85,334
Unearned revenue	-	-	59,131	1,195	60,326
<b>Total Liabilities</b>	<u>341,729</u>	<u>112,000</u>	<u>891,959</u>	<u>15,388</u>	<u>1,361,076</u>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - property taxes	98,385	-	-	-	98,385
<b>Total Deferred Inflows of Resources</b>	<u>98,385</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,385</u>
<b>Fund Balance</b>					
Nonspendable:					
Prepays	5,202	-	-	376	5,578
Restricted:					
Municipal court technology & security	-	-	-	20,445	20,445
Promotional & economic development	-	1,233,324	-	39,373	1,272,697
Public safety	-	-	-	84,213	84,213
Unassigned	2,679,736	-	-	-	2,679,736
<b>Total Fund Balance</b>	<u>2,684,938</u>	<u>1,233,324</u>	<u>-</u>	<u>144,407</u>	<u>4,062,669</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<u>\$ 3,125,052</u>	<u>\$ 1,345,324</u>	<u>\$ 891,959</u>	<u>\$ 159,795</u>	<u>\$ 5,522,130</u>

**CITY OF KERMIT, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**September 30, 2023**

Total Fund Balances - Governmental Funds	\$	4,062,669
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities resources are not financial resources and, therefore, are not reported as net positions in governmental funds.	4,648,325
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Certain other unavailable assets and deferred outflows of resources are not available to pay current period expenditures and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.

Unavailable revenue	98,385
Deferred outflows related to pension activities	936,538
Deferred outflows related to OPEB activities	17,444

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

Net pension liability	(2,207,761)
Total OPEB liability	(116,226)
SBITA liability	(6,791)
Deferred inflows related to pension activities	(139,737)
Deferred inflows related to OPEB activities	(51,239)
Total Net Position - Governmental Activities	<u>\$ 7,241,607</u>

**CITY OF KERMIT, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2023**

	General Fund	Hotel/Motel Fund	American Rescue Plan Act	Other Governmental	Total Governmental
<b>Revenues</b>					
Property Tax	\$ 804,688	\$ -	\$ -	\$ -	\$ 804,688
General Sales and Use tax	2,726,963	-	-	-	2,726,963
Franchise tax	357,904	-	-	-	357,904
Other Taxes	-	987,913	-	-	987,913
Licenses and permits	112,600	-	-	6,422	119,022
Donations/Contributions	-	-	-	64,825	64,825
Intergovernmental revenue and grants	-	-	1,464,515	-	1,464,515
Fine and fees	232,501	-	-	7,681	240,182
Charges for services	213,853	-	-	-	213,853
Investment income	303,448	34,138	43,470	4,633	385,689
Other	27,987	-	-	18,697	46,684
<b>Total Revenues</b>	<b>4,779,944</b>	<b>1,022,051</b>	<b>1,507,985</b>	<b>102,258</b>	<b>7,412,238</b>
<b>Expenditures</b>					
General government	1,094,856	-	-	512	1,095,368
Public safety	2,330,896	-	-	61,246	2,392,142
Street, humane and city shop	829,472	-	-	3,200	832,672
Street lighting	85,882	-	-	-	85,882
Parks and cemetery	407,364	-	-	-	407,364
Tax department	6,309	-	-	-	6,309
Economic development and assistance	-	62,285	-	-	62,285
Capital outlay:					
General government	98,871	-	1,511,892	-	1,610,763
Culture and recreation	-	305,045	-	-	305,045
Debt service:					
Principal retirement	11,458	-	-	-	11,458
Interest and fiscal charges	262	-	-	-	262
<b>Total Expenditures</b>	<b>4,865,370</b>	<b>367,330</b>	<b>1,511,892</b>	<b>64,958</b>	<b>6,809,550</b>
Excess (deficiency) of revenues over expenditures	(85,426)	654,721	(3,907)	37,300	602,688
<b>Other Financing Sources (Uses)</b>					
Transfers in	2,047,689	-	-	-	2,047,689
Transfers out	-	-	-	(549,857)	(549,857)
<b>Total Other Financing Sources (Uses)</b>	<b>2,047,689</b>	<b>-</b>	<b>-</b>	<b>(549,857)</b>	<b>1,497,832</b>
Net change in fund balance (deficit)	1,962,263	654,721	(3,907)	(512,557)	2,100,520
Fund Balance - Beginning of Year	726,901	578,603	3,907	652,738	1,962,149
Prior period adjustment	(4,226)	-	-	4,226	-
Fund Balance - Beginning of Year (as restated)	722,675	578,603	3,907	656,964	1,962,149
<b>Fund Balance - End of Year</b>	<b>\$ 2,684,938</b>	<b>\$ 1,233,324</b>	<b>\$ -</b>	<b>\$ 144,407</b>	<b>\$ 4,062,669</b>

**CITY OF KERMIT, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2023**

Net Change in Fund Balance - Total Governmental Funds	\$	2,100,520
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,429,239
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A transfer of capital assets from governmental activities to business-type activities is not reported in the governmental funds but is reported as a interfund transfer of fixed assets in governmental activities.	(802,401)
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Certain deferred inflows of resources were earned in prior year but not yet available for fund level activity. This increase/(decrease) is due to the deferred inflows becoming available in current year.	13,644
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Some expenses (revenues) reported in the statement of activities do not require the use of current financial resources and, therefore, are not expenditures in governmental funds. These are detailed below:	
Pension related activities	162,490
OPEB related activities	(12,989)
Repayment of principal - SBITA liability	<u>11,458</u>

Change in Net Position of Governmental Activities.	<u>\$</u>	<u>2,901,961</u>
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**CITY OF KERMIT, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**September 30, 2023**

	Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 7,777,435	\$ 1,091,302	\$ 8,868,737
Accounts receivable, net of allowances:			
Billed	283,956	118,914	402,870
Other	35,685	9,894	45,579
Prepaid items	2,551	3,784	6,335
<b>Total Current Assets</b>	<b>8,099,627</b>	<b>1,223,894</b>	<b>9,323,521</b>
<b>Noncurrent Assets:</b>			
<b>Capital assets - net:</b>			
Land	6,300	-	6,300
Construction in progress	802,401	-	802,401
Buildings and improvements	13,936	-	13,936
Water and sewer system	12,052,306	-	12,052,306
Machinery and equipment	1,293,941	1,732,598	3,026,539
Accumulated depreciation	(5,944,019)	(1,470,697)	(7,414,716)
<b>Total capital assets - net</b>	<b>8,224,865</b>	<b>261,901</b>	<b>8,486,766</b>
<b>Total Noncurrent Assets</b>	<b>8,224,865</b>	<b>261,901</b>	<b>8,486,766</b>
<b>Total Assets</b>	<b>16,324,492</b>	<b>1,485,795</b>	<b>17,810,287</b>
<b>Deferred Outflows of Resources</b>			
Deferred outflows - OPEB	3,579	2,321	5,900
Deferred outflows - Pension	193,254	120,146	313,400
<b>Total Deferred Outflows of Resources</b>	<b>196,833</b>	<b>122,467</b>	<b>319,300</b>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts payable	155,404	174,981	330,385
Accrued expenses	37,853	39,223	77,076
Accrued interest payable	10,645	-	10,645
Customer deposits	230,327	-	230,327
Compensated absences	9,122	6,427	15,549
Bonds payable	579,000	-	579,000
<b>Total Current Liabilities</b>	<b>1,022,351</b>	<b>220,631</b>	<b>1,242,982</b>
<b>Noncurrent Liabilities:</b>			
Bonds payable	3,146,000	-	3,146,000
Total OPEB liability	23,240	15,660	38,900
Net pension liability	456,302	282,598	738,900
<b>Total Noncurrent Liabilities</b>	<b>3,625,542</b>	<b>298,258</b>	<b>3,923,800</b>
<b>Total Liabilities</b>	<b>4,647,893</b>	<b>518,889</b>	<b>5,166,782</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows - OPEB	10,529	6,671	17,200
Deferred inflows - Pension	21,730	24,970	46,700
<b>Total Deferred Inflows of Resources</b>	<b>32,259</b>	<b>31,641</b>	<b>63,900</b>
<b>Net Position</b>			
Net investment in capital assets	5,410,361	261,901	5,672,262
Restricted for debt service	568,355	-	568,355
Unrestricted net position	5,862,457	795,831	6,658,288
<b>Total Net Position</b>	<b>\$ 11,841,173</b>	<b>\$ 1,057,732</b>	<b>\$ 12,898,905</b>

See notes to the financial statements.

**CITY OF KERMIT, TEXAS**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**

**PROPRIETARY FUND**

*For the Year Ended September 30, 2023*

	Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise
<b>Operating Revenues</b>			
<b>Charges for services:</b>			
Water and sewer service	\$ 3,570,776	\$ 1,534,137	\$ 5,104,913
Fees and permits	409,929	-	409,929
Miscellaneous revenues	206,684	-	206,684
<b>Total Operating Revenues</b>	<u>4,187,389</u>	<u>1,534,137</u>	<u>5,721,526</u>
<b>Operating Expenses</b>			
Contractual services	347,909	935,448	1,283,357
Materials & Supplies	141,622	243,962	385,584
Personnel services	499,606	347,142	846,748
Other Operating	147,210	48,762	195,972
Depreciation	290,757	89,491	380,248
<b>Total Operating Expenses</b>	<u>1,427,104</u>	<u>1,664,805</u>	<u>3,091,909</u>
Operating income	<u>2,760,285</u>	<u>(130,668)</u>	<u>2,629,617</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	29,088	-	29,088
Interest and fiscal charges	(89,766)	-	(89,766)
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(60,678)</u>	<u>-</u>	<u>(60,678)</u>
Income before transfers	<u>2,699,607</u>	<u>(130,668)</u>	<u>2,568,939</u>
<b>Transfers and Contributions</b>			
Capital contributions	802,401	-	802,401
Transfers in	-	377,872	377,872
Transfers out	(1,875,704)	-	(1,875,704)
<b>Total Transfers and Contributions - Net</b>	<u>(1,073,303)</u>	<u>377,872</u>	<u>(695,431)</u>
Change in net position	<u>1,626,304</u>	<u>247,204</u>	<u>1,873,508</u>
<b>Net Position - Beginning of Year</b>	<u>10,214,869</u>	<u>810,528</u>	<u>11,025,397</u>
<b>Net Position - End of Year</b>	<u>\$ 11,841,173</u>	<u>\$ 1,057,732</u>	<u>\$ 12,898,905</u>

**CITY OF KERMIT, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**For the Year Ended September 30, 2023**

	Enterprise Funds		
	Water Utility System	Solid Waste System	Total Enterprise
<b>Cash Flows from Operating Activities:</b>			
Receipts from customers	\$ 3,972,216	\$ 1,515,597	\$ 5,487,813
Other operating revenue	206,684	-	206,684
Receipts from (payments to) suppliers	(833,103)	(1,095,456)	(1,928,559)
Payments to employees	(651,341)	(439,633)	(1,090,974)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>2,694,456</u>	<u>(19,492)</u>	<u>2,674,964</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Net transfers to other funds	(1,713,679)	386,294	(1,327,385)
<b>Net Cash Provided by (Used in) Noncapital and Related Financing Activities</b>	<u>(1,713,679)</u>	<u>386,294</u>	<u>(1,327,385)</u>
<b>Cash Flows from Capital Financing Activities:</b>			
Principal paid on capital debt	(564,000)	-	(564,000)
Interest paid on capital debt	(91,302)	-	(91,302)
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<u>(655,302)</u>	<u>-</u>	<u>(655,302)</u>
<b>Cash Flows from Investing Activities:</b>			
Interest and dividends received	29,088	-	29,088
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u>29,088</u>	<u>-</u>	<u>29,088</u>
Net change in cash and cash equivalents	354,563	366,802	721,365
Cash and Cash Equivalents, Beginning of Year	7,422,872	724,500	8,147,372
Cash and Cash Equivalents, End of Year	<u>7,777,435</u>	<u>1,091,302</u>	<u>8,868,737</u>
<b>Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:</b>			
Operating income	2,760,285	(130,668)	2,629,617
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:</b>			
Depreciation expense	290,757	89,491	380,248
(Increase) decrease in accounts receivable	(10,151)	(18,540)	(28,691)
(Increase) decrease in prepaid items	3,762	1,098	4,860
(Increase) decrease in OPEB deferred outflows	3,028	1,872	4,900
(Increase) decrease in pension deferred outflows	(127,549)	(78,850)	(206,399)
Increase (decrease) in accounts payable	(209,090)	107,582	(101,508)
Increase (decrease) in accrued expenses	8,966	24,036	33,002
Increase (decrease) in compensated absences	2,139	2,634	4,773
Increase (decrease) in deposits payable	1,662	-	1,662
Increase (decrease) in other post employment benefits	(17,056)	(10,544)	(27,600)
Increase (decrease) in net pension liability	156,533	96,767	253,300
Increase (decrease) in OPEB deferred inflows	6,860	4,240	11,100
Increase (decrease) in pension deferred inflows	(175,690)	(108,610)	(284,300)
<b>Total Adjustments</b>	<u>(65,829)</u>	<u>111,176</u>	<u>45,347</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 2,694,456</u>	<u>\$ (19,492)</u>	<u>\$ 2,674,964</u>

**CITY OF KERMIT, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**

**A. Summary of Significant Accounting Policies**

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

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

**Reporting Entity**

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

**Government-Wide and Fund Financial Statements**

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

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

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

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

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

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

**A. Summary of Significant Accounting Policies (continued)**

**Measurement Focus, Basis of Accounting, And Financial Statement Presentation**

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

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

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

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

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

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

**CITY OF KERMIT, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**A. Summary of Significant Accounting Policies (continued)**

**Fund Accounting**

The City reports the following major governmental funds:

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

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

American Rescue Plan Act Fund - This fund is being used to account for the funds from the American Rescue Plan Act (ARPA) and will be used to account for related expenditures for capital projects related to water system and street improvements.

The City reports the following non-major governmental funds:

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

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

The City reports the following major proprietary funds:

Water 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.

**Other Accounting Policies**

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

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

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

*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.

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

**A. Summary of Significant Accounting Policies (continued)**

**Other Accounting Policies (continued)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**CITY OF KERMIT, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**A. Summary of Significant Accounting Policies (continued)**

**Other Accounting Policies (continued)**

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

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

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

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

<u>Asset Category</u>	<u>Useful Life</u>	<u>Capitalization Threshold</u>
Land	N/A	\$ 5,000
Buildings	22-45 years*	5,000
Building Improvements	15 years	5,000
Water, sewer system and other infrastructure	10-45 years*	5,000
Water and sewer system	10-45 years*	5,000
Office Equipment	7-10 years*	5,000
Computer equipment	5-10 years*	5,000
Leases & Subscription based IT arrangements	Term of agreement	5,000

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

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

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

**A. Summary of Significant Accounting Policies (continued)**

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net 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.

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

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

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

**A. Summary of Significant Accounting Policies (continued)**

**Subscription-Based Information Technology Arrangements (SBITA)**

The City is under contract for a SBITA for the right to use subscription assets. The SBITA is noncancellable, and the City recognizes a SBITA liability and an intangible right to use SBITA asset in the government-wide financial statements. The City recognizes SBITA liabilities with an initial, individual value of \$5,000 or more.

At the commencement of the SBITA, the City initially measures the SBITA liability at the present value of payments expected to be made during the SBITA term. Subsequently, the SBITA liability is reduced by the principal portion of SBITA payments made. The SBITA asset is initially measured as the sum of (1) the initial SBITA liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. Key estimates and judgments related to SBITA include how the City determines (1) the discount rate it uses to discount the expected SBITA payments to present value, (2) SBITA term, and (3) SBITA payments.

- The City uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for SBITAs.
- The SBITA term includes the noncancellable period of the SBITA and payments included in the measurement of the SBITA liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its SBITA and will remeasure the SBITA asset and liability if certain changes occur that are expected to significantly affect the amount of the SBITA liability.

SBITA assets are reported with other capital assets and SBITA liabilities are reported with long-term debt on the statement of net position.

**Budgetary Data**

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

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

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

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

The City Council approved and adopted the budget for the year ending September 30, 2023 on September 30, 2022.

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

**A. Summary of Significant Accounting Policies (continued)**

**Implementation of New Accounting Standards**

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA), was issued May 2020 and effective for periods beginning after June 15, 2022. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The City has evaluated the effects of this standard and has determined that it does impact the financial statements. As such the City has incorporated such SBITAs into its capital assets and long-term liabilities on both the face of the financial statements and the note disclosures.

**B. Deposits and Investments**

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

State statutes require all time and demand deposits to be fully insured or collateralized. At September 30, 2023 the carrying amount of the City’s deposits was \$12,634,328 and the bank balance was \$12,735,093. The City had \$1,963 in petty cash on-hand at year-end. In addition, the City carries \$761,869 in cash equivalent investments. The City’s cash deposits at September 30, 2023 and throughout the year, were covered by FDIC Insurance or by pledged collateral held by the City’s agent bank in Kermit, Texas. The City’s cash and cash equivalents as of September 30, 2023 are shown in the table below:

	Bank Deposits & Petty Cash	Cash Equivalent Investments	Totals
<b>Governmental Activities:</b>			
General Fund	\$ 1,613,657	\$ 604,772	\$ 2,218,429
Hotel/Motel Fund	1,259,617	-	1,259,617
American Rescue Plan Act	891,959	-	891,959
Other governmental funds	159,419	-	159,419
<b>Total Governmental Activities</b>	<u>3,924,652</u>	<u>604,772</u>	<u>4,529,424</u>
<b>Business-Type Activities:</b>			
Water Utility System	7,620,337	157,098	7,777,435
Solid Waste System	1,091,302	-	1,091,302
<b>Total Business-Type Activities</b>	<u>8,711,639</u>	<u>157,098</u>	<u>8,868,737</u>
<b>Total</b>	<u>\$ 12,636,291</u>	<u>\$ 761,870</u>	<u>\$ 13,398,161</u>

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

**B. Deposits and Investments (continued)**

**City Policies and Legal and Contractual Provision Governing Deposits**

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

The City holds certificates of deposits at Prosperity Bank, South West Heritage Credit Union, Frost Bank, and First Financial. At September 30, 2023, these certificates of deposit was \$761,560 and the custodial risk for these certificate of deposits was \$0.

**Compliance with the Public Funds Investment Act**

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

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

Texas Short Term Asset Reserve Program ("TexSTAR") has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. JP Morgan Fleming Asset Management (USA), Inc. ("JPMFAM") and First Southwest Asset Management, Inc. ("FSAM") serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors. JPMFAM provides investment services, and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services Co. The TexSTAR Cash Reserve Fund is designed to be used by participants for investment of funds that require daily liquidity availability. TexSTAR is currently rated AAAM by Standard and Poor's. The state objective of TexSTAR is to maintain a stable average \$1.00 per unit net asset value; however the \$1.00 net asset value is not guaranteed or insured by TexSTAR, its board, the co-administrators, their agents or any governmental or other entity. At September 31, 2023, the carrying amount of the City's deposits in TexSTAR was \$157,225.

TexPool is a local government investment pool created on behalf of Texas entities whose investment objectives are preservation and safety of principal, liquidity and yield consistent with the Public Funds Investment Act. TexPool currently provides investment services to over 2,000 communities throughout the State. TexPool is currently rated AAAM by Standard and Poor's. These funds represent an investment in a pool and are not categorized as to risk because they are not evidenced by securities that exist in physical or book entry form. At September 31, 2023, the carrying amount of the City's deposits in TexPool was \$157.

**CITY OF KERMIT, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**C. Property Taxes**

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

**D. Delinquent Taxes Receivable**

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

**E. Interfund Balances and Transfers**

The City recorded the following interfund transfers for the fiscal year ended September 30, 2023:

	Transfer in:		
	General Fund	Solid Waste System	Total
<b>Transfers out:</b>			
<b>Governmental Funds</b>			
Other governmental	\$ 549,857	\$ -	\$ 549,857
<b>Subtotal Governmental Funds</b>	<u>549,857</u>	<u>-</u>	<u>549,857</u>
<b>Proprietary Funds</b>			
Water Utility System Fund	1,497,832	377,872	1,875,704
<b>Subtotal Proprietary Funds</b>	<u>1,497,832</u>	<u>377,872</u>	<u>1,875,704</u>
<b>Grand total</b>	<u>\$ 2,047,689</u>	<u>\$ 377,872</u>	<u>\$ 2,425,561</u>

The transfer out of other governmental funds amounting to \$549,857 was to close out funds no longer being used in fiscal year 2024 and transfer the excess funds to the general fund. The transfer out of the Water Utility System Fund and into the General fund for \$1,497,832 and into the Solid Waste System for \$377,872 was to cover deficits. There was a transfer of capital assets from governmental activities to business-type activities of \$695,431 for water system improvements.

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

**F. Receivables and Unearned Revenue**

Receivables at September 30, 2023 were as follows:

<b>Governmental Funds:</b>	<u>General Fund</u>	<u>Hotel/Motel Fund</u>	<u>Total</u>
Accounts	\$ 949,076	\$ -	\$ 949,076
Property taxes	98,386	-	98,386
Other taxes	-	85,707	85,707
<b>Total</b>	<u>1,047,462</u>	<u>85,707</u>	<u>1,133,169</u>
Allowance	<u>(146,041)</u>	<u>-</u>	<u>(146,041)</u>
<b>Total (Net of Allowance)</b>	<u>\$ 901,421</u>	<u>\$ 85,707</u>	<u>\$ 987,128</u>

  

<b>Proprietary Funds:</b>	<u>Water Utility System</u>	<u>Solid Waste System</u>	<u>Total</u>
Billed & Unbilled	\$ 338,427	\$ 150,928	\$ 489,355
Other	40,052	9,894	49,946
<b>Total</b>	<u>378,479</u>	<u>160,822</u>	<u>539,301</u>
Allowance	<u>(58,838)</u>	<u>(32,014)</u>	<u>(90,852)</u>
<b>Total (Net of Allowance)</b>	<u>\$ 319,641</u>	<u>\$ 128,808</u>	<u>\$ 448,449</u>

Unearned revenue at September 30, 2023 was as follows:

	<u>Unearned Revenue</u>
<b>American Rescue Plan Act</b>	
Grants	\$ 59,131
<b>Total ARPA Fund</b>	<u>59,131</u>
<b>Other Governmental Funds</b>	
Deposits for future services	1,195
<b>Total Other Governmental Funds</b>	<u>1,195</u>
<b>Total Governmental Funds</b>	<u>\$ 60,326</u>

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

**G. Capital Assets**

Capital asset activity for the year ended September 30, 2023, was as follows:

	Beginning Balance (as restated)	Increases	Decreases	Transfers	Ending Balance
<b>Governmental Activities:</b>					
<b>Capital assets, not being depreciated:</b>					
Land	\$ 74,664	\$ -	\$ -	\$ -	\$ 74,664
Construction in progress	2,252,206	1,731,436	-	(1,059,834)	2,923,808
<b>Total capital assets, not being depreciated:</b>	<b>2,326,870</b>	<b>1,731,436</b>	<b>-</b>	<b>(1,059,834)</b>	<b>2,998,472</b>
<b>Capital assets, being depreciated/amortized:</b>					
Buildings and improvements	1,296,883	-	-	-	1,296,883
Infrastructure	2,535,671	-	-	257,433	2,793,104
Machinery and equipment	2,731,213	184,372	-	-	2,915,585
Office furniture and equipment	233,050	-	-	-	233,050
SBITA Asset	18,249	-	-	-	18,249
<b>Total capital assets being depreciated/amortized</b>	<b>6,815,066</b>	<b>184,372</b>	<b>-</b>	<b>257,433</b>	<b>7,256,871</b>
<b>Less accumulated depreciation/amortization for:</b>					
Buildings and improvements	(569,343)	(37,134)	-	-	(606,477)
Infrastructure	(2,535,671)	-	-	-	(2,535,671)
Machinery and equipment	(2,098,968)	(129,651)	-	-	(2,228,619)
Office furniture and equipment	(221,512)	(3,213)	-	-	(224,725)
SBITA Asset	-	(11,526)	-	-	(11,526)
<b>Total accumulated depreciation/amortization</b>	<b>(5,425,494)</b>	<b>(181,524)</b>	<b>-</b>	<b>-</b>	<b>(5,607,018)</b>
<b>Total capital assets being depreciated/amortized - net</b>	<b>1,389,572</b>	<b>2,848</b>	<b>-</b>	<b>257,433</b>	<b>1,649,853</b>
<b>Total Capital Assets - Net Governmental Activities</b>	<b>\$ 3,716,442</b>	<b>\$ 1,734,284</b>	<b>\$ -</b>	<b>\$ (802,401)</b>	<b>\$ 4,648,325</b>

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

**G. Capital Assets (continued)**

Capital asset activity for the year ended September 30, 2023, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Business-Type Activities:</b>					
<b>Capital assets, not being depreciated:</b>					
Land	\$ 6,300	\$ -	\$ -	\$ -	\$ 6,300
Construction in progress	-	-	-	802,401	802,401
<b>Total capital assets, not being depreciated:</b>	<u>6,300</u>	<u>-</u>	<u>-</u>	<u>802,401</u>	<u>808,701</u>
<b>Capital assets, being depreciated:</b>					
Buildings and improvements	13,936	-	-	-	13,936
Water and sewer system	12,052,306	-	-	-	12,052,306
Machinery and equipment	2,956,237	-	-	-	2,956,237
Office Furniture and equipment	70,302	-	-	-	70,302
<b>Total capital assets being depreciated</b>	<u>15,092,781</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,092,781</u>
<b>Less accumulated depreciation for:</b>					
Buildings and improvements	(13,936)	-	-	-	(13,936)
Water and sewer system	(4,586,271)	(242,455)	-	-	(4,828,726)
Machinery and equipment	(2,363,959)	(137,793)	-	-	(2,501,752)
Office Furniture and equipment	(70,302)	-	-	-	(70,302)
<b>Total accumulated depreciation</b>	<u>(7,034,468)</u>	<u>(380,248)</u>	<u>-</u>	<u>-</u>	<u>(7,414,716)</u>
<b>Total capital assets being depreciated - net</b>	<u>8,058,313</u>	<u>(380,248)</u>	<u>-</u>	<u>-</u>	<u>7,678,065</u>
<b>Total Capital Assets - Net</b>					
Business-Type Activities	<u>\$ 8,064,613</u>	<u>\$ (380,248)</u>	<u>\$ -</u>	<u>\$ 802,401</u>	<u>\$ 8,486,766</u>

Depreciation and amortization expense was charges to functions as follows:

<b>Governmental activities:</b>	
General government	\$ 9,110
Public safety	89,058
Culture and recreation	32,339
Public works	51,017
<b>Total Depreciation/Amortization Expense - Governmental Activities</b>	<u>\$ 181,524</u>
<b>Business-type activities:</b>	
Water Utility System	\$ 290,757
Solid Waste System	89,491
<b>Total Depreciation Expense - Business-Type Activities</b>	<u>\$ 380,248</u>

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

**G. Capital Assets (continued)**

Construction commitments for the City's current projects under construction was as follows:

	Approved Amount	In-Process Amount	Remaining Commitment
<b>Governmental Activities:</b>			
Civic Center	\$ 2,202,045	\$ 2,140,176	\$ 61,869
Telford Paving	850,069	783,632	66,437
<b>Subtotal Governmental Activities</b>	<u>\$ 3,052,114</u>	<u>\$ 2,923,808</u>	<u>\$ 128,306</u>

**H. 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 \$40,312.

***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 \$49,455.

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

Purpose	Interest Rates	Principal Amount
Series 2019	1.65-2.15%	\$ 2,370,000
Series 2008	1.60-2.85%	1,355,000
		<u>\$ 3,725,000</u>

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

**H. Long-Term Obligations (continued)**

**Certificate of Obligations (continued)**

**Tax and Revenue Certificates of Obligation – 2019 (continued)**

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
2024	\$ 319,000	\$ 44,465	\$ 260,000	\$ 34,318
2025	325,000	38,507	265,000	27,164
2026	331,000	32,192	270,000	19,740
2027	338,000	25,584	275,000	12,041
2028	345,000	18,668	285,000	4,061
2029 - 2033	712,000	15,306	-	-
	<u>\$ 2,370,000</u>	<u>\$ 174,722</u>	<u>\$ 1,355,000</u>	<u>\$ 97,324</u>

**Changes in Long-term Liabilities**

Long-term liability activity for the year ended September 30, 2023 is reflected as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Compensated absences	\$ 50,002	\$ 35,332	\$ -	\$ 85,334	\$ 85,334
Net pension liability	1,076,898	1,137,282	-	2,214,180	-
Total OPEB liability	147,415	-	(31,189)	116,226	-
SBITA liability	18,249	-	(11,458)	6,791	6,791
<b>Total Governmental Activities</b>	<u>\$ 1,292,564</u>	<u>\$ 1,172,614</u>	<u>\$ (42,647)</u>	<u>\$ 2,422,531</u>	<u>\$ 92,125</u>
<b>Business-Type Activities:</b>					
Bonds payable:					
Certificate of obligation 2008	\$ 1,605,000	\$ -	\$ (250,000)	\$ 1,355,000	\$ 260,000
Certificate of obligation 2019	2,684,000	-	(314,000)	2,370,000	319,000
Compensated absences	10,776	4,773	-	15,549	15,549
Net pension liability	485,600	255,400	-	741,000	-
Total OPEB liability	66,500	-	(27,600)	38,900	-
<b>Total Business-Type Activities</b>	<u>\$ 4,851,876</u>	<u>\$ 260,173</u>	<u>\$ (591,600)</u>	<u>\$ 4,520,449</u>	<u>\$ 594,549</u>

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

**H. Long-Term Obligations (continued)**

**SBITA Liability**

The City is under contract for noncancellable SBITA that conveys control of the right to use software. The agreement carries a discount rate and outstanding obligation as follows:

Purpose	Interest Rates	Principal Amount
KOLOGIK (Public Safety)	2.01%	\$ 6,791
		<u>\$ 6,791</u>

Annual debt service requirements to maturity for the SBITA Liability are as follows:

Year Ending September 30,	Governmental Activities	
	SBITA Liability	
	Principal	Interest
2024	\$ 6,791	\$ 46
	<u>\$ 6,791</u>	<u>\$ 46</u>

**Compensated Absences**

Compensated absences represent the estimated liability for employees' vacation leave for which employees are entitled to be paid upon termination. The retirement of this liability is typically paid from the General Fund and Enterprise Funds based on the assignment of an employee at termination. Business-type activities records all of the compensated absences balance as due within one year since the balance has typically been paid within the following year.

**I. Defined Benefit Pension Plan**

**Plan Description**

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

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

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

**I. Defined Benefit Pension Plan (continued)**

**Benefits Provided**

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

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

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

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	36
Inactive employees entitled to but not yet receiving benefits	107
Active employees	56
	<u>199</u>

**Contributions**

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

Employees for the City of Kermit were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Kermit were 16.11% and 15.89% in calendar years 2022 and 2023, 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 \$485,967 and were in excess the required contributions by \$26,758.

**Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2022, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

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

**I. Defined Benefit Pension Plan (continued)**

**Actuarial Assumptions**

The Total Pension Liability in the December 31, 2022 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	23 Years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5% per year
Investment rate of return	6.75%

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

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

The strategic target allocation of investments will be reviewed annually for reasonableness relative to significant economic and market changes and to changes in the TMRS Board’s long-term goals and objectives. The Board has chosen to adopt a rebalancing policy that is governed by allocation ranges rather than time periods. Asset ranges are a function of the volatility of each asset class and the proportion of the total fund allocated to the asset class. The tables bellow illustrates the target allocation and the one-year rate of return for the year ended December 31, 2022:

Asset Class	Strategic Target Allocation Index	Long-term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.7%
Core Fixed Income	6.0%	4.9%
Non-Core Fixed Income	20.0%	8.7%
Other Public & Private Markets	12.0%	8.1%
Real Estate	12.0%	5.8%
Hedge Funds	5.0%	6.9%
Private Equity	10.0%	11.8%
<b>Total</b>	<b>100.0%</b>	

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

**I. Defined Benefit Pension Plan (continued)**

**Discount Rate**

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

**Basis of Allocation**

Pension items are allocated between governmental activities and business-type activities on the basis of employee payroll funding. For the year ended September 30, 2023, those percentages were 75% and 25%, respectively.

**Changes in Net Pension Liability**

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a)-(b)</u>
<b>Balance at December 31, 2021</b>	\$ 15,406,351	\$ 13,843,853	\$ 1,562,498
<b>Changes for the year:</b>			
Service cost	466,327	-	466,327
Interest	1,027,955	-	1,027,955
Difference between expected and actual experience	(435,021)	-	(435,021)
Contributions - employer	-	476,079	(476,079)
Contributions - employee	-	206,863	(206,863)
Net investment income	-	(1,009,533)	1,009,533
Benefits payments, including refunds of employee contributions	(821,101)	(821,101)	-
Administrative expense	-	(8,745)	8,745
Other changes	-	10,434	(10,434)
<b>Net changes</b>	<u>238,160</u>	<u>(1,146,003)</u>	<u>1,384,163</u>
<b>Balance at December 31, 2022</b>	<u>\$ 15,644,511</u>	<u>\$ 12,697,850</u>	<u>\$ 2,946,661</u>

**Sensitivity of the Net Pension Liability**

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

	<u>1% Decrease in Discount Rate (5.75%)</u>	<u>Discount Rate (6.75%)</u>	<u>1% Increase in Discount Rate (7.75%)</u>
<b>City's Net Pension Liability</b>	\$ 5,099,963	\$ 2,946,661	\$ 1,181,100

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

**I. Defined Benefit Pension Plan (continued)**

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in a separately issued TMRS financial report. That report may be obtained on the Internet at [www.tmr.com](http://www.tmr.com).

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

For the year ended September 30, 2023, the City recognized pension expense of \$86,077 related to the TMRS plan.

At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (186,437)
Changes in assumptions or other inputs	-	-
Net difference between projected and actual investment earnings	895,615	-
Contributions subsequent to the measurement date	354,323	-
	<u>\$ 1,249,938</u>	<u>\$ (186,437)</u>

The \$354,323 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in a pension expense as follows:

Year Ended September 30,	Net Deferred Outflows/(Inflows) of Resources
2024	\$ (133,298)
2025	217,565
2026	236,114
2027	388,797
	<u>\$ 709,178</u>

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

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

**Plan Description**

Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The City has elected to participate in the SDBF for its active members including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded single-employer OPEB plan (i.e., no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75) for City reporting.

**Benefits Provided**

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered another postemployment benefit ("OPEB") and is a fixed amount of \$7,500. At the December 31, 2022, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	22
Inactive employees entitled to but not yet receiving benefits	12
Active employees	56
<b>Total</b>	<u><u>90</u></u>

**Benefits Contributions**

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

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

Contribution rates to the SDBF for the City were 0.27% and 0.49% for calendar years 2022 and 2023, respectively. The City's contributions to the SDBF for the year ended September 30, 2023, totaled \$13,133 and equaled the required contributions.

**Total OPEB Liability**

The City's Total OPEB Liability (TOL) of \$155,126 was measured as of December 31, 2022 and was determined by an actuarial valuation.

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

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

**Actuarial assumptions and other inputs:** The total OPEB liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

**Valuation Timing:** Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Inflation	2.50%
Salary Increases	3.5% to 11.5% including inflation
Discount Rate	4.05%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

**Mortality Rates:**

Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

**Other Information:**

Notes: There were no benefit changes during the year.

\* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2022.

The actuarial assumptions used in the December 31, 2022 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

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

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

OPEB items are allocated between governmental activities and business-type activities on the basis of employee payroll funding. For the year ended September 30, 2023, those percentages were 75% and 25%, respectively.

Changes in Total OPEB Liability	Total OPEB Liability
Balance at December 31, 2021	\$ 213,915
Changes for the year:	
Service cost	12,412
Interest	4,012
Difference between expected and actual experience	3,667
Changes of assumptions or other inputs	(74,743)
Benefits payments	(4,137)
Net changes	(58,789)
Balance at December 31, 2022	\$ 155,126

Changes of assumptions reflect a change in the Single Discount Rate from 1.84% as of December 31, 2021, to 4.05% as of December 31, 2022.

**Sensitivity of total OPEB liability to changes in the discount rate.**

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.05 percent) or 1-percentage-point higher (5.05 percent) than the current discount rate:

	1% Decrease in Discount Rate (3.05%)	Discount Rate (4.05%)	1% Increase in Discount Rate (5.05%)
City's Total OPEB Liability	\$ 183,736	\$ 155,126	\$ 132,872

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

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

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

For the year ended September 30, 2023, the City recognized OPEB expense related to supplemental death benefits of \$6,546.

At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,793	\$ (11,492)
Changes in assumptions or other inputs	16,537	(56,947)
Net difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement date	10,926	-
	<u>\$ 30,256</u>	<u>\$ (68,439)</u>

An amount of \$10,926 reported as deferred outflows of resources related to supplemental death benefits resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability as of September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2024	\$ (10,573)
2025	(17,272)
2026	(17,876)
2027	(3,388)
	<u>\$ (49,109)</u>

**K. Deferred Inflows of Resources**

Deferred inflows of resources reported only in the General Fund financial statements at September 30, 2023 consisted of property tax revenue assessed but not collected in the amount of \$244,427 less allowance for uncollectible accounts of \$146,041 for net deferred inflows of \$98,385.

**L. Litigation**

The City administration was not aware of any significant contingencies or commitments at September 30, 2023.

**M. Risk Management**

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

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

**N. Prior Period Adjustment**

The beginning fund balances as of October 1, 2022, have been restated as follows:

	<u>General Fund</u>	<u>Police Department Seizure Fund</u>	<u>Total Governmental Funds</u>
<b>Beginning Fund Balance</b>	\$ 726,901	\$ -	\$ 1,962,149
Prior period adjustment - reporting of police dept. seizure funds separately from the general fund	(4,226)	4,226	-
<b>Beginning Fund Balance as Restated</b>	<u>\$ 722,675</u>	<u>\$ 4,226</u>	<u>\$ 1,962,149</u>

The restatement of \$(4,226) in the general fund is to report the beginning balance of \$4,226 for the police department seizure fund as a special revenue fund.



**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF KERMIT, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**For the Year Ended September 30, 2023**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
<b>Taxes:</b>				
Property taxes (penalties & interest included)	\$ 772,940	\$ 804,261	\$ 804,688	\$ 427
City sales taxes	1,740,000	2,938,218	2,726,963	(211,255)
Franchise taxes	290,000	357,904	357,904	-
Sub-total taxes	<u>2,802,940</u>	<u>4,100,383</u>	<u>3,889,555</u>	<u>(210,828)</u>
<b>Non-tax revenues:</b>				
Licenses and permits	89,500	112,600	112,600	-
Fines and fees	205,000	232,501	232,501	-
Charges for services	209,000	219,911	213,853	(6,058)
Sub-total non-tax revenues	<u>503,500</u>	<u>565,012</u>	<u>558,954</u>	<u>(6,058)</u>
<b>Other appropriations:</b>				
Investment earnings	34,000	303,448	303,448	-
Other revenue	33,700	(59,874)	27,987	87,861
Sub-total other appropriations	<u>67,700</u>	<u>243,574</u>	<u>331,435</u>	<u>87,861</u>
<b>Total Revenues</b>	<u>3,374,140</u>	<u>4,908,969</u>	<u>4,779,944</u>	<u>(129,025)</u>
<b>Expenditures</b>				
<b>Current</b>				
City Hall	289,905	493,840	588,186	(94,346)
Municipal court	95,886	111,216	110,896	320
Administration	395,818	396,966	395,774	1,192
Police department	1,980,416	2,117,815	2,098,860	18,955
Fire department	181,971	148,382	147,464	918
Inspections	169,124	84,696	84,572	124
Street department	605,842	413,876	430,113	(16,237)
Humane department	127,533	151,414	150,830	584
Shop department	257,056	249,054	248,529	525
Street lighting	85,000	93,442	85,882	7,560
Parks & cemetery	440,547	408,396	407,364	1,032
County ambulance	16,800	-	-	-
Tax department	10,000	6,309	6,309	-
Debt service	-	-	-	-
Principal on debt	-	-	11,458	(11,458)
Interest on debt	-	-	262	(262)
Capital outlay	-	98,871	98,871	-
<b>Total Expenditures</b>	<u>4,655,898</u>	<u>4,774,277</u>	<u>4,865,370</u>	<u>(91,093)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	1,208,635	2,047,689	839,054
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>1,208,635</u>	<u>2,047,689</u>	<u>839,054</u>
<b>Net Increase (Decrease)</b>	<u>\$ (1,281,758)</u>	<u>\$ 1,343,327</u>	<u>\$ 1,962,263</u>	<u>\$ 801,122</u>

**CITY OF KERMIT, TEXAS**  
**NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION**  
*For the Year Ended September 30, 2023*

**General Budget Policies**

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

**Excess of Expenditures over appropriations**

<u>Legally Adopted Fund</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>General Fund</b>			
City Hall	\$ 493,840	\$ 588,186	\$ (94,346)
Street department	413,876	430,113	(16,237)
Debt Service	-	11,720	(11,720)

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

	Measurement Year December 31,				
	2022	2021	2020	2019	2018
<b>Total Pension Liability</b>					
Service cost	\$ 466,327	\$ 487,747	\$ 506,009	\$ 469,377	\$ 379,780
Interest (on the total pension liability)	1,027,955	1,009,941	922,098	844,188	798,744
Difference between expected and actual experience	(435,021)	(515,662)	414,758	343,160	(86,539)
Change of assumptions	-	-	-	(39,132)	-
Benefit payments, including refunds of employee contributions	(821,101)	(587,780)	(476,929)	(486,447)	(440,632)
<b>Net Change in Total Pension Liability</b>	<b>238,160</b>	<b>394,246</b>	<b>1,365,936</b>	<b>1,131,146</b>	<b>651,353</b>
<b>Total Pension Liability - Beginning</b>	<b>15,406,351</b>	<b>15,012,105</b>	<b>13,646,169</b>	<b>12,515,023</b>	<b>11,863,670</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 15,644,511</b>	<b>\$ 15,406,351</b>	<b>\$ 15,012,105</b>	<b>\$ 13,646,169</b>	<b>\$ 12,515,023</b>
<b>Plan Fiduciary Net Position</b>					
Contributions - employer	\$ 476,079	\$ 479,480	\$ 496,837	\$ 472,716	\$ 364,766
Contributions - employee	206,863	214,327	221,379	204,840	164,204
Net investment income	(1,009,533)	1,584,285	840,921	1,459,487	(289,123)
Benefit payments, including refunds of employee contributions	(821,101)	(587,780)	(476,929)	(486,447)	(440,632)
Administrative expense	(8,745)	(7,335)	(5,444)	(8,248)	(5,586)
Other	10,434	48	(213)	(248)	(292)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>(1,146,003)</b>	<b>1,683,025</b>	<b>1,076,551</b>	<b>1,642,100</b>	<b>(206,663)</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>13,843,853</b>	<b>12,160,828</b>	<b>11,084,277</b>	<b>9,442,177</b>	<b>9,648,840</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 12,697,850</b>	<b>\$ 13,843,853</b>	<b>\$ 12,160,828</b>	<b>\$ 11,084,277</b>	<b>\$ 9,442,177</b>
<b>Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 2,946,661</b>	<b>\$ 1,562,498</b>	<b>\$ 2,851,277</b>	<b>\$ 2,561,892</b>	<b>\$ 3,072,846</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	<b>81.16%</b>	<b>89.86%</b>	<b>81.01%</b>	<b>81.23%</b>	<b>75.45%</b>
<b>Covered Employee Payroll</b>	<b>\$ 2,955,180</b>	<b>\$ 3,061,813</b>	<b>\$ 3,162,558</b>	<b>\$ 2,926,289</b>	<b>\$ 2,345,768</b>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<b>99.71%</b>	<b>51.03%</b>	<b>90.16%</b>	<b>87.55%</b>	<b>131.00%</b>

Notes to the schedule:

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

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

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

	Measurement Year December 31,			
	2017	2016	2015	2014
<b>Total Pension Liability</b>				
Service cost	\$ 350,657	\$ 356,071	\$ 353,182	\$ 265,828
Interest (on the total pension liability)	745,290	694,670	674,305	646,756
Difference between expected and actual experience	98,597	96,798	(65,959)	(128,875)
Change of assumptions	-	-	94,582	-
Benefit payments, including refunds of employee contributions	(393,751)	(396,073)	(402,060)	(465,614)
<b>Net Change in Total Pension Liability</b>	<b>800,793</b>	<b>751,466</b>	<b>654,050</b>	<b>318,095</b>
<b>Total Pension Liability - Beginning</b>	<b>11,062,877</b>	<b>10,311,411</b>	<b>9,657,361</b>	<b>9,339,266</b>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 11,863,670</b>	<b>\$ 11,062,877</b>	<b>\$ 10,311,411</b>	<b>\$ 9,657,361</b>
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	\$ 329,928	\$ 343,853	\$ 331,836	\$ 376,311
Contributions - employee	152,744	157,328	154,036	140,865
Net investment income	1,164,656	525,652	11,346	413,564
Benefit payments, including refunds of employee contributions	(393,751)	(396,073)	(402,060)	(465,614)
Administrative expense	(6,035)	(5,936)	(6,911)	(4,317)
Other	(304)	(320)	(341)	(355)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>1,247,238</b>	<b>624,504</b>	<b>87,906</b>	<b>460,454</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>8,401,602</b>	<b>7,777,098</b>	<b>7,689,192</b>	<b>7,228,738</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 9,648,840</b>	<b>\$ 8,401,602</b>	<b>\$ 7,777,098</b>	<b>\$ 7,689,192</b>
<b>Net Pension Liability - Ending (a) - (b)</b>	<b>\$ 2,214,830</b>	<b>\$ 2,661,275</b>	<b>\$ 2,534,313</b>	<b>\$ 1,968,169</b>
<b>Plan Fiduciary Net Position as a Percentage of</b>				
<b>Total Pension Liability</b>	<b>81.33%</b>	<b>75.94%</b>	<b>75.42%</b>	<b>79.62%</b>
<b>Covered Employee Payroll</b>	<b>\$ 2,182,059</b>	<b>\$ 2,226,836</b>	<b>\$ 2,200,508</b>	<b>\$ 2,012,360</b>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	<b>101.50%</b>	<b>119.51%</b>	<b>115.17%</b>	<b>97.80%</b>

Notes to the schedule:

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

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

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Actuarially determined contribution	\$ 459,209	\$ 474,152	\$ 480,352	\$ 471,269	\$ 459,252
Contributions in relation to the actuarially determined contribution	<u>485,967</u>	<u>474,152</u>	<u>480,352</u>	<u>471,269</u>	<u>459,252</u>
Contribution deficiency (excess)	<u>\$ (26,758)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	3,047,006	2,966,350	3,078,715	3,029,539	2,865,254
Contributions as a percentage of covered employee payroll	15.07%	15.98%	15.60%	15.56%	16.03%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	
Actuarially determined contribution	\$ 344,912	\$ 330,373	\$ 356,887	\$ 337,764	
Contributions in relation to the actuarially determined contribution	<u>344,912</u>	<u>330,373</u>	<u>356,887</u>	<u>337,764</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Covered employee payroll	2,233,024	2,172,204	2,335,131	2,108,423	
Contributions as a percentage of covered employee payroll	15.45%	15.21%	15.28%	16.02%	

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 Rate:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 Years (longest amortization ladder)
Asset Valuation Method	10 Year Smoothed Market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale IAMP

Other Information:  
Notes

There were no benefit changes during the year.

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

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

	Measurement Year December 31,			
	2022	2021	2020	2019
<b>Total OPEB Liability</b>				
Service cost	\$ 12,412	\$ 11,635	\$ 11,385	\$ 7,316
Interest on the total OPEB liability	4,012	4,300	4,999	5,359
Difference between expected and actual experience	3,667	(14,853)	(7,864)	(5,879)
Change of assumptions or other inputs	(74,743)	6,423	28,415	30,639
Benefit payments**	(4,137)	(5,511)	(2,214)	(2,048)
<b>Net Change in Total OPEB Liability</b>	<b>(58,789)</b>	<b>1,994</b>	<b>34,721</b>	<b>35,387</b>
<b>Total OPEB Liability - Beginning</b>	<b>213,915</b>	<b>211,921</b>	<b>177,200</b>	<b>141,813</b>
<b>Total OPEB Liability - Ending</b>	<b>\$ 155,126</b>	<b>\$ 213,915</b>	<b>\$ 211,921</b>	<b>\$ 177,200</b>
<b>Covered Payroll</b>	<b>\$ 2,955,180</b>	<b>\$ 3,061,813</b>	<b>\$ 3,162,558</b>	<b>\$ 2,926,289</b>
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	<b>5.25%</b>	<b>6.99%</b>	<b>6.70%</b>	<b>6.06%</b>

	2018	2017
<b>Total OPEB Liability</b>		
Service cost	\$ 7,037	\$ 5,673
Interest on the total OPEB liability	4,660	4,573
Difference between expected and actual experience	3,156	-
Change of assumptions or other inputs	(9,594)	10,235
Benefit payments**	(1,407)	(1,309)
<b>Net Change in Total OPEB Liability</b>	<b>3,852</b>	<b>19,172</b>
<b>Total OPEB Liability - Beginning</b>	<b>137,961</b>	<b>118,789</b>
<b>Total OPEB Liability - Ending</b>	<b>\$ 141,813</b>	<b>\$ 137,961</b>
<b>Covered Payroll</b>	<b>\$ 2,345,768</b>	<b>\$ 2,182,059</b>
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	<b>6.05%</b>	<b>6.32%</b>

Ending balances are as of the measurement date, December 31, 2022

Changes of assumptions reflect a change in the Single Discount Rate from 1.84% as of December 31, 2021, to 4.05% as of December 31, 2022

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

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

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Actuarially determined contribution	\$ 13,133	\$ 8,340	\$ 9,121	\$ 7,877
Contributions in relation to the actuarially determined contribution	<u>13,133</u>	<u>8,340</u>	<u>9,121</u>	<u>7,877</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,047,006	\$ 2,966,350	\$ 3,078,715	\$ 3,029,539
Contributions as a percentage of covered employee payroll	0.43%	0.28%	0.30%	0.26%

	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 7,479	\$ 5,583
Contributions in relation to the actuarially determined contribution	<u>7,479</u>	<u>5,583</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 2,865,254	\$ 2,233,024
Contributions as a percentage of covered employee payroll	0.26%	0.25%

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

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

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

Valuation Date: December 31, 2022

Methods and Assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 Years (longest amortization ladder)
Asset Valuation Method	10 Year smoothed market, 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Discount rate*	4.05%

Administrative expenses All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements of GASB Statement No. 68.

Mortality rates - service retirees 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.

Mortality rates - disables retirees 2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

Notes

\* The discount rate was based on Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2022

Note: The actuarial assumptions used in the December 31, 2022 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.



**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF KERMIT, TEXAS**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS**  
**September 30, 2023**

	Special Revenue					
	Community Development Fund	Police Department Seizure Fund	Police Department Lease	Police Department Special Fund	Child Safety Fund	Recreation Fund
<b>Assets</b>						
Cash and cash equivalents	\$ 54,280	\$ 4,369	\$ -	\$ 68,703	\$ 11,622	\$ -
Prepaid items	-	-	-	-	376	-
<b>Total Assets</b>	<u>\$ 54,280</u>	<u>\$ 4,369</u>	<u>\$ -</u>	<u>\$ 68,703</u>	<u>\$ 11,998</u>	<u>\$ -</u>
<b>Liabilities</b>						
Accounts payable	\$ 13,712	\$ -	\$ -	\$ 363	\$ 118	\$ -
Unearned revenue	1,195	-	-	-	-	-
<b>Total Liabilities</b>	<u>14,907</u>	<u>-</u>	<u>-</u>	<u>363</u>	<u>118</u>	<u>-</u>
<b>Fund Balance</b>						
Nonspendable:						
Prepays	-	-	-	-	376	-
Restricted:						
Municipal court technology & security	-	-	-	-	-	-
Promotional & economic development	39,373	-	-	-	-	-
Public safety	-	4,369	-	68,340	11,504	-
<b>Total Fund Balance</b>	<u>39,373</u>	<u>4,369</u>	<u>-</u>	<u>68,340</u>	<u>11,880</u>	<u>-</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 54,280</u>	<u>\$ 4,369</u>	<u>\$ -</u>	<u>\$ 68,703</u>	<u>\$ 11,998</u>	<u>\$ -</u>

**CITY OF KERMIT, TEXAS**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS**  
**September 30, 2023**

	Special Revenue			Capital Projects	
	Cause for Paws	Municipal Technology Fund	Municipal Court Security Fund	Capital Acquisition Fund	Total Non-major Governmental
<b>Assets</b>					
Cash and cash equivalents	\$ -	\$ 12,557	\$ 7,888	\$ -	\$ 159,419
Prepaid items	-	-	-	-	376
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 12,557</b>	<b>\$ 7,888</b>	<b>\$ -</b>	<b>\$ 159,795</b>
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 14,193
Unearned revenue	-	-	-	-	1,195
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,388</b>
<b>Fund Balance</b>					
Nonspendable:					
Prepays	-	-	-	-	376
Restricted:					
Municipal court technology & security	-	12,557	7,888	-	20,445
Promotional & economic development	-	-	-	-	39,373
Public safety	-	-	-	-	84,213
<b>Total Fund Balance</b>	<b>-</b>	<b>12,557</b>	<b>7,888</b>	<b>-</b>	<b>144,407</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ -</b>	<b>\$ 12,557</b>	<b>\$ 7,888</b>	<b>\$ -</b>	<b>\$ 159,795</b>

**CITY OF KERMIT, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
NON-MAJOR GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2023**

	Special Revenue					
	Community Development Fund	Police Department Seizure Fund	Police Department Lease	Police Department Special Fund	Child Safety Fund	Recreation Fund
<b>Revenues</b>						
Licenses and permits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and fess	-	-	-	-	-	-
Donation/Contributions	10,250	-	-	54,575	-	-
Investment income	1,426	143	11	1,077	374	260
Miscellaneous	11,531	-	-	5,376	286	-
<b>Total Revenues</b>	<b>23,207</b>	<b>143</b>	<b>11</b>	<b>61,028</b>	<b>660</b>	<b>260</b>
<b>Expenditures</b>						
General government	-	-	-	-	-	-
Public safety	21,340	-	-	7,188	576	-
Culture and recreation	-	-	-	-	-	3,200
<b>Total Expenditures</b>	<b>21,340</b>	<b>-</b>	<b>-</b>	<b>7,188</b>	<b>576</b>	<b>3,200</b>
Excess (deficiency) of revenues over expenditures	1,867	143	11	53,840	84	(2,940)
<b>Other Financing Sources (Uses)</b>						
Transfers out	-	-	(330)	-	-	(5,656)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>(330)</b>	<b>-</b>	<b>-</b>	<b>(5,656)</b>
Net change in fund balance (deficit)	1,867	143	(319)	53,840	84	(8,596)
Fund Balance - Beginning of Year	37,506	-	319	14,500	11,796	8,596
Prior period adjustment	-	4,226	-	-	-	-
Fund Balance - Beginning of Year (as restated)	37,506	4,226	319	14,500	11,796	8,596
Fund Balance - End of Year	\$ 39,373	\$ 4,369	\$ -	\$ 68,340	\$ 11,880	\$ -

**CITY OF KERMIT, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
NON-MAJOR GOVERNMENTAL FUNDS  
For the Year Ended September 30, 2023**

	Special Revenue			Capital Projects	Total Non-major Governmental
	Cause for Paws	Municipal Technology Fund	Municipal Court Security Fund	Capital Acquisition Fund	
<b>Revenues</b>					
Licenses and permits	\$ -	\$ 6,422	\$ -	\$ -	\$ 6,422
Fines and fess	-	-	7,681	-	7,681
Donation/Contributions	-	-	-	-	64,825
Investment income	104	331	907	-	4,633
Miscellaneous	1,504	-	-	-	18,697
<b>Total Revenues</b>	<b>1,608</b>	<b>6,753</b>	<b>8,588</b>	<b>-</b>	<b>102,258</b>
<b>Expenditures</b>					
General government	512	-	-	-	512
Public safety	-	3,131	29,011	-	61,246
Culture and recreation	-	-	-	-	3,200
<b>Total Expenditures</b>	<b>512</b>	<b>3,131</b>	<b>29,011</b>	<b>-</b>	<b>64,958</b>
Excess (deficiency) of revenues over expenditures	1,096	3,622	(20,423)	-	37,300
<b>Other Financing Sources (Uses)</b>					
Transfers out	(3,347)	-	-	(540,524)	(549,857)
<b>Total Other Financing Sources (Uses)</b>	<b>(3,347)</b>	<b>-</b>	<b>-</b>	<b>(540,524)</b>	<b>(549,857)</b>
Net change in fund balance (deficit)	(2,251)	3,622	(20,423)	(540,524)	(512,557)
Fund Balance - Beginning of Year	2,251	8,935	28,311	540,524	652,738
Prior period adjustment	-	-	-	-	4,226
Fund Balance - Beginning of Year (as restated)	2,251	8,935	28,311	540,524	656,964
Fund Balance - End of Year	\$ -	\$ 12,557	\$ 7,888	\$ -	\$ 144,407





**FEDERAL AWARDS SECTION**





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

To the Honorable Mayor, Members of  
City Council and City Manager  
City of Kermit, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kermit, Texas (the City) as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated June 11, 2024.

***Report on Internal Control over Financial Reporting***

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2023-001 to be a material weakness.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2023-002 and 2023-003 to be a significant deficiency.



To the Honorable Mayor, Members of  
City Council and City Manager  
City of Kermit, Texas

***Report on Compliance and Other Matters***

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

***The City of Kermit's Response to Findings***

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

***Purpose of this Report***

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

*Whitley Penn LLP*

Odessa, Texas  
June 11, 2024



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED  
BY THE UNIFORM GUIDANCE**

To the Honorable Mayor, Members of  
City Council and City Manager  
City of Kermit, Texas

**Report on Compliance for Each Major Federal Program**

***Opinion On Each Major Program***

We have audited the City of Kermit, Texas (the "City") compliance with the types of requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2023. The City's major federal program is identified in the summary of auditor's results section of the accompanying *schedule of findings and questioned costs*.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended September 30, 2023.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.



To the Honorable Mayor, Members of  
City Council and City Manager  
City of Kermit, Texas

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

***Report on Internal Control Over Compliance***

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

To the Honorable Mayor, Members of  
City Council and City Manager  
City of Kermit, Texas

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Whitley Penn LLP*

Odessa, Texas  
June 11, 2024

**CITY OF KERMIT, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended September 30, 2023**

**I. Summary of Auditors' Results**

**Financial Statements**

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Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness (es) identified?	Yes, See 2023-001
Significant deficiencies identified that are not considered to be material weaknesses?	Yes, See 2023-002 and 2023-003
Noncompliance material to financial statements noted?	No

**Federal Awards**

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Material weakness (es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a) ?	No
<b>Identification of major programs:</b>	
<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing Number (ALN)</u>
<b>U.S. Department of Treasury</b> <i>Coronavirus State and Local Fiscal Recovery Funds - COVID-19</i>	21.027
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$750,000
Auditee qualified as low risk auditee?	No

**CITY OF KERMIT, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**For the Year Ended September 30, 2023**

**II. Financial Statement Findings**

**Finding 2023-01**

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

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

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

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

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

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

**Repeat Finding:** Yes

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

**Views of Responsible  
Official(s) and Planned  
Corrective Actions:**

Management agrees with finding. See corrective action plan.

**CITY OF KERMIT, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**For the Year Ended September 30, 2023**

**II. Financial Statement Findings (continued)**

**Finding 2023-02**

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

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

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

**Context:** During the evaluation of internal control, testing identified the City does not have adequate systems in place to adequately monitor and record fixed asset activity and construction in progress.

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

**Cause:** The entity's limited size and staffing resources have made it difficult for management to implement the fixed asset module for FY 2024.

**Repeat Finding:** Yes.

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

**Views of Responsible  
Official(s) and Planned  
Corrective Actions:**

Management agrees with finding. See corrective action plan.

**CITY OF KERMIT, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**For the Year Ended September 30, 2023**

**II. Financial Statement Findings (continued)**

**Finding 2023-03**

**Significant deficiency in Internal Control over Financial Reporting—Excess of Expenditures Over Appropriation and amendments subsequent to year-end**

*Criteria:* The City Council on an annual basis adopts the annual budget. Expenditures should be within budgeted amounts. All amendments should be completed before fiscal year-end.

*Condition:* Expenditures were made in excess of appropriations and final budget amendments were adopted after year-end.

*Context:* For two departments within the City, the expenditures incurred exceeded the approved budget and the City approved budget amendments subsequent to year-end.

*Effect or Potential Effect:* Expenditures in excess of appropriation may lead to unauthorized expenditures. Budget amendments must be completed before fiscal year end to ensure subsequent fiscal years are properly budgeted.

*Cause:* The entity's limited size and resources have made it difficult for management and the Council to get these amendments approved.

*Recommendation:* The City should monitor expenditures throughout the year and ensure that budget amendments are properly approved by the City Council and recorded in the accounting system prior to the expenditure of funds.

*Views of Responsible Official(s) and Planned*

*Corrective Actions:* Management agrees with finding. See corrective action plan.

**III. Federal Awards Findings and Questioned Costs**

**None noted.**

**CITY OF KERMIT, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*For the Year Ended September 30, 2023*

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Treasury Passed-through the Texas Department of Emergency Management <i>Coronavirus State and Local Fiscal Recovery Funds - COVID-19</i>	21.027	ARPA-CLFRF #TX5215	\$ 1,511,892
<b>Total U.S. Department of Treasury</b>			<u>1,511,892</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,511,892</u>

**CITY OF KERMIT, TEXAS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended September 30, 2023**

**Note 1 - Basis of Accounting**

The City accounts for awards under federal programs in the General and Special Revenue governmental funds.

In the Governmental funds, these programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Expenditures are recognized following the cost principles contained in the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), wherein certain types of expenditures are not allowable or are limited to reimbursement.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods. The City has elected not to use a 10 percent de minimis indirect cost rate allowed under the Uniform Guidance on an overall basis.

**Note 2 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City under programs of the federal government for the year ended September 30, 2023. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. Because the Schedule presents on a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

The Schedule includes pass-through entity identifying numbers where available.

**Note 3 - Availability of Federal Grant Funds**

The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date, in accordance with provisions of the U.S. *Office of Management and Budget Compliance Supplement*.

**Note 4 - Relationship to Federal Financial Reports**

Grant expenditure reports as of September 30, 2023, which have been submitted to grantor agencies will, in some cases, differ slightly from amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of year-end accruals. The reports will agree at termination of the grant as the discrepancies noted are timing differences.

**CITY OF KERMIT, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**For the Year Ended September 30, 2023**

Federal regulations, Title 2 U.S. Code of Federal Regulations Section 200.511 states, "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings." The summary schedule of prior audit findings must report the status of the following:

- All audit findings included in the prior audit's schedule of findings and questioned costs and
- All audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected.

**I. Prior Audit Findings**

- Finding 2022-01:** Material Weakness in Internal Control over Financial Reporting – Fiscal Year End Closing Procedures
- Status: See 2023-01.
  - Reason for finding recurrence: Due to staff turnover and changes during FY 2023, the closing process was not able to be fully implemented.
- Finding 2022-02:** Significant Deficiency in Internal Control over Financial Reporting—Segregation of Duties – Cash Disbursement
- Corrected in FY 2023.
- Finding 2022-03:** Significant Deficiency in Internal Control over Financial Reporting—Purchase Order System
- Corrected in FY 2023.
- Finding 2022-04:** Significant Deficiency in Internal Control over Financial Reporting—Fixed Asset System
- Status: See 2023-02
  - Reason for finding recurrence: The City has purchased the purchase order module. However, due to turnover the module was not implemented during the fiscal year.

Federal regulations, Title 2 U.S. Code of Federal Regulations §200.511 states, "At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports."

**I. Corrective Action Plan**

**Finding 2023-01**

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

**Response and Corrective  
Action Plan:**

A chronic lack of qualified staffing in the finance/budget operation overtook our internal controls for fiscal year closing procedures and timely recording/review of account balances. Additionally, several staff changes mid-year served to further exacerbate the Issue. Going forward, management predicts that stability in the Finance Director position should provide for adherence to internal controls despite staffing shortages and correct the oversight in future audits.

**Responsible Party:** City Manager and Chief Financial Officer

**Finding 2023-02**

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

**Response and Corrective  
Action Plan:**

Previous Administrations had off-loaded the fixed asset records to the Auditing firm at the time. Records of additions/deletions from fixed assets were accumulated throughout the year and passed along to the Auditors at the end of the fiscal year. Current Management agrees that fixed assets should be housed at City Hall and procedures for additions/deletions in place along with a Fixed Asset Policy. Additionally, Management agrees that a physical inventory of all assets should be performed to establish an accurate record of assets. Therefore, staffing needs within City Hall need to be addressed in order ensure timely and accurate recording of asset stays current. A fixed asset computerized system will be added to the accounting system. A physical inventory of current assets on file will be conducted to ensure accuracy. Proper policy for additions/deletions will be put in place. The City purchased the Fixed Assets module to its Accounting system and instituted a fixed asset policy to address this weakness.

**Responsible Party:** City Manager and Chief Financial Officer

Federal regulations, Title 2 U.S. Code of Federal Regulations §200.511 states, "At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports."

**II. Corrective Action Plan (continued)**

**Finding 2023-03**

**Significant deficiency in Internal Control over Financial Reporting—Excess of Expenditures Over Appropriation and amendments subsequent to year-end**

**Response and Corrective**

**Action Plan:** Management will review budgetary results at the conclusion of each month and recommend budget amendments to the City Council as appropriate and in a timely manner.

**Responsible Party:** City Manager and Chief Financial Officer