



**CITY OF KILGORE, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**PREPARED BY THE FINANCE DEPARTMENT  
OF THE CITY OF KILGORE, TEXAS**

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ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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## **INTRODUCTORY SECTION**



Honorable Mayor and Members of the City Council  
City of Kilgore, Texas

The Annual Financial Report for the City of Kilgore, (the City) for the fiscal year ended September 30, 2016, including the independent auditor's report, is hereby submitted. This Annual Financial Report is published to provide the Mayor and City Council, City staff, our citizens, representatives of financial institutions, our bond holders and other interested parties with detailed information concerning the financial condition and activities of the city.

The full responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of the various funds of the city. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City established and maintains a system of internal accounting controls designated in part to provide reasonable assurance that assets are safeguarded against loss, left, or unauthorized use, and that financial records can be relied upon to produce financial statements in accordance with generally accepted accounting principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of control should not exceed the benefits likely derived; and 2) the evaluation of costs and benefits requires estimates and judgments by management.

The City's financial statements have been audited by Henry & Peters, P.C., a firm of licensed certified public accountants. The independent auditors issued an unmodified opinion on the City of Kilgore financial statements for the fiscal year ended September 30, 2016. The Independent Auditor's Report is presented in the first component of the financial section of this report. Management's Discussion and Analysis (MD&A) can be found immediately following the auditor's report. The MD&A is an easy to understand narrative introduction, overview and analysis which accompanies the basic financial statements.

### **KILGORE COMMUNITY PROFILE**

The City of Kilgore is a political subdivision and municipal corporation of the State, located in Gregg and Rusk Counties of East Texas. Kilgore is 120 miles east of Dallas, Texas and 66 miles west of Shreveport, Louisiana on the I-20 corridor. The City operates as a Home-Rule city under the laws of the State of Texas and a Charter approved by its voters in 1960 that was last amended in 2014. The City operates under a Council-Manager form of government where the governing body consists of the Mayor and four City Council Members elected for staggered two-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer. The City currently covers approximately 18.58 square miles.

Kilgore's population estimate as of 2016 was 14,948, which reflects substantial growth over the preceding five years from a 2010 estimate of 12,975.

The City provides a full range of services, which include the following: police and fire protection; construction and maintenance of streets, drainage, water and wastewater infrastructure; parks and library; development services, and general administration. The City's Water Utility fund is operated as a business type activity which is funded through usage fees and is not supported through taxes. As a result, the Water Utility service area differs from the City limits.

### **FACTORS AFFECTING FINANCIAL CONDITION**

Economically, Kilgore benefits from a strong and diverse local economy. Situated at the crossroads of Interstate 20 and several major state highways, Kilgore is a very desirable location for employers. Residents love Kilgore for its wonderful neighborhoods, many cultural and recreational amenities, and a plethora of shopping, dining and transportation options available within a 15 mile radius of the city center. The following section details some of the major factors which impact the City's financial condition.

### Industrial Development and Kilgore Economic Development Corporation (KEDC)

KEDC's mission is to enhance a business climate that is conducive to job creation and retention, improving the standard of living for Kilgore residents. Creating a diversified economy in Kilgore has been a key goal of KEDC, and their successful realization of that goal is evident in Kilgore nearly everywhere.

- Since KEDC's inception in 1990, the industrial tax value in Kilgore has grown faster than any other category of property.
- The top ten taxpayers in Kilgore have increased in value 424% since 1990.
- During the last five years, KEDC worked projects that resulted in retention and creation of almost 2,300 jobs and \$55 million in capital investment.
- The per capita value of industrial property in Kilgore is \$31,189 and is up to 18 times larger than other Gregg County areas.
- The organization is funded by a dedicated local sales tax approved by voters. It is directed by a five-person board and managed by a staff of four with certifications in business retention and expansion, economic and community development and economic development finance. KEDC has won international awards for excellence in economic development.
- During FY2015-2016 Economic Development Performance Agreements were signed that created 30 new jobs and retained 434 jobs.

### Oil and Gas Industry

While the efforts of the City of Kilgore and KEDC over the past three decades have resulted in substantial and beneficial diversification of industry within the city, the historic foundation of the oil and gas industry has been the city's largest source of revenue, historically providing as much as 70 percent of the city's annual property tax and sales tax receipts. As the oil and gas industry experiences its cyclical ups and downs, Kilgore is presented with unique financial planning challenges that other communities do not have. However, the City of Kilgore has positioned itself well in meeting those challenges and in overcoming the sometimes-volatile nature of its economic base by maintaining a healthy reserve fund, avoiding debt and cash funding major projects through conservative budgeting and fiscal planning.

### Residential Development

Kilgore has seen considerable new residential development since 2010. Currently there are three active new subdivisions within the City limits which represent growth of over 100 new single family homes. Additionally, the Remington North subdivision is slated to include up to 30 senior living Tri-plex/Condo units. Creating opportunity for new diverse residential housing developments has been a goal of the City Council for several years, and these new subdivisions represent the realization of that goal.

### Financial Planning

The City has a long history of conservative budgeting and fiscal planning. Because of Kilgore's historic ties to the oil and gas industry, and despite KEDC's successes in diversifying the industries present here, the local economy still sees some degree of volatility associated with spikes or declines in the Oil and Gas markets. As a result, the City Council has a long-held philosophy of utilizing conservative budgeting, low debt burden and cash funding of capital projects in order to provide for sustainability and flexibility during oil and gas downturns. When these philosophies are employed, it is important to maintain long-term strategic plans in order to ensure that over time, infrastructure is maintained adequately. Between 2010 and 2016, the City has updated many of those plans including the Water Master Plan, Wastewater Master Plan, and Roadway Condition Plan in order to determine the condition of existing infrastructure and to prioritize upcoming projects. The outcomes of those plans have been structured into 10 and 20 year capital priority listings and financial plans are currently being developed in order to fund those projects.

### Education

Education plays a substantial role in Kilgore's local economy. Kilgore Independent School District (KISD) serves most Kilgore residents. KISD has exceptional academic programs including dual credit opportunities with Kilgore College and the Career and Technical Education (CTE) program, which gives high school students the chance to get a head start on preparing for college and careers. Job shadowing and internships provide students the opportunity to get hands on real-world experience.

Kilgore is also home to Kilgore College, a two-year community college founded in 1935 that offers an abundance of courses in a wealth of subjects. Offering classes from accounting to zoology and with a current enrollment of 6,691, it offers an

excellent foundation for all who are seeking higher education. In addition to their other academic programs, Kilgore College administrators have a long history of offering programs which benefit local industries by teaching students the specific skills necessary to succeed in highly technical industrial fields present in the local economy.

Region 7 Education Service Center

Based in Kilgore, Region 7 Education Service Center serves 17 counties in the East Texas area consisting of 106 school districts, which is the largest number of service recipients in the state’s education system. As one of 20 service centers statewide, Region 7 is committed to district and charter student success by providing quality programs and services. Revenues are received from three primary sources: federal, state, and local funds. Region 7 contributes significantly to the Kilgore economy with approximately 250 full-time employees and thousands of visitors each year who come for the many training opportunities they offer.

Transportation

Kilgore is located on Interstate 20 approximately two hours east of Dallas and an hour west of Shreveport. Other major thoroughfares through the City of Kilgore include U.S. Highway 259, as well as Texas State Highways 31, 42, and 135.

The East Texas Regional Airport is 8 miles from Kilgore and provides direct flights to the Dallas/Fort Worth Airport via their regional partner, American Eagle. Annual passenger traffic is 25,000 with both small package and large cargo services available through the airline. Other airports within easy driving distance are Pounds Field Regional Airport in Tyler, Texas (24 miles) and Shreveport Regional Airport in Shreveport, Louisiana (60 miles).

The Union Pacific Railroad passes through the City of Kilgore 35 times per day, carrying primarily freight. Passenger rail service is available at the Amtrak station located in Longview, Texas.

For interstate travel by bus, Kilgore has a Greyhound Bus station located downtown, and interlocal bus travel is provided by the East Texas Council of Governments (ETCOG) through its GoBus program.

Water Resources

Kilgore is recognized as a Superior Water System by the Texas Commission on Environmental Quality (TCEQ), with a capacity of 7 MGD supplied through seven wells and a water treatment plant which takes water from the nearby Sabine River.

In the heart of the lush natural pine forest of East Texas, Kilgore has an average annual rainfall of 47.55 inches, which is 8.38 inches more than the average nationwide, and 33 percent more than the average rainfall amount in Texas.

Outdoor Recreation

The mild East Texas climate, with its average annual temperature of 68 degrees, is an ideal environment for outdoor recreation, and the Kilgore area boasts an abundance of outdoor activities: fishing, hunting, watersports, hiking, sport shooting, and many others. Within the City of Kilgore, residents enjoy public parks for baseball, softball, soccer, and many other outdoor activities.

**ACKNOWLEDGEMENTS:**

The preparation of the Annual Financial Report would not have been possible without the efficient and dedicated services of the Finance Department, and I would like to express my appreciation for the services of Finance Director, Bill Martin, as well as Accountant, Landon Ward, for all of their hard work preparing information for the Annual Financial Report. Additionally, I’d like to thank the Mayor and City Council for their support for maintaining the highest standards of professionalism in the management and oversight of the City’s finances.

Respectfully submitted,



Joshua C. Selleck, CFP®, CGFO  
City Manager, City of Kilgore

**FINANCIAL SECTION**



**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and  
Members of the City Council  
City of Kilgore, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kilgore, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Kilgore Economic Development Corporation or the Roy H. Laird Memorial Hospital Foundation, discretely presented component units of the City, which represent 99 percent, 99 percent, and 99 percent, respectively, of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such discretely presented component units, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

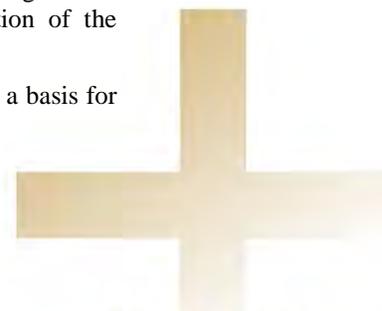
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## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kilgore, Texas, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of changes in net pension liability and related ratios, schedule of contributions, and the schedule of funding progress on pages 4-9, and 55-57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kilgore, Texas' basic financial statements. The introductory section and the combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for the 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 also not a required part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2017, on our consideration of City of Kilgore, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 City of Kilgore, Texas' internal control over financial reporting and compliance.

Henry E. Peters, PC

Longview, Texas  
March 6, 2017

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the City of Kilgore, we offer readers of the City of Kilgore financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal which can be found at the beginning of this report.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$75,276,022 (*net position*). Of this amount, \$18,420,712 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position decreased by \$2,827,041.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,812,515. Approximately 70 percent of this total amount, \$11,849,995, is available for spending at the government's discretion (unassigned fund balance).
- The City's total debt increased by \$2,631,013 during the current fiscal year. This is due directly to an increase in net pension liabilities.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and accumulated sick leave for employees retiring with 10 years of service).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (*business-type activities*). For audit purposes, the governmental activities of the City include general government, public safety, contingency, court, health, building maintenance, library, parks, planning and zoning, streets, and the swimming pool. The business-type activities of the City include a water and sewer fund, golf course, and a hospital fund.

The government-wide financial statements include, not only the City itself (known as the primary government), but four legally separate component units, Kilgore Economic Development Corporation (KEDC), Kilgore Redevelopment Authority (KRA), Kilgore Community Development Corporation (KCDC), and the Roy H. Laird Memorial Hospital Foundation (Foundation). Financial information regarding KEDC, KRA, and the Foundation can be found in their separately issued audit reports.

The government-wide financial statements can be found on pages 10-13 of this report

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Once divided into these three categories, each fund is classified as a major fund or a nonmajor fund. A fund is classified as a major fund when it meets each of the two following criteria:

- Total assets, liabilities, revenues or expenditures of that individual governmental or proprietary fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all funds of that category or type (that is total governmental or total proprietary funds).
- The same element that met the 10 percent criterion above is at least 5 percent of the corresponding element total for all governmental and proprietary funds combined.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general fund and the capital projects fund, which are considered to be major funds. Data from the other two governmental funds (special revenue and debt service) are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14-20 of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations and for its hospital operation. *Internal service funds* are an accounting device used to accumulate and allocate cost internally among the various functions. Internal service funds are used by management to charge the cost of capital equipment purchases and health insurance to individual funds. Certain assets and liabilities of the internal service funds are included in business-type activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer fund and for the hospital fund. Conversely, both internal service funds are combined in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 21-24 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City maintains two different types of fiduciary funds. The Other Post-Employment Benefits (OPEB) Trust Fund is used to hold the City’s OPEB trust. Information about other post-employment benefits and the related trust can be found in note 5 on pages 49-51. The Agency Fund is used to hold seized assets that are waiting on a court judgement for release back to the defendant or to be distributed to the police department.

The basic fiduciary fund financial statements can be found on pages 25-26 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to acquire a full understanding of the data provided in the government-wide statements and in the fund financial statements. The notes to the financial statements can be found on pages 27-54 of this report.

**Government-wide Overall Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. By far the largest portion of the City’s net position (74 percent) reflects its investment in capital assets (e.g. land, construction in progress, building and systems, and equipment and other) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF KILGORE  
Statement of Net Position**

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Current and other Assets	\$ 21,930,285	\$ 21,978,505	\$ 4,974,936	\$ 6,097,741	\$ 26,905,221	\$ 28,076,246
Capital Assets	26,433,682	25,961,040	33,695,712	30,873,063	60,129,394	56,834,103
Total Assets	<u>48,363,967</u>	<u>47,939,545</u>	<u>38,670,648</u>	<u>36,970,804</u>	<u>87,034,615</u>	<u>84,910,349</u>
Deferred outflows of resources	<u>2,565,825</u>	<u>999,373</u>	<u>1,220,164</u>	<u>348,321</u>	<u>3,785,989</u>	<u>1,347,694</u>
Current liabilities	2,161,661	1,677,006	316,978	657,683	2,478,639	2,334,689
Noncurrent liabilities	10,451,256	9,510,573	1,921,069	968,105	12,372,325	10,478,678
Total Liabilities	<u>12,612,917</u>	<u>11,187,579</u>	<u>2,238,047</u>	<u>1,625,788</u>	<u>14,850,964</u>	<u>12,813,367</u>
Deferred inflows of resources	<u>580,846</u>	<u>824,144</u>	<u>112,772</u>	<u>171,551</u>	<u>693,618</u>	<u>995,695</u>
Net position:						
Net investment in						
Capital Assets	22,244,418	21,621,763	33,547,146	30,456,581	55,791,564	52,078,344
Restricted	1,058,852	898,264	4,894	27,990	1,063,746	926,254
Unrestricted	14,432,759	14,407,168	3,987,953	5,037,215	18,420,712	19,444,383
Total net position	<u>\$ 37,736,029</u>	<u>\$ 36,927,195</u>	<u>\$ 37,539,993</u>	<u>\$ 35,521,786</u>	<u>\$ 75,276,022</u>	<u>\$ 72,448,981</u>

An additional portion of the City’s net position (approximately 1.41 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$18,420,712) may be used to meet the government’s ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

**CITY OF KILGORE**  
**Statement of Activities**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 2,812,147	\$ 2,564,206	\$ 6,626,485	\$ 6,112,912	\$ 9,438,632	\$ 8,677,118
Operating grants and contributions	539,466	359,761	-	-	539,466	359,761
Capital grants and contributions	2,366,678	52,424	4,150,167	495,200	6,516,845	547,624
General Revenues:						
Property taxes	6,802,398	5,634,259	-	-	6,802,398	5,634,259
Sales taxes	5,094,515	6,252,405	-	-	5,094,515	6,252,405
Other taxes	1,163,192	1,332,589	-	-	1,163,192	1,332,589
Investment income	93,874	58,704	31,071	22,938	124,945	81,642
Miscellaneous income	166,828	202,394	-	-	166,828	202,394
Gain on sale of assets	28,216	11,545	5,000	(1,008)	33,216	10,537
Total Revenues	19,067,314	16,468,287	10,812,723	6,630,042	29,880,037	23,098,329
Expenses:						
General government	920,839	1,305,305	-	-	920,839	1,305,305
Public safety	8,157,008	7,623,295	-	-	8,157,008	7,623,295
Public Works	6,266,579	2,828,474	-	-	6,266,579	2,828,474
Developmental services	632,434	823,046	-	-	632,434	823,046
Sanitation	2,015,558	1,681,272	-	-	2,015,558	1,681,272
Culture and recreation	1,696,273	1,582,114	-	-	1,696,273	1,582,114
Public welfare	237,105	262,567	-	-	237,105	262,567
Interest and fiscal charges	171,641	182,670	-	-	171,641	182,670
Golf Course	-	-	820,837	832,748	820,837	832,748
Water and sewer	-	-	4,702,125	4,464,934	4,702,125	4,464,934
Hospital	-	-	345,542	269,593	345,542	269,593
Total Expenses:	20,097,437	16,288,743	5,868,504	5,567,275	25,965,941	21,856,018
Excess before transfers	(1,030,123)	179,544	4,944,219	1,062,767	3,914,096	1,242,311
Change in accounting estimates	(1,087,055)	25,815	-	-	(1,087,055)	25,815
Transfers	2,926,012	(346,524)	(2,926,012)	346,524	-	-
Increase (decrease) in net position	808,834	(141,165)	2,018,207	1,409,291	2,827,041	1,268,126
Net position, beginning	36,927,195	41,524,482	35,521,786	34,653,330	72,448,981	76,177,812
Prior Period Adjustments	-	(4,456,122)	-	(540,835)	-	(4,996,957)
Net position, ending	\$37,736,029	\$36,927,195	\$37,539,993	\$35,521,786	\$75,276,022	\$72,448,981

**Governmental activities.** Governmental activities increased the City's net position by \$808,834.

**Business-type activities.** Business-type activities increased the City's net position by \$2,018,207.

**Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the city’s governmental funds reported combined ending fund balances of \$16,812,515. Approximately 70 percent of this amount or \$11,849,995 constitutes unassigned fund balance, which is available for spending at the government’s discretion. Restricted fund balance represents amounts that are constrained by external parties, constitutional provisions, or enabling legislation. The City’s fund balance is restricted by debt covenants for future debt service, by enabling legislation for municipal court fines collected, and for other special revenue type restrictions. Committed fund balance represents amounts that can only be used for specific purpose because of formal action by the city council. The city council has committed \$2,644,847 for future capital projects and \$250,131 for future Community Development incentives. The remainder of fund balance is considered non dispensable to represent amounts that cannot be spent because they are either not in spendable form or are legally required to remain intact. In the case of the City, the non-spendable fund balance of \$52,721 represents inventory on hand at year-end.

The General Fund is the chief operating fund of the city. At the end of the current fiscal year, unassigned fund balance of the general fund was \$12,279,707, while total fund balance reached \$13,557,668.

The fund balance of the City's General Fund decreased by \$(678,197) during the current fiscal year.

**Proprietary funds.** The city's proprietary funds provide the same type of information found in the government wide financial statements but in more detail.

Net position of the water and sewer fund at the end of the year amounted to \$31,399,113 and the total for the hospital operating fund amounted to \$5,962,888. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business type activities

**General Fund Budgetary highlights**

As the City completed the year, its General Fund (as presented on pages 19-20) reported a fund balance of \$13,557,668, which is an increase of \$454,159 over the final budgeted amount. Revenues were \$616,351 less than anticipated and expenses were also \$1,135,465 less than anticipated.

**Capital Assets and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business type activities as of September 30, 2016, amounts to \$60,129,394 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and system, and equipment and other.

**CITY OF KILGORE  
Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,487,397	\$ 1,487,397	\$ 311,536	\$ 311,536	\$ 1,798,933	\$ 1,798,933
Equipment (historical treasure)	40,000	40,000	21,546	-	61,546	40,000
Construction in progress	3,870,619	5,168,363	-	-	3,870,619	5,168,363
Building and system	17,702,492	15,422,076	30,811,498	29,992,025	48,513,990	45,414,101
Equipment and other	3,333,174	3,843,204	2,551,132	569,502	5,884,306	4,412,706
<b>Total Net Capital Assets</b>	<b>\$26,433,682</b>	<b>\$25,961,040</b>	<b>\$33,695,712</b>	<b>\$30,873,063</b>	<b>\$60,129,394</b>	<b>\$56,834,103</b>

Additional information on the City's capital assets can be found in note 3 on pages 39-40 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$13,198,394. Of this amount, \$11,133,548 was outstanding for the governmental funds and \$2,064,846 was outstanding for the business-type funds. The increase in debt in both the governmental and business-type funds can be attributed directly to an increase in the City's Net Pension Liability.

**Subsequent Events**

The user of this financial report should be informed that in February of 2017 the City refinanced the 2008 Certificate of Obligations (\$3,800,000) disclosed in the governmental activity in the chart below. In addition, the City issued \$4,055,000 of Series 2017 Combination Tax and Limited Pledge Revenue Certificates of Obligation and \$3,365,000 of Series 2017 General Obligation Refunding Bonds.

**CITY OF KILGORE  
Outstanding Debt**

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ -	\$ -	\$ 60,000	\$ 295,000	\$ 60,000	\$ 295,000
Certificates of obligation	3,800,000	4,025,000	-	-	3,800,000	4,025,000
Loans	389,264	531,297	-	-	389,264	531,297
Net Pension Liability	6,186,171	4,257,408	1,808,167	525,882	7,994,338	4,783,290
Capital Leases	-	-	88,566	121,482	88,566	121,482
Compensated absences	671,682	615,604	108,113	114,444	779,795	730,048
Claims payable	86,431	81,264	-	-	86,431	81,264
<b>Total</b>	<b>\$ 11,133,548</b>	<b>\$ 9,510,573</b>	<b>\$ 2,064,846</b>	<b>\$ 1,056,808</b>	<b>\$ 13,198,394</b>	<b>\$ 10,567,381</b>

Additional information on the City's long-term debt can be found in note 4 on page 41-44 of this report.

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

Factors considered in preparing the City's 2017 fiscal year budget were:

- The total budget for FY 2017 is \$32,308,525. Of this amount \$16,572,782 is appropriated for the General Fund and \$5,975,637 is appropriated in the Water Utilities Fund.
- General Fund revenues were projected at lower levels as prior year due to the economy, and as a result, the General Fund Sales Tax number was adjusted downward by approximately \$400,000 while Ad Valorem revenue numbers were adjusted upward by \$368,000 due to an increase in the property tax rate.
- The FY 2017 General Fund budget has \$867,500 appropriated to transfer to the General Capital Projects Fund from unassigned fund balance. The FY 2017 Utility Fund has \$1,068,000 appropriated to transfer to the Utility Capital Projects Funds, from a loan that was made from the City's Cemetery Fund in the latter part of FY 2016. In addition, plans were underway during the FY 2017 budget process to issue new debt (as was noted earlier) in the sum of \$4,100,000 for new Utility Fund projects. The debt was issued and the proceeds were received in February of 2017.
- Capital project spending priorities were developed using an Annual Citizen survey, the results of which are used in scoring individual projects. Infrastructure projects needs were also identified through evaluations of existing infrastructure by the City's staff. The majority of the projects funded by the bond proceeds are related to the Utility Fund infrastructure. The FY 2017 budget includes projects totaling \$6,062,750 with funding coming from a combination of cash funding and bond proceeds.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the City Manager, City of Kilgore, Texas, 815 N. Kilgore Street, Kilgore, Texas 75662-5860.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF KILGORE, TEXAS**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2016**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,569,742	\$ 1,135,059	\$ 3,704,801
Investments	12,733,745	3,992,074	16,725,819
Receivables (net of allowance for estimated uncollectible accounts):			
Taxes	1,683,478	-	1,683,478
Accounts	1,787,452	924,019	2,711,471
Notes and accrued interest	477,599	-	477,599
Internal balances	1,400,267	(1,400,267)	-
Inventory	52,721	126,707	179,428
Deposits and prepaid expenses	1,627	-	1,627
Investment in partnership	-	-	-
Restricted:			
Cash and cash equivalents	335,897	28,639	364,536
Investments	669,804	-	669,804
Water rights (net of accumulated amortization)	-	131,547	131,547
Net other post-employment benefits asset	217,953	37,158	255,111
Capital assets (net of accumulated depreciation)	26,433,682	33,695,712	60,129,394
Property held for resale	-	-	-
Total Assets	<u>48,363,967</u>	<u>38,670,648</u>	<u>87,034,615</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	2,565,825	1,220,164	3,785,989
Total Deferred Outflows of Resources	<u>2,565,825</u>	<u>1,220,164</u>	<u>3,785,989</u>
<b>LIABILITIES</b>			
Accounts payable	731,436	108,478	839,914
Due to other governments	455,095	-	455,095
Accrued expenses	209,763	35,732	245,495
Accrued interest payable	20,128	5,246	25,374
Customer deposits	62,947	23,745	86,692
Long-term debt			
Due within one year	682,292	143,777	826,069
Due in more than one year	10,451,256	1,921,069	12,372,325
Total Liabilities	<u>12,612,917</u>	<u>2,238,047</u>	<u>14,850,964</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	580,846	104,384	685,230
Advance from Hospital Foundation	-	8,388	8,388
Total Deferred Outflows of Resources	<u>580,846</u>	<u>112,772</u>	<u>693,618</u>
<b>NET POSITION</b>			
Net investment in capital assets	22,244,418	33,547,146	55,791,564
Restricted for debt service	234,329	4,894	239,223
Restricted for capital projects	-	-	-
Restricted for grant restrictions	70,044	-	70,044
Restricted for municipal court	82,358	-	82,358
Restricted for public safety	167,455	-	167,455
Restricted for tourism and convention	504,666	-	504,666
Unrestricted	14,432,759	3,987,953	18,420,712
Total Net Position	<u>\$ 37,736,029</u>	<u>\$ 37,539,993</u>	<u>\$ 75,276,022</u>

See accompanying notes to financial statements.

Kilgore Economic Development Corporation	Component Units	
	Kilgore Redevelopment Authority	Nonmajor Component Units
\$ 293,169	\$ 92,406	\$ 138,251
8,990,754	-	3,887,881
-	-	-
25,367	-	-
-	-	521,123
-	-	-
-	-	-
3,775	-	-
770,980	-	-
750,000	-	-
-	-	-
-	-	-
10,854,989	-	-
2,987,421	-	117,203
<u>24,676,455</u>	<u>92,406</u>	<u>4,664,458</u>
-	-	-
-	-	-
505,866	-	-
-	-	-
-	-	-
-	77,599	-
-	-	-
238,660	-	-
3,673,559	400,000	-
<u>4,418,085</u>	<u>477,599</u>	<u>-</u>
-	-	-
-	-	-
-	-	-
10,076,172	-	117,203
238,691	-	-
1,743,051	-	-
750,000	-	-
-	-	-
-	-	-
-	-	-
7,450,456	(385,193)	4,547,255
<u>\$ 20,258,370</u>	<u>\$ (385,193)</u>	<u>\$ 4,664,458</u>

**CITY OF KILGORE, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ 920,839	\$ 88,825	\$ 42,194	\$ -
Public safety	8,157,008	451,282	482,272	-
Public works	6,266,579	-	-	1,260,668
Developmental services	632,434	64,029	-	-
Sanitation	2,015,558	2,173,768	-	-
Culture and recreation	1,696,273	34,243	15,000	1,106,010
Public welfare	237,105	-	-	-
Interest and fiscal charges	171,641	-	-	-
Total Governmental activities	<u>20,097,437</u>	<u>2,812,147</u>	<u>539,466</u>	<u>2,366,678</u>
Business-Type activities:				
Water and sewer	4,702,125	6,092,167	-	4,150,167
Hospital	345,542	-	-	-
Golf course	820,837	534,318	-	-
Total Business-Type activities	<u>5,868,504</u>	<u>6,626,485</u>	<u>-</u>	<u>4,150,167</u>
Total Primary Government	<u>\$ 25,965,941</u>	<u>\$ 9,438,632</u>	<u>\$ 539,466</u>	<u>\$ 6,516,845</u>
Component Units:				
Economic Development Corporation	\$ 4,098,720	\$ 103,123	\$ 75,000	\$ -
Redevelopment Authority	16,227	-	-	-
Nonmajor	297,808	-	-	-
Total Component Units	<u>\$ 4,412,755</u>	<u>\$ 103,123</u>	<u>\$ 75,000</u>	<u>\$ -</u>

General Revenues:

Taxes:

  Property

  Sales

  Other

Investment income

Partnership income

Miscellaneous

Gain on sale of assets

Special items:

  Change in accounting estimate

Transfers

  Total general revenues

  Change in net position

Net position - beginning of year

Net position - end of year

See accompanying notes to financial statements.

**Net (Expense) Revenue and Changes in Net Position**

<b>Primary Government</b>			
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Component Units</b>
\$ (789,820)	\$ -	\$ (789,820)	\$ -
(7,223,454)	-	(7,223,454)	-
(5,005,911)	-	(5,005,911)	-
(568,405)	-	(568,405)	-
158,210	-	158,210	-
(541,020)	-	(541,020)	-
(237,105)	-	(237,105)	-
(171,641)	-	(171,641)	-
<u>(14,379,146)</u>	<u>-</u>	<u>(14,379,146)</u>	<u>-</u>
-	5,540,209	5,540,209	-
-	(345,542)	(345,542)	-
-	(286,519)	(286,519)	-
-	4,908,148	4,908,148	-
<u>\$ (14,379,146)</u>	<u>\$ 4,908,148</u>	<u>\$ (9,470,998)</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (3,920,597)
-	-	-	(16,227)
-	-	-	(297,808)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,234,632)</u>
6,802,398	-	6,802,398	20,674
5,094,515	-	5,094,515	2,603,769
1,163,192	-	1,163,192	12,155
93,874	31,071	124,945	1,051,262
-	-	-	300
166,828	-	166,828	211,357
28,216	5,000	33,216	3,614
(1,087,055)	-	(1,087,055)	-
2,926,012	(2,926,012)	-	-
<u>15,187,980</u>	<u>(2,889,941)</u>	<u>12,298,039</u>	<u>3,903,131</u>
808,834	2,018,207	2,827,041	(331,501)
<u>36,927,195</u>	<u>35,521,786</u>	<u>72,448,981</u>	<u>24,869,136</u>
<u>\$ 37,736,029</u>	<u>\$ 37,539,993</u>	<u>\$ 75,276,022</u>	<u>\$ 24,537,635</u>

**FUND FINANCIAL STATEMENTS**

**CITY OF KILGORE, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2016**

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,568,575	\$ 351,380	\$ 333,354	\$ 2,253,309
Investments	9,598,583	2,373,727	653,207	12,625,517
Receivables (net of allowance for estimated uncollectible accounts):				
Taxes	1,563,409	-	120,069	1,683,478
Accounts	1,551,564	220,978	14,749	1,787,291
Interest on long-term receivable	-	-	77,599	77,599
Advance receivable	1,829,712	-	-	1,829,712
Due from other funds	52,990	-	-	52,990
Inventory, at lower of cost or market	52,721	-	-	52,721
Total assets	<u>\$ 16,217,554</u>	<u>\$ 2,946,085</u>	<u>\$ 1,198,978</u>	<u>\$ 20,362,617</u>
<b>LIABILITIES</b>				
Trade payables	\$ 384,670	\$ 301,238	\$ 29,979	\$ 715,887
Customer deposits	62,947	-	-	62,947
Accrued payroll and related expenses	209,621	-	142	209,763
Due to other governments	455,095	-	-	455,095
Advance payable	-	-	429,712	429,712
Total liabilities	<u>1,112,333</u>	<u>301,238</u>	<u>459,833</u>	<u>1,873,404</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property taxes	413,582	-	51,546	465,128
Unavailable revenue - fines	66,353	-	-	66,353
Unavailable revenue - assessments	1,067,618	-	-	1,067,618
Unavailable revenue - interest on long-term receivable	-	-	77,599	77,599
Total deferred inflows of resources	<u>1,547,553</u>	<u>-</u>	<u>129,145</u>	<u>1,676,698</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Inventory	52,721	-	-	52,721
Restricted for:				
Debt service	-	-	234,329	234,329
Grant restrictions	-	-	70,044	70,044
Municipal court	-	-	82,358	82,358
Public safety	-	-	148,315	148,315
Tourism and convention	-	-	504,666	504,666
Other purposes	19,140	-	-	19,140
Committed to:				
Capital projects	-	2,644,847	-	2,644,847
Residential development	250,131	-	-	250,131
Assigned to:				
Cemeteries	955,969	-	-	955,969
Unassigned	12,279,707	-	(429,712)	11,849,995
Total fund balances	<u>13,557,668</u>	<u>2,644,847</u>	<u>610,000</u>	<u>16,812,515</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 16,217,554</u>	<u>\$ 2,946,085</u>	<u>\$ 1,198,978</u>	<u>\$ 20,362,617</u>

See accompanying notes to financial statements.

**CITY OF KILGORE, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2016**

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance per balance sheet	\$ 16,812,515
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	25,118,496
Some of the City's revenues will be collected after year end, but are not available soon enough to pay current year's expenditures and therefore are not reported in the governmental funds balance sheet.	2,076,698
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(758,113)
Governmental funds report all other post employment benefit (OPEB) payments as expenditures. However, in the government-wide statement of activities the OPEB asset or liability is actuarially determined. This amount is the total net OPEB asset.	217,953
Long-term liabilities, including bonds payable and net pension liability, are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	(8,390,454)
Interest payable on long-term debt in the City's governmental activities is not payable from current resources and, therefore, is not reported in the governmental funds balance sheet.	(20,128)
Internal service funds are used by management to charge the costs of equipment management, information technology, and health insurance to individual funds. Certain assets and liabilities of the internal service funds are included in governmental activities.	<u>2,679,062</u>
Net position of governmental activities	<u><u>\$ 37,736,029</u></u>

See accompanying notes to financial statements.

**CITY OF KILGORE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Property	\$ 6,008,053	\$ -	\$ 722,407	\$ 6,730,460
Sales	4,997,175	-	-	4,997,175
Other	745,519	-	417,673	1,163,192
Charges for services:				
Garbage collection	2,181,526	-	-	2,181,526
Police court fines and fees	435,101	-	16,181	451,282
Permits	56,270	-	-	56,270
Cemetery	88,825	-	-	88,825
Swimming pool	29,451	-	-	29,451
Library	4,792	-	-	4,792
County support	161,809	-	-	161,809
Drug seizure revenue	-	-	48,572	48,572
Donations	-	1,100	-	1,100
Grants	172,598	2,290,578	231,487	2,694,663
Interest on investments	59,319	4,975	7,347	71,641
Miscellaneous	164,224	-	2,605	166,829
Total revenues	<u>15,104,662</u>	<u>2,296,653</u>	<u>1,446,272</u>	<u>18,847,587</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Administration	300,101	-	-	300,101
Finance	331,219	-	-	331,219
Cemetery	258,765	-	-	258,765
City council	63,365	-	-	63,365
Information technology	360	-	-	360
Contingency	9,330	-	-	9,330
Public safety:				
Police	4,303,761	-	385,591	4,689,352
Fire	2,858,191	-	-	2,858,191
Rescue unit	100,836	-	-	100,836
Municipal court	208,029	-	-	208,029
Public works:				
Streets	1,074,143	3,483,710	-	4,557,853
Water	-	1,258,575	-	1,258,575
Developmental services:				
Building maintenance and inspection	286,499	-	-	286,499
Equipment Services	154,907	-	-	154,907
Planning and zoning	177,132	-	-	177,132
Sanitation: garbage collection	2,016,320	-	-	2,016,320
Culture and recreation:				
Parks	816,778	1,201,770	2,983	2,021,531
Library	398,850	-	-	398,850
Swimming pool	111,841	-	-	111,841
Grants	-	-	294,834	294,834
Public welfare: health department	230,527	-	-	230,527
Debt service:				
Principal	44,693	-	225,000	269,693
Interest and fiscal charges	257	-	172,650	172,907
Total Expenditures	<u>13,745,904</u>	<u>5,944,055</u>	<u>1,081,058</u>	<u>20,771,017</u>

See accompanying notes to financial statements.

**CITY OF KILGORE, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
CONTINUED**

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Excess (deficiency) of revenues over (under) expenditures	1,358,758	(3,647,402)	365,214	(1,923,430)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from loans	33,604	-	-	33,604
Transfers in	11,711	5,220,337	16,559	5,248,607
Transfers out	(2,082,270)	-	(240,325)	(2,322,595)
Total other financing sources (uses)	(2,036,955)	5,220,337	(223,766)	2,959,616
Net change in fund balances	(678,197)	1,572,935	141,448	1,036,186
Fund balance - beginning of year	14,235,865	1,071,912	468,552	15,776,329
Fund balance - end of year	\$ 13,557,668	\$ 2,644,847	\$ 610,000	\$ 16,812,515

See accompanying notes to financial statements.

**CITY OF KILGORE, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**SEPTEMBER 30, 2016**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$	1,036,186
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay in the current period exceeded depreciation expense.		516,823
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(1,033,677)
Governmental funds report all payments to the OPEB trust as expenditures. However, in the government-wide statement of activities the actuarial annually required contribution is considered an expense. Any surplus amount is considered an asset. This amount is the change in net other post employment benefits asset.		43,955
Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds. This amount reflects the change in the accrued liability for compensated absences and claims payable.		(61,245)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount reflects the principal payments made on long-term debt during the year.		367,033
Governmental funds report all payments to pension benefits as expenditures. However, in the government-wide statement of activities the pension expense is actuarially determined. This amount is the total of the increase in the net pension liability of \$1,928,762, the increase in the deferred outflows related to pensions of \$1,566,454, and the decrease in deferred inflows of \$243,299		(119,009)
Interest payable on long-term debt is recorded in the government-wide statements. This is the amount that current year interest payable exceeded prior year interest payable.		1,266
Internal service funds are used by management to charge the costs of equipment management, information technology, and health insurance to individual funds. The net expenses of certain activities of internal service funds is reported within governmental activities.		<u>57,502</u>
Change in net position of governmental activities	\$	<u><u>808,834</u></u>

See accompanying notes to financial statements.

**CITY OF KILGORE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Budget		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property	\$ 5,250,966	\$ 5,250,966	\$ 6,008,053	\$ 757,087
Sales	5,500,000	5,500,000	4,997,175	(502,825)
Other	763,000	763,000	745,519	(17,481)
Charges for services:				
Garbage collection	2,174,500	2,174,500	2,181,526	7,026
Police court fines and fees	555,000	555,000	435,101	(119,899)
Permits	54,900	54,900	56,270	1,370
Cemetery	70,000	70,000	88,825	18,825
Swimming pool	29,000	29,000	29,451	451
Library	7,500	7,500	4,792	(2,708)
Country support	149,000	149,000	161,809	12,809
Grants	210,492	210,492	172,598	(37,894)
Interest on investments	25,758	25,758	59,319	33,561
Miscellaneous	930,897	930,897	164,224	(766,673)
Total revenues	<u>15,721,013</u>	<u>15,721,013</u>	<u>15,104,662</u>	<u>(616,351)</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Administration	405,158	405,158	300,101	105,057
Finance	382,654	412,654	331,219	81,435
Cemetery	323,308	323,308	258,765	64,543
City council	129,859	129,859	63,365	66,494
Information technology	-	-	360	(360)
Contingency	200,000	34,625	9,330	25,295
Public safety:				
Police	4,268,644	4,274,019	4,303,761	(29,742)
Fire	2,948,756	2,948,756	2,858,191	90,565
Rescue unit	133,668	133,668	100,836	32,832
Municipal court	184,334	184,334	208,029	(23,695)
Public works: streets	1,902,401	1,402,401	1,074,143	328,258
Developmental services:				
Building maintenance and inspection	361,160	361,160	286,499	74,661
Equipment Services	247,130	247,130	154,907	92,223
Planning and zoning	220,271	196,271	177,132	19,139
Sanitation: garbage collection	1,914,246	2,063,221	2,016,320	46,901
Culture and recreation:				
Parks	861,754	861,754	816,778	44,976
Library	433,844	433,844	398,850	34,994
Swimming pool	133,981	133,981	111,841	22,140
Public welfare: health department	290,276	290,276	230,527	59,749
Debt service:				
Principal	44,693	44,693	44,693	-
Interest and fiscal charges	257	257	257	-
Total expenditures	<u>15,386,394</u>	<u>14,881,369</u>	<u>13,745,904</u>	<u>1,135,465</u>

See accompanying notes to financial statements.

**CITY OF KILGORE, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2016  
CONTINUED**

	Budget		Actual	Variance with Final Budget
	Original	Final		
Excess (deficiency) of revenues over (under) expenditures	334,619	839,644	1,358,758	519,114
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from loans	-	-	33,604	33,604
Transfers in	20,500	20,500	11,711	(8,789)
Transfers out	(838,500)	(1,992,500)	(2,082,270)	(89,770)
Total other financing sources (uses)	(818,000)	(1,972,000)	(2,036,955)	(64,955)
Net change in fund balances	(483,381)	(1,132,356)	(678,197)	454,159
Fund balance - beginning of year	14,235,865	14,235,865	14,235,865	-
Fund balance - end of year	<u>\$ 13,752,484</u>	<u>\$ 13,103,509</u>	<u>\$ 13,557,668</u>	<u>\$ 454,159</u>

**CITY OF KILGORE, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2016**

	Enterprise Funds				Internal Service
	Water and Sewer	Hospital	Golf Course	Total	
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 542,606	\$ 592,453	\$ -	\$ 1,135,059	\$ 652,330
Investments	3,686,401	305,673	-	3,992,074	778,032
Accounts receivable (net)	904,474	-	19,545	924,019	161
Due from other funds	14,078	-	-	14,078	-
Inventory, at lower of cost or market	118,076	-	8,631	126,707	-
Prepaid expenses	-	-	-	-	1,627
Restricted assets:					
Cash	28,639	-	-	28,639	-
Total current assets	<u>5,294,274</u>	<u>898,126</u>	<u>28,176</u>	<u>6,220,576</u>	<u>1,432,150</u>
Noncurrent assets:					
Water rights (net)	131,547	-	-	131,547	-
Capital assets (net)	28,323,519	4,979,361	392,832	33,695,712	1,315,186
Net other post-employment benefits asset	37,158	-	-	37,158	-
Total noncurrent assets	<u>28,492,224</u>	<u>4,979,361</u>	<u>392,832</u>	<u>33,864,417</u>	<u>1,315,186</u>
Total assets	<u>33,786,498</u>	<u>5,877,487</u>	<u>421,008</u>	<u>40,084,993</u>	<u>2,747,336</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows related to pensions	385,762	749,875	84,527	1,220,164	-
Total deferred outflows of resources	<u>385,762</u>	<u>749,875</u>	<u>84,527</u>	<u>1,220,164</u>	<u>-</u>
<b>LIABILITIES</b>					
Current liabilities:					
Trade payables	104,142	-	4,336	108,478	15,549
Accrued payroll and related expenses	29,111	-	6,621	35,732	-
Accrued expenses	4,953	-	293	5,246	-
Advance payable	1,400,000	-	-	1,400,000	-
Due to other funds	-	14,078	27,972	42,050	25,018
Compensated absences - current	37,167	-	3,152	40,319	-
Capital lease payable - current	-	-	43,458	43,458	-
Bonds and notes payable - current	60,000	-	-	60,000	-
Restricted liabilities:					
Restricted deposits	23,745	-	-	23,745	-
Total current liabilities	<u>1,659,118</u>	<u>14,078</u>	<u>85,832</u>	<u>1,759,028</u>	<u>40,567</u>
Noncurrent liabilities:					
Capital lease payable - long term	-	-	45,108	45,108	-
Compensated absences - long term	60,630	-	7,164	67,794	-
Net pension liability	968,547	642,008	197,612	1,808,167	-
Total noncurrent liabilities	<u>1,029,177</u>	<u>642,008</u>	<u>249,884</u>	<u>1,921,069</u>	<u>-</u>
Total liabilities	<u>2,688,295</u>	<u>656,086</u>	<u>335,716</u>	<u>3,680,097</u>	<u>40,567</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows related to pensions	84,852	-	19,532	104,384	-
Advance from Hospital Foundation	-	8,388	-	8,388	-
Total deferred inflows of resources	<u>84,852</u>	<u>8,388</u>	<u>19,532</u>	<u>112,772</u>	<u>-</u>
<b>NET POSITION</b>					
Net investment in capital assets	28,263,519	4,979,361	304,266	33,547,146	1,315,186
Restricted	4,894	-	-	4,894	-
Unrestricted	3,130,700	983,527	(153,979)	3,960,248	1,391,583
Total net position	<u>\$ 31,399,113</u>	<u>\$ 5,962,888</u>	<u>\$ 150,287</u>	<u>\$ 37,512,288</u>	<u>\$ 2,706,769</u>

See accompanying notes to financial statements.

**CITY OF KILGORE, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Enterprise Funds				Internal Service
	Water and Sewer	Hospital	Golf Course	Total	
<b>OPERATING REVENUES</b>					
Charges for services	\$ 6,033,436	\$ -	\$ 497,683	\$ 6,531,119	\$ 2,603,936
Other operating revenue	58,731	293,070	36,635	388,436	-
Total operating revenues	<u>6,092,167</u>	<u>293,070</u>	<u>534,318</u>	<u>6,919,555</u>	<u>2,603,936</u>
<b>OPERATING EXPENSES</b>					
Operating expenses	3,606,549	379,804	764,477	4,750,830	2,228,632
Depreciation and amortization	1,092,201	258,808	50,675	1,401,684	351,602
Total operating expenses	<u>4,698,750</u>	<u>638,612</u>	<u>815,152</u>	<u>6,152,514</u>	<u>2,580,234</u>
<b>OPERATING INCOME (LOSS)</b>	<u>1,393,417</u>	<u>(345,542)</u>	<u>(280,834)</u>	<u>767,041</u>	<u>23,702</u>
<b>NONOPERATING REVENUES:</b>					
Investment earnings	22,067	2,674	6,330	31,071	8,755
Interest expense and fiscal charges	(7,684)	-	(4,546)	(12,230)	-
Gain (loss) on sale of assets	-	-	5,000	5,000	28,216
Total nonoperating revenues	<u>14,383</u>	<u>2,674</u>	<u>6,784</u>	<u>23,841</u>	<u>36,971</u>
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<u>1,407,800</u>	<u>(342,868)</u>	<u>(274,050)</u>	<u>790,882</u>	<u>60,673</u>
Capital contribution from governmental activities	4,150,167	-	-	4,150,167	-
Transfers in	240,325	-	230,000	470,325	-
Transfers out	<u>(3,396,337)</u>	<u>-</u>	<u>-</u>	<u>(3,396,337)</u>	<u>-</u>
Change in net position	2,401,955	(342,868)	(44,050)	2,015,037	60,673
Total net position, beginning	<u>28,997,158</u>	<u>6,305,756</u>	<u>194,337</u>	<u>35,497,251</u>	<u>2,646,096</u>
Total net position, ending	<u>\$ 31,399,113</u>	<u>\$ 5,962,888</u>	<u>\$ 150,287</u>	<u>\$ 37,512,288</u>	<u>\$ 2,706,769</u>

See accompanying notes to financial statements.

**CITY OF KILGORE, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Enterprise Funds				Internal Service
	Water and Sewer	Hospital	Golf Course	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 6,023,295	\$ 303,070	\$ 530,075	\$ 6,856,440	\$ 2,603,775
Cash payments to suppliers for goods and services	(1,437,962)	-	(323,437)	(1,761,399)	(2,200,644)
Cash payments to employees for services	(1,381,013)	(42,588)	(425,596)	(1,849,197)	-
Net cash provided by (used in) operating activities	<u>3,204,320</u>	<u>260,482</u>	<u>(218,958)</u>	<u>3,245,844</u>	<u>403,131</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Operating transfers in from other funds	<u>240,325</u>	<u>230,000</u>	<u>230,000</u>	<u>700,325</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities	<u>240,325</u>	<u>230,000</u>	<u>230,000</u>	<u>700,325</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Capital transfers out to other funds	(3,396,337)	-	-	(3,396,337)	-
Proceeds from sale of capital assets	-	-	5,000	5,000	63,968
Acquisition and construction of capital assets	(21,546)	-	-	(21,546)	(343,168)
Payments on capital lease obligations	-	-	(32,916)	(32,916)	-
Principal paid on general obligation bonds	(235,000)	-	-	(235,000)	-
Interest and fiscal charges on debt	(7,684)	-	(4,546)	(12,230)	-
Net cash used in by capital and related financing activities	<u>(3,660,567)</u>	<u>-</u>	<u>(32,462)</u>	<u>(3,693,029)</u>	<u>(279,200)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments	928,801	8,550	-	937,351	-
Purchase of investments	(557,113)	(9,485)	-	(566,598)	(114,118)
Interest on investments	22,067	2,674	6,330	31,071	8,755
Net cash provided by (used in) investing activities	<u>393,755</u>	<u>1,739</u>	<u>6,330</u>	<u>401,824</u>	<u>(105,363)</u>
Net increase (decrease) in cash and cash equivalents	177,833	492,221	(15,090)	654,964	18,568
Cash and cash equivalents, beginning	<u>393,412</u>	<u>100,232</u>	<u>15,090</u>	<u>508,734</u>	<u>633,762</u>
Cash and cash equivalents, ending	<u>\$ 571,245</u>	<u>\$ 592,453</u>	<u>\$ -</u>	<u>\$ 1,163,698</u>	<u>\$ 652,330</u>

See accompanying notes to financial statements.

**CITY OF KILGORE, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**  
**CONTINUED**

	Enterprise Funds				Internal Service
	Water and Sewer	Hospital	Golf Course	Total	
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ 1,393,417	\$ (345,542)	\$ (280,834)	\$ 767,041	\$ 23,702
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	1,092,201	258,808	50,675	1,401,684	351,601
Change in assets and liabilities:					
Decrease (increase) in assets:					
Receivables	(68,872)	10,000	4,962	(53,910)	(161)
Due from other funds	-	-	-	-	-
Inventories	(40,177)	-	7,229	(32,948)	-
Prepaid expense	-	-	-	-	13
Deferred outflows	(224,547)	(593,931)	(53,365)	(871,843)	-
Increase (decrease) in liabilities:					
Accounts payable	(16,640)	-	(12,025)	(28,665)	2,958
Accrued payroll	(48,293)	-	(16,854)	(65,147)	-
Accrued expenses	-	-	293	293	-
Due to other funds	900,000	-	27,972	927,972	25,018
Unearned revenue	-	-	(9,205)	(9,205)	-
Customer deposits	600	-	-	600	-
Compensated absences	(9,237)	-	213	(9,024)	-
Other post employment benefits	(7,797)	-	3,287	(4,510)	-
Net pension liability	281,760	935,665	64,860	1,282,285	-
Deferred inflows	(48,095)	(4,518)	(6,166)	(58,779)	-
Total adjustments	<u>1,810,903</u>	<u>606,024</u>	<u>61,876</u>	<u>2,478,803</u>	<u>379,429</u>
Net cash provided by (used in) operating activities	<u>\$ 3,204,320</u>	<u>\$ 260,482</u>	<u>\$ (218,958)</u>	<u>\$ 3,245,844</u>	<u>\$ 403,131</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Contribution of capital assets	<u>\$ 4,150,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,150,167</u>	<u>\$ -</u>
<b>RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS</b>					
Current assets:					
Cash and cash equivalents	\$ 542,606	\$ 592,453	\$ -	\$ 1,135,059	\$ 652,330
Restricted assets - cash and cash equivalents	28,639	-	-	28,639	-
Total cash and cash equivalents	<u>\$ 571,245</u>	<u>\$ 592,453</u>	<u>\$ -</u>	<u>\$ 1,163,698</u>	<u>\$ 652,330</u>

See accompanying notes to financial statements.

**CITY OF KILGORE, TEXAS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2016**

	<u>OPEB</u> <u>Trust</u>	<u>Agency</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 14,695
Investments, at fair value:		
Collateral investment trust	<u>1,061,635</u>	<u>-</u>
Total assets	<u><u>\$ 1,061,635</u></u>	<u><u>\$ 14,695</u></u>
 <b>LIABILITIES</b>		
Intergovernmental payable	<u>-</u>	<u>14,695</u>
Total liabilities	<u><u>-</u></u>	<u><u>\$ 14,695</u></u>
 <b>NET POSITION</b>		
Held in trust for OPEB benefits	<u><u>\$ 1,061,635</u></u>	

See accompanying notes to financial statements.

**CITY OF KILGORE, TEXAS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2016**

	<u>OPEB</u> <u>Trust</u>
<b>ADDITIONS</b>	
Net increase in fair value of investments	\$ 70,295
Total additions	<u>70,295</u>
Net Position - beginning of year	<u>991,340</u>
Net Position - end of year	<u><u>\$ 1,061,635</u></u>

See accompanying notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Kilgore, Texas have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

The significant accounting policies of the City are as follows:

**Reporting Entity**

The City of Kilgore, Texas (the "City") is a municipal corporation governed by an elected mayor and a four-member council. The City was incorporated February 1, 1931 and operated under the provision of a general rule concept until September 13, 1960, when the City's first charter was adopted. The City operates under a Council-Manager form of government and provides the following authorized services: police and fire protection, streets, sanitation, health services, water utilities, library, recreation, planning and zoning, and general administrative services.

The accompanying financial statements present the City and its discretely presented component units, Kilgore Economic Development Corporation, Kilgore Redevelopment Authority, Kilgore Community Development Corporation, and the Roy H. Laird Memorial Hospital Foundation. The discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize they are legally separate from the government.

For financial reporting purposes, the City's basic financial statements include all financial activities that are controlled by, or are dependent upon, actions taken by City Council. All of the component units have a September 30 year end, with the exception of the Roy H. Laird Memorial Hospital Foundation which has a December 31 year end.

The financial statements of the individual component units may be obtained by writing the City of Kilgore, Finance Department, 805 N. Kilgore Street, Kilgore, Texas 75662-5860.

**Discretely Presented Component Units**

The financial statements of the following component units have been discretely presented in the accompanying report because the City is considered to be financially accountable.

**Kilgore Economic Development Corporation**

The Kilgore Economic Development Corporation ("KEDC") is a nonprofit corporation. The governing body of KEDC is appointed by the City Council and KEDC's operating budget is subject to approval of the City Council. The purpose of KEDC, which is financed with a voter-approved half-cent city sales tax, is to aid, promote, and further economic development within the City. KEDC is presented as a major component unit in the government-wide financial statements. Under a contract with KEDC, the City performs financial services for KEDC.

**Kilgore Redevelopment Authority**

The Kilgore Redevelopment Authority ("KRA") is a public nonprofit corporation organized for the purpose of aiding, assisting, and acting on behalf of the City to promote the common good and welfare included in the Reinvestment Zone Number One and neighboring areas; to promote, develop, encourage and maintain housing, educational facilities, employment, commerce and economic development in the City. The KRA is managed by a board of directors consisting of nine members, of which a majority is appointed by City Council. The City performs financial services for KEDC.

**Kilgore Community Development Corporation**

The Kilgore Community Development Corporation ("KCDC") is a 501(c)(3) nonprofit corporation organized for the purpose of assisting in the development of adequate housing for the residents of Kilgore, Texas. The governing body of KCDC is comprised of a City Commissioner, a board member from KEDC, and a board member from the Kilgore Housing Financing Corporation, all of whom are appointed by the City Council and can be removed at will by the City. The City performs financial services for KCDC.

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Roy H. Laird Memorial Hospital Foundation**

The Roy H. Laird Memorial Hospital Foundation (“Foundation”) is a 501(c)(3) nonprofit corporation funded primarily by the Roy H. Laird Memorial Hospital Endowment Trust. The Foundation is dedicated to promoting, fostering, facilitating, and supporting indigent and general health care services in the City of Kilgore and its surrounding areas. The governing body of the Foundation is appointed by City Council. In addition, the Foundation has agreed by contract, to the extent it receives proceeds from the Endowment Trust, to satisfy the City’s obligation to the Texas Municipal Retirement System for the former City employees of Roy H. Laird Memorial Hospital (a financial benefit to the City). The agreement also stated that the Foundation would reimburse the City for costs associated with defeasance of bonds of the Roy H. Laird Memorial Hospital, to which that obligation has now been paid in full. The Foundation’s fiscal year-end is December 31. As a result, the financial statements of the Foundation presented herein are for the year ended December 31, 2015.

**Payments Between the City and Component Units**

Resource flows between a primary government and its discretely presented component units are reported as external transactions – that is, as revenue and expenses.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effects of the interfund activity have been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from certain legally-separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor governmental funds (special revenue and debt service) are reported in a single column in the basic fund financial statements. A combining statement is presented after the notes with detail information for each fund.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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 are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and legal claims and judgments, are recorded only when payment is due.

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont'd)**

Property taxes, franchise and sales tax revenues, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

All proprietary funds and the OPEB trust fund are accounted for on a flow of economic resources measurement focus. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the City's Water and Sewer fund and Golf Course fund are charges to customers for sales and services. The principal operative revenue of the City's Hospital fund is lease income. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City reports the following major governmental funds:

The **General Fund** is the operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement or some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

The **Capital Projects Fund** is used to account for capital improvement projects while under way. Once completed the project is transferred to the appropriate fund.

The City reports the following major enterprise funds:

The **Water and Sewer Fund** accounts for the operation of the City's water and sewer utilities. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

The **Hospital Fund** accounts for the activities associated with leasing the hospital assets.

The **Golf Course Fund** accounts for the operations of Meadowbrook Country Club. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for capital leases for equipment when due throughout the year.

Additionally, the City reports the following fund types:

The **Internal Service Funds** are used to account for self-funded group health insurance, capital equipment management services, and information technology services. These services are provided to other departments of the City, generally on a cost reimbursement basis.

The **Fiduciary Funds** are used to account for assets held in a trustee capacity to fund other postemployment benefits to employees of the City and in an agency capacity for seized assets awaiting a judgement to either be released back to the defendant or to be distributed to the police department. These funds are not available to support the City's activities; therefore, they are not included in the government-wide statements.

**CITY OF KILGORE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

**Cash, Cash Equivalents and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City pools cash from all fund types (excluding certain restricted assets that are considered cash and cash equivalents) to increase the amount of funds available for investment. Interest earnings are allocated to the respective funds based upon each fund's relative balance in the pool. Each fund may liquidate its equity in the pool on demand.

In accordance with GASB Statement No. 72 *Fair Value Measurement and Application*, investments are recorded at fair value. In accordance with GASB Statement 72, the City categorizes its fair value measurements within the fair value hierarchy. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. A detail of the fair value hierarchy of investments held by the City are disclosed in Note 1 to the financial statements.

**Restricted Assets**

Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

The balances of the restricted asset accounts at September 30, 2016 are as follows:

	Governmental Activities	Business-Type Activities
Customer deposits	\$ -	\$ 23,745
Debt service/bond reserves	234,733	4,894
Special revenue purposes	751,828	-
Donations	19,140	-
Total restricted assets	\$ 1,005,701	\$ 28,639

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Inventories and Prepaid Items**

Inventories of supplies are maintained at City warehouses. Supplies used in governmental activities (i.e. the General fund) are accounted for on the purchases method whereby expenditures are recognized at the time of purchase. Reported inventories in governmental funds are equally offset by non-spendable fund balance, which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

Supplies used in business-type activities are accounted for by the consumption method. Inventories are capitalized under the consumption method, whereby expenditures are capitalized as inventory until used. They are valued at the lower of cost or market, using the first-in, first-out (FIFO) method for determining unit cost.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Capital Assets**

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost.

Contributed capital assets are recorded at estimated fair market value at the time received. Public domain (infrastructure) capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been recorded at estimated historical cost. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Net revenue bond interest cost incurred during construction periods is capitalized when material.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings & system	20-50
Vehicles	3-5
Office equipment	5-10
Computer equipment	5

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position 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 position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one type of deferred outflow, deferred outflows related to pensions, which arise only under the accrual basis of accounting. It is reported only in the government-wide and proprietary statements of net position. This amount is deferred and amortized over the actuarial determined recognition period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of deferred inflows. Unavailable revenue, which only arises on a modified accrual basis of accounting, is comprised of property taxes, municipal court revenue, special assessments, and interest on a long-term note receivable and is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Advance from Hospital Foundation, in the Proprietary Statement of Net Position and government-wide Statement of Net Position, represents funds on hand in which the eligibility requirements have been met; however, the funds have not yet been expended. These amounts are deferred and recognized as an inflow of resources in the period in which the expenditure is incurred. Deferred inflows related to pensions, in the government-wide Statement of Net Position, represent actuarial gains (losses) that are deferred and amortized over the actuarial determined recognition period.

**Compensated Absences**

The City encourages its employees to take annual leave (vacation) in the year it accrues; however, employees are allowed to accumulate vacation time for a maximum of two years credit. Effective May 22, 2001, the City enacted a policy that states if an employee retires with 10 years of service, they would be paid for one-half of their accumulated sick leave up to 45 days. At September 30, 2016, the liability for unpaid leave was \$779,795, of which \$671,682 is reported in the governmental activities and \$108,113 in the business-type activities.

**Pensions**

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

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Fund Balances**

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned, or unassigned.

- **Nonspendable fund balance** – represents amounts that cannot be spent because they are either not in spendable form (such as inventories or prepaid amounts) or legally required to remain intact.
- **Restricted fund balance** – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation (such as municipal court fines).
- **Committed fund balance** – represents amounts that can only be used for specific purposes imposed by a formal action of the City's highest level of decision-making authority, the City Council. Committed resources cannot be used for any other purpose unless the City Council removes or changes the specified use by the same action previously used to commit those amounts, an ordinance. Commitments are typically done through adoption and amendment of the budget.
- **Assigned fund balance** – represents amounts the City intends to use for specific purposes as expressed by the City Council or an official delegated the authority to assign amounts. This is the residual classification for all governmental funds other than the general fund.
- **Unassigned fund balance** – represents the residual classification for the general fund or deficit fund balances in other funds.

When an expenditure is incurred for a purpose for which more than one fund balance classification could be used, the City considers the expenditure to be made from the most restrictive classification first.

The City strives to maintain the General Fund unassigned fund balance at 25 percent (25%) of current year budget expenditures.

**Net position**

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

**Interfund Transactions**

During the course of operations, numerous transactions occur between individual funds for goods provided and services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund-level statements when they are expected to be liquidated within one year. If receivables and payables are expected to be liquidated after one year, they are classified as "advances to other funds" or "advances from other funds."

In the government-wide statement of activities, the effect of interfund activity has generally been removed from the statements. Exceptions include the chargeback of services for which the elimination would distort the direct costs and program revenues of the various functions reported.

Internal service fund activity is eliminated in order to remove duplicate activity in making the transition from the fund financial statements to the government-wide financial statements. The elimination of the internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. A positive change in net position derived from internal service fund activity results in a pro rata reduction in the charges made to the participatory funds. A deficit change in net position of internal service funds requires a pro rata increase in the amounts charged to the participatory funds.

**Use of Estimates**

Preparing the City's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**New Accounting Pronouncements**

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which improves financial reporting of certain assets and liabilities measured at fair value. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The City has implemented GASB No. 72 in this annual report.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which improves financial reporting of public employee pensions that are not within the scope of GASB Statement 68. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The City has implemented GASB No. 73 in this annual report.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which improves the usefulness of information about postemployment benefits other than pensions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which improves financial reporting of postemployment benefits other than pensions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The City has implemented GASB No. 76 in this annual report.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, which improves financial reporting by requiring the disclosure of information about the nature and magnitude of tax abatements. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The City has implemented GASB No. 79 in this annual report.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**New Accounting Pronouncements (Cont'd)**

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses certain issues that have been raised with respect to Statements No. 67, No. 68, and No. 73. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2018. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information**

The City Council adopts an annual operating budget, which can be amended by the Council throughout the year. Legal budgets are adopted for the City's major funds and certain non-major funds. The following non-major funds did not have budgets adopted for fiscal year 2016: the TIRZ Fund, Drug Seizure Funds, and Main Street Funds. The level of budgetary control (the level at which expenditures may not exceed budget) is the fund level. The City Manager is authorized to approve a transfer of budgeted amounts within departments; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Unencumbered appropriations for annual budgets lapse at fiscal year-end, with the exception of the Capital Projects fund. The Capital Projects fund appropriates funds on a project life basis, which means appropriated funds will be available for the life of the stated project.

Encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

**Deficit Fund Equity**

The Tax Increment Reinvestment Zone Fund had a deficit fund balance of \$429,712 as of September 30, 2016. The deficit fund balance is a result of a loan the City made to the Kilgore Redevelopment Authority in the amount of \$400,000 plus interest to accrue at 3% per year. The City plans to cover the deficit fund equity of the Tax Increment Reinvestment Zone Fund as future property tax revenue is received from the Zone which KRA will use to repay the loan and accrued interest.

**CITY OF KILGORE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**III. DETAILED NOTES ON ALL FUNDS**

**NOTE 1: DEPOSITS AND INVESTMENTS**

Cash and investments as of September 30, 2016 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:	
Primary Government	
Cash and equivalents	\$ 3,704,801
Restricted cash and equivalents	364,536
Investments	16,725,819
Restricted investments	669,804
Total primary government	21,464,960
Component Units*	
Cash and equivalents	523,826
Investments	12,878,635
Restricted cash and equivalents	750,000
Total component units	14,152,461
Total cash and investments	\$ 35,617,421

\*Component units include the discretely presented component units KEDC, KRA, KCDC, and the Hospital Foundation.

***Custodial Credit Risk***

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2016, the City and its component units' deposits were covered by Federal Depository Insurance or by collateral held by a third party custodian with the exception of one account at Frost Bank which was uncollateralized by \$1,963.

In the case of investments, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments are with the Texas Local Government Investment Pool ("TexPool"), the Texas Short-Term Asset Reserve Investment Pool ("TexSTAR"), and in certificates of deposit.

Under the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State Comptroller is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool. The reported value of the pool is the same as the fair value of the pool shares. TexPool is subject to annual review by an independent auditor consistent with the Public Funds Investment Act. Audited financial statements of the Pool are available at First Public, 12008 Research Blvd., Austin, Texas 78759. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller's Office.

TexSTAR is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. J.P. Morgan Investment Management Inc. serves as investment advisor and co-administrator with First Southwest Asset Management, Inc. TexSTAR invests in treasury and agency securities and repurchase agreements fully collateralized by government securities. The pool maintains a weighted average maturity of 60 days or less. The pool seeks to maintain a constant dollar objective. The reported value of the pool is the same as the fair value of the pool shares.

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 1: DEPOSITS AND INVESTMENTS (Cont'd)**

***Credit Risk***

This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. It is the government's policy to limit its investments to those investments rated at least AAAM. The credit quality rating for both TexPool and TexSTAR at year end was AAAM by Standard & Poor's.

***Interest Rate Risk***

This is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The maximum allowable maturity for operating funds is five years. The weighted average maturity for the government's investment in external investment pools is less than 60 days.

***Foreign Currency Risk***

This is the risk that exchange rates will adversely affect the fair value of an investment. The government is not exposed to foreign currency risk.

***Concentration of Credit Risk***

This is the risk of loss attributed to the magnitude of the government's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent (5%) or more in the securities of a single issuer. It is the government's policy to not allow for a concentration of credit risk. Investments issued by the U.S. Government and investments in investment pools are excluded from the 5 percent (5%) disclosure requirement. The government is not exposed to concentration of credit risk.

At year end, the government's investment balances were as follows:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Primary government		
TexPool	\$ 7,064,983	0.12
TexSTAR	7,336,970	0.12
Certificates of deposit	1,492,000	0.63
U.S. government securities	1,000,000	
Municipal bonds	<u>501,670</u>	
Total primary government	<u>17,395,623</u>	
Component units:		
TexPool	7,522,818	0.12
TexSTAR	1,560,806	0.12
Fixed income	1,350,048	
Equities	2,040,829	
Alternative assets	<u>404,134</u>	
Total component units	<u>12,878,635</u>	
Total Reporting Entity	<u>\$ 30,274,258</u>	

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 1: DEPOSITS AND INVESTMENTS (Cont'd)**

Under provisions of state and local statutes, the City's investment policies and provisions of the City's depository contracts with an area financial institution, the City is authorized to place available deposits and investments in the following:

1. Obligations of the U.S., its agencies and instrumentalities;
2. Direct obligations of the State of Texas; its agencies and instrumentalities rated not less than A or its equivalent
3. Depository banks and credit unions in Texas which are insured by FDIC or NCUA
4. Local Government Investment Pools authorized under Section 2256.016 of the Texas Government code which invest in instruments and follow practices allowed by current law. A pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.
5. Certificates of Deposit and Share Certificates authorized under Section 2256.010 of the Texas Government Code; and
6. SEC registered no-load money market mutual funds

The City Council has adopted a written investment policy regarding the investments of its funds as defined by the Public Investment Act of 1995 (Chapter 2256, Texas Government Code). In addition, the component units have adopted written investment policies as well. Additional disclosures related to the investment policies of the component units are disclosed in their separately issued financial reports.

The investments of the City are in compliance with the Council's investment policies. The City did not have any derivative investment products during the current year. All significant legal and contractual provisions for investments were complied with during the year. Investments at year-end are representative of the types of investments maintained by the City during the year.

A summary of the City's investments under the requirements of the fair value hierarchy follows:

Assets at Fair Value as of September 30, 2016				
	Level 1	Level 2	Level 3	Total
<b>Primary Government:</b>				
Certificate of Deposit	\$ -	\$ 1,492,000	\$ -	\$ 1,492,000
Municipal Bonds	-	501,670	-	501,670
Texas Government Investment Pool	-	14,401,953	-	14,401,953
U.S. Government Securities	-	1,000,000	-	1,000,000
Total	\$ -	\$ 17,395,623	\$ -	\$ 17,395,623

Assets at Fair Value as of September 30, 2016				
	Level 1	Level 2	Level 3	Total
<b>Fiduciary funds:</b>				
Collateral Investment Trust	\$ -	\$ 1,061,635	\$ -	\$ 1,061,635
Total	\$ -	\$ 1,061,635	\$ -	\$ 1,061,635

Assets at Fair Value as of September 30, 2016				
	Level 1	Level 2	Level 3	Total
<b>Component units:</b>				
Fixed Income	\$ 1,350,048	\$ -	\$ -	\$ 1,350,048
Equities	2,040,829	-	-	2,040,829
Texas Government Investment Pool	-	9,083,624	-	9,083,624
Alternative assets	-	404,134	-	404,134
Total	\$ 3,390,877	\$ 9,487,758	\$ -	\$ 12,878,635

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 1: DEPOSITS AND INVESTMENTS (Cont'd)**

Certificates of deposit categorized as Level 2 are valued by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer. Municipal bonds, U.S. government securities, collateral investment trusts, and the alternative assets categorized as Level 2 are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Texas government investments pool categorized as Level 2 is valued based on amortized costs, which generally approximates fair value. Fixed income and equities are categorized as Level 1, since they are traded on active markets.

**NOTE 2: RECEIVABLES**

Receivables at September 30, 2016 for the government's individual major funds and non-major and internal service funds in the aggregate, including the applicable allowance for uncollectible accounts, consist of the following:

Taxes and Accounts Receivable	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Water & Sewer Operating Fund	Golf Course Fund	Internal Service Fund	Total
Property tax	\$ 591,078	\$ -	\$ 76,887	\$ -	\$ -	\$ -	\$ 667,965
Sales tax	1,149,828	-	-	-	-	-	1,149,828
Hotel tax	-	-	68,523	-	-	-	68,523
Municipal court Accounts	201,069 1,515,461	- 220,978	- 14,749	- 984,617	- 30,349	- 161	201,069 2,766,315
Gross receivables	3,457,436	220,978	160,159	984,617	30,349	161	4,853,700
Less: allowance for uncollectibles	(342,463)	-	(25,341)	(80,143)	(10,804)	-	(458,751)
Total taxes and accounts receivable (net)	<u>\$ 3,114,973</u>	<u>\$ 220,978</u>	<u>\$ 134,818</u>	<u>\$ 904,474</u>	<u>\$ 19,545</u>	<u>\$ 161</u>	<u>\$ 4,394,949</u>

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Interest and Sinking Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

At September 30, 2016, the components of delinquent taxes receivables are as follows:

	General Fund	Interest & Sinking	Total
Delinquent taxes	\$ 591,079	\$ 76,887	\$ 667,966
Allowance	(177,497)	(25,341)	(202,838)
Totals	<u>\$ 413,582</u>	<u>\$ 51,546</u>	<u>\$ 465,128</u>

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 3: CAPITAL ASSETS**

Capital assets activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,487,397	\$ -	\$ -	\$ 1,487,397
Equipment (historical treasure)	40,000	-	-	40,000
Construction in progress	5,168,363	5,564,509	6,862,253	3,870,619
Total capital assets, not being depreciated	<u>6,695,760</u>	<u>5,564,509</u>	<u>6,862,253</u>	<u>5,398,016</u>
Capital assets, being depreciated:				
Buildings & system	25,176,945	2,852,388	-	28,029,333
Equipment & other	13,735,988	405,745	206,032	13,935,701
Total capital assets being depreciated	<u>38,912,933</u>	<u>3,258,133</u>	<u>206,032</u>	<u>41,965,034</u>
Less accumulated depreciation for:				
Buildings & system	(9,754,869)	(571,972)	-	(10,326,841)
Equipment & other	(9,892,784)	(880,024)	(170,281)	(10,602,527)
Total accumulated depreciation	<u>(19,647,653)</u>	<u>(1,451,996)</u>	<u>(170,281)</u>	<u>(20,929,368)</u>
Total capital assets, being depreciated, net	<u>19,265,280</u>	<u>1,806,137</u>	<u>35,751</u>	<u>21,035,666</u>
Governmental activities capital assets, net	<u>\$ 25,961,040</u>	<u>\$ 7,370,646</u>	<u>\$ 6,898,004</u>	<u>\$ 26,433,682</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 311,536	\$ -	\$ -	\$ 311,536
Construction in progress	-	21,546	-	21,546
Total capital assets, not being depreciated	<u>311,536</u>	<u>21,546</u>	<u>-</u>	<u>333,082</u>
Capital assets, being depreciated:				
Buildings & system	58,781,165	1,992,970	-	60,774,135
Equipment & other	9,529,853	2,157,197	4,712	11,682,338
Total capital assets being depreciated	<u>68,311,018</u>	<u>4,150,167</u>	<u>4,712</u>	<u>72,456,473</u>
Less accumulated depreciation for:				
Buildings & system	(28,789,140)	(1,173,497)	-	(29,962,637)
Equipment & other	(8,960,351)	(175,567)	(4,712)	(9,131,206)
Total accumulated depreciation	<u>(37,749,491)</u>	<u>(1,349,064)</u>	<u>(4,712)</u>	<u>(39,093,843)</u>
Total capital assets, being depreciated, net	<u>30,561,527</u>	<u>2,801,103</u>	<u>-</u>	<u>33,362,630</u>
Business-type activities capital assets, net	<u>\$ 30,873,063</u>	<u>\$ 2,822,649</u>	<u>\$ -</u>	<u>\$ 33,695,712</u>

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 3: CAPITAL ASSETS (Cont'd)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		
General government	\$	145,435
Public safety		441,705
Public works		728,862
Developmental services		12,268
Sanitation		41,785
Culture and recreation		74,697
Public welfare		7,244
Total depreciation expense - governmental activities	<u>\$</u>	<u>1,451,996</u>
Business-type activities:		
Water and sewer	\$	1,039,581
Hospital		258,808
Golf course		50,675
Total depreciation expense - business-type activities	<u>\$</u>	<u>1,349,064</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Kilgore Economic Development Corporation:</b>				
Capital assets, not being depreciated:				
Land	\$ 161,072	\$ -	\$ -	\$ 161,072
Property held for resale/transfer	3,465,432	55,301	528,893	2,991,840
Total capital assets, not being depreciated	<u>3,626,504</u>	<u>55,301</u>	<u>528,893</u>	<u>3,152,912</u>
Capital assets, being depreciated:				
Buildings & improvements	14,659,674	1,324,367	-	15,984,041
Furniture, fixtures, & equipment	237,374	-	-	237,374
Total capital assets being depreciated	<u>14,897,048</u>	<u>1,324,367</u>	<u>-</u>	<u>16,221,415</u>
Less accumulated depreciation for:				
Buildings & improvements	(4,601,943)	(728,867)	-	(5,330,810)
Furniture, fixtures, & equipment	(175,227)	(21,461)	-	(196,688)
Property held for resale/transfer	(4,419)	-	-	(4,419)
Total accumulated depreciation	<u>(4,781,589)</u>	<u>(750,328)</u>	<u>-</u>	<u>(5,531,917)</u>
Total capital assets, being depreciated, net	10,115,459	574,039	-	10,689,498
Kilgore Economic Development Corporation capital assets, net	<u>\$ 13,741,963</u>	<u>\$ 629,340</u>	<u>\$ 528,893</u>	<u>\$ 13,842,410</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Economic Development	\$ 750,328
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**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 4: LONG TERM DEBT**

**General Obligation Bonds**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds are reported in the Proprietary Funds if they are expected to be repaid from Proprietary Fund revenues.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds currently outstanding are as follows:

2009 general obligation refunding bonds due in various annual principal installments through February, 2017, interest from 2% to 3%

Enterprise Fund	<u>\$ 60,000</u>
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Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending September 30	Business-Type Activities	
	Principal	Interest
2017	\$ 60,000	\$ 900
Total	\$ 60,000	\$ 900

**Certificates of Obligation**

The City issues certificates of obligation to provide funds for the acquisition and construction of major capital facilities. Certificate of obligation bonds may be issued for both general government and proprietary activities. These bonds are reported in the Proprietary Funds if they are expected to be repaid from Proprietary Fund revenues.

The City has outstanding certificate of obligation bonds as follows:

2008 Tax and Waterworks and Sewer System (Limited Pledge) Revenue Certificate of Obligations due in various annual principal installments through August 2028, interest from 4.0% to 4.5%.

Debt Service Fund	<u>\$ 3,800,000</u>
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Annual debt service requirements to maturity for certificate of obligations are as follows:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2017	\$ 225,000	\$ 161,025
2018	275,000	150,900
2019	275,000	138,525
2020	275,000	127,525
2021	300,000	116,525
2022-2026	1,675,000	391,375
2027-2031	775,000	51,113
Total	\$ 3,800,000	\$ 1,136,988

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 4: LONG TERM DEBT** (Cont'd)

**Notes Payable**

The City has an outstanding note payable to the Texas Comptroller in the amount of \$389,264 for local taxes that belonged to another municipality but were mistakenly received by the City of Kilgore. The note is payable in annual installments of \$97,340, beginning in December 2015, with the last installment of \$97,244 due in December 2019.

Annual debt service requirements to maturity for notes payable are as follows:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2017	\$ 97,340	\$ -
2018	97,340	-
2019	97,340	-
2020	97,244	-
Total	\$ 389,264	\$ -

**Capital Leases**

The City is obligated under four capital leases for golf carts and mowing equipment. The equipment acquired through capital lease has a net book value of \$69,379. The lease payments relating to the equipment have been capitalized and included in equipment in the golf course enterprise fund.

The outstanding leases at September 30, 2016 are as follows:

Ten (10) YDRA Golf Cars payable in 48 monthly installments of \$542.68, including interest at 3.88%, with a balloon payment of \$16,000 on February 1, 2017.

Golf Course Enterprise Fund \$ 17,897

John Deere Fairway and Greens mower payable in 48 monthly installments of \$2,150.37, including interest at 4%, with final payment due July 1, 2019.

Golf Course Enterprise Fund \$ 67,094

John Deere Riding Greens Mower payable in 36 monthly installments of \$176.53, including interest at 4%, with final payment due July 1, 2018.

Golf Course Enterprise Fund \$ 3,575

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 4: LONG TERM DEBT (Cont'd)**

**Capital Leases (Cont'd)**

Annual debt service requirements to maturity for capital leases are as follows:

Year Ending September 30	Governmental Activities
2017	\$ 46,094
2018	27,394
2019	19,354
Total amount of minimum lease payments	92,842
Less: amount representing interest	(4,276)
Present value of minimum lease payments	<u>\$ 88,566</u>

**Changes in Long-Term Liabilities**

Long-term liability activity for the year ended September 30, 2016, was as follows:

	Balance 10/1/2015	Additions	Retirements	Balance 9/30/2016	Due Within One Year
<b>Governmental activities:</b>					
General obligation and certificates of obligation	\$ 4,025,000	\$ -	\$ (225,000)	\$ 3,800,000	\$ 225,000
Loans	531,297	-	(142,033)	389,264	97,340
Net pension liability	4,257,408	3,422,267	(1,493,504)	6,186,171	-
Compensated absences	615,604	452,116	(396,038)	671,682	273,521
Claims payable	81,264	8,036	(2,869)	86,431	86,431
Total governmental activities	<u>\$ 9,510,573</u>	<u>\$ 3,882,419</u>	<u>\$ (2,259,444)</u>	<u>\$ 11,133,548</u>	<u>\$ 682,292</u>
<b>Business-type Activities:</b>					
General obligation bonds	\$ 295,000	\$ -	\$ (235,000)	\$ 60,000	\$ 60,000
Capital lease obligation	121,482	-	(32,916)	88,566	43,458
Net pension liability	525,882	1,717,488	(435,203)	1,808,167	-
Compensated absences	114,444	65,057	(71,388)	108,113	40,319
Total business-type activities	<u>\$ 1,056,808</u>	<u>\$ 1,782,545</u>	<u>\$ (774,507)</u>	<u>\$ 2,064,846</u>	<u>\$ 143,777</u>
<b>Component Units:</b>					
Revenue bonds	\$ 2,080,000	\$ 1,770,000	\$ (195,000)	\$ 3,655,000	\$ 190,000
Bond premium	-	111,238	-	111,238	-
Loans	194,641	-	(48,660)	145,981	48,660
Note payable to primary government	400,000	-	-	400,000	-
Total governmental activities	<u>\$ 2,674,641</u>	<u>\$ 1,881,238</u>	<u>\$ (243,660)</u>	<u>\$ 4,312,219</u>	<u>\$ 238,660</u>

Within the governmental activities, the General Fund generally liquidates the liability for compensated absences payable, claims liability, and the net pension liability. The loan will also be liquidated by the General Fund.

**CITY OF KILGORE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE 4: LONG TERM DEBT** (Cont'd)

**Component Unit – Kilgore Economic Development Corporation**

KEDC issued \$2,775,000 of sales tax revenue refunding & improvement bonds, Series 2010, to provide sufficient funds to discharge and pay for KEDC's obligation for the 1999 Sales Tax Revenue and the 1999 Taxable Sales Tax Revenue Bonds. The refunded obligations were refunded to achieve debt service savings of approximately \$192,747.

KEDC issued \$1,770,000 of sales tax revenue, Series 2015, to provide sufficient funds to construct certain roadways, drainage improvements, and City-owned public utilities for the purpose of promoting new or expanded business development in the City, and pay the costs of professional services including the cost of issuance of Bonds.

KEDC issues bonds whereby the government pledges income from sales tax to pay the related debt service. Revenue bonds outstanding at year-end are as follows:

2010 Sales Tax Revenue Refunding & Improvement Bonds, due in various principal installments through September 15, 2029, interest from 2.0% to 4.25%	<u>\$ 1,960,000</u>
2015 Sales Tax Revenue Bonds, due in various principal installments through September 15, 2035, interest from 2.0% to 4.0%	
Kilgore Economic Development Corporation	<u>\$ 1,695,000</u>

KEDC has an outstanding note payable to the Texas Comptroller in the amount of \$194,641 for local taxes that belonged to another municipality but were mistakenly received by KEDC. The original note payable of \$243,301 is payable in annual installments of \$48,660, beginning in December 2015, with the last installment of \$48,661 due in December 2019.

The principal and interest requirements at September 30, 2016, for the component unit debt for the next five years and, thereafter, are as follows:

Year Ending September 30	KEDC	
	Principal	Interest
2017	\$ 238,660	\$ 135,488
2018	238,660	130,488
2019	248,661	125,338
2020	200,000	119,713
2021	210,000	112,413
2022-2026	1,180,000	440,263
2027-2032	1,030,000	197,369
2033-2035	455,000	46,200
Total	\$ 3,800,981	\$ 1,307,272

**Kilgore Redevelopment Authority**

The note payable owed to the City of Kilgore (Note 11) in the amount of \$400,000 currently does not have a payment timeline established. The note continues to accrue interest at a rate of 3% annually.

**CITY OF KILGORE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE 5: PENSION AND EMPLOYEE BENEFIT PLANS**

**Texas Municipal Retirement System**

***Plan Description***

The City of Kilgore participates as one of 866 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 comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

The following notes include the City's net pension liability and the Roy H. Laird Memorial Hospital Foundation's (Hospital), a component unit of the City, net pension liability which is recorded on the City's financial statements because the City is ultimately responsible for the liability.

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

***Benefits provided***

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

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

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

	Plan Year 2016	Plan Year 2015
Employee deposit rate	7% City / 5% Hospital	7% City / 5% Hospital
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI	70% of CPI

***Employees covered by benefit terms***

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	171
Inactive employees entitled to but not yet receiving benefits	122
Active employees	158
	451

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 5: PENSION AND EMPLOYEE BENEFIT PLANS (Cont'd)**

**Texas Municipal Retirement System (Cont'd)**

***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 and the Hospital were required to contribute 7% and 5% of their annual gross earnings during the fiscal year, respectively. The contribution rates for the City were 16.21% and 14.85% in calendar years 2015 and 2016, respectively. The contribution rates for the Hospital were a fixed amount of \$47,537 and \$29,245 in calendar years 2015 and 2016, respectively. The City's total contributions to TMRS for the year ended December 31, 2015, were \$1,219,160, and were equal to the required contributions.

***Net Pension Liability***

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

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

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

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 5: PENSION AND EMPLOYEE BENEFIT PLANS (Cont'd)**

**Texas Municipal Retirement System (Cont'd)**

**Net Pension Liability**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	100.00%	

**Discount Rate**

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

**Changes in Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/14	\$ 50,806,877	\$ 46,023,586	\$ 4,783,291
Changes for the year:			
Service cost	1,199,295	-	1,199,295
Interest	3,502,728	-	3,502,728
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(128,775)	-	(128,775)
Changes of assumptions	394,324	-	394,324
Contributions - employer	-	1,219,160	(1,219,160)
Contributions - employee	-	512,864	(512,864)
Net investment income	-	67,908	(67,908)
Benefit payments, including refunds of employee contributions	(2,735,118)	(2,735,118)	-
Administrative expense	-	(41,364)	41,364
Other changes	-	(2,043)	2,043
Net changes	2,232,454	(978,593)	3,211,047
<b>Balance at 12/31/15</b>	<b>\$ 53,039,331</b>	<b>\$ 45,044,993</b>	<b>\$ 7,994,338</b>

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 5: PENSION AND EMPLOYEE BENEFIT PLANS (Cont'd)**

**Texas Municipal Retirement System (Cont'd)**

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 15,225,767	\$ 7,994,338	\$ 2,060,914

***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 outflows and inflows of resources related to pensions***

For the year ended September 30, 2016, the city recognized pension expense of \$1,666,857.

At September 30, 2016, the city reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Changes in actuarial assumptions	\$ 55,973
Difference between projected and actual investment earnings	2,862,524
Contributions subsequent to the measurement date	867,492
Total	\$ 3,785,989

\$867,492 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, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2016	\$ 762,708
2017	762,708
2018	762,334
2019	630,747
2020	-

At September 30, 2016, the city reported deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources
Difference between projected and actual economic experience	\$ 685,230

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2016	\$ 324,205
2017	324,205
2018	36,820
2019	-
2020	-

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 5: PENSION AND EMPLOYEE BENEFIT PLANS (Cont'd)**

***Supplemental Death Benefits Fund***

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

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

The City's contribution to TMRS SDBF for the years ended 2016, 2015, and 2014 were \$21,265, \$20,041 and \$18,765, respectively, which equaled the required contributions each year.

**IRC 457 Deferred Compensation Plans**

The City offers its executive employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457, which is administered by Nationwide Retirement Solutions, Inc. At September 30, 2016, the balance of Plan assets was \$1,141,783. However, due to the fact that the City does not administer this plan, the plan is not included in the City's financial statements.

**Other Post-Employment Benefits (OPEB)**

***Plan Description***

For eligible retirees (age 55 with 20 years of service), the City provides a flat subsidy per month, based on the premium of the standard PPO plan of the current fiscal year, to purchase health insurance coverage elsewhere. For the year ending September 30, 2016, the monthly subsidy was equal to \$507.05.

***Funding Policy***

The City set up an irrevocable trust for OPEB, which is reported as a Fiduciary Fund in the financial statements. The annual employer contribution is equal to the ARC (annual required contribution). Under this funding policy, a discounted rate consistent with the investment return earned on the plan's assets is used. Dependent on the asset allocation of the investment pool, this rate is based on longer term investments. In this valuation, the discount rate is 7.5%.

The present value of all benefits expected to be paid to current plan members as of October 1, 2014 is \$1,057,647. The actuarial accrued liability is the liability or obligation for benefits earned through the valuation date, based on certain actuarial methods and assumptions. The Plan's Actuarial Accrued Liability at October 1, 2014 is \$670,895. The actuarial accrued liability represents 63.43% of the present value of all projected benefits. The assets available to offset the liability as of October 1, 2014 are \$1,007,878 resulting in an unfunded actuarial accrued liability of (\$336,983).

Service cost is the value of benefits expected to be earned during the year, based on certain actuarial methods and assumptions. The 2016 fiscal year service cost is \$ 33,176.

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 5: PENSION AND EMPLOYEE BENEFIT PLANS (Cont'd)**

**Other Post-Employment Benefits (Cont'd)**

**Annual Required Contribution (ARC)**

GASB Statement No. 45 sets the method for determining the City's postemployment benefits accrual, the Annual Required Contribution (ARC), to include both the value of the benefits earned during the year (Service Cost) and an amortization of the unfunded actuarial accrued liability. Accordingly, the following table shows the City's 2016 Fiscal Year Annual Required Contribution (ARC) based on a 30-year amortization of the unfunded actuarial accrued liability as a level dollar amount.

Service Cost	\$ 33,176
Unfunded Actuarial Accrued Liability Amortization	<u>(26,045)</u>
Annual Required Contribution (ARC)	<u><u>\$ 7,131</u></u>

**Annual OPEB Cost Summary**

If there is a prior year net OPEB obligation (asset), the Annual OPEB Cost should reflect an adjustment for the obligation including both an interest adjustment and amortization of the prior year OPEB obligation (asset).

Annual Required Contribution (ARC)	\$ 7,131
Interest on Prior Year Net OPEB Asset	(15,297)
Amortization of Prior Year Net OPEB Asset	<u>17,270</u>
Total Annual OPEB Cost (AOC)	<u><u>\$ 9,104</u></u>

Fiscal Year Ended	Annual OPEB Costs	Employer Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
September 30, 2014	\$ 14,358	\$ 77,541	540.1%	\$ (133,271)
September 30, 2015	7,766	78,449	1010.2%	(203,954)
September 30, 2016	9,104	60,261	661.9%	(255,111)

**Actuarial Methods and Assumptions**

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability (asset).

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 5: PENSION AND EMPLOYEE BENEFIT PLANS (Cont'd)**

**Other Post-Employment Benefits (Cont'd)**

**Actuarial Methods and Assumptions**

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets. Significant methods and assumptions are as follows:

Actuarial Methods and Assumptions

Inflation rate	3.00% per annum
Investment rate of return	7.50%, net of expenses
Actuarial cost method	Projected Unit Cost Method
Amortization method	Level Dollar
Amortization period	30-year, open amortization
Payroll growth	None
Healthcare cost trend rate	3.50% level assumed

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**NOTE 6: INTERFUND TRANSACTIONS**

Transfers between funds during the year were as follows:

	Transfers In			
	Governmental		Enterprise	
	General Fund	Non-Major Governmental Funds	Water and Sewer Fund	Total
Transfers Out:				
General Fund	\$ 11,711	\$ -	\$ -	\$ 11,711
Capital Project Fund	1,824,000	-	3,396,337	5,220,337
Non-Major Governmental Funds	16,559	-	-	16,559
Water and Sewer Fund	-	240,325	150,000	390,325
Golf Course Fund	230,000	-	-	230,000
Total	<u>\$ 2,082,270</u>	<u>\$ 240,325</u>	<u>\$ 3,546,337</u>	<u>\$ 5,868,932</u>

Significant transfers are related to capital projects that were completed during the year and transferred to their respective funds. In addition, \$230,000 was transferred from the Golf Course Fund to the General Fund for administrative support and \$240,325 was transferred out of the Water and Sewer Fund to the Debt Service Fund for payment on debt.

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 6: INTERFUND TRANSACTIONS (Cont'd)**

The composition of interfund balances as of September 30, 2016, is as follows:

Due To:	Due From			
	Enterprise			
	Golf Course Fund	Hospital Fund	Internal Service	Total
General Fund	\$ 27,972	\$ -	\$ 25,018	\$ 52,990
Water and Sewer Fund	-	14,078	-	14,078
Total	\$ 27,972	\$ 14,078	\$ 25,018	\$ 67,068

Advances To:	Advances From		
	Governmental		
	Non-Major		Total
	Governmental Funds	Water and Sewer	
General Fund	\$ 429,712	\$ 1,400,000	\$ 1,829,712
Total	\$ 429,712	\$ 1,400,000	\$ 1,829,712

The significant interfund balance between the General Fund and the Nonmajor governmental funds is related to the deficit fund balance in the Tax Increment Reinvestment Zone Fund as a result of a loan the City made to Kilgore Redevelopment Authority. The loan does not have a specified timeline for repayment, but it is accruing interest at 3% per year. The interfund balance between the General Fund and the Water and Sewer Fund is related to an advance receivable for the purpose of a sanitary sewer evaluation. The advance will be repaid over 20 years at a 3.5% interest rate.

**NOTE 7: COMMITMENTS AND CONTINGENCIES**

**Grant Audits**

The City received federal and state grants for special purposes that are subjected to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would be insignificant.

**Construction Commitments**

The City has active construction projects as of September 30, 2016. The projects include street construction, drainage construction, and the construction of water and sewer facilities. At year-end, the City's commitments with contractors are as follows:

Project	Spent-to-Date	Estimated Remaining Commitment
Youth Sports Complex	\$ 1,435,575	\$ 487,000
Street Construction	46,282	371,476
Trails Project	60,836	339,164
FEMA Recovery Project	19,011	500,000
Downtown Storm Drain	265,730	584,796
Water Supply Options	21,546	178,454
	\$ 3,892,164	\$ 2,582,971

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

**NOTE 7: COMMITMENTS AND CONTINGENCIES (Cont'd)**

**Water Rights**

The City of Kilgore contracted with the Sabine River Authority to build and maintain a water collection facility on the Sabine River for the purpose of collecting and transferring water from the river to the City's water treatment plant. The City of Kilgore is directly liable for bonds issued to pay for construction of the River Authority collection plant; however, no ownership of the facility is vested with the City of Kilgore. As a result of this obligation to pay debt, the City has the right to receive water, as needed, from the River Authority for the operational life of the facility.

The water rights are being amortized ratably over the life of the bond. Amortization for the year ending September 30, 2016 was \$52,619.

	Business-Type Activities
Water Rights	\$ 1,289,164
Less: Accumulated amortization	(1,157,617)
Water Rights, Net	\$ 131,547

**NOTE 8: RISK MANAGEMENT**

**Group Health**

The City provides medical benefits to City employees under a fully pooled program through the TML Intergovernmental Employee Benefits Pool (TML IEBP). The TML IEBP provides these benefits pursuant to Chapter 172 of the Local Government Code and the Interlocal Cooperation Act.

**General Liability**

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

**Worker's Compensation**

All City employees are covered by a risk pool workmen's compensation insurance program. The City pays certain administrative fees to an independent insurance intermediary who administers the program and processes all claims. Any valid claims are paid by the City and charged as current operating expenditures. Any potential future claims cannot be determined and, as of September 30, 2016, the administrator had not reported any such claims to the City.

**NOTE 9: CHANGE IN ACCOUNTING ESTIMATE**

**Allowance For Doubtful Accounts**

Municipal Court receivables are stated net of an allowance for doubtful accounts. Prior to 2016, the City estimated the allowance based on its historical experience of collections. As a result of additional experience, the City changed to estimating the allowance based on an analysis of specific accounts, taking into consideration the age of past due accounts and excluding accounts that have been sent to a third party collection company from the receivable. This change resulted in a \$1,085,489 decrease in the change in net position for the Governmental Activities for the year ended September 30, 2016. The allowance for doubtful municipal court accounts was \$134,716 at September 30, 2016.

**Claims Liability**

During the year, Texas Municipal League (TML), the Plan administrator for General Liability and Workers Compensation Plans, reviewed the estimates related to open claims and made changes to the estimates based on their professional judgment of the circumstances surrounding those claims. The change in estimate for Governmental Activities amounted to a \$1,566 decrease in net position. It is management's opinion that the liability recorded for the City as of September 30, 2016 is adequate to cover insurance deductibles and potential claims outside of the insurance coverage.

**CITY OF KILGORE, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016**

**NOTE 10: CITY AS LESSOR**

The city entered into a long-term lease agreement with Allegiance Specialty Hospital of Kilgore (“Allegiance”) for space in the hospital building that the City owns. The agreement in place began January 1, 2010, automatically renewed on January 1, 2016, and expires on December 31, 2020. Allegiance sublets to other tenants with the City’s approval. The lease is accounted for in the Hospital Fund (a proprietary fund). During 2016, lease income to the City was \$255,000 (\$10,000 per month from October through December and \$25,000 per month from January through September). At year-end, there is a receivable balance of \$-0-. Rental income through this non-cancellable lease through December 2020 will be \$1,275,000 (\$25,000 per month for the following 51 months). The leased building has a cost of \$21,082,413, accumulated depreciation of \$16,103,052, and a carrying value of \$4,979,361.

**NOTE 11: RELATED PARTY TRANSACTIONS**

The following schedule presents significant transactions between the primary government and its component units for the year ended September 30, 2016:

<b>Component Unit</b>	<b>Significant Transactions</b>
Kilgore Redevelopment Authority	Note receivable in the amount of \$400,000, with an interest rate of 3% annually. Accrued interest receivable of \$77,599 at September 30, 2016.
Roy H. Laird Memorial Hospital Foundation	\$38,070 contribution for the Texas Municipal Retirement System obligation for former City employees of the Roy H. Laird Memorial Hospital.

**NOTE 12: SUBSEQUENT EVENTS**

In February 2017, the City refinanced the 2008 certificates of obligation and issued \$4,055,000 of Series 2017 Combination Tax and Limited Pledge Revenue Certificates of Obligation and \$3,365,000 of Series 2017 General Obligation Refunding Bonds.

Subsequent events have been evaluated through March 6, 2017, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

**CITY OF KILGORE, TEXAS**

**REQUIRED SUPPLEMENTAL INFORMATION  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

**LAST 10 FISCAL YEARS\***

**(UNAUDITED)**

	<u>12/31/2014</u>	<u>12/31/2015</u>
<b>Total Pension Liability</b>		
Service Cost	\$ 1,088,874	\$ 1,199,295
Interest (on the Total Pension Liability)	3,458,531	3,502,728
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	(1,383,324)	(128,775)
Changes of Assumptions	-	394,324
Benefit Payments, Including Refunds of Employee Contributions	<u>(2,440,704)</u>	<u>(2,735,118)</u>
<b>Net Change in Total Pension Liability</b>	723,377	2,232,454
<b>Total Pension Liability - Beginning</b>	<u>50,083,500</u>	<u>50,806,877</u>
<b>Total Pension Liability - Ending (a)</b>	<u><u>\$ 50,806,877</u></u>	<u><u>\$ 53,039,331</u></u>
 <b>Plan Fiduciary Net Position</b>		
Contributions - Employer	\$ 1,221,385	\$ 1,219,160
Contributions - Employee	525,562	512,864
Net Investment Income	2,529,283	67,908
Benefit Payments, Including Refunds of Employee Contributions	(2,440,704)	(2,735,118)
Administrative Expense	(26,409)	(41,364)
Other	<u>(2,171)</u>	<u>(2,043)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	1,806,946	(978,593)
<b>Plan Fiduciary Net Position - Beginning</b>	<u>44,216,640</u>	<u>46,023,586</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u><u>\$ 46,023,586</u></u>	<u><u>\$ 45,044,993</u></u>
 <b>Net Pension Liability - Ending (a) - (b)</b>	<u><u>\$ 4,783,291</u></u>	<u><u>\$ 7,994,338</u></u>
 <b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	90.59%	84.93%
 <b>Covered Employee Payroll</b>	\$ 7,070,216	\$ 7,330,652
 <b>Net Pension Liability as a Percentage of covered Employee Payroll</b>	67.65%	109.05%

\* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**CITY OF KILGORE, TEXAS**

**REQUIRED SUPPLEMENTAL INFORMATION  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SCHEDULE OF CONTRIBUTIONS**

**LAST 10 FISCAL YEARS\***

**(UNAUDITED)**

	<u>9/30/2015</u>	<u>9/30/2016</u>
Actuarially Determined Contribution	\$ 1,250,879	\$ 1,196,297
Contributions in relation to the actuarially determined contribution	1,250,879	1,196,297
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 7,321,268	\$ 7,733,149
Contributions as a percentage of covered employee payroll	17.09%	15.47%

**NOTES TO SCHEDULE OF CONTRIBUTIONS**

**Valuation Date:**

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

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

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years (City) / 12 years (Hospital)
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation (City) / N/A (Hospital)
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

**Other Information:**

Notes There were no benefit changes during the year.

\* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**CITY OF KILGORE, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**OTHER POST-EMPLOYMENT BENEFITS PLAN**  
**SCHEDULE OF FUNDING PROGRESS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/1/2012	710,736	1,349,547	638,811	52.7%	6,268,505	10.19%
10/1/2013	953,788	715,675	(238,113)	133.3%	7,013,276	-3.40%
10/1/2014	1,007,878	670,895	(336,983)	150.2%	7,396,471	-4.56%

(1) The annual covered payroll is the payroll related to those grandfathered employees who will be able to retire and continue health coverage at a subsidized premium.

**COMBINING FUND FINANCIAL STATEMENTS**

## NONMAJOR GOVERNMENTAL FUNDS

### *Special Revenue Funds*

**Hotel Occupancy Taxes Fund** - To account for the 7% occupancy tax on hotel accommodations. The funds are to be expended on endeavors which promote tourism and the convention and hotel industry.

**Grant Fund** - To account for grant revenue and expenditures of the City.

**911 Emergency Fund** - To account for the collection of 911 fees that are restricted for the use of the City's 911 system.

**Tax Increment Reinvestment Zone Fund** - To account to account for Tax Increment Reinvestment Zone (TIRZ) revenue that is to be used on road improvements, utilities, etc. in that zone.

**Federal Drug Seizure Fund** - To account for seizures received from the U.S. Department of Justice and can be used for certain law enforcement expenses.

**Chapter 59 Drug Seizures Fund** - To account for asset forfeitures under Chapter 59 of the Code of Criminal Procedures.

**Court Technology Fund** - To account for technology fees that the municipal court assesses. The funds are required to be used on court technology.

**Court Security Fund** - To account for security fees that the municipal court assesses. The funds are required to be used on court security.

**Main Street Hotel Fund** - To account for a portion of hotel/motel taxes used to encourage pedestrian traffic in the downtown area.

**Main Street Theater Restoration Fund** - To account for a portion of hotel/motel taxes and some citizen donations used to restore downtown theaters.

**Kilgogh Art Festival Fund** - To account for a portion of hotel/motel taxes and some citizen donations used to help fund the yearly art festival.

### *Debt Service Fund*

**Interest and Sinking Fund** - To account for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**CITY OF KILGORE, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2016**

Special Revenue Funds

	Hotel Occupancy Taxes	Grant	911 Emergency	Tax Increment Reinvestment Zone	Federal Drug Seizure
<b>ASSETS</b>					
Cash and cash equivalents	\$ 56,559	\$ 9,625	\$ 16,471	\$ -	\$ 31
Investments	368,837	62,763	114,023	-	200
Receivables (net of allowance for estimated uncollectible accounts):					
Taxes	68,523	-	-	-	-
Accounts	-	11,283	3,435	-	-
Interest on long-term receivable	-	-	-	77,599	-
Total assets	<u>\$ 493,919</u>	<u>\$ 83,671</u>	<u>\$ 133,929</u>	<u>\$ 77,599</u>	<u>\$ 231</u>
<b>LIABILITIES</b>					
Trade payables	\$ 12,214	\$ 13,627	\$ 3,734	\$ -	\$ -
Accrued payroll and related expenses	-	-	142	-	-
Advance payable	-	-	-	429,712	-
Total liabilities	<u>12,214</u>	<u>13,627</u>	<u>3,876</u>	<u>429,712</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - property taxes	-	-	-	-	-
Unavailable revenue - interest on long-term receivable	-	-	-	77,599	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,599</u>	<u>-</u>
<b>FUND BALANCES</b>					
Restricted for:					
Debt service	-	-	-	-	-
Grant restrictions	-	70,044	-	-	-
Municipal court	-	-	-	-	-
Public safety	-	-	130,053	-	231
Tourism and convention facilities	481,705	-	-	-	-
Unassigned	-	-	-	(429,712)	-
Total fund balances	<u>481,705</u>	<u>70,044</u>	<u>130,053</u>	<u>(429,712)</u>	<u>231</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 493,919</u>	<u>\$ 83,671</u>	<u>\$ 133,929</u>	<u>\$ 77,599</u>	<u>\$ 231</u>

							Debt Service Fund	Total Nonmajor Governmental Funds
Chapter 59 Drug Seizure	Court Technology	Court Security	Main Street Hotel	Main Street Theater Restoration	Kilgogh Art Festival	Total	Interest & Sinking	
\$ 2,397	\$ 490	\$ 10,459	\$ 689	\$ 1,834	\$ 528	\$ 99,083	\$ 234,271	\$ 333,354
15,629	3,181	68,207	4,496	11,963	3,446	652,745	462	653,207
-	-	-	-	-	-	68,523	51,546	120,069
5	-	21	1	3	1	14,749	-	14,749
-	-	-	-	-	-	77,599	-	77,599
<u>\$ 18,031</u>	<u>\$ 3,671</u>	<u>\$ 78,687</u>	<u>\$ 5,186</u>	<u>\$ 13,800</u>	<u>\$ 3,975</u>	<u>\$ 912,699</u>	<u>\$ 286,279</u>	<u>\$ 1,198,978</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,575	\$ 404	\$ 29,979
-	-	-	-	-	-	142	-	142
-	-	-	-	-	-	429,712	-	429,712
-	-	-	-	-	-	459,429	404	459,833
-	-	-	-	-	-	-	51,546	51,546
-	-	-	-	-	-	77,599	-	77,599
-	-	-	-	-	-	77,599	51,546	129,145
-	-	-	-	-	-	-	234,329	234,329
-	-	-	-	-	-	70,044	-	70,044
-	3,671	78,687	-	-	-	82,358	-	82,358
18,031	-	-	-	-	-	148,315	-	148,315
-	-	-	5,186	13,800	3,975	504,666	-	504,666
-	-	-	-	-	-	(429,712)	-	(429,712)
<u>18,031</u>	<u>3,671</u>	<u>78,687</u>	<u>5,186</u>	<u>13,800</u>	<u>3,975</u>	<u>375,671</u>	<u>234,329</u>	<u>610,000</u>
<u>\$ 18,031</u>	<u>\$ 3,671</u>	<u>\$ 78,687</u>	<u>\$ 5,186</u>	<u>\$ 13,800</u>	<u>\$ 3,975</u>	<u>\$ 912,699</u>	<u>\$ 286,279</u>	<u>\$ 1,198,978</u>

**CITY OF KILGORE, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Special Revenue Funds

	Hotel Occupancy Taxes	Grant	911 Emergency	Tax Increment Reinvestment Zone	Federal Drug Seizure	Chapter 59 Drug Seizure
<b>REVENUES</b>						
Taxes:						
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	309,593	-	108,080	-	-	-
Charges for services:						
Police court fines and fees	-	-	-	-	-	-
Drug seizure revenue	-	-	-	-	45,739	2,833
Grants	-	231,487	-	-	-	-
Interest on investments	1,726	80	448	-	-	92
Miscellaneous	-	-	-	-	-	440
Total revenues	<u>311,319</u>	<u>231,567</u>	<u>108,528</u>	<u>-</u>	<u>45,739</u>	<u>3,365</u>
<b>EXPENDITURES</b>						
Current:						
Public safety:						
Police	-	250,402	70,387	-	46,941	13,116
Culture and recreation:						
Parks	-	-	-	-	-	-
Grants	294,834	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>294,834</u>	<u>250,402</u>	<u>70,387</u>	<u>-</u>	<u>46,941</u>	<u>13,116</u>
Excess (deficiency) of revenues over (under) expenditures	<u>16,485</u>	<u>(18,835)</u>	<u>38,141</u>	<u>-</u>	<u>(1,202)</u>	<u>(9,751)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	16,559	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>16,559</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>16,485</u>	<u>(2,276)</u>	<u>38,141</u>	<u>-</u>	<u>(1,202)</u>	<u>(9,751)</u>
Fund balance - beginning of year	<u>465,220</u>	<u>72,320</u>	<u>91,912</u>	<u>(429,712)</u>	<u>1,433</u>	<u>27,782</u>
Fund balance - end of year	<u>\$ 481,705</u>	<u>\$70,044</u>	<u>\$ 130,053</u>	<u>\$ (429,712)</u>	<u>\$ 231</u>	<u>\$ 18,031</u>

						Debt Service Fund	Total Nonmajor Governmental Funds
Court Technology	Court Security	Main Street Hotel	Main Street Theater Restoration	Kilgogh Art Festival	Total	Interest & Sinking	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 722,407	\$ 722,407
-	-	-	-	-	417,673	-	417,673
9,206	6,975	-	-	-	16,181	-	16,181
-	-	-	-	-	48,572	-	48,572
-	-	-	-	-	231,487	-	231,487
6	292	21	54	16	2,735	4,612	7,347
-	-	-	-	2,165	2,605	-	2,605
<u>9,212</u>	<u>7,267</u>	<u>21</u>	<u>54</u>	<u>2,181</u>	<u>719,253</u>	<u>727,019</u>	<u>1,446,272</u>
4,745	-	-	-	-	385,591	-	385,591
-	-	103	-	2,880	2,983	-	2,983
-	-	-	-	-	294,834	-	294,834
-	-	-	-	-	-	225,000	225,000
-	-	-	-	-	-	172,650	172,650
<u>4,745</u>	<u>-</u>	<u>103</u>	<u>-</u>	<u>2,880</u>	<u>683,408</u>	<u>397,650</u>	<u>1,081,058</u>
<u>4,467</u>	<u>7,267</u>	<u>(82)</u>	<u>54</u>	<u>(699)</u>	<u>35,845</u>	<u>329,369</u>	<u>365,214</u>
-	-	-	-	-	16,559	-	16,559
-	-	-	-	-	-	(240,325)	(240,325)
-	-	-	-	-	16,559	(240,325)	(223,766)
<u>4,467</u>	<u>7,267</u>	<u>(82)</u>	<u>54</u>	<u>(699)</u>	<u>52,404</u>	<u>89,044</u>	<u>141,448</u>
<u>(796)</u>	<u>71,420</u>	<u>5,268</u>	<u>13,746</u>	<u>4,674</u>	<u>323,267</u>	<u>145,285</u>	<u>468,552</u>
<u>\$ 3,671</u>	<u>\$78,687</u>	<u>\$ 5,186</u>	<u>\$ 13,800</u>	<u>\$ 3,975</u>	<u>\$ 375,671</u>	<u>\$ 234,329</u>	<u>\$ 610,000</u>

## **INTERNAL SERVICE FUNDS**

**Employee Benefit Fund** - To account for the City's hospitalization plan for employee medical premiums. All activities related to such plan are accounted for in this fund, including, but not limited to, administration, claims reimbursement and collection of premiums.

**Capital Equipment Purchase Fund** - To account for personal equipment purchased by the fund for lease to various departments of the City. All activities to provide such service are accounted for in the fund, including, but not limited to, purchases, sales and collection.

**Information Technology Fund** - To account for IT costs paid by the City and allocated among departments benefiting from the services.

**CITY OF KILGORE, TEXAS**  
**COMBINING STATEMENT OF NET POSITION**  
**INTERNAL SERVICE FUNDS**  
**SEPTEMBER 30, 2016**

	Employee Benefit	Capital Equipment Purchase	Information Technology	Total
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 571,357	\$ 80,973	\$ -	\$ 652,330
Investments	250,000	528,032	-	778,032
Accounts receivable (net)	-	161	-	161
Prepaid expenses	1,627	-	-	1,627
Total current assets	<u>822,984</u>	<u>609,166</u>	<u>-</u>	<u>1,432,150</u>
Noncurrent assets:				
Capital assets (net)	-	1,117,225	197,961	1,315,186
Total noncurrent assets	<u>-</u>	<u>1,117,225</u>	<u>197,961</u>	<u>1,315,186</u>
Total assets	<u>822,984</u>	<u>1,726,391</u>	<u>197,961</u>	<u>2,747,336</u>
<b>LIABILITIES</b>				
Current liabilities:				
Trade payables	-	-	15,549	15,549
Due to other funds	-	-	25,018	25,018
Total current liabilities	<u>-</u>	<u>-</u>	<u>40,567</u>	<u>40,567</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>40,567</u>	<u>40,567</u>
<b>NET POSITION</b>				
Net investment in capital assets	-	1,117,225	197,961	1,315,186
Unrestricted	822,984	609,166	(40,567)	1,391,583
Total net position	<u>\$ 822,984</u>	<u>\$ 1,726,391</u>	<u>\$ 157,394</u>	<u>\$ 2,706,769</u>

**CITY OF KILGORE, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET POSITION**  
**INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Employee Benefit	Capital Equipment Purchase	Information Technology	Total
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,723,180	\$ 345,962	\$ 534,794	\$ 2,603,936
Total operating revenues	<u>1,723,180</u>	<u>345,962</u>	<u>534,794</u>	<u>2,603,936</u>
<b>OPERATING EXPENSES</b>				
Operating expenses	1,750,257	-	478,375	2,228,632
Depreciation and amortization	-	305,627	45,975	351,602
Total operating expenses	<u>1,750,257</u>	<u>305,627</u>	<u>524,350</u>	<u>2,580,234</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(27,077)</u>	<u>40,335</u>	<u>10,444</u>	<u>23,702</u>
<b>NONOPERATING REVENUES:</b>				
Investment earnings	6,807	2,029	(81)	8,755
Gain (loss) on sale of assets	-	28,216	-	28,216
Total nonoperating revenues	<u>6,807</u>	<u>30,245</u>	<u>(81)</u>	<u>36,971</u>
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<u>(20,270)</u>	<u>70,580</u>	<u>10,363</u>	<u>60,673</u>
Change in net position	(20,270)	70,580	10,363	60,673
Total net position, beginning	<u>843,254</u>	<u>1,655,811</u>	<u>147,031</u>	<u>2,646,096</u>
Total net position, ending	<u>\$ 822,984</u>	<u>\$ 1,726,391</u>	<u>\$ 157,394</u>	<u>\$ 2,706,769</u>

**GOVERNMENTAL COMPLIANCE SECTION**



**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 and  
Members of the City Council  
City of Kilgore, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kilgore, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Kilgore, Texas' basic financial statements, and have issued our report thereon dated March 6, 2017.

**Internal Control Over Financial Reporting**

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

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

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

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described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies (2016-1 and 2016-2).

### **Compliance and Other Matters**

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

### **City of Kilgore, Texas' Response to Findings**

City of Kilgore, Texas' response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. City of Kilgore, Texas' 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.

Henry E. Peters, PC

Longview, Texas  
March 6, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Honorable Mayor and  
Members of the City Council  
City of Kilgore, Texas

**Report on Compliance for Each Major Program**

We have audited the City of Kilgore, Texas's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Kilgore, Texas's major federal programs for the year ended September 30, 2016. City of Kilgore, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Kilgore, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Kilgore, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Kilgore, Texas' compliance.

***Opinion on Each Major Federal and State Program***

In our opinion, the City of Kilgore, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

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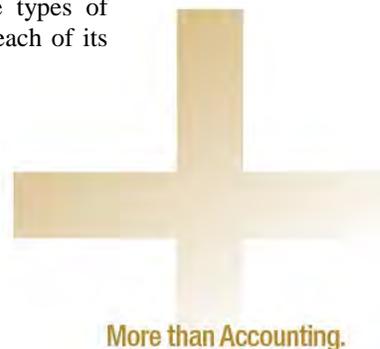
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## Report on Internal Control over Compliance

Management of the City of Kilgore, Texas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Kilgore, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Kilgore, Texas' 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Henry E. Peters, PC

Longview, Texas  
March 6, 2017

**CITY OF KILGORE, TEXAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements and Expenditures
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Passed-Through From:			
Texas Department of Agriculture			
Community Development Block Grant - Texas Capital Fund	* 14.228	7214052	\$ 709,712
Community Development Block Grant	* 14.228	7214260	<u>61,577</u>
Total U.S. Department of Housing and Urban Development			<u>771,289</u>
<b><u>U.S. Department of Justice</u></b>			
Passed-Through From:			
Texas Office of the Governor - Crinimal Justice Division			
Victim Services Coordinator	16.575	2015-VA-GX-0009	25,616
Edward Byrne Memorial Justice Assistant Grant	16.738	2013-DJ-BX-0016	<u>55,528</u>
Total U.S. Department of Justice			81,144
<b><u>U.S. Department of Homeland Security</u></b>			
Direct Programs:			
Assistance to Firefighters Grant	97.044		<u>158,364</u>
Total U.S. Department of Homeland Security			158,364
Total Federal Financial Assistance			<u>\$ 1,010,797</u>

\* Denotes major program

**CITY OF KILGORE, TEXAS**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**SEPTEMBER 30, 2016**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all applicable federal assistance programs of the City of Kilgore. The reporting entity is defined in Note 1 to the City's financial statements. Federal financial assistance received directly from federal agencies as well as federal assistance passed through other government agencies is included on the schedule.

Federal awards are organized by the City of Kilgore on the basis of funds, each of which is considered a separate accounting entity. The City has created several types of funds and a number of discrete funds within each fund type.

Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. All federal grant funds were accounted for in the Special Revenue Fund, a component of the Governmental Fund Type.

Governmental funds use the modified accrual basis of accounting. Under this method, revenue is recognized in the accounting period in which it becomes both available and measureable. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measureable.

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 deferred inflows of resources until earned.

The City has not elected to use the 10 percent (10%) de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE 2: AMOUNTS PROVIDED TO SUB-RECIPIENTS**

No federal awards were passed through from the City to sub-recipients.

**CITY OF KILGORE, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Section I - Summary of Auditor's Results**

Financial Statements

Type of auditors' report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ Yes	<u>  X  </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u>  X  </u> Yes	_____ None reported
Noncompliance material to financial statements noted?	_____ Yes	<u>  X  </u> No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	_____ Yes	<u>  X  </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ Yes	<u>  X  </u> None reported
Type of auditors' report issued on compliance for major programs?	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	_____ Yes	<u>  X  </u> No

Identification of major programs:

<u>CFDA Number(s)</u> 14.228	<u>Name of Federal Program / Cluster</u> Community Development Block Grant
---------------------------------	---

Dollar threshold used to distinguish between type A and type B	<u>\$ 750,000</u>
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Auditee qualified as low - risk auditee?	_____ Yes	<u>  X  </u> No
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**CITY OF KILGORE, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Section II - Financial Statement Findings**

2016-1

*Criteria:*

Basic internal control provides for a proper segregation of various accounting functions and reconciliation of financial transactions to the general ledger. In addition, a good system of internal control over financial reporting includes a person with skills, knowledge, and experience in governmental accounting to ensure proper reporting in compliance with Governmental Accounting Standards and adherence to relevant local government code.

*Condition:*

During the audit, we noted the following conditions:

1. A lack of segregation of duties in the cash disbursement process. The same individual is processing payables and reconciling the bank accounts.
2. No formal financial reporting process where financial information is reviewed by City management and City Council
3. Multiple employees in the Finance Department have full access to record journal entries to the general ledger; whereas, access should be limited to key Finance personnel.
4. City Council did not review investment reports at least quarterly throughout the year, which is required by the Public Funds Investment Act.
5. The water utility inventory is required to be accounted for on the consumption method whereby expense is recorded when the inventory is used, rather than when it's purchased. The City currently does not have a reliable system of tracking inventory usage throughout the year.
6. A lack of control over physical inventory counts and tracking inventory prices resulting in differences at year end.
7. Complete records of capital asset disposals were not maintained throughout the year.
8. During our review of utility billing adjustments, we noted the City wasn't maintaining adequate documentation to support account adjustments.
9. Lack of documentation related to competitive bids to be in compliance with Texas Local Government Code section 252.021 Competition Requirements for Purchases.
10. Instances were noted of time sheets that were not signed by the employee or approved by a supervisor.
11. Several instances where expenditures exceeded appropriations indicating the budget is not considered before approval of expenditures; however, the legal level of budgetary authority was not exceeded.
12. Cash in one account was not fully collateralized during the year.

*Cause:*

Turnover in key, long-time City personnel including the Finance Director, the Accounts Payable Clerk, and the City Manager in prior years that continued to have an effect on the 2015 financial records due to current staff not being in place until mid to late fiscal year 2015 and new controls not implemented until mid to late fiscal year 2016.

*Effect or Potential Effect:*

The effects were inadequate recordkeeping, non-compliance with the Public Funds Investment Act, and non-compliance with the Texas Local Government Code. The potential effects from these conditions, if not corrected, include the risk of error or fraud going undetected.

**CITY OF KILGORE, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Section II - Financial Statement Findings (Cont'd)**

2016-1 (Cont'd)

*Recommendation:*

We recommend that the City implement internal controls to ensure that accounting duties are properly segregated and establish a month-end close process that ensures proper and complete reconciliations are performed each month. We recommend that access to the general ledger be limited to the Finance Director and the accountant and that journal entries are prepared by accounting personnel (i.e. payroll, cashier), but reviewed and posted by the Finance Director or accountant. We recommend the Finance Director or City Manager present financial reports and investment reports at least quarterly to City Council to keep them informed of the City's financial condition and to comply with the Public Funds Investment Act. We recommend the Finance Director continually review the City's financial operations for compliance with the Texas Local Government Code. We recommend the City review and adhere to their established policies regarding proper authorization for payroll processing.

*Management's Response:*

1. Internal Controls, segregation of duties, and internal review processes are being evaluated by the Finance Director and City Manager on an ongoing basis. Due to the number of employees within the Accounting/Finance Department 100% segregation of duties which is normally seen in a much larger organization is not feasible at this time; however, the following improvements have been implemented:
  - a. Review processes have been established which require the staff member processing payables to have all phases of the AP process reviewed by the City's Accountant. This procedure was implemented in February of 2016 and is now part of the City's standard accounting operating procedures.
  - b. All consolidated cash account reconciliations from October of 2015 through September of 2016 were prepared by the Finance Director. The Finance Director will continue to perform this task. Consolidated cash account reconciliations are continuing to be prepared by the City's Finance Director during fiscal year 2017. This process is now part of the City's standard accounting operating procedures.
2. A formal process has been established for reporting financial information to the Kilgore City Council on a regular basis. In April of 2016, the City Manager began formal presentation of financial information to Council on a quarterly basis.
3. Some preliminary adjustments have been made by the City's Accountant to limit access to the general ledger. However a full analysis and revision of software permissions and access levels will be ultimately necessary before this issue is fully resolved. Based on available staff resources, current timelines and commitments, it is expected that this project will take place following completion of the FY2016 audit. In November of 2016, the City's Accountant completed his analysis of software permissions and access levels and has limited access to the General Ledger module to only those Staff members who require access.

The posting of all general ledger transactions has been centralized and is performed by the City's Accountant and/or Finance Director. Review processes have been implemented among the individuals who have maintenance/posting capabilities to ensure the integrity of the information being input into the general ledger. This process was implemented in March of 2016 and is now part of the City's standard accounting operating procedures.
4. Quarterly investment reports are being compiled by the Allegiance Advisors and are being presented to the City Council quarterly. The formal presentation of quarterly investment reports to Council began in May of 2016.
5. Finance and public works staff will be evaluating, designing and implementing a system to track inventory throughout the year. This is a substantial project without current funding or staff resources, and as such this facet of inventory control may continue to be a finding until the system is implemented. In the early part of FY2017, written procedures were established regarding inventory processes. During the FY2017, staff will continue to strive toward designing and implementing formal inventory systems for all phases of activity but will continue to deal with the constraints of funding and staff resources.
6. In the early part of FY2017, written procedures were established regarding inventory processes which include a more formal review of inventory counts that are conducted by the Department Managers and their staff at fiscal yearend. The Finance Director will be conducting spot checks during the yearend inventory count as well as reviewing the final inventory listing for accurate pricing of items.

**CITY OF KILGORE, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Section II - Financial Statement Findings (Cont'd)**

7. Capital Assets procedures have been implemented by the Finance Director and Accountant to properly maintain documentation when assets are sold. Moving forward all disposals will be properly approved by City management before the asset is sent to auction. In December of 2016, an Asset Disposal Form was created by the Finance Director and was implemented immediately. All City Staff were instructed at that time that the form must be completed and signed by either the City Manager or Finance Director before an asset is sent to auction. The Asset Disposal Form also created a process where all documentation must be accounted for when an asset is sold.
8. This issue has been resolved by implementing new procedures. The City's Accountant reviews and approves all utility billing adjustments before they are processed by the Utility Billing Supervisor. Proper documentation is required on every adjustment to ensure the validity of the request. Once the adjustment is approved and processed it is filed away by month for future reference purposes. This procedure was fully implemented in July of 2016 and is now part of the City's standard accounting / water department operating procedures.
9. This issue has been resolved during FY16 by implementing a process to capture and file all necessary information related to bids and proposals. In February of 2017, the City's Purchasing Policy was updated in order stream line the purchasing process while staying within the guidelines of state purchasing requirements. During this update, city staff were provided with additional documents and resources to help perfect the processes / corrections that were already implemented during FY16.
10. Procedures are being implemented to ensure that all time sheets are signed by the employee and properly approved by the Supervisor. Beginning with the first payroll in December of 2016, the Finance Director implemented a process where he reviews all time sheets to ensure they are properly signed by each employee. This process is now part of the City's standard accounting operating procedures.
11. The City Manager reviews monthly financial reports and has instructed department heads to be accountable to review and manage their budgets. However, budget amendments may be necessary from time to time, and will be completed when necessary to adjust for unforeseen situations. Management has continued to follow this process through the end of FY2016 and into FY2017.
12. Procedures have been put in place by the Finance Director to ensure all accounts are properly collateralized at all times.

2016-2

*Criteria:*

Procedures for processing cases that come within the criminal jurisdiction of the municipal court are governed by the Texas Code of Criminal Procedure Title 1, Chapter 45: Justice and Municipal Courts. Further, adequate internal controls should be established and adhered to in order to ensure proper substantiation of court records and reporting.

*Condition:*

During the audit, we noted the following conditions:

1. Instances where the jail form that is signed by the Municipal Judge for time served in jail was not maintained by the City's Municipal Court.
2. Instances where the Community Service Record was not approved and signed by the Municipal Judge and did not substantiate the full number of hours required by the judge.
3. Instances where case reports were not properly reconciled to ensure all delinquent cases were sent to collections.
4. An instance where community service performed for a family member was accepted in lieu of fines, which does not comply with the Texas Statutes – Article 45.049: Community Service in Satisfaction of Fine or Costs.

*Cause:*

Inadequate internal control over municipal court recordkeeping and review of acceptable means of discharge of a fine as well as no control over municipal court reports.

*Effect or Potential Effect:*

The City does not have sufficient court records for all discharges of fines. The potential effects from these conditions, if not corrected, include the risk of error or fraud going undetected.

**CITY OF KILGORE, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Section II - Financial Statement Findings (Cont'd)**

2016-1 (Cont'd)

*Recommendation*

We recommend the City review their internal controls related to municipal court, implement controls over recordkeeping and reporting, and establish a process of monitoring compliance with established internal controls and relevant state statutes. In addition, we recommend that municipal court department clean up the reporting system and run and review reports at the end of each month to preserve data.

*Management's Response:*

City Management and the Municipal Court Judge have taken numerous steps to assist the Court Clerks in addressing these issues. The Judge has created updated forms and has communicated new protocol which will address each of these issues. City management has met with Court Clerks to discuss record keeping requirements related to the Municipal Court function and will continue to monitor the issue and implement additional internal controls as necessary. During the latter part of FY2016 and continuing into FY2017, Management has continued to evaluate the City's Municipal Court and make improvements as necessary. In regards to the specific findings in Item #3, a reconciliation is being implemented by the Finance Director to ensure all future delinquent cases are properly processed and sent to collections. In addition, all cases noted in the audit finding will be corrected. Processes are also being established to ensure all cases are properly handled by the Incode Court Software System including cases that were converted over from the prior Court Software System in late 2013. During the FY2016 audit, an additional case was discovered that was in violation of Article 45.049 of the Texas Statutes. After conducting an extensive review, the City's Finance Director determined the case occurred around the same time period as the original finding that was discovered during the FY2014 audit. Due to the fact that the FY2014, FY2015, and FY2016 audit were all conducted in close proximity to one another this item was already fully addressed in April of 2016 and has not been a practice since that time.

**Section III - Federal Award Findings and Questioned Costs**

None

**CITY OF KILGORE, TEXAS  
SUMMARY SCHEDULE OF PRIOR YEAR  
FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Finding**

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**Current Status**

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**Finding 2015-1**

See Finding 2016-1

During the audit, we noted the following conditions:

1. A lack of segregation of duties for cash disbursement process.
2. Multiple employees with full access to record journal entries in the general ledger.
3. The City did not count physical inventory and does not have a reliable system of tracking inventory usage throughout the year.
4. Incomplete records of capital asset additions and disposals.
5. Lack of documentation for utility billing adjustments.
6. Unsigned employee time sheets.
7. Lack of documentation for pay rate changes.
8. Lack of documentation related to competitive bids.
9. No review of investment reports.
10. No formal financial reporting process.
11. Expenditures exceeded appropriations.

**Finding 2015-2**

See Finding 2016-2

During the audit, we noted the following conditions:

1. Lack of documentation for time served in jail.
2. Lack of documentation for time served at another facility.
3. Unapproved Community Service Records.

**CITY OF KILGORE, TEXAS  
SUMMARY SCHEDULE OF PRIOR YEAR  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

**Finding**

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**Current Status**

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None