



CITY OF KILGORE, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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

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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, 2017, 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, 2017. 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 2017 was 14,948, which reflects substantial growth over the preceding seven 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 consist of five companies in the oil and gas sector business which makes up 12.66% of the taxable base for the City of Kilgore. The remaining five companies are in the non-oilfield related business and make up 7.48% of the taxable values.
- During the last five years, KEDC worked projects that resulted in retention and creation of almost 2,300 jobs and \$63 million in capital investment.
- The per capita value of industrial property in Kilgore is \$33,858 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 FY2016-2017 three new contracts were signed that created 42 new jobs and retained 284 jobs. This also resulted in \$20.27 million in capital investments.

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 2017, 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 Senior 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

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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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 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 City'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 City'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.

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, 2017, 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 schedules of changes in net pension liability and net OPEB liability and related ratios and schedules of contributions on pages 4-8, and 57-60 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 combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements 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 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 23, 2018, 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 23, 2018



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**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, 2017. 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 \$84,305,242 (*net position*). Of this amount, \$21,752,678 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$9,029,220, of which \$3,442,404 was a change in the current year net position and \$5,586,818 was a restatement of beginning net position.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,781,487. Approximately 72 percent of this total amount, \$12,044,596, is available for spending at the government's discretion (unassigned fund balance).
- The City's total long term debt increased by \$3,579,700 during the current fiscal year. This is due directly to a new series of Certificates of Obligation of \$4,055,000 being issued in January of 2017.

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, municipal court, public welfare, 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 and the Foundation can be found in their separately issued audit reports.

The government-wide financial statements can be found on pages 9-12 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 two categories: governmental funds and proprietary funds. Once divided into these two 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, deferred inflows, liabilities, deferred outflows, 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 fourteen 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 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 13-18 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, activities associated with leasing the hospital building, and the golf course. *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, IT services, and health insurance to individual funds.

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, the hospital fund, and the golf course. Conversely, all three 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 20-23 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 26-56 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 (73 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	
	2017	2016	2017	2016	2017	2016
Current and other Assets	\$ 22,445,749	\$ 21,930,285	\$ 11,823,205	\$ 4,974,936	\$ 34,268,954	\$ 26,905,221
Capital Assets	31,001,698	26,433,682	35,066,495	33,695,712	66,068,193	60,129,394
Total Assets	<u>53,447,447</u>	<u>48,363,967</u>	<u>46,889,700</u>	<u>38,670,648</u>	<u>100,337,147</u>	<u>87,034,615</u>
Deferred outflows of resources	2,262,689	2,565,825	927,067	1,220,164	3,189,756	3,785,989
Current liabilities	2,086,953	2,161,661	726,114	316,978	2,813,067	2,478,639
Noncurrent liabilities	10,025,384	10,451,256	5,835,796	1,921,069	15,861,180	12,372,325
Total Liabilities	<u>12,112,337</u>	<u>12,612,917</u>	<u>6,561,910</u>	<u>2,238,047</u>	<u>18,674,247</u>	<u>14,850,964</u>
Deferred inflows of resources	423,907	580,846	123,507	112,772	547,414	693,618
Net position:						
Net investment in						
Capital Assets	27,180,642	22,244,418	34,274,158	33,547,146	61,454,800	55,791,564
Restricted	1,066,628	1,058,852	8,136	4,894	1,074,764	1,063,746
Unrestricted	14,926,622	14,432,759	6,849,056	3,987,953	21,775,678	18,420,712
Total net position	<u>\$ 43,173,892</u>	<u>\$ 37,736,029</u>	<u>\$ 41,131,350</u>	<u>\$ 37,539,993</u>	<u>\$ 84,305,242</u>	<u>\$ 75,276,022</u>

An additional portion of the City’s net position (approximately 1.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$21,752,355) 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	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 2,854,651	\$ 2,812,147	\$ 6,982,914	\$ 6,626,485	\$ 9,837,565	\$ 9,438,632
Operating grants and contributions	510,991	539,466	36,235	-	547,226	539,466
Capital grants and contributions	1,794,973	2,366,678	741,800	4,150,167	2,536,773	6,516,845
General Revenues:						
Property taxes	6,346,070	6,802,398	-	-	6,346,070	6,802,398
Sales taxes	5,523,650	5,094,515	-	-	5,523,650	5,094,515
Other taxes	1,169,901	1,163,192	-	-	1,169,901	1,163,192
Investment income	205,409	93,874	84,752	31,071	290,161	124,945
Miscellaneous income	242,708	166,828	28,811	-	271,519	166,828
Gain on sale of assets	5,339	28,216	16,438	5,000	21,777	33,216
Total Revenues	18,653,692	19,067,314	7,890,950	10,812,723	26,544,642	29,880,037
Expenses:						
General government	834,064	920,839	-	-	834,064	920,839
Public safety	8,050,413	8,157,008	-	-	8,050,413	8,157,008
Public Works	2,999,890	6,266,579	-	-	2,999,890	6,266,579
Developmental services	602,697	632,434	-	-	602,697	632,434
Sanitation	2,040,805	2,015,558	-	-	2,040,805	2,015,558
Culture and recreation	1,864,478	1,696,273	-	-	1,864,478	1,696,273
Public welfare	165,931	237,105	-	-	165,931	237,105
Interest and fiscal charges	233,074	171,641	-	-	233,074	171,641
Golf Course	-	-	435,129	820,837	435,129	820,837
Water and sewer	-	-	5,558,908	4,702,125	5,558,908	4,702,125
Hospital	-	-	338,487	345,542	338,487	345,542
Total Expenses	16,791,352	20,097,437	6,332,524	5,868,504	23,123,876	25,965,941
Excess (deficiency) before special items and transfers	1,862,340	(1,030,123)	1,558,426	4,944,219	3,420,766	3,914,096
Special items: change in accounting estimates	21,636	(1,087,055)	-	-	21,636	(1,087,055)
Transfers in (out)	(1,380,857)	2,926,012	1,380,857	(2,926,012)	-	-
Increase (decrease) in net position	503,119	808,834	2,939,283	2,018,207	3,442,402	2,827,041
Net position, beginning	37,736,029	36,927,195	37,539,993	35,521,786	75,276,022	72,448,981
Cumulative effect of change in accounting principle	167,388	-	28,537	-	195,925	-
Prior period adjustments	4,767,356	-	623,537	-	5,390,893	-
Net position, ending	\$ 43,173,892	\$ 37,736,029	\$ 41,131,350	\$ 37,539,993	\$ 84,305,242	\$ 75,276,022

Governmental activities. Governmental activities during the year increased the City's net position by \$503,119.

Business-type activities. Business-type activities during the year increased the City's net position by \$2,939,285.

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 \$16,781,487. Approximately 72% of this amount or \$12,044,596 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 \$2,288,712 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 \$23,692 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 \$12,474,308, while total fund balance reached \$13,865,077.

The fund balance of the City's General Fund increased by \$307,409 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 \$34,565,490, net position for the hospital fund amounted to \$5,984,243, and net position for the golf course amounted to \$519,961. Other factors concerning the finances of these three 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 in balance sheet on page 13) reported a fund balance of \$13,865,077, which is an increase of \$778,062 over the final budgeted amount. Revenues were \$377,901 less than anticipated and expenses were also \$1,308,271 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, 2017, amounted to \$66,068,193 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and systems, equipment and other.

**Capital Assets, Net of Accumulated Depreciation
September 30**

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,517,097	\$ 1,487,397	\$ 372,036	\$ 311,536	\$ 1,889,133	\$ 1,798,933
Equipment (historical treasure)	40,000	40,000	-	-	40,000	40,000
Construction in progress	3,220,517	3,870,619	1,640,837	21,546	4,861,354	3,892,165
Building and system	23,245,696	22,469,815 *	30,614,809	31,426,242 *	53,860,505	53,896,057
Equipment and other	2,978,388	3,333,174	2,438,813	2,551,132	5,417,201	5,884,306
Total Net Capital Assets	\$31,001,698	\$31,201,005	\$35,066,495	\$34,310,456	\$66,068,193	\$65,511,461

* These amounts have been adjusted for the prior period adjustment discussed in Note 14.

Additional information on the City's capital assets can be found in note 3 on pages 38-39 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$16,778,094. Of this amount, \$10,707,676 was outstanding for the governmental funds and \$6,070,418 was outstanding for the business-type funds. The decrease in debt in both the governmental can be attributed directly to the decrease in loans, claims payable, and net pension liability. The increase in business-type funds can be attributed directly to the City issuing \$4,055,000 of Series 2017 Combination Tax and Limited Pledge Revenue Certificates of Obligations during the fiscal year.

**CITY OF KILGORE
Outstanding Debt**

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 3,360,000	\$ -	\$ -	\$ 60,000	\$ 3,360,000	\$ 60,000
Certificates of obligation	275,000	3,800,000	4,055,000	-	4,330,000	3,800,000
Bond Premiums	186,056	-	153,870	-	339,926	-
Loans	6,141	389,263	-	-	6,141	389,263
Net Pension Liability	6,164,017	6,186,170	1,667,651	1,808,167	7,831,668	7,994,337
Capital Leases	-	-	94,470	88,566	94,470	88,566
Compensated absences	661,134	671,682	99,427	108,113	760,561	779,795
Claims payable	55,328	86,431	-	-	55,328	86,431
Total	\$10,707,676	\$11,133,546	\$6,070,418	\$2,064,846	\$16,778,094	\$13,198,392

Additional information on the City’s long-term debt can be found in note 4 on page 40-44 of this report.

Economic Factors and Next Year's Budget and Rates

Factors considered in preparing the City’s 2018 fiscal year budget were:

- The total budget for FY 2018 is \$30,687,000. Of this amount \$17,306,713 is appropriated for the General Fund and \$5,940,417 is appropriated in the Water Utilities Fund.
- General Fund revenues for the most part were projected at the same levels as prior year as the economy begins to recover, and as a result, the General Fund sales tax number remained at the downward adjustment that was made in FY17 while ad valorem revenue numbers were adjusted upward by \$557,739 due to an increase in the property tax rate.
- The FY 2018 General Fund budget has \$1,095,000 appropriated to transfer to the General Capital Projects Fund from unassigned fund balance. The FY 2018 Utility Fund has \$1,150,000 appropriated to transfer to the Utility Capital Projects Funds from fund balance. In addition, new debt in the amount of \$4,055,000 was issued in the middle of FY 2017 for Utility Fund projects that were identified during FY 2016 and FY 2017. Many of the projects that were funded by this debt will be ongoing during FY 2018. At this time there are no plans to issue new debt during FY 2018.
- Capital project spending priorities were developed over the last few fiscal years using two different methods. The first of which was an Annual Citizen survey, the results of which were used in scoring individual projects. The second method is City Management & Staff’s ongoing evaluation of existing infrastructure improvements and upgrades. The majority of the projects funded by the bond proceeds in issued in FY17 are related to the Utility Fund infrastructure. The FY 2017 budget included projects totaling \$6,062,750 which were funded from a combination of cash (fund balance) and bond proceeds. The FY 2018 budget includes \$2,245,000 for capital projects which will be funded by cash (fund balance) from both the Utility and General Fund.

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.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,240,370	\$ 2,786,847	\$ 6,027,217
Investments	11,899,045	5,565,022	17,464,067
Receivables (net of allowance for estimated uncollectible accounts):			
Taxes	2,117,280	-	2,117,280
Accounts	1,944,921	999,653	2,944,574
Notes and accrued interest	491,487	-	491,487
Internal balances	1,288,838	(1,288,838)	-
Inventory	23,692	78,947	102,639
Deposits and prepaid expenses	1,721	682	2,403
Investment in partnership	-	-	-
Restricted:			
Cash and cash equivalents	457,971	31,461	489,432
Investments	636,560	3,511,000	4,147,560
Water rights (net of accumulated amortization)	-	78,928	78,928
Net other post-employment benefits asset	343,863	59,503	403,366
Capital assets (net of accumulated depreciation)	31,001,698	35,066,495	66,068,193
Property held for resale	-	-	-
Total Assets	53,447,446	46,889,700	100,337,146
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	2,109,174	926,894	3,036,068
Deferred outflows related to OPEB	983	173	1,156
Deferred loss on refunding, net of amortization	152,532	-	152,532
Total Deferred Outflows of Resources	2,262,689	927,067	3,189,756
LIABILITIES			
Accounts payable	498,043	425,738	923,781
Due to other governments	593,991	-	593,991
Accrued expenses	236,229	36,874	273,103
Accrued interest payable	13,373	5,555	18,928
Customer deposits	63,025	23,325	86,350
Long-term debt			
Due within one year	628,961	234,622	863,583
Due in more than one year	10,078,715	5,835,796	15,914,511
Total Liabilities	12,112,337	6,561,910	18,674,247
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	423,907	65,737	489,644
Advance from Hospital Foundation	-	57,770	57,770
Total Deferred Outflows of Resources	423,907	123,507	547,414
NET POSITION			
Net investment in capital assets	27,180,642	34,274,158	61,454,800
Restricted for debt service	261,194	8,136	269,330
Restricted for capital projects	-	-	-
Restricted for grant restrictions	72,975	-	72,975
Restricted for municipal court	93,360	-	93,360
Restricted for public safety	121,800	-	121,800
Restricted for tourism and convention	517,299	-	517,299
Unrestricted	14,926,622	6,849,056	21,775,678
Total Net Position	\$ 43,173,892	\$ 41,131,350	\$ 84,305,242

See accompanying notes to financial statements.

Kilgore Economic Development Corporation	Component Units	
	Kilgore Redevelopment Authority	Nonmajor Component Units
\$ 283,376	\$ 110,613	\$ 337,578
7,233,964	-	4,562,711
-	-	-
591,499	4,351	-
-	-	359,780
-	-	-
-	-	-
2,775	-	-
773,859	-	-
750,000	-	-
-	-	-
-	-	-
7,748,350	-	-
3,769,256	-	114,949
<u>21,153,079</u>	<u>114,964</u>	<u>5,375,018</u>
-	-	-
-	-	-
-	-	-
-	-	-
39,905	-	54,493
-	-	-
-	-	-
-	91,487	-
-	-	-
481,064	-	-
3,376,341	400,000	-
<u>3,897,310</u>	<u>491,487</u>	<u>54,493</u>
-	-	-
-	-	-
-	-	-
7,502,993	-	114,949
261,951	-	-
1,149,895	-	-
750,000	-	-
-	-	-
-	-	-
-	-	-
7,590,930	(376,523)	5,205,576
<u>\$ 17,255,769</u>	<u>\$ (376,523)</u>	<u>\$ 5,320,525</u>

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

<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	\$ 834,064	\$ 53,300	\$ 60,857	\$ -
Public safety	8,050,413	496,623	352,982	-
Public works	2,999,890	-	87,152	473,397
Developmental services	602,697	68,049	-	-
Sanitation	2,040,805	2,199,206	-	-
Culture and recreation	1,864,478	37,473	10,000	1,321,576
Public welfare	165,931	-	-	-
Interest and fiscal charges	233,074	-	-	-
Total Governmental activities	<u>16,791,352</u>	<u>2,854,651</u>	<u>510,991</u>	<u>1,794,973</u>
Business-Type activities:				
Water and sewer	5,558,908	6,337,349	32,659	406,677
Hospital	338,487	349,258	-	-
Golf course	435,129	296,307	3,576	335,123
Total Business-Type activities	<u>6,332,524</u>	<u>6,982,914</u>	<u>36,235</u>	<u>741,800</u>
Total Primary Government	<u>\$ 23,123,876</u>	<u>\$ 9,837,565</u>	<u>\$ 547,226</u>	<u>\$ 2,536,773</u>
Component Units:				
Economic Development Corporation	\$ 2,756,973	\$ -	\$ -	\$ -
Redevelopment Authority	13,887	-	-	-
Nonmajor	269,877	-	-	-
Total Component Units	<u>\$ 3,040,737</u>	<u>\$ -</u>	<u>\$ -</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

Cumulative effect of change
in accounting principle (Note 13)

Prior period adjustments (Note 14)

Net position - end of year

See accompanying notes to financial statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	
\$ (719,907)	\$ -	\$ (719,907)	\$ -
(6,727,411)	-	(6,727,411)	-
(2,912,738)	-	(2,912,738)	-
(534,648)	-	(534,648)	-
158,401	-	158,401	-
(495,429)	-	(495,429)	-
(165,931)	-	(165,931)	-
(233,074)	-	(233,074)	-
<u>(11,630,737)</u>	<u>-</u>	<u>(11,630,737)</u>	<u>-</u>
-	1,217,777	1,217,777	-
-	10,771	10,771	-
-	199,877	199,877	-
<u>-</u>	<u>1,428,425</u>	<u>1,428,425</u>	<u>-</u>
\$ (11,630,737)	\$ 1,428,425	\$ (10,202,312)	\$ -
			(2,756,973)
			(13,887)
			<u>(269,877)</u>
			<u>(3,040,737)</u>
6,346,070	-	6,346,070	21,465
5,523,650	-	5,523,650	2,569,348
1,169,901	-	1,169,901	-
205,409	84,752	290,161	883,545
-	-	-	2,879
242,708	28,811	271,519	432,224
5,339	16,438	21,777	103,790
21,636	-	21,636	-
<u>(1,380,857)</u>	<u>1,380,857</u>	<u>-</u>	<u>-</u>
<u>12,133,856</u>	<u>1,510,858</u>	<u>13,644,714</u>	<u>4,013,251</u>
503,119	2,939,283	3,442,402	972,514
37,736,029	37,539,993	75,276,022	24,537,635
167,388	28,537	195,925	-
<u>4,767,356</u>	<u>623,537</u>	<u>5,390,893</u>	<u>(3,310,378)</u>
<u>\$ 43,173,892</u>	<u>\$ 41,131,350</u>	<u>\$ 84,305,242</u>	<u>\$ 22,199,771</u>

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FUND FINANCIAL STATEMENTS

**CITY OF KILGORE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017**

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,047,447	\$ 358,700	\$ 393,328	\$ 2,799,475
Investments	9,152,418	1,768,661	628,960	11,550,039
Receivables (net of allowance for estimated uncollectible accounts):				
Taxes	2,023,972	-	93,309	2,117,281
Accounts	1,645,143	288,364	10,563	1,944,070
Interest on long-term receivable	-	-	91,488	91,488
Advance receivable	1,780,207	-	-	1,780,207
Inventory, at lower of cost or market	23,692	-	-	23,692
Total assets	<u>\$ 16,672,879</u>	<u>\$ 2,415,725</u>	<u>\$ 1,217,648</u>	<u>\$ 20,306,252</u>
LIABILITIES				
Trade payables	\$ 327,401	\$ 127,013	\$ 13,397	\$ 467,811
Customer deposits	63,025	-	-	63,025
Accrued payroll and related expenses	236,220	-	9	236,229
Due to other governments	593,991	-	-	593,991
Advance payable	-	-	429,712	429,712
Total liabilities	<u>1,220,637</u>	<u>127,013</u>	<u>443,118</u>	<u>1,790,768</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	437,516	-	55,345	492,861
Unavailable revenue - fines	85,038	-	-	85,038
Unavailable revenue - assessments	1,064,611	-	-	1,064,611
Unavailable revenue - interest on long-term receivable	-	-	91,487	91,487
Total deferred inflows of resources	<u>1,587,165</u>	<u>-</u>	<u>146,832</u>	<u>1,733,997</u>
FUND BALANCES				
Nonspendable:				
Inventory	23,692	-	-	23,692
Restricted for:				
Debt service	-	-	261,194	261,194
Grant restrictions	-	-	72,975	72,975
Municipal court	-	-	93,360	93,360
Public safety	-	-	112,582	112,582
Tourism and convention	-	-	517,299	517,299
Other purposes	9,218	-	-	9,218
Committed to:				
Capital projects	-	2,288,712	-	2,288,712
Residential development	250,131	-	-	250,131
Assigned to:				
Cemeteries	1,107,728	-	-	1,107,728
Unassigned	12,474,308	-	(429,712)	12,044,596
Total fund balances	<u>13,865,077</u>	<u>2,288,712</u>	<u>627,698</u>	<u>16,781,487</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 16,672,879</u>	<u>\$ 2,415,725</u>	<u>\$ 1,217,648</u>	<u>\$ 20,306,252</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, 2017**

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

Total fund balance per balance sheet	\$ 16,781,487
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	29,850,219
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.	2,133,997
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	(716,462)
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 plus deferred outflows of resources related to OPEB.	344,846
Long-term liabilities including bonds payable, net of deferred loss on refunding, and net pension liability are not due and payable in the current period; therefore, they are not reported in the governmental funds balance sheet.	(8,153,415)
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.	(13,373)
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.	2,946,593
Net position of governmental activities	\$ 43,173,892

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, 2017

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 5,864,852	\$ -	\$ 453,486	\$ 6,318,338
Sales	5,140,528	-	-	5,140,528
Other	735,264	-	434,637	1,169,901
Charges for services:				
Garbage collection	2,199,481	-	-	2,199,481
Police court fines and fees	462,172	-	15,765	477,937
Permits	67,774	-	-	67,774
Cemetery	53,300	-	-	53,300
Swimming pool	32,522	-	-	32,522
Library	4,951	-	-	4,951
County support	80,325	-	-	80,325
Drug seizure revenue	-	-	26,896	26,896
Donations	-	321,823	-	321,823
Grants	341,422	1,473,150	35,348	1,849,920
Interest on investments	146,928	17,326	10,490	174,744
Miscellaneous	148,797	23,393	10,257	182,447
Total revenues	<u>15,278,316</u>	<u>1,835,692</u>	<u>986,879</u>	<u>18,100,887</u>
EXPENDITURES				
Current:				
General government:				
Administration	283,022	-	-	283,022
Finance	285,334	-	-	285,334
Cemetery	141,698	-	-	141,698
City council	39,592	-	-	39,592
Information technology	-	-	-	-
Contingency	-	-	-	-
Public safety:				
Police	4,403,404	83,143	156,347	4,642,894
Fire	2,905,932	32,312	-	2,938,244
Rescue unit	91,904	-	-	91,904
Municipal court	202,326	-	-	202,326
Public works:				
Streets	1,075,241	787,148	3,501	1,865,890
Water	-	91,173	-	91,173
Developmental services:				
Building maintenance and inspection	245,090	-	-	245,090
Equipment Services	164,138	-	-	164,138
Planning and zoning	173,751	-	-	173,751
Sanitation: garbage collection	2,041,427	-	-	2,041,427
Culture and recreation:				
Parks	875,149	1,250,589	4,716	2,130,454
Library	395,361	5,177	-	400,538
Swimming pool	152,413	-	-	152,413
Grants	-	-	317,477	317,477
Public welfare: health department	176,145	-	-	176,145
Debt service:				
Principal	-	-	230,000	230,000
Interest and fiscal charges	-	-	241,634	241,634
Total Expenditures	<u>13,651,927</u>	<u>2,249,542</u>	<u>953,675</u>	<u>16,855,144</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, 2017
CONTINUED

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Excess (deficiency) of revenues over (under) expenditures	1,626,389	(413,850)	33,204	1,245,743
OTHER FINANCING SOURCES (USES)				
Refunding bonds issued	-	-	3,365,000	3,365,000
Payment to refunded bond escrow agent	-	-	(3,459,996)	(3,459,996)
Premium on general obligation and refunding bonds issued	-	-	196,074	196,074
Proceeds from loans	3,008	-	-	3,008
Transfers in	-	1,221,672	3,316	1,224,988
Transfers out	(1,321,988)	(1,163,957)	(119,900)	(2,605,845)
Total other financing sources (uses)	(1,318,980)	57,715	(15,506)	(1,276,771)
Net change in fund balances	307,409	(356,135)	17,698	(31,028)
Fund balance - beginning of year	13,557,668	2,644,847	610,000	16,812,515
Fund balance - end of year	<u>\$ 13,865,077</u>	<u>\$ 2,288,712</u>	<u>\$ 627,698</u>	<u>\$ 16,781,487</u>

See accompanying notes to financial statements.

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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, 2017

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

Net change in fund balance - total governmental funds	\$ (31,028)
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 depreciation in the current period exceeded capital outlay.	(35,634)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	57,299
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 and the related deferred inflow.	(40,495)
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.	41,652
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. Also governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related issues.	131,476
The City has a note payable to the Texas Comptroller for local taxes that belonged to another municipality but were paid to the City by mistake in a prior year. In the current year the City made a scheduled payment on that debt of \$97,340. Subsequently, the City was notified by the Texas Comptroller of funds owed to the City due to recent sales tax audits of \$285,782 which was credited against their loan balance. This amount represents the net effect of these payments and credits to the City's note payable.	383,122
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 decrease in the net pension liability of \$22,153, the decrease in the deferred outflows related to pensions of \$456,651, and the decrease in deferred inflows of \$156,938.	(277,560)
Interest payable on long-term debt is recorded in the government-wide statements. This is the amount that prior year interest payable exceeded current year interest payable.	6,755
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.	267,532
Change in net position of governmental activities	<u>\$ 503,119</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, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 5,618,966	\$ 5,618,966	\$ 5,864,852	\$ 245,886
Sales	5,100,000	5,100,000	5,140,528	40,528
Other	759,000	759,000	735,264	(23,736)
Charges for services:				
Garbage collection	2,201,500	2,201,500	2,199,481	(2,019)
Police court fines and fees	505,000	505,000	462,172	(42,828)
Permits	58,950	58,950	67,774	8,824
Cemetery	70,000	70,000	53,300	(16,700)
Swimming pool	30,000	30,000	32,522	2,522
Library	6,000	6,000	4,951	(1,049)
Country support	140,000	140,000	80,325	(59,675)
Grants	17,500	55,655	341,422	285,767
Interest on investments	45,200	45,200	146,928	101,728
Miscellaneous	1,046,971	1,065,946	148,797	(917,149)
Total revenues	<u>15,599,087</u>	<u>15,656,217</u>	<u>15,278,316</u>	<u>(377,901)</u>
EXPENDITURES				
Current:				
General government:				
Administration	414,443	414,443	283,022	131,421
Finance	395,564	395,564	285,334	110,230
Cemetery	173,601	173,601	141,698	31,903
City council	92,586	92,586	39,592	52,994
Information technology	-	-	-	-
Contingency	200,000	147,725	-	147,725
Public safety:				
Police	4,150,396	4,199,946	4,403,404	(203,458)
Fire	2,913,159	2,918,159	2,905,932	12,227
Rescue unit	113,943	113,943	91,904	22,039
Municipal court	215,533	215,533	202,326	13,207
Public works: streets	1,920,286	1,695,286	1,075,241	620,045
Developmental services:				
Building maintenance and inspection	252,492	252,492	245,090	7,402
Equipment Services	237,072	237,072	164,138	72,934
Planning and zoning	186,347	203,047	173,751	29,296
Sanitation: garbage collection	2,086,075	2,086,075	2,041,427	44,648
Culture and recreation:				
Parks	973,280	973,280	875,149	98,131
Library	422,023	422,023	395,361	26,662
Swimming pool	131,159	131,159	152,413	(21,254)
Public welfare: health department	288,264	288,264	176,145	112,119
Total expenditures	<u>15,166,223</u>	<u>14,960,198</u>	<u>13,651,927</u>	<u>1,308,271</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, 2017
CONTINUED**

	Budget		Actual	Variance with Final Budget
	Original	Final		
Excess (deficiency) of revenues over (under) expenditures	432,864	696,019	1,626,389	930,370
OTHER FINANCING SOURCES (USES)				
Proceeds from loans	-	-	3,008	3,008
Transfers in	152,000	152,000	-	(152,000)
Transfers out	(1,016,750)	(1,318,672)	(1,321,988)	(3,316)
Total other financing sources (uses)	(864,750)	(1,166,672)	(1,318,980)	(152,308)
Net change in fund balances	(431,886)	(470,653)	307,409	778,062
Fund balance - beginning of year	13,557,668	13,557,668	13,557,668	-
Fund balance - end of year	<u>\$ 13,125,782</u>	<u>\$ 13,087,015</u>	<u>\$ 13,865,077</u>	<u>\$ 778,062</u>

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

	Enterprise Funds				Internal Service
	Water and Sewer	Hospital	Golf Course	Total	
ASSETS					
Current assets:					
Cash and cash equivalents	1,841,014	\$ 925,264	\$ 20,569	\$ 2,786,847	\$ 898,865
Investments	5,245,834	307,829	11,359	5,565,022	985,568
Accounts receivable (net)	951,154	25,000	23,499	999,653	851
Due from other funds	14,078	-	-	14,078	-
Inventory, at lower of cost or market	69,241	-	9,706	78,947	-
Prepaid expenses	-	-	682	682	1,721
Restricted assets:					
Cash	31,461	-	-	31,461	-
Investments	3,511,000	-	-	3,511,000	-
Total current assets	<u>11,663,782</u>	<u>1,258,093</u>	<u>65,815</u>	<u>12,987,690</u>	<u>1,887,005</u>
Noncurrent assets:					
Water rights (net)	78,928	-	-	78,928	-
Capital assets (net)	29,608,544	4,729,690	728,261	35,066,495	1,151,479
Net other post-employment benefits asset	59,503	-	-	59,503	-
Total noncurrent assets	<u>29,746,975</u>	<u>4,729,690</u>	<u>728,261</u>	<u>35,204,926</u>	<u>1,151,479</u>
Total assets	<u>41,410,757</u>	<u>5,987,783</u>	<u>794,076</u>	<u>48,192,616</u>	<u>3,038,484</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pensions	309,735	573,235	44,097	927,067	-
Deferred outflows related to OPEB	-	-	-	-	-
Total deferred outflows of resources	<u>309,735</u>	<u>573,235</u>	<u>44,097</u>	<u>927,067</u>	<u>-</u>
LIABILITIES					
Current liabilities:					
Trade payables	417,811	-	7,927	425,738	30,232
Accrued payroll and related expenses	31,710	-	5,164	36,874	-
Accrued expenses	4,953	-	602	5,555	-
Advance payable	1,350,494	-	-	1,350,494	-
Due to other funds	-	14,078	-	14,078	-
Compensated absences - current	38,971	-	1,457	40,428	-
Capital lease payable - current	-	-	30,839	30,839	-
Bonds and notes payable - current	163,355	-	-	163,355	-
Restricted liabilities:					
Restricted deposits	23,325	-	-	23,325	-
Total current liabilities	<u>2,030,619</u>	<u>14,078</u>	<u>45,989</u>	<u>2,090,686</u>	<u>30,232</u>
Noncurrent liabilities:					
Capital lease payable - long term	-	-	63,631	63,631	-
Bonds and notes payable - long term	4,045,515	-	-	4,045,515	-
Compensated absences - long term	54,349	-	4,650	58,999	-
Net pension liability	965,461	504,927	197,263	1,667,651	-
Total noncurrent liabilities	<u>5,065,325</u>	<u>504,927</u>	<u>265,544</u>	<u>5,835,796</u>	<u>-</u>
Total liabilities	<u>7,095,944</u>	<u>519,005</u>	<u>311,533</u>	<u>7,926,482</u>	<u>30,232</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions	59,058	-	6,679	65,737	-
Advance from Hospital Foundation	-	57,770	-	57,770	-
Total deferred inflows of resources	<u>59,058</u>	<u>57,770</u>	<u>6,679</u>	<u>123,507</u>	<u>-</u>
NET POSITION					
Net investment in capital assets	28,910,674	4,729,690	633,791	34,274,155	1,151,479
Restricted	8,136	-	-	8,136	-
Unrestricted	5,646,680	1,254,553	(113,830)	6,787,403	1,856,773
Total net position	<u>\$ 34,565,490</u>	<u>\$ 5,984,243</u>	<u>\$ 519,961</u>	<u>\$ 41,069,694</u>	<u>\$ 3,008,252</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, 2017

	Enterprise Funds				Internal Service
	Water and Sewer	Hospital	Golf Course	Total	
OPERATING REVENUES					
Charges for services	\$ 6,305,920	\$ -	293,409	\$ 6,599,329	\$ 2,623,369
Other operating revenue	64,088	349,258	6,474	419,820	-
Total operating revenues	<u>6,370,008</u>	<u>349,258</u>	<u>299,883</u>	<u>7,019,149</u>	<u>2,623,369</u>
OPERATING EXPENSES					
Operating expenses	4,179,679	88,816	379,838	4,648,333	2,060,177
Depreciation and amortization	1,193,004	249,671	53,694	1,496,369	344,088
Total operating expenses	<u>5,372,683</u>	<u>338,487</u>	<u>433,532</u>	<u>6,144,702</u>	<u>2,404,265</u>
OPERATING INCOME (LOSS)	<u>997,325</u>	<u>10,771</u>	<u>(133,649)</u>	<u>874,447</u>	<u>219,104</u>
NONOPERATING REVENUES:					
Investment earnings	74,658	10,584	(490)	84,752	16,780
Interest expense and fiscal charges	(218,025)	-	(3,748)	(221,773)	-
Gain (loss) on sale of assets	-	-	16,438	16,438	5,339
Miscellaneous	28,811	-	-	28,811	60,260
Total nonoperating revenues	<u>(114,556)</u>	<u>10,584</u>	<u>12,200</u>	<u>(91,772)</u>	<u>82,379</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	<u>882,769</u>	<u>21,355</u>	<u>(121,449)</u>	<u>782,675</u>	<u>301,483</u>
Capital contribution from governmental activities	406,677	-	335,123	741,800	-
Transfers in	1,224,857	-	156,000	1,380,857	-
Transfers out	-	-	-	-	-
Change in net position	2,514,303	21,355	369,674	2,905,332	301,483
Total net position, beginning	<u>31,399,113</u>	<u>5,962,888</u>	<u>150,287</u>	<u>37,512,288</u>	<u>2,706,769</u>
Cumulative effect of change in accounting principle (Note 13)	28,537	-	-	28,537	-
Prior period adjustment (Note 14)	623,537	-	-	623,537	-
Total net position, ending	<u>\$ 34,565,490</u>	<u>\$ 5,984,243</u>	<u>\$ 519,961</u>	<u>\$ 41,069,694</u>	<u>\$ 3,008,252</u>

See accompanying notes to financial statements.

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

	Enterprise Funds				Internal Service
	Water and Sewer	Hospital	Golf Course	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 6,323,328	\$ 324,258	\$ 295,929	\$ 6,943,515	\$ 2,622,679
Cash payments to suppliers for goods and services	(2,512,757)	-	(195,578)	(2,708,335)	(2,070,607)
Cash payments to employees for services	(1,302,884)	125	(188,527)	(1,491,286)	-
Net cash provided by (used in) operating activities	<u>2,507,687</u>	<u>324,383</u>	<u>(88,176)</u>	<u>2,743,894</u>	<u>552,072</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating transfers in from other funds	-	-	156,000	156,000	-
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>-</u>	<u>156,000</u>	<u>156,000</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital transfers in from other funds	1,224,857	-	-	1,224,857	-
Proceeds from sale of capital assets	-	-	18,938	18,938	12,770
Acquisition and construction of capital assets	(1,395,195)	-	(56,500)	(1,451,695)	(187,811)
Proceeds from capital lease obligations	-	-	54,000	54,000	-
Payments on capital lease obligations	-	-	(48,096)	(48,096)	-
Proceeds from issuance of general obligation bonds	4,148,870	-	-	4,148,870	-
Interest and fiscal charges on debt	(218,025)	-	(3,748)	(221,773)	-
Net cash provided by (used in) capital and related financing activities	<u>3,760,507</u>	<u>-</u>	<u>(35,406)</u>	<u>3,725,101</u>	<u>(175,041)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	(5,070,433)	(2,156)	(11,359)	(5,083,948)	(207,536)
Interest on investments	74,658	10,584	(490)	84,752	16,780
Reimbursement from trust	-	-	-	-	60,260
Proceeds from insurance payment	28,811	-	-	28,811	-
Net cash provided by (used in) investing activities	<u>(4,966,964)</u>	<u>8,428</u>	<u>(11,849)</u>	<u>(4,970,385)</u>	<u>(130,496)</u>
Net increase (decrease) in cash and cash equivalents	1,301,230	332,811	20,569	1,654,610	246,535
Cash and cash equivalents, beginning	<u>571,245</u>	<u>592,453</u>	<u>-</u>	<u>1,163,698</u>	<u>652,330</u>
Cash and cash equivalents, ending	<u>\$ 1,872,475</u>	<u>\$ 925,264</u>	<u>\$ 20,569</u>	<u>\$ 2,818,308</u>	<u>\$ 898,865</u>

See accompanying notes to financial statements.

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

	Enterprise Funds				Internal Service
	Water and Sewer	Hospital	Golf Course	Total	
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 997,325	\$ 10,771	\$ (133,649)	\$ 874,447	\$ 219,104
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	1,193,004	249,671	53,694	1,496,369	344,087
Change in assets and liabilities:					
Decrease (increase) in assets:					
Receivables	(46,680)	(25,000)	(3,954)	(75,634)	(690)
Inventories	48,835	-	(1,075)	47,760	-
Prepaid expense	-	-	(682)	(682)	(94)
Deferred outflows	76,237	176,640	40,430	293,307	-
Increase (decrease) in liabilities:					
Accounts payable	313,669	-	3,591	317,260	14,683
Accrued payroll	2,599	-	(1,457)	1,142	-
Accrued expenses	-	-	309	309	-
Due to other funds	(49,506)	-	(27,972)	(77,478)	(25,018)
Customer deposits	(420)	-	-	(420)	-
Compensated absences	1,804	-	(1,695)	109	-
Other post employment benefits	(300)	-	(2,514)	(2,814)	-
Net pension liability	(3,086)	(137,081)	(349)	(140,516)	-
Deferred inflows	(25,794)	49,382	(12,853)	10,735	-
Total adjustments	<u>1,510,362</u>	<u>313,612</u>	<u>45,473</u>	<u>1,869,447</u>	<u>332,968</u>
Net cash provided by (used in) operating activities	<u>\$ 2,507,687</u>	<u>\$ 324,383</u>	<u>\$ (88,176)</u>	<u>\$ 2,743,894</u>	<u>\$ 552,072</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES					
Contribution of capital assets from other funds	\$ 406,677	\$ -	\$ 335,123	\$ 741,800	\$ -
Contribution of capital assets from component unit	623,537	-	-	623,537	-
Acquisition of equipment by capital lease	-	-	54,000	-	-
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS					
Current assets:					
Cash and cash equivalents	\$ 1,841,014	\$ 925,264	\$ 20,569	\$ 2,786,847	\$ 898,865
Restricted assets - cash and cash equivalents	31,461	-	-	31,461	-
Total cash and cash equivalents	<u>\$ 1,872,475</u>	<u>\$ 925,264</u>	<u>\$ 20,569</u>	<u>\$ 2,818,308</u>	<u>\$ 898,865</u>

See accompanying notes to financial statements.

CITY OF KILGORE, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2017

	OPEB Trust	Agency
ASSETS		
Cash and cash equivalents	\$ -	\$ 11,934
Investments, at fair value:		
Collateral investment trust	1,076,632	-
Total assets	\$ 1,076,632	\$ 11,934
 LIABILITIES		
Intergovernmental payable	-	11,934
Total liabilities	-	\$ 11,934
 NET POSITION		
Held in trust for OPEB benefits	\$ 1,076,632	

See accompanying notes to financial statements.

CITY OF KILGORE, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2017

	OPEB Trust
ADDITIONS	
Net increase in fair value of investments	\$ 76,124
Total additions	76,124
 DEDUCTIONS	
Administrative expenses	866
Miscellaneous expenses	60,261
Total deductions	61,127
Change in net position	14,997
 Net Position - beginning of year	 1,061,635
 Net Position - end of year	 \$ 1,076,632

See accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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 KRA.

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, 2017**

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

Discretely Presented Component Units (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, 2016.

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, 2017

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, 2017**

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 majority of the City's cash and investments are administered using a pooled concept, which combines monies of various funds (except for certain restricted assets) in order to maximize 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. These pooled cash and investment accounts are presented in accordance with GASB Statement No 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

In accordance with GASB Statement No. 72 *Fair Value Measurement and Application*, investments are recorded at fair value. Consistent 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, 2017 are as follows:

	Governmental Activities	Business-Type Activities
Customer deposits	\$ 63,025	\$ 23,325
Debt service/bond reserves	261,478	3,519,136
Special revenue purposes	760,810	-
Donations	9,218	-
Total restricted assets	\$ 1,094,531	\$ 3,542,461

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. Supply inventory is 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, 2017**

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 three types of deferred outflows, which arise only under the accrual basis of accounting. The deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt. Deferred outflows related to pensions and other post-employment benefits (OPEB), are reported only in the government-wide and proprietary statements of net position. These amounts are 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 government-wide and proprietary statements 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, 2017, the liability for unpaid leave was \$760,561, of which \$661,134 is reported in the governmental activities and \$99,427 in the business-type activities.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

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.

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.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

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.

New Accounting Pronouncements

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 has implemented GASB No. 75 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 has implemented GASB No. 77 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 has implemented GASB No. 80 in this annual report.

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 has implemented GASB No. 82 in this annual report.

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.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which improves accounting and reporting by enhancing the consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2018. 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, 2017**

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 2017: the Tax Increment Reinvestment Zone (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 TIRZ Fund had a deficit fund balance of \$429,712 as of September 30, 2017. 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.

III. DETAILED NOTES ON ALL FUNDS

NOTE 1: DEPOSITS AND INVESTMENTS

Cash and investments as of September 30, 2017 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:	
Primary Government	
Cash and equivalents	\$ 6,090,242
Restricted cash and equivalents	426,407
Investments	17,464,067
Restricted investments	<u>4,147,560</u>
Total primary government	28,128,276
Component Units*	
Cash and equivalents	731,567
Investments	11,796,675
Restricted cash and equivalents	<u>750,000</u>
Total component units	<u>13,278,242</u>
Total cash and investments	<u><u>\$ 41,406,518</u></u>

*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, 2017, the City and its component units' deposits were covered by Federal Depository Insurance or by collateral held by a third party custodian.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1: DEPOSITS AND INVESTMENTS (Cont'd)

Custodial Credit Risk (Cont'd)

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"), U.S. Government Securities, 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.

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.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1: DEPOSITS AND INVESTMENTS (Cont'd)

Concentration of Credit Risk (Cont'd)

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

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Primary government		
TexPool	\$ 8,977,832	0.09
TexSTAR	5,633,795	0.08
Certificates of deposit	250,000	1.95
U.S. government securities	-	
Municipal bonds	<u>6,750,000</u>	
Total primary government	<u>21,611,627</u>	
Component units:		
TexPool	5,574,887	0.09
TexSTAR	1,752,602	0.08
Fixed income	1,705,632	
Equities	2,368,818	
Alternative assets	<u>394,736</u>	
Total component units	<u>11,796,675</u>	
 Total Reporting Entity	 <u>\$ 33,408,302</u>	

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.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1: DEPOSITS AND INVESTMENTS (Cont'd)

Concentration of Credit Risk (Cont'd)

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

	Assets at Fair Value as of September 30, 2017			
	Level 1	Level 2	Level 3	Total
Primary Government:				
Certificate of Deposit	\$ -	\$ 250,000	\$ -	\$ 250,000
Municipal Bonds	-	-	-	-
Texas Government Investment Pool	-	14,611,627	-	14,611,627
U.S. Government Securities	-	6,750,000	-	6,750,000
Total	<u>\$ -</u>	<u>\$ 21,611,627</u>	<u>\$ -</u>	<u>\$ 21,611,627</u>

	Assets at Fair Value as of September 30, 2017			
	Level 1	Level 2	Level 3	Total
Fiduciary funds:				
Collateral Investment Trust	\$ -	\$ 1,076,632	\$ -	1,076,632
Total	<u>\$ -</u>	<u>\$ 1,076,632</u>	<u>\$ -</u>	<u>\$ 1,076,632</u>

	Assets at Fair Value as of September 30, 2017			
	Level 1	Level 2	Level 3	Total
Component units:				
Fixed Income	\$ 1,705,632	\$ -	\$ -	\$ 1,705,632
Equities	2,368,818	-	-	2,368,818
Texas Government Investment Pool	-	7,327,489	-	7,327,489
Alternative assets	-	394,736	-	394,736
Total	<u>\$ 4,074,450</u>	<u>\$ 7,722,225</u>	<u>\$ -</u>	<u>\$ 11,796,675</u>

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 investment 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.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2: RECEIVABLES

Receivables at September 30, 2017 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	Hospital Fund	Golf Course Fund	Internal Service Fund	Total
Property tax	\$ 625,628	\$ -	\$ 82,166	\$ -	\$ -	\$ -	\$ -	\$ 707,794
Sales tax	1,586,456	-	-	-	-	-	-	1,586,456
Hotel tax	-	-	37,964	-	-	-	-	37,964
Municipal court Accounts	265,746 1,585,518	- 288,364	- 102,050	- 1,018,481	- 25,000	- 36,557	- 849	265,746 3,056,819
Gross receivables	4,063,348	288,364	222,180	1,018,481	25,000	36,557	849	5,654,779
Less: allowance for uncollectibles	(394,233)	-	(26,820)	(67,327)	-	(13,058)	-	(501,438)
Total taxes and accounts receivable (net)	<u>\$ 3,669,115</u>	<u>\$288,364</u>	<u>\$ 195,360</u>	<u>\$ 951,154</u>	<u>\$ 25,000</u>	<u>\$ 23,499</u>	<u>\$ 849</u>	<u>\$ 5,153,341</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, 2017, the components of delinquent taxes receivables are as follows:

	General Fund	Interest & Sinking	Total
Delinquent taxes	\$ 625,629	\$ 82,166	\$ 707,795
Allowance	(188,112)	(26,820)	(214,932)
Totals	<u>\$ 437,517</u>	<u>\$ 55,346</u>	<u>\$ 492,863</u>

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 3: CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,487,397	\$ 29,700	\$ -	\$ 1,517,097
Equipment (historical treasure)	40,000	-	-	40,000
Construction in progress	<u>3,870,618</u>	<u>1,256,038</u>	<u>1,906,139</u>	<u>3,220,517</u>
Total capital assets, not being depreciated	5,398,015	1,285,738	1,906,139	4,777,614
Capital assets, being depreciated:				
Buildings & system	34,070,857 *	1,725,992	-	35,796,849
Equipment & other	<u>13,935,702</u>	<u>346,954</u>	<u>102,246</u>	<u>14,180,410</u>
Total capital assets being depreciated	48,006,559	2,072,946	102,246	49,977,259
Less accumulated depreciation for:				
Buildings & system	(11,601,042) *	(950,111)	-	(12,551,153)
Equipment & other	<u>(10,602,527)</u>	<u>(694,287)</u>	<u>(94,792)</u>	<u>(11,202,022)</u>
Total accumulated depreciation	(22,203,569)	(1,644,398)	(94,792)	(23,753,175)
Total capital assets, being depreciated, net	<u>25,802,990</u>	<u>428,548</u>	<u>7,454</u>	<u>26,224,084</u>
Governmental activities capital assets, net	<u>\$ 31,201,005</u>	<u>\$ 1,714,286</u>	<u>\$ 1,913,593</u>	<u>\$ 31,001,698</u>

* These amounts have been adjusted for the prior period adjustment discussed in Note 14.

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 311,536	\$ 63,000	\$ 2,500	\$ 372,036
Construction in progress	<u>21,546</u>	<u>1,619,291</u>	<u>-</u>	<u>1,640,837</u>
Total capital assets, not being depreciated	333,082	1,682,291	2,500	2,012,873
Capital assets, being depreciated:				
Buildings & system	61,482,503 *	449,105	-	61,931,608
Equipment & other	<u>11,682,340</u>	<u>62,100</u>	<u>37,873</u>	<u>11,706,567</u>
Total capital assets being depreciated	73,164,843	511,205	37,873	73,638,175
Less accumulated depreciation for:				
Buildings & system	(30,056,261) *	(1,260,538)	-	(31,316,799)
Equipment & other	<u>(9,122,414)</u>	<u>(183,213)</u>	<u>(37,873)</u>	<u>(9,267,754)</u>
Total accumulated depreciation	(39,178,675)	(1,443,751)	(37,873)	(40,584,553)
Total capital assets, being depreciated, net	<u>33,986,168</u>	<u>(932,546)</u>	<u>-</u>	<u>33,053,622</u>
Business-type activities capital assets, net	<u>\$ 34,319,250</u>	<u>\$ 749,745</u>	<u>\$ 2,500</u>	<u>\$ 35,066,495</u>

* These amounts have been adjusted for the prior period adjustment discussed in Note 14.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 3: CAPITAL ASSETS (Cont'd)

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

Governmental activities:		
General government	\$	150,730
Public safety		406,527
Public works		959,084
Developmental services		11,086
Sanitation		37,877
Culture and recreation		74,824
Public welfare		4,270
Total depreciation expense - governmental activities	<u>\$</u>	<u>1,644,398</u>
Business-type activities:		
Water and sewer	\$	1,140,386
Hospital		53,694
Golf course		249,671
Total depreciation expense - business-type activities	<u>\$</u>	<u>1,443,751</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Kilgore Economic Development Corporation:				
Capital assets, not being depreciated:				
Land	\$ 161,072	\$ -	\$ -	\$ 161,072
Property held for resale/transfer	2,991,839	777,417	-	3,769,256
Total capital assets, not being depreciated	3,152,911	777,417	-	3,930,328
Capital assets, being depreciated:				
Buildings & improvements	9,234,124 *	923,501	-	10,157,625
Furniture, fixtures, & equipment	237,374	99,995	7,099	330,270
Total capital assets being depreciated	9,471,498	1,023,496	7,099	10,487,895
Less accumulated depreciation for:				
Buildings & improvements	(2,273,620) *	(409,500)	-	(2,683,120)
Furniture, fixtures, & equipment	(196,697)	(27,899)	(7,099)	(217,497)
Total accumulated depreciation	(2,470,317)	(437,399)	(7,099)	(2,900,617)
Total capital assets, being depreciated, net	7,001,181	586,097	-	7,587,278
Kilgore Economic Development Corporation capital assets, net	<u>\$ 10,154,092</u>	<u>\$ 1,363,514</u>	<u>\$ -</u>	<u>\$ 11,517,606</u>

* These amounts have been adjusted for the prior period adjustment discussed in Note 14.

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

Economic Development	\$ 437,399
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CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4: LONG TERM DEBT

General Obligation Bonds

On January 15, 2017, the City issued \$3,365,000 of general obligation refunding bonds to be used for the purpose of refinancing the 2008 Tax and Waterworks and Sewer System Revenue Certificate of Obligation and to pay issuance costs related to the bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$160,745. This amount is included in deferred outflows of resources and is being amortized over the remaining life of the new debt, which is equal to the life of the refunded debt. The advance refunding was undertaken to reduce the total debt service payments over the next 11 years by \$239,707 and resulted in an economic gain of \$208,619. The bonds are scheduled to mature in 2028 and are included in the detailed maturity schedule below.

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The City intends to retire all of its general long-term liabilities, plus interest, from ad valorem taxes and current 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:

2017 General obligation refunding bonds due in various annual
principal installments through August 2028, interest at 3%

Governmental Activities	<u><u>\$3,360,000</u></u>
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Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2018	\$ 15,000	\$ 100,800
2019	295,000	100,350
2020	290,000	91,500
2021	315,000	82,800
2022	310,000	73,350
2023-2027	1,750,000	219,000
2028	385,000	11,550
Total	\$ 3,360,000	\$ 679,350

Certificates of Obligation

On January 15, 2017, The City also issued \$4,055,000 of combination tax and limited pledge revenue certificates of obligation for the purpose of constructing, acquiring, purchasing, renovating, enlarging, equipping, and improving water and sewer system properties and facilities, as well as for paying the issuance costs of the certificates.

Certificate of obligation bonds may be issued for both general government and proprietary activities to provide funds for acquisition or construction of major capital facilities. The 2017 Combination Tax and Limited Pledge Revenue Certificates of Obligation are expected to be repaid from proprietary fund revenues; therefore, they have been reported in the proprietary funds.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4: LONG TERM DEBT (Cont'd)

Certificates of Obligation - Continued

The City has outstanding certificate of obligation bonds as follows:

2017 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in various annual principal installments through February 2036, interest at 3%.

Water & Sewer Enterprise Fund	<u>\$4,055,000</u>
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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%.

Governmental Activities	<u>\$ 275,000</u>
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Annual debt service requirements to maturity for certificate of obligations are as follows:

Year Ending September 30	Business-Type Activities	
	Principal	Interest
2018	\$ 155,000	\$ 126,825
2019	160,000	122,100
2020	165,000	117,226
2021	170,000	112,200
2022	175,000	106,150
2023-2027	995,000	423,900
2028-2032	1,165,000	249,825
2033-2036	1,070,000	65,400
Total	<u>\$ 4,055,000</u>	<u>\$ 1,323,626</u>

Year Ending September 30	Governmental Activities	
	Principal	Interest
2018	<u>\$ 275,000</u>	<u>\$ 6,188</u>

Notes Payable

At the beginning of the year, the City had 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 was set up with annual installments of \$97,340 through December 2019. However, during the year ended September 30, 2017 the City was notified that as a result of additional audits by the Texas Comptroller, the City was due sales tax revenue of \$285,782. This amount was offset against the note payable. As a result of the offset against the note payable, along with the scheduled payment the City made of \$97,340, the note balance at September 30, 2017 is \$6,141.

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 4: LONG TERM DEBT (Cont'd)

Capital Leases

The City is obligated under two capital leases for golf carts and mowing equipment. The equipment acquired through capital lease has a net book value of \$83,690. 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, 2017 are as follows:

including interest at 3.85%, with a balloon payment of \$27,750 on April 7, 2021.

Golf Course Enterprise Fund	<u>\$ 50,925</u>
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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	<u>\$ 43,545</u>
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Annual debt service requirements to maturity for capital leases are as follows:

Year Ending September 30	Governmental Activities
2018	\$ 33,985
2019	27,536
2020	8,181
2021	31,841
2022	-
Total amount of minimum lease payments	101,543
Less: amount representing interest	(7,073)
Present value of minimum lease payments	<u>\$ 94,470</u>

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4: LONG TERM DEBT (Cont'd)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2017, was as follows:

	Balance 10/1/2016	Additions	Retirements	Balance 9/30/2017	Due Within One Year
Governmental activities:					
General obligation and certificates of obligation	\$ 3,800,000	\$ 3,365,000	\$ (3,530,000)	\$ 3,635,000	\$ 290,000
Bond premiums	-	196,074	(10,018)	186,056	17,174
Total bonds payable	3,800,000	3,561,074	(3,540,018)	3,821,056	307,174
Loans	389,263	-	(383,122)	6,141	6,141
Net pension liability	6,186,170	3,511,377	(3,533,530)	6,164,017	-
Compensated absences	671,682	437,162	(447,710)	661,134	260,320
Claims payable	86,431	11,713	(42,816)	55,328	55,328
Total governmental activities	<u>\$ 11,133,546</u>	<u>\$ 7,521,326</u>	<u>\$ (7,947,196)</u>	<u>\$ 10,707,676</u>	<u>\$ 628,963</u>
Business-type Activities:					
General obligation bonds	\$ 60,000	\$ 4,055,000	\$ (60,000)	\$ 4,055,000	\$ 155,000
Less: bond premiums	-	158,744	(4,874)	153,870	8,355
Total bonds payable	60,000	4,213,744	(64,874)	4,208,870	163,355
Capital lease obligation	88,566	54,000	(48,096)	94,470	30,839
Net pension liability	1,808,167	1,326,092	(1,466,608)	1,667,651	-
Compensated absences	108,113	64,466	(73,152)	99,427	40,428
Total business-type activities	<u>\$ 2,064,846</u>	<u>\$ 5,658,302</u>	<u>\$ (1,652,730)</u>	<u>\$ 6,070,418</u>	<u>\$ 234,622</u>
Component Units:					
Revenue bonds	\$ 3,655,000	\$ -	\$ (190,000)	\$ 3,465,000	\$ 190,000
Bond premium	111,238	-	(9,897)	101,341	-
Loans	145,981	291,064	(145,981)	291,064	291,064
Note payable to primary government	400,000	-	-	400,000	-
Total governmental activities	<u>\$ 4,312,219</u>	<u>\$ 291,064</u>	<u>\$ (345,878)</u>	<u>\$ 4,257,405</u>	<u>\$ 481,064</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.

Component Unit – Kilgore Economic Development Corporation

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%

Kilgore Economic Development Corporation \$1,840,000

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 \$1,625,000

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4: LONG TERM DEBT (Cont'd)

Component Unit – Kilgore Economic Development Corporation

The principal and interest requirements at September 30, 2017, for the component unit debt for the next five years and, thereafter, are as follows:

Year Ending September 30	KEDC	
	Principal	Interest
2017	\$ 190,000	\$ 130,488
2018	200,000	125,338
2019	200,000	119,712
2020	210,000	112,412
2021	220,000	104,762
2022-2026	1,225,000	396,054
2027-2032	875,000	155,014
2033-2035	345,000	28,000
Total	<u>\$ 3,465,000</u>	<u>\$ 1,171,780</u>

At the beginning of the year, KEDC had a note payable to the Texas Comptroller in the amount of \$145,981 for sales tax revenue mistakenly received by KEDC. During the current fiscal year, KEDC was notified that as a result of audits by the Texas Comptroller, KEDC was due sales tax revenue of \$142,898. This amount was offset against the note payable and as a result the KEDC was able to make their final payment obligation.

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.

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.

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.

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

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

Texas Municipal Retirement System (Cont'd)

Benefits provided Cont'd

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 2017	Plan Year 2016
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, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	172
Inactive employees entitled to but not yet receiving benefits	124
Active employees	156
	452

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 14.85% and 15.06% in calendar years 2016 and 2017, respectively. The contribution rates for the Hospital were a fixed amount of \$29,245 in calendar years 2016 and 2017, respectively. The City's total contributions to TMRS for the year ended December 31, 2016, were \$1,140,434, and were equal to the required contributions.

Net Pension Liability

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

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

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

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

Texas Municipal Retirement System (Cont'd)

Net Pension Liability (Cont'd)

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, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. 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.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
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.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

Texas Municipal Retirement System (Cont'd)

Changes in Net Pension Liability	Increase (Decrease)		
	Plan		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/15	\$ 53,039,331	\$ 45,044,993	\$ 7,994,338
Changes for the year:			
Service cost	1,262,881	-	1,262,881
Interest	3,538,354	-	3,538,354
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(311,765)	-	(311,765)
Changes of assumptions	-	-	-
Contributions - employer	-	1,121,849	(1,121,849)
Contributions - employee	-	522,777	(522,777)
Net investment income	-	3,043,747	(3,043,747)
Benefit payments, including refunds of employee contributions	(2,501,409)	(2,501,409)	-
Administrative expense	-	(34,380)	34,380
Other changes	-	(1,853)	1,853
Net changes	1,988,061	2,150,731	(162,670)
Balance at 12/31/16	\$ 55,027,392	\$ 47,195,724	\$ 7,831,668

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	\$ 15,238,020	\$ 7,831,668	\$ 1,744,337

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.

Pension expense and deferred outflows and inflows of resources related to pensions

For the year ended September 30, 2017, the city recognized pension expense of \$1,528,869.

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

	Deferred Outflows of Resources
Changes in actuarial assumptions	\$ 37,190
Difference between projected and actual investment earnings	2,116,031
Contributions subsequent to the measurement date	882,847
Total	\$ 3,036,068

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

Pension expense and deferred outflows and inflows of resources related to pensions (Cont'd)

\$882,847 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, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2018	\$ 762,066
2019	761,692
2020	630,105
2021	(642)
2022	-

At September 30, 2017, 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	\$ (489,644)

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

Year ended September 30:	
2018	\$ (366,375)
2019	(78,900)
2020	(42,170)
2021	(2,109)
2022	-

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 SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contribution to TMRS SDBF for the years ended 2017, 2016, and 2015 were \$20,074, \$21,265 and \$20,041, 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, 2017, the balance of Plan assets was \$1,249,638. However, due to the fact that the City does not administer this plan, the plan is not included in the City's financial statements.

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

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

Other Post-Employment Benefits (OPEB)

Plan Description

The City offers a single-employer OPEB plan. 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, 2017, the monthly subsidy was equal to \$493.42.

Employees covered by benefit term

At September 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	8
Inactive employees entitled to but not yet receiving benefits	-
Active employees	151
	159

Contributions

The City set up an irrevocable trust for OPEB, which is reported as a Fiduciary Fund in the financial statements. The annual employer contribution policy has been to contribute an amount 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%. For the period ending December 31, 2017, the actuarially determined contribution amount was zero and no contributions were made, there is no plan to contribute for FY 2018.

Net OPEB Liability

The City's net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of October 1, 2016.

Actuarial assumption

The total OPEB liability in the September 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3%
Salary increases	None
Investment rate of return	7.5%, net of expenses
Healthcare cost trend rates	None

Mortality rates were based on the RPH-2014 Total Table with Projection MP-2015.

The actuarial assumptions used in the October 30, 2016 valuation were based on the results of experience and demographics for that twelve month period.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate range of expected future real rate of return (expected returns, net of OPEB plan investment expense and inflation) is developed for each major asset class. The range is combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The OPEB assets are 100% invested in a commingled fund and the best estimate of arithmetic real rate of return for the asset class is 7.5%

Discount rate

As of December 31, 2017, the City's discount rate is 7.5%. The projection of cash flows used to determine the discount rate assumed that City contributions, as applicable, will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

Other Post-Employment Benefits (Cont'd)

Changes in the Net OPEB Liability	Increase (Decrease)		
	Plan		
	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at 9/30/16	\$ 612,044	\$ 1,061,635	\$ (449,591)
Changes for the year:			
Service cost	14,250	-	14,250
Interest	46,972	-	46,972
Net investment income	-	75,894	(75,894)
Benefit payments	-	(60,261)	60,261
Administrative expense	-	(636)	636
Net changes	<u>61,222</u>	<u>14,997</u>	<u>46,225</u>
Balance at 9/30/17	<u>\$ 673,266</u>	<u>\$ 1,076,632</u>	<u>\$ (403,366)</u>

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

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current discount rate:

	1% Decrease in Discount Rate (6.50%)	Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
City's total OPEB liability	\$ 662,553	\$ 612,044	\$ 567,517

OPEB expense and deferred outflows and inflows of resources related to OPEB

For the year ended September 30, 2017, the City recognized OPEB expense of \$61,510. At September 30, 2017, the City reported deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Inflows of Resources</u>
Difference between projected and actual investment earnings	<u>\$ 1,156</u>

<u>Year ended September 30:</u>	
2018	\$ 289
2019	289
2020	289
2021	289
2022	-

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 6: INTERFUND TRANSACTIONS

Transfers between funds during the year were as follows:

Transfers Out:	Transfers In					Total
	Governmental			Enterprise		
	General Fund	Capital Projects Fund	Non-Major Governmental Funds	Water and Sewer Fund	Golf Course Fund	
General Fund	\$ -	\$ 1,162,672	\$ 3,316	\$ -	\$ 156,000	\$ 1,321,988
Capital Project Fund	-	-	-	1,163,957	-	1,163,957
Non-Major Governmental Funds	-	59,000	-	60,900	-	119,900
Water and Sewer Fund	-	-	-	-	-	-
Golf Course Fund	-	-	-	-	-	-
Total	\$ -	\$ 1,221,672	\$ 3,316	\$ 1,224,857	\$ 156,000	\$ 2,605,845

Significant transfers are related to funding capital projects during the year. The Capital Projects Fund transferred \$1,163,957 to the Water & Sewer Fund for utility projects that are ongoing, but that were previously being accounted for in the governmental Capital Projects Fund (and then transferred to the proprietary fund upon completion). The General Fund transferred \$1,162,672 to the Capital Projects Fund to fund governmental projects during the year. In addition, \$156,000 was transferred to the Golf Course Fund for administrative support during the year.

The composition of interfund balances as of September 30, 2017, is as follows:

Due To:	Due From Proprietary			Total
	Golf Course Fund	Hospital Fund	Internal Service	
Water and Sewer Fund	\$ -	\$ 14,078	\$ -	\$ 14,078
Total	\$ -	\$ 14,078	\$ -	\$ 14,078

Advances To:	Advances From Governmental		Total
	Non-Major Governmental Funds	Water and Sewer	
General Fund	\$ 429,712	\$ 1,350,494	\$ 1,780,206
Total	\$ 429,712	\$ 1,350,494	\$ 1,780,206

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.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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, 2017. 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:

Governmental Projects		
Project	Spent-to-Date	Estimated Remaining Commitment
Youth Sports Complex	\$ 2,219,486	\$ 136,087
Wells St Construction	6,338	88,000
Trails Project	147,102	252,898
Splash Pad	302,877	87,500
Railroad Quiet Zone	22,881	77,119
Lantrip St	2,888	64,951
Fire Station Driveway	23,421	7,800
Birdsong St Construction	21,874	52,335
Downtown Storm Drain	265,730	584,796
	\$ 3,012,597	\$ 1,351,486

Enterprise Projects		
Project	Spent-to-Date	Estimated Remaining Commitment
Water Supply Options	123,276	76,724
Rabbit Creek Lift Station	31,143	228,857
Riverside - Dudley Sewer Main	56,740	58,260
WWTP Improvements	112,742	1,912,258
Pentecost Aerial Replacement	11,000	99,000
Dudley Rd. Transmission Main	168,580	320,420
Raw Water Pump Station Rehab	42,793	171,207
Sedimentation Basin Rehab	12,170	64,000
NW Pressure Plane	333,700	466,300
Filter Rehab	177,300	322,700
Water Plant Mold Remediation	79,623	30,000
	\$ 1,149,067	\$ 3,749,726

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

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, 2017 was \$52,619.

	Business-Type Activities
Water Rights	\$ 1,289,164
Less: Accumulated amortization	(1,210,236)
Water Rights, Net	\$ 78,928

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, 2017, the administrator had not reported any such claims to the City.

NOTE 9: CHANGE IN ACCOUNTING ESTIMATE

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 \$21,636 decrease in net position. It is management's opinion that the liability recorded for the City as of September 30, 2017 is adequate to cover insurance deductibles and potential claims outside of the insurance coverage.

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 2017, lease income to the City was \$300,000 with a receivable balance of \$25,000. The leased building has a cost of \$21,082,413, accumulated depreciation of \$16,352,723, and a carrying value of \$4,729,711.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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, 2017:

Component Unit	Significant Transactions
Kilgore Redevelopment Authority	Note receivable in the amount of \$400,000, with an interest rate of 3% annually. Accrued interest receivable of \$91,487 at September 30, 2017.
Roy H. Laird Memorial Hospital Foundation	\$49,258 contribution for the Texas Municipal Retirement System obligation for former City employees of the Roy H. Laird Memorial Hospital.
Kilgore Economic Development Corporation	Dedication of public infrastructure within Synergy Business Park in the amount of \$4,767,356.

NOTE 12: TAX ABATEMENTS

The City is authorized by Section 312 of the Texas Tax Code and City Resolution No. 00-15 to enter into property tax abatement agreements for the purpose of enhancing the competitiveness and expansion of businesses. Tax abatements, which cannot exceed a term of ten years, may be granted for the exemption of real property located within the re-investment zone and/or personal property (excluding inventory and supplies). The possible abatement amount is based on the amount of the capital investment, minimum annual payroll, and number of jobs created. The City Council approves all abatements. The amount of the abatement is automatically deducted from the property owner's tax bill. The City recaptures a prorated amount of abated taxes if these conditions are not met.

For the year ended September 30, 2017, the City abated property taxes totaling \$214,045 under this program, including the following tax abatement agreement:

<u>Type of Business</u>	<u>Purpose</u>	<u>Percent Abated</u>	<u>Amount Abated</u>
Orgill Inc.	Construction and improvement to real property; personal property investment; jobs creation	100%	\$ 208,035
Drilltools, LLC	Construction and improvement to real property; personal property investment; jobs creation	50%	\$ 6,010

In addition, the City has also approved a 6 year tax abatement agreement with Skeeter Products, Inc. for capital investment within the re-investment zone and job creation. The agreement becomes effective January 1, 2017 with 100% of property tax being abated on certain real and personal property in the first three years, 75% in year four, 50% in year five, and 25% in year six.

NOTE 13: CHANGE IN ACCOUNTING PRINCIPLE

During the year, the City exercised the option to early implement GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Under GASB 75, the City was required to record the net OPEB asset or liability and the related deferred outflows (see expanded disclosures in Note 5). Adoption of GASB 75 required a restatement of the beginning net position to report the effect retroactively. The restatements only affect the financial statements on the accrual basis of accounting, and were recorded as follows:

Governmental activities:	<u>\$ 167,388</u>
Business-type activities:	
Water & Sewer Enterprise Fund	<u>28,537</u>
Total business-type activities	<u>\$ 28,537</u>

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 14: PRIOR PERIOD ADJUSTMENT

During the current year, it was discovered that public infrastructure assets in the Synergy Business Park had been dedicated to the City of Kilgore, by their component unit Kilgore Economic Development Corporation (KEDC), through the filing of plats at the conclusion of various stages of construction. As such, KEDC effectively conveyed the rights and obligations (i.e. ownership) of those assets to the City and those assets should have been added to, and removed from, the City and KEDC's financial records, respectively.

The City has recorded the following prior period adjustment:

	Infrastructure asset	Accumulated Depreciation	Prior Period Adjustment
Governmental activities	\$ 6,041,552	\$ 1,274,196	\$ 4,767,356
Business-type activities	708,368	84,831	623,537
	\$ 6,749,920	\$ 1,359,027	\$ 5,390,893

KEDC recorded a prior period adjustment to correct the beginning net position of their governmental activities in the amount of \$3,692,721 related to this dedication of infrastructure. The difference in the amounts recorded by KEDC and the City are related to different estimates of the useful lives of the assets which affects the accumulated depreciation recorded against the infrastructure assets.

In addition, KEDC also recorded a prior period adjustment in the amount of \$382,343 to correct an error made in the prior year by not accounting for sales tax revenues and receivables on the modified accrual basis of accounting.

NOTE 15: SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 23, 2018, the date the financial statements were available to be issued.

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**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)

	12/31/2014	12/31/2015	12/31/2016
Total Pension Liability			
Service Cost	\$ 1,088,874	\$ 1,199,295	\$ 1,262,881
Interest (on the Total Pension Liability)	3,458,531	3,502,728	3,538,354
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	(1,383,324)	(128,775)	(311,765)
Changes of Assumptions	-	394,324	-
Benefit Payments, Including Refunds of Employee Contributions	(2,440,704)	(2,735,118)	(2,501,409)
Net Change in Total Pension Liability	<u>723,377</u>	<u>2,232,454</u>	<u>1,988,061</u>
Total Pension Liability - Beginning	50,083,500	50,806,877	53,039,331
Total Pension Liability - Ending (a)	<u><u>\$ 50,806,877</u></u>	<u><u>\$ 53,039,331</u></u>	<u><u>\$ 55,027,392</u></u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 1,221,385	\$ 1,219,160	\$ 1,121,849
Contributions - Employee	525,562	512,864	522,777
Net Investment Income	2,529,283	67,908	3,043,747
Benefit Payments, Including Refunds of Employee Contributions	(2,440,704)	(2,735,118)	(2,501,409)
Administrative Expense	(26,409)	(41,364)	(34,380)
Other	(2,171)	(2,043)	(1,853)
Net Change in Plan Fiduciary Net Position	<u>1,806,946</u>	<u>(978,593)</u>	<u>2,150,731</u>
Plan Fiduciary Net Position - Beginning	44,216,640	46,023,586	45,044,993
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 46,023,586</u></u>	<u><u>\$ 45,044,993</u></u>	<u><u>\$ 47,195,724</u></u>
Net Pension Liability - Ending (a) - (b)	<u><u>\$ 4,783,291</u></u>	<u><u>\$ 7,994,338</u></u>	<u><u>\$ 7,831,668</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.59%	84.93%	85.77%
Covered Employee Payroll	\$ 7,070,216	\$ 7,330,652	\$ 7,468,248
Net Pension Liability as a Percentage of covered Employee Payroll	67.65%	109.05%	104.87%

* 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>	<u>9/30/2017</u>
Actuarially Determined Contribution	\$ 1,250,879	\$ 1,196,297	\$ 1,160,509
Contributions in relation to the actuarially determined contribution	1,250,879	1,196,297	1,160,509
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 7,321,268	\$ 7,733,149	\$ 7,324,398
Contributions as a percentage of covered employee payroll	17.09%	15.47%	15.84%

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 Level Percentage of Payroll, Closed
Amortization Method	29 years (City) / 11 years (Hospital)
Remaining Amortization Period	
Asset Valuation Method	10 Year smoothed market; 15% soft
Inflation	2.50%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	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 SUPPLEMENTAL INFORMATION
POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**

LAST 10 FISCAL YEARS*

(UNAUDITED)

	9/30/2017
Total OPEB Liability	
Service Cost	\$ 14,250
Interest (on the Total OPEB Liability)	46,972
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	-
Benefit Payments, Including Refunds of Employee Contributions	-
Net Change in Total OPEB Liability	61,222
Total OPEB Liability - Beginning	612,044
Total OPEB Liability - Ending (a)	\$ 673,266
 Plan Fiduciary Net Position	
Contributions - Employer	\$ -
Net Investment Income	75,894
Benefit Payments	(60,261)
Administrative Expense	(636)
Other	-
Net Change in Plan Fiduciary Net Position	14,997
Plan Fiduciary Net Position - Beginning	1,061,635
Plan Fiduciary Net Position - Ending (b)	\$ 1,076,632
 Net OPEB Liability - Ending (a) - (b)	\$ (403,366)
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	159.91%
 Covered Employee Payroll	\$ 7,304,297
 Net OPEB Liability as a Percentage of covered Employee Payroll	-5.52%

* 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
POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
SCHEDULE OF CONTRIBUTIONS**

LAST 10 FISCAL YEARS*

(UNAUDITED)

	<u>9/30/2017</u>
Actuarially Determined Contribution	\$ -
Contributions in relation to the actuarially determined contribution	-
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 7,304,297
Contributions as a percentage of covered employee payroll	0.00%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of September 30 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Individual Entry Age Normal Cost Method
Inflation	3.00% per annum
Discount rate	7.50%
Healthcare cost trend rate	None
Mortality	RP-2014 Total Table with Projection MP-2015
Investment Rate of Return	7.50%

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

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COMBINING FUND FINANCIAL STATEMENTS

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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, 2017**

Special Revenue Funds

	Hotel Occupancy Taxes	Grant	911 Emergency	Tax Increment Reinvestment Zone	Federal Drug Seizure
ASSETS					
Cash and cash equivalents	\$ 81,332	\$ 12,755	\$ 16,244	\$ -	\$ -
Investments	382,237	59,942	82,997	-	-
Receivables (net of allowance for estimated uncollectible accounts):					
Taxes	37,964	-	-	-	-
Accounts	-	278	10,187	(1)	-
Interest on long-term receivable	-	-	-	91,488	-
Advance receivable	-	-	-	-	-
Due from other funds	-	-	-	-	-
Inventory, at lower of cost or market	-	-	-	-	-
Total assets	<u>\$ 501,533</u>	<u>\$ 72,975</u>	<u>\$ 109,428</u>	<u>\$ 91,487</u>	<u>\$ -</u>
LIABILITIES					
Trade payables	\$ 7,884	\$ -	\$ 2,136	\$ -	\$ -
Accrued payroll and related expenses	-	-	9	-	-
Advance payable	-	-	-	429,712	-
Total liabilities	<u>7,884</u>	<u>-</u>	<u>2,145</u>	<u>429,712</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	-	-	-	-	-
Unavailable revenue - interest on long-term receivable	-	-	-	91,487	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,487</u>	<u>-</u>
FUND BALANCES					
Restricted for:					
Debt service	-	-	-	-	-
Grant restrictions	-	72,975	-	-	-
Municipal court	-	-	-	-	-
Public safety	-	-	107,283	-	-
Tourism and convention facilities	493,649	-	-	-	-
Unassigned	-	-	-	(429,712)	-
Total fund balances	<u>493,649</u>	<u>72,975</u>	<u>107,283</u>	<u>(429,712)</u>	<u>-</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 501,533</u>	<u>\$ 72,975</u>	<u>\$ 109,428</u>	<u>\$ 91,487</u>	<u>\$ -</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	
\$ 1,471 6,914	\$ 1,271 5,965	\$ 15,097 70,953	\$ 916 4,305	\$ 2,437 11,455	\$ 793 3,726	\$ 132,316 628,494	\$ 261,012 466	\$ 393,328 628,960
-	-	-	-	-	-	37,964	55,345	93,309
7	6	68	4	11	3	10,563	-	10,563
-	-	-	-	-	-	91,488	-	91,488
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>\$ 8,392</u>	<u>\$ 7,242</u>	<u>\$ 86,118</u>	<u>\$ 5,225</u>	<u>\$ 13,903</u>	<u>\$ 4,522</u>	<u>\$ 900,825</u>	<u>\$ 316,823</u>	<u>\$ 1,217,648</u>
\$ 3,093	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,113	\$ 284	\$ 13,397
-	-	-	-	-	-	9	-	9
-	-	-	-	-	-	429,712	-	429,712
<u>3,093</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>442,834</u>	<u>284</u>	<u>443,118</u>
-	-	-	-	-	-	-	55,345	55,345
-	-	-	-	-	-	91,487	-	91,487
-	-	-	-	-	-	91,487	55,345	146,832
-	-	-	-	-	-	-	261,194	261,194
-	-	-	-	-	-	72,975	-	72,975
-	7,242	86,118	-	-	-	93,360	-	93,360
5,299	-	-	-	-	-	112,582	-	112,582
-	-	-	5,225	13,903	4,522	517,299	-	517,299
-	-	-	-	-	-	(429,712)	-	(429,712)
<u>5,299</u>	<u>7,242</u>	<u>86,118</u>	<u>5,225</u>	<u>13,903</u>	<u>4,522</u>	<u>366,504</u>	<u>261,194</u>	<u>627,698</u>
<u>\$ 8,392</u>	<u>\$ 7,242</u>	<u>\$ 86,118</u>	<u>\$ 5,225</u>	<u>\$ 13,903</u>	<u>\$ 4,522</u>	<u>\$ 900,825</u>	<u>\$ 316,823</u>	<u>\$ 1,217,648</u>

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

	Special Revenue Funds				
	Hotel Occupancy Taxes	Grant	911 Emergency	Tax Increment Reinvestment Zone	Federal Drug Seizure
REVENUES					
Taxes:					
Property	\$ -	\$ -	\$ -	\$ -	\$ -
Other	325,849	-	108,788	-	-
Charges for services:					
Police court fines and fees	-	-	-	-	-
Drug seizure revenue	-	-	-	-	18,085
Grants	-	35,348	-	-	-
Interest on investments	3,547	448	798	-	(64)
Miscellaneous	25	-	-	-	-
Total revenues	<u>329,421</u>	<u>35,796</u>	<u>109,586</u>	<u>-</u>	<u>18,021</u>
EXPENDITURES					
Current:					
Public safety:					
Police	-	32,680	73,356	-	18,252
Public works:					
Streets	-	3,501	-	-	-
Culture and recreation:					
Parks	-	-	-	-	-
Grants	317,477	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>317,477</u>	<u>36,181</u>	<u>73,356</u>	<u>-</u>	<u>18,252</u>
Excess (deficiency) of revenues over (under) expenditures	<u>11,944</u>	<u>(385)</u>	<u>36,230</u>	<u>-</u>	<u>(231)</u>
OTHER FINANCING SOURCES (USES)					
Refunding bonds issued	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Premium on general obligation and refunding bonds issued	-	-	-	-	-
Proceeds from loans	-	-	-	-	-
Transfers in	-	3,316	-	-	-
Transfers out	-	-	(59,000)	-	-
Total other financing sources (uses)	<u>-</u>	<u>3,316</u>	<u>(59,000)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	11,944	2,931	(22,770)	-	(231)
Fund balance - beginning of year	<u>481,705</u>	<u>70,044</u>	<u>130,053</u>	<u>(429,712)</u>	<u>231</u>
Fund balance - end of year	<u>\$ 493,649</u>	<u>\$ 72,975</u>	<u>\$ 107,283</u>	<u>\$ (429,712)</u>	<u>\$ -</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	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 453,486	\$ 453,486
-	-	-	-	-	-	434,637	-	434,637
-	8,965	6,800	-	-	-	15,765	-	15,765
8,811	-	-	-	-	-	26,896	-	26,896
-	-	-	-	-	-	35,348	-	35,348
74	47	631	39	103	32	5,655	4,835	10,490
5,001	-	-	-	-	5,231	10,257	-	10,257
<u>13,886</u>	<u>9,012</u>	<u>7,431</u>	<u>39</u>	<u>103</u>	<u>5,263</u>	<u>528,558</u>	<u>458,321</u>	<u>986,879</u>
26,618	5,441	-	-	-	-	156,347	-	156,347
-	-	-	-	-	-	3,501	-	3,501
-	-	-	-	-	4,716	4,716	-	4,716
-	-	-	-	-	-	317,477	-	317,477
-	-	-	-	-	-	-	230,000	230,000
-	-	-	-	-	-	-	241,634	241,634
<u>26,618</u>	<u>5,441</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,716</u>	<u>482,041</u>	<u>471,634</u>	<u>953,675</u>
<u>(12,732)</u>	<u>3,571</u>	<u>7,431</u>	<u>39</u>	<u>103</u>	<u>547</u>	<u>46,517</u>	<u>(13,313)</u>	<u>33,204</u>
-	-	-	-	-	-	-	3,365,000	3,365,000
-	-	-	-	-	-	-	(3,459,996)	(3,459,996)
-	-	-	-	-	-	-	196,074	196,074
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	3,316	-	3,316
-	-	-	-	-	-	(59,000)	(60,900)	(119,900)
-	-	-	-	-	-	(55,684)	40,178	(15,506)
<u>(12,732)</u>	<u>3,571</u>	<u>7,431</u>	<u>39</u>	<u>103</u>	<u>547</u>	<u>(9,167)</u>	<u>26,865</u>	<u>17,698</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>375,671</u>	<u>234,329</u>	<u>610,000</u>
<u>\$ 5,299</u>	<u>\$ 7,242</u>	<u>\$ 86,118</u>	<u>\$ 5,225</u>	<u>\$ 13,903</u>	<u>\$ 4,522</u>	<u>\$ 366,504</u>	<u>\$ 261,194</u>	<u>\$ 627,698</u>

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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, 2017

	Employee Benefit	Capital Equipment Purchase	Information Technology	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 742,350	\$ 146,466	\$ 10,049	\$ 898,865
Investments	250,000	688,339	47,229	985,568
Accounts receivable (net)	142	663	46	851
Prepaid expenses	1,721	-	-	1,721
Total current assets	<u>994,213</u>	<u>835,468</u>	<u>57,324</u>	<u>1,887,005</u>
Noncurrent assets:				
Capital assets (net)	-	1,007,325	144,154	1,151,479
Total noncurrent assets	<u>-</u>	<u>1,007,325</u>	<u>144,154</u>	<u>1,151,479</u>
Total assets	<u>994,213</u>	<u>1,842,793</u>	<u>201,478</u>	<u>3,038,484</u>
LIABILITIES				
Current liabilities:				
Trade payables	-	-	30,232	30,232
Total current liabilities	<u>-</u>	<u>-</u>	<u>30,232</u>	<u>30,232</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>30,232</u>	<u>30,232</u>
NET POSITION				
Net investment in capital assets	-	1,007,325	144,154	1,151,479
Unrestricted	994,213	835,468	27,092	1,856,773
Total net position	<u>\$ 994,213</u>	<u>\$ 1,842,793</u>	<u>\$ 171,246</u>	<u>\$ 3,008,252</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, 2017**

	Employee Benefit	Capital Equipment Purchase	Information Technology	Total
OPERATING REVENUES				
Charges for services	\$ 1,717,807	\$ 395,653	\$ 509,909	\$ 2,623,369
Total operating revenues	<u>1,717,807</u>	<u>395,653</u>	<u>509,909</u>	<u>2,623,369</u>
OPERATING EXPENSES				
Operating expenses	1,616,991	-	443,186	2,060,177
Depreciation and amortization	-	290,280	53,808	344,088
Total operating expenses	<u>1,616,991</u>	<u>290,280</u>	<u>496,994</u>	<u>2,404,265</u>
OPERATING INCOME (LOSS)	<u>100,816</u>	<u>105,373</u>	<u>12,915</u>	<u>219,104</u>
NONOPERATING REVENUES:				
Investment earnings	10,153	5,690	937	16,780
Interest expense and fiscal charges	-	-	-	-
Miscellaneous	60,260	-	-	60,260
Gain (loss) on sale of assets	-	5,339	-	5,339
Total nonoperating revenues	<u>70,413</u>	<u>11,029</u>	<u>937</u>	<u>82,379</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	<u>171,229</u>	<u>116,402</u>	<u>13,852</u>	<u>301,483</u>
Change in net position	171,229	116,402	13,852	301,483
Total net position, beginning	<u>822,984</u>	<u>1,726,391</u>	<u>157,394</u>	<u>2,706,769</u>
Total net position, ending	<u>\$ 994,213</u>	<u>\$ 1,842,793</u>	<u>\$ 171,246</u>	<u>\$ 3,008,252</u>

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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, 2017, 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 23, 2018.

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.

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*.

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 & Peters, PC

Longview, Texas
March 23, 2018

**CITY OF KILGORE, TEXAS
SUMMARY SCHEDULE OF PRIOR YEAR
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Finding

Current Status

Finding 2015-1 and 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.

These items have been resolved in fiscal year ending 2017.

Finding 2015-2 and 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.

These items, while still present at times, are not considered a significant deficiency individually.

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