



CITY OF KILGORE, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2018

**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, 2018, 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, theft, 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, 2018. 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 2018 was 14,782, which reflects substantial growth over the preceding eight 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 six companies in the oil and gas sector business which makes up 15.79% of the taxable base for the City of Kilgore. The remaining four companies are in the non-oilfield related business and make up 9.71% of the taxable values.
- KEDC is also investing in workforce development. Over the past several years KEDC has partnered with Kilgore Independent School District and Kilgore College to establish a dual credit welding program in the high school. In addition, KEDC provides space to Kilgore College for training for advanced welding and commercial driver's license training.
- The KEDC Board of Directors approved five new contracts during FY2017-2018 with new capital investments totaling \$37.4 million dollars.
- 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 FY2017-2018 KEDC entered into Economic Development Performance Agreements that project to create 151 new jobs and retain 710 for a total of 861 jobs under contract.

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 & Commercial Development

Kilgore continues to see residential and commercial development within its boundaries and the immediate surrounding area. Currently there are three active new residential 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. In the area of commercial development, Orgil Inc. the world's largest independent hardline distributor is expanding their Kilgore distribution facility by 328,707 square feet. This expansion will almost double the size of this facility and bring additional jobs to the area. The City also issued new commercial building permits during FY2018 with a value of \$5.1

million dollars. The expansion of the new commercial businesses into the Kilgore will continue to help the local economy grow stronger and more diversified.

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 2018, 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 5,354, 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:

I would like to express my appreciation to all Department Heads & City Staff for their assistance in supplying and 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,



William E. Martin
Controller, City of Kilgore

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kilgore, Texas, as of and for the year ended September 30, 2018, 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, 2018, 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 3-8, and 55-58 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 19, 2019, 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 & Peters, PC

Longview, Texas
March 19, 2019

**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, 2018. 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 \$89,164,750 (*net position*). Of this amount, \$25,833,017 (*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 \$5,690,872, of which \$5,690,872 was a change in the current year net position.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$19,969,122. Approximately 70 percent of this total amount, \$13,908,242, is available for spending at the government's discretion (unassigned fund balance).
- The City's total long term debt decreased by \$4,307,010 during the current fiscal year. This is due directly to a decrease in the net pension liability of \$3,988,675.

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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 13-19 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 26-54 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. By far the largest portion of the City’s net position (69 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	
	2018	2017	2018	2017	2018	2017
Current and other Assets	\$ 26,493,733	\$ 22,445,749	\$ 12,636,801	\$ 11,823,205	\$ 39,130,534	\$ 34,268,954
Capital Assets	30,853,420	31,001,698	36,091,250	35,066,495	66,944,670	66,068,193
Total Assets	<u>57,347,153</u>	<u>53,447,447</u>	<u>48,728,051</u>	<u>46,889,700</u>	<u>106,075,204</u>	<u>100,337,147</u>
Deferred outflows of resources	1,834,815	2,262,689	690,132	927,067	2,524,947	3,189,756
Current liabilities	2,514,838	2,086,953	529,297	726,114	3,044,135	2,813,067
Noncurrent liabilities	7,285,575	10,025,384	5,268,914	5,835,796	12,554,489	15,861,180
Total Liabilities	<u>9,800,413</u>	<u>12,112,337</u>	<u>5,798,211</u>	<u>6,561,910</u>	<u>15,598,624</u>	<u>18,674,247</u>
Deferred inflows of resources	2,721,763	423,907	1,115,014	123,507	3,836,777	547,414
Net position:						
Net investment in						
Capital Assets	27,477,990	27,180,642	34,596,298	34,274,158	62,074,288	61,454,800
Restricted	1,257,445	1,066,628	-	8,136	1,257,445	1,074,764
Unrestricted	17,924,357	14,926,622	7,908,660	6,849,056	25,833,017	21,775,678
Total net position	<u>\$ 46,659,792</u>	<u>\$ 43,173,892</u>	<u>\$ 42,504,958</u>	<u>\$ 41,131,350</u>	<u>\$ 89,164,750</u>	<u>\$ 84,305,242</u>

An additional portion of the City’s net position (approximately 1.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$25,833,017) 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

Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 3,083,492	\$ 2,854,651	\$ 7,730,936	\$ 6,982,914	\$ 10,814,428	\$ 9,837,565
Operating grants and contribution:	928,644	510,991	90,935	36,235	1,019,579	547,226
Capital grants and contributions	652,809	1,794,973	-	741,800	652,809	2,536,773
General Revenues:						
Property taxes	6,388,363	6,346,070	-	-	6,388,363	6,346,070
Sales taxes	7,054,747	5,523,650	-	-	7,054,747	5,523,650
Other taxes	1,210,298	1,169,901	-	-	1,210,298	1,169,901
Investment income	395,368	205,409	208,844	84,752	604,212	290,161
Miscellaneous income	255,524	242,708	492	28,811	256,016	271,519
Gain on sale of assets	27,207	5,339	-	16,438	27,207	21,777
Total Revenues	<u>19,996,452</u>	<u>18,653,692</u>	<u>8,031,207</u>	<u>7,890,950</u>	<u>28,027,659</u>	<u>26,544,642</u>
Expenses:						
General government	905,502	834,064	-	-	905,502	834,064
Public safety	8,068,243	8,050,413	-	-	8,068,243	8,050,413
Public Works	2,156,008	2,999,890	-	-	2,156,008	2,999,890
Developmental services	599,781	602,697	-	-	599,781	602,697
Sanitation	2,157,887	2,040,805	-	-	2,157,887	2,040,805
Culture and recreation	1,782,584	1,864,478	-	-	1,782,584	1,864,478
Public welfare	213,941	165,931	-	-	213,941	165,931
Interest and fiscal charges	110,002	233,074	-	-	110,002	233,074
Golf Course	-	-	499,551	435,129	499,551	435,129
Water and sewer	-	-	5,139,002	5,558,908	5,139,002	5,558,908
Hospital	-	-	716,734	338,487	716,734	338,487
Total Expenses	<u>15,993,948</u>	<u>16,791,352</u>	<u>6,355,287</u>	<u>6,332,524</u>	<u>22,349,235</u>	<u>23,123,876</u>
Excess (deficiency) before special items and transfers	4,002,504	1,862,340	1,675,920	1,558,426	5,678,424	3,420,766
Special items: change in accounting estimates	(55,840)	21,636	-	-	(55,840)	21,636
Transfers in (out)	(76,000)	(1,380,857)	76,000	1,380,857	-	-
Increase (decrease) in net position	<u>3,870,664</u>	<u>503,119</u>	<u>1,751,920</u>	<u>2,939,283</u>	<u>5,622,584</u>	<u>3,442,402</u>
Net position, beginning	43,173,892	37,736,029	41,131,350	37,539,993	84,305,242	75,276,022
Cumulative effect of change in accounting principle	(384,764)	167,388	(378,312)	28,537	(763,076)	195,925
Prior period adjustments	-	4,767,356	-	623,537	-	5,390,893
Net position, ending	<u>\$ 46,659,792</u>	<u>\$ 43,173,892</u>	<u>\$ 42,504,958</u>	<u>\$ 41,131,350</u>	<u>\$ 89,164,750</u>	<u>\$ 84,305,242</u>

Governmental activities. Governmental activities during the year increased the City's net position by \$3,870,664.

Business-type activities. Business-type activities during the year increased the City's net position by \$1,751,920.

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 \$19,969,122. Approximately 70% of this amount or \$13,908,242 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 \$3,280,894 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 \$15,572 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 \$14,337,954, while total fund balance reached \$15,868,357.

The fund balance of the City's General Fund increased by \$2,003,280 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 \$36,723,933, net position for the hospital fund amounted to \$5,168,719, and net position for the golf course amounted to \$554,387. 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 \$15,868,357 which is an increase of \$2,873,747 over the final budgeted amount. Revenues were \$1,826,457 more than anticipated and expenses were also \$1,195,487 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, 2018, amounted to \$66,944,670 (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	
	2018	2017	2018	2017	2018	2016
Land	1,627,577	\$ 1,517,097	\$ 422,036	\$ 372,036	\$ 2,049,613	\$ 1,889,133
Equipment (historical treasure)	40,000	40,000	-	-	40,000	40,000
Construction in progress	1,226,168	3,220,517	2,796,512	1,640,837	4,022,680	4,861,354
Building and system	25,131,604	23,245,696	30,602,000	30,614,809	55,733,604	53,860,505
Equipment and other	2,828,071	2,978,388	2,270,702	2,438,813	5,098,773	5,417,201
Total Net Capital Assets	\$ 30,853,420	\$ 31,001,698	\$ 36,091,250	\$ 35,066,495	\$ 66,944,670	\$ 66,068,193

Additional information on the City's capital assets can be found in note 3 on pages 37-39 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$13,240,973. Of this amount, \$7,972,059 was outstanding for the governmental funds and \$5,268,914 was outstanding for the business-type funds. The decrease in debt in both the governmental and business-type activities can be attributed directly to the decrease in net pension liability.

CITY OF KILGORE						
Outstanding Debt						
	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 3,345,000	\$ 3,360,000	\$ -	\$ -	\$ 3,345,000	\$ 3,360,000
Certificates of obligation	-	275,000	3,900,000	4,055,000	3,900,000	4,330,000
Bond Premiums	168,882	186,056	145,515	153,870	314,397	339,926
Loans	-	6,141	-	-	-	6,141
Net Pension Liability	3,192,636	6,164,017	650,357	1,667,651	3,842,993	7,831,668
OPEB - supplemental death	446,621	387,637	423,126	382,252	869,747	769,889
Capital Leases	-	-	63,631	94,470	63,631	94,470
Compensated absences	739,849	661,134	86,285	99,427	826,134	760,561
Claims payable	79,071	55,328	-	-	79,071	55,328
Total	<u>\$ 7,972,059</u>	<u>\$ 11,095,313</u>	<u>\$ 5,268,914</u>	<u>\$ 6,452,670</u>	<u>\$ 13,240,973</u>	<u>\$ 17,547,983</u>

Additional information on the City’s long-term debt can be found in note 4 on page 39-43 of this report.

Economic Factors and Next Year's Budget and Rates

Factors considered in preparing the City’s 2019 fiscal year budget were:

- The total budget for FY 2019 is \$43,599,827. Of this amount \$20,369,262 is appropriated for the General Fund and \$6,438,443 is appropriated in the Water Utilities Fund.
- General Fund revenues for the most part were projected at the same levels as prior fiscal year with the exception of sales tax which was increased by \$1.1 million due to the continued recovery of the economy. Ad Valorem tax projects were also increased by \$387,563 due to new property values added to the tax roll.
- The FY 2019 General Fund budget has \$2,985,850 appropriated to transfer to the General Capital Projects Fund from unassigned fund balance. In addition, another \$250,000 from unappropriated funds in the General Government Capital Project Fund will be used for park improvements. The FY 2019 Utility Fund has \$855,000 appropriated to transfer to the Utility Capital Projects Funds from fund balance. In addition, new debt in the amount of \$5,770,000 will be issued in the middle of the FY2019 for Utility Fund projects that were identified during FY2016 and FY2017. Many of the projects that will be funded by this debt will be ongoing during FY2019 and FY2020.
- Capital project spending priorities were developed over the last few years by City Council, City Management, & Staff’s ongoing evaluation of existing infrastructure improvements and upgrades. The FY2018 budget included projects totaling \$2,245,000 for capital projects which were funded by cash (fund balance) from both the Utility and General Fund. The FY 2019 budget includes \$9,857,850 for capital projects which will be funded by cash (fund balance) from both the Utility and General Fund. New debt (for the utility fund only) will also be issued to partially fund these projects.

Requests for Information

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF KILGORE, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,634,050	\$ 4,024,724	\$ 9,658,774
Investments	12,455,680	5,700,653	18,156,333
Receivables (net of allowance for estimated uncollectible accounts):			
Taxes	2,814,764	-	2,814,764
Accounts	1,842,451	1,020,693	2,863,144
Notes and accrued interest	650,602	-	650,602
Internal balances	1,241,337	(1,241,337)	-
Inventory	15,572	55,700	71,272
Deposits and prepaid expenses	25,120	682	25,802
Investment in partnership	-	-	-
Restricted:			
Cash and cash equivalents	542,382	22,600	564,982
Investments	754,218	2,614,194	3,368,412
Water rights (net of accumulated amortization)	-	26,309	26,309
Net other post-employment benefits asset	517,557	84,542	602,099
Net pension asset	-	328,041	328,041
Capital assets (net of accumulated depreciation)	30,853,420	36,091,250	66,944,670
Property held for resale	-	-	-
Total Assets	<u>57,347,153</u>	<u>48,728,051</u>	<u>106,075,204</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	1,641,243	677,795	2,319,038
Deferred outflows related to OPEB - health	25,384	3,690	29,074
Deferred outflows related to OPEB - supplemental death	29,736	8,647	38,383
Deferred loss on refunding, net of amortization	138,452	-	138,452
Total Deferred Outflows of Resources	<u>1,834,815</u>	<u>690,132</u>	<u>2,524,947</u>
LIABILITIES			
Accounts payable	751,202	457,959	1,209,161
Due to other governments	766,660	-	766,660
Accrued expenses	234,693	43,578	278,271
Accrued interest payable	12,544	5,160	17,704
Customer deposits	63,255	22,600	85,855
Long-term debt			
Due within one year	686,484	226,395	912,879
Due in more than one year	7,285,575	5,042,519	12,328,094
Total Liabilities	<u>9,800,413</u>	<u>5,798,211</u>	<u>15,598,624</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	2,518,318	1,074,651	3,592,969
Deferred inflows related to OPEB - health	203,445	29,326	232,771
Advance from Hospital Foundation	-	11,037	11,037
Total Deferred Inflows of Resources	<u>2,721,763</u>	<u>1,115,014</u>	<u>3,836,777</u>
NET POSITION			
Net investment in capital assets	27,477,990	34,596,298	62,074,288
Restricted for debt service	174,118	-	174,118
Restricted for capital projects	-	-	-
Restricted for grant restrictions	74,107	-	74,107
Restricted for municipal court	106,581	-	106,581
Restricted for public safety	591,209	-	591,209
Restricted for tourism and convention	311,430	-	311,430
Unrestricted	17,924,357	7,908,660	25,833,017
Total Net Position	<u>\$ 46,659,792</u>	<u>\$ 42,504,958</u>	<u>\$ 89,164,750</u>

See accompanying notes to financial statements.

Kilgore Economic Development Corporation	Component Units	
	Kilgore Redevelopment Authority	Nonmajor Component Units
\$ 337,256	\$ 135,240	\$ 632,527
9,448,331	-	5,365,352
-	-	-
766,911	4,326	-
-	-	190,531
-	-	-
-	-	-
754,983	-	-
-	-	-
-	-	-
-	-	-
-	-	-
7,438,002	-	-
3,801,858	-	112,695
<u>22,547,341</u>	<u>139,566</u>	<u>6,301,105</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
96,966	-	-
-	-	-
-	-	-
-	105,797	-
-	-	-
209,083	-	-
3,157,775	400,000	-
<u>3,463,824</u>	<u>505,797</u>	<u>-</u>
-	-	-
-	-	-
-	-	-
-	-	-
7,863,519	-	112,695
278,238	-	-
1,096,207	-	-
-	-	-
-	-	-
-	-	-
-	-	-
9,845,553	(366,231)	6,188,410
<u>\$ 19,083,517</u>	<u>\$ (366,231)</u>	<u>\$ 6,301,105</u>

**CITY OF KILGORE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

<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	\$ 905,502	\$ 66,650	\$ 31,896	\$ -
Public safety	8,068,243	518,145	888,748	15,076
Public works	2,156,008	-	-	348,905
Developmental services	599,781	68,154	-	-
Sanitation	2,157,887	2,408,538	-	-
Culture and recreation	1,782,584	22,005	8,000	288,828
Public welfare	213,941	-	-	-
Interest and fiscal charges	110,002	-	-	-
Total Governmental activities	<u>15,993,948</u>	<u>3,083,492</u>	<u>928,644</u>	<u>652,809</u>
Business-Type activities:				
Water and sewer	5,139,002	6,984,377	90,935	-
Hospital	716,734	363,903	-	-
Golf course	499,551	382,656	-	-
Total Business-Type activities	<u>6,355,287</u>	<u>7,730,936</u>	<u>90,935</u>	<u>-</u>
Total Primary Government	<u>\$ 22,349,235</u>	<u>\$ 10,814,428</u>	<u>\$ 1,019,579</u>	<u>\$ 652,809</u>
Component Units:				
Economic Development Corporation	\$ 2,025,749	\$ -	\$ -	\$ -
Redevelopment Authority	14,310	-	-	-
Nonmajor	232,662	-	-	-
Total Component Units	<u>\$ 2,272,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

Taxes:

 Property
 Sales
 Other

Investment 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

Prior period adjustments (Note 13)

Net position - end of year

See accompanying notes to financial statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (806,956)	\$ -	\$ (806,956)	\$ -
(6,646,274)	-	(6,646,274)	-
(1,807,103)	-	(1,807,103)	-
(531,627)	-	(531,627)	-
250,651	-	250,651	-
(1,463,751)	-	(1,463,751)	-
(213,941)	-	(213,941)	-
(110,002)	-	(110,002)	-
<u>(11,329,003)</u>	<u>-</u>	<u>(11,329,003)</u>	<u>-</u>
-	1,936,310	1,936,310	-
-	(352,831)	(352,831)	-
-	(116,895)	(116,895)	-
<u>-</u>	<u>1,466,584</u>	<u>1,466,584</u>	<u>-</u>
\$ (11,329,003)	\$ 1,466,584	\$ (9,862,419)	\$ -
			(2,025,749)
			(14,310)
			<u>(232,662)</u>
			<u>(2,272,721)</u>
6,388,363	-	6,388,363	22,079
7,054,747	-	7,054,747	3,527,426
1,210,298	-	1,210,298	-
395,368	208,844	604,212	882,182
255,524	492	256,016	185,974
27,207	-	27,207	473,680
(55,840)	-	(55,840)	-
<u>(76,000)</u>	<u>76,000</u>	<u>-</u>	<u>-</u>
<u>15,199,667</u>	<u>285,336</u>	<u>15,485,003</u>	<u>5,091,341</u>
3,870,664	1,751,920	5,622,584	2,818,620
43,173,892	41,131,350	84,305,242	22,199,771
<u>(384,764)</u>	<u>(378,312)</u>	<u>(763,076)</u>	<u>-</u>
<u>\$ 46,659,792</u>	<u>\$ 42,504,958</u>	<u>\$ 89,164,750</u>	<u>\$ 25,018,391</u>

FUND FINANCIAL STATEMENTS

**CITY OF KILGORE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018**

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,815,185	\$ 857,120	\$ 476,874	\$ 5,149,179
Investments	9,232,967	2,214,235	748,612	12,195,814
Receivables (net of allowance for estimated uncollectible accounts):				
Taxes	2,690,781	-	123,984	2,814,765
Accounts	1,632,959	320,823	10,812	1,964,594
Interest on long-term receivable	-	-	105,796	105,796
Advance receivable	1,728,968	-	-	1,728,968
Inventory, at lower of cost or market	15,572	-	-	15,572
Total assets	<u>\$ 19,116,432</u>	<u>\$ 3,392,178</u>	<u>\$ 1,466,078</u>	<u>\$ 23,974,688</u>
LIABILITIES				
Trade payables	\$ 582,852	\$ 111,284	\$ 51,702	\$ 745,838
Customer deposits	63,255	-	-	63,255
Accrued payroll and related expenses	234,383	-	310	234,693
Due to other governments	766,660	-	-	766,660
Advance payable	-	-	429,712	429,712
Total liabilities	<u>1,647,150</u>	<u>111,284</u>	<u>481,724</u>	<u>2,240,158</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	454,544	-	58,687	513,231
Unavailable revenue - fines	87,323	-	-	87,323
Unavailable revenue - assessments	1,059,058	-	-	1,059,058
Unavailable revenue - interest on long-term receivable	-	-	105,796	105,796
Total deferred inflows of resources	<u>1,600,925</u>	<u>-</u>	<u>164,483</u>	<u>1,765,408</u>
FUND BALANCES				
Nonspendable:				
Inventory	15,572	-	-	15,572
Restricted for:				
Debt service	-	-	174,118	174,118
Grant restrictions	-	-	74,107	74,107
Municipal court	-	-	106,581	106,581
Public safety	-	-	583,347	583,347
Tourism and convention	-	-	311,430	311,430
Other purposes	7,862	-	-	7,862
Committed to:				
Capital projects	-	3,280,894	-	3,280,894
Residential development	250,131	-	-	250,131
Assigned to:				
Cemeteries	1,256,838	-	-	1,256,838
Unassigned	14,337,954	-	(429,712)	13,908,242
Total fund balances	<u>15,868,357</u>	<u>3,280,894</u>	<u>819,871</u>	<u>19,969,122</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 19,116,432</u>	<u>\$ 3,392,178</u>	<u>\$ 1,466,078</u>	<u>\$ 23,974,688</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, 2018**

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

Total fund balance per balance sheet	\$ 19,969,122
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	29,614,104
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.	2,165,408
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	(818,920)
Governmental funds report all other post employment benefit (OPEB) payments as expenditures. However, in the government-wide statement of activities the OPEB asset related to the City's OPEB health plan is actuarially determined. This amount is the total net OPEB asset plus deferred inflows exceeds the related deferred outflows.	339,496
Governmental funds report all other post employment benefit (OPEB) payments as expenditures. However, in the government-wide statement of activities the OPEB liability related to the City's OPEB supplemental death benefits is actuarially determined. This is the amount the total OPEB liability exceeds the related deferred outflows.	(416,885)
Long-term liabilities including bonds payable, net of deferred loss on refunding, and net pension liability including related deferred inflows and outflows related to pensions which are not due and payable in the current period; therefore, they are not reported in the governmental funds balance sheet.	(7,445,141)
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.	(12,544)
Internal service funds are used by management to charge the costs of equipment management, information technology, and health insurance to individual funds. Certain assets and liabilities of the internal service funds are included in governmental activities.	<u>3,265,152</u>
Net position of governmental activities	<u><u>\$ 46,659,792</u></u>

See accompanying notes to financial statements.

**CITY OF KILGORE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 6,059,905	\$ -	\$ 308,089	\$ 6,367,994
Sales	7,048,606	-	-	7,048,606
Other	726,014	-	484,284	1,210,298
Charges for services:				
Garbage collection	2,408,988	-	-	2,408,988
Police court fines and fees	498,757	-	17,103	515,860
Permits	67,704	-	-	67,704
Cemetery	66,650	-	-	66,650
Swimming pool	16,100	-	-	16,100
Library	5,905	-	-	5,905
County support	71,987	70,000	-	141,987
Drug seizure revenue	-	-	592,522	592,522
Donations	3,076	15,600	-	18,676
Grants	264,034	538,233	100	802,367
Interest on investments	278,169	45,587	24,743	348,499
Miscellaneous	192,469	-	13,818	206,287
Total revenues	<u>17,708,364</u>	<u>669,420</u>	<u>1,440,659</u>	<u>19,818,443</u>
EXPENDITURES				
Current:				
General government:				
Administration	288,371	-	-	288,371
Finance	292,611	-	-	292,611
Cemetery	202,322	-	-	202,322
City council	46,741	-	-	46,741
Contingency	1,393	-	-	1,393
Public safety:				
Police	4,486,510	848	236,357	4,723,715
Fire	3,000,672	152	-	3,000,824
Rescue unit	102,634	-	-	102,634
Municipal court	181,978	-	31	182,009
Public works:				
Streets	1,337,530	508,286	-	1,845,816
Developmental services:				
Building maintenance and inspection	224,775	-	-	224,775
Equipment Services	157,970	-	-	157,970
Planning and zoning	232,778	-	-	232,778
Sanitation: garbage collection	2,161,502	-	-	2,161,502
Culture and recreation:				
Parks	958,602	474,933	4,441	1,437,976
Library	367,616	14,900	-	382,516
Swimming pool	63,239	-	-	63,239
Grants	-	-	308,732	308,732
Public welfare: health department	216,643	-	-	216,643
Debt service:				
Principal	-	-	290,000	290,000
Interest and fiscal charges	-	-	113,925	113,925
Total expenditures	<u>14,323,887</u>	<u>999,119</u>	<u>953,486</u>	<u>16,276,492</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, 2018
CONTINUED**

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Excess (deficiency) of revenues over (under) expenditures	3,384,477	(329,699)	487,173	3,541,951
OTHER FINANCING SOURCES (USES)				
Change in accounting estimate	-	(68,869)	-	(68,869)
Proceeds from loans	5,553	-	-	5,553
Transfers in	-	1,390,750	-	1,390,750
Transfers out	(1,386,750)	-	(295,000)	(1,681,750)
Total other financing sources (uses)	(1,381,197)	1,321,881	(295,000)	(354,316)
Net change in fund balances	2,003,280	992,182	192,173	3,187,635
Fund balance - beginning of year	13,865,077	2,288,712	627,698	16,781,487
Fund balance - end of year	\$ 15,868,357	\$ 3,280,894	\$ 819,871	\$ 19,969,122

**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, 2018**

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

Net change in fund balance - total governmental funds	\$ 3,187,635
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.	(236,113)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	31,411
Governmental funds report all payments to the OPEB trust related to the City's OPEB health 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 and outflows.	(5,350)
Governmental funds report all payments to OPEB supplemental death benefits as expenditures. However, in the government-wide statement of activities the OPEB expense is actuarially determined. This amount is the total of the increase in the total OPEB liability of \$58,984 less the increase in the related deferred outflows of \$26,863.	(32,121)
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.	(102,460)
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.	293,094
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 \$6,141. This amount represents the net effect of these payments to the City's note payable.	6,141
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 \$2,971,381, the decrease in the deferred outflows related to pensions of \$467,931, and the increase in deferred inflows of \$2,094,411.	409,039
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.	829
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.	318,559
Change in net position of governmental activities	<u>\$ 3,870,664</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, 2018

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 5,918,985	\$ 5,918,985	\$ 6,059,905	\$ 140,920
Sales	5,100,000	5,100,000	7,048,606	1,948,606
Other	762,000	762,000	726,014	(35,986)
Charges for services:				
Garbage collection	2,234,500	2,234,500	2,408,988	174,488
Police court fines and fees	505,000	505,000	498,757	(6,243)
Permits	58,950	58,950	67,704	8,754
Cemetery	60,000	60,000	66,650	6,650
Swimming pool	30,000	30,000	16,100	(13,900)
Library	6,000	6,000	5,905	(95)
County support	140,000	140,000	71,987	(68,013)
Grants	17,500	17,500	264,034	246,534
Interest on investments	135,050	135,050	278,169	143,119
Miscellaneous	519,422	519,422	192,469	(326,953)
Total revenues	<u>15,487,407</u>	<u>15,487,407</u>	<u>17,708,364</u>	<u>2,220,957</u>
EXPENDITURES				
Current:				
General government:				
Administration	685,962	514,908	288,371	226,537
Finance	395,166	400,915	292,611	108,304
Cemetery	173,694	218,676	202,322	16,354
City council	92,586	92,586	46,741	45,845
Contingency	200,000	96,785	1,393	95,392
Public safety:				
Police	4,225,457	4,353,842	4,486,510	(132,668)
Fire	2,957,423	3,026,078	3,000,672	25,406
Rescue unit	109,238	109,354	102,634	6,720
Municipal court	220,107	220,107	181,978	38,129
Public works: streets	1,815,295	1,815,295	1,337,530	477,765
Developmental services:				
Building maintenance and inspection	292,932	292,932	224,775	68,157
Equipment Services	239,648	243,854	157,970	85,884
Planning and zoning	259,678	261,778	232,778	29,000
Sanitation: garbage collection	2,033,970	2,033,970	2,161,502	(127,532)
Culture and recreation:				
Parks	985,558	1,005,634	958,602	47,032
Library	408,037	408,037	367,616	40,421
Swimming pool	132,692	132,692	63,239	69,453
Public welfare: health department	291,931	291,931	216,643	75,288
Total expenditures	<u>15,519,374</u>	<u>15,519,374</u>	<u>14,323,887</u>	<u>1,195,487</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, 2018
CONTINUED**

	Budget		Actual	Variance with Final Budget
	Original	Final		
Excess (deficiency) of revenues over (under) expenditures	(31,967)	(31,967)	3,384,477	3,416,444
OTHER FINANCING SOURCES (USES)				
Proceeds from loans	-	-	5,553	5,553
Transfers in	173,500	173,500	-	(173,500)
Transfers out	(1,406,500)	(1,406,500)	(1,386,750)	19,750
Total other financing sources (uses)	(1,233,000)	(1,233,000)	(1,381,197)	(148,197)
Net change in fund balances	(1,264,967)	(1,264,967)	2,003,280	3,268,247
Fund balance - beginning of year	13,865,077	13,865,077	13,865,077	-
Fund balance - end of year	<u>\$ 12,600,110</u>	<u>\$ 12,600,110</u>	<u>\$ 15,868,357</u>	<u>\$ 3,268,247</u>

See accompanying notes to financial statements.

CITY OF KILGORE, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Enterprise Funds				Internal Service
	Water and Sewer	Hospital	Golf Course	Total	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 3,160,971	\$ 817,372	\$ 46,381	\$ 4,024,724	\$ 1,062,263
Investments	5,293,022	335,566	72,065	5,700,653	979,076
Accounts receivable (net)	965,711	27,707	27,275	1,020,693	22,663
Due from other funds	189,078	-	-	189,078	-
Inventory, at lower of cost or market	48,921	-	6,779	55,700	-
Deposits and prepaid expenses	-	-	682	682	25,120
Restricted assets:					
Cash	22,600	-	-	22,600	-
Investments	2,614,194	-	-	2,614,194	-
Total current assets	<u>12,294,497</u>	<u>1,180,645</u>	<u>153,182</u>	<u>13,628,324</u>	<u>2,089,122</u>
Noncurrent assets:					
Water rights (net)	26,309	-	-	26,309	-
Capital assets (net)	30,948,975	4,481,564	660,711	36,091,250	1,239,316
Net OPEB asset - health	84,542	-	-	84,542	-
Net pension asset	-	328,041	-	328,041	-
Total noncurrent assets	<u>31,059,826</u>	<u>4,809,605</u>	<u>660,711</u>	<u>36,530,142</u>	<u>1,239,316</u>
Total assets	<u>43,354,323</u>	<u>5,990,250</u>	<u>813,893</u>	<u>50,158,466</u>	<u>3,328,438</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pensions	261,968	380,514	35,313	677,795	-
Deferred outflows related to OPEB - health	3,690	-	-	3,690	-
Deferred outflows related to OPEB - supplemental death	4,703	3,520	424	8,647	-
Total deferred outflows of resources	<u>270,361</u>	<u>384,034</u>	<u>35,737</u>	<u>690,132</u>	<u>-</u>
LIABILITIES					
Current liabilities:					
Trade payables	428,387	14,026	15,546	457,959	5,364
Accrued payroll and related expenses	33,067	4,450	6,061	43,578	-
Accrued expenses	4,953	-	207	5,160	-
Advance payable	1,299,256	-	-	1,299,256	-
Due to other funds	-	189,078	-	189,078	-
Compensated absences - current	29,090	454	3,130	32,674	-
Capital lease payable - current	-	-	25,366	25,366	-
Bonds and notes payable - current	168,355	-	-	168,355	-
Restricted liabilities:					
Restricted deposits	22,600	-	-	22,600	-
Total current liabilities	<u>1,985,708</u>	<u>208,008</u>	<u>50,310</u>	<u>2,244,026</u>	<u>5,364</u>
Noncurrent liabilities:					
Capital lease payable - long term	-	-	38,265	38,265	-
Bonds and notes payable - long term	3,877,160	-	-	3,877,160	-
Compensated absences - long term	44,115	-	9,496	53,611	-
Net pension liability	495,410	-	154,947	650,357	-
Total OPEB liability - supplemental death	70,652	346,113	6,361	423,126	-
Total noncurrent liabilities	<u>4,487,337</u>	<u>346,113</u>	<u>209,069</u>	<u>5,042,519</u>	<u>-</u>
Total liabilities	<u>6,473,045</u>	<u>554,121</u>	<u>259,379</u>	<u>7,286,545</u>	<u>5,364</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions	398,380	640,407	35,864	1,074,651	-
Deferred inflows related to OPEB - health	29,326	-	-	29,326	-
Advance from Hospital Foundation	-	11,037	-	11,037	-
Total deferred inflows of resources	<u>427,706</u>	<u>651,444</u>	<u>35,864</u>	<u>1,115,014</u>	<u>-</u>
NET POSITION					
Net investment in capital assets	29,517,654	4,481,564	597,080	34,596,298	1,239,316
Unrestricted	7,206,279	687,155	(42,693)	7,850,741	2,083,758
Total net position	<u>\$ 36,723,933</u>	<u>\$ 5,168,719</u>	<u>\$ 554,387</u>	<u>\$ 42,447,039</u>	<u>\$ 3,323,074</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, 2018

	Enterprise Funds				Internal Service
	Water and Sewer	Hospital	Golf Course	Total	
OPERATING REVENUES					
Charges for services	\$ 7,030,041	\$ -	371,981	\$ 7,402,022	\$ 2,481,274
Other operating revenue	45,271	363,903	10,675	419,849	-
Total operating revenues	<u>7,075,312</u>	<u>363,903</u>	<u>382,656</u>	<u>7,821,871</u>	<u>2,481,274</u>
OPERATING EXPENSES					
Operating expenses	3,729,361	468,608	428,931	4,626,900	2,120,970
Depreciation and amortization	1,202,232	248,126	67,550	1,517,908	381,488
Total operating expenses	<u>4,931,593</u>	<u>716,734</u>	<u>496,481</u>	<u>6,144,808</u>	<u>2,502,458</u>
OPERATING INCOME (LOSS)	<u>2,143,719</u>	<u>(352,831)</u>	<u>(113,825)</u>	<u>1,677,063</u>	<u>(21,184)</u>
NONOPERATING REVENUES:					
Investment earnings	184,090	24,272	482	208,844	32,561
Interest expense and fiscal charges	(166,487)	-	(2,751)	(169,238)	-
Gain (loss) on sale of assets	(37,504)	-	-	(37,504)	27,207
Miscellaneous	492	-	-	492	49,238
Total nonoperating revenues	<u>(19,409)</u>	<u>24,272</u>	<u>(2,269)</u>	<u>2,594</u>	<u>109,006</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>2,124,310</u>	<u>(328,559)</u>	<u>(116,094)</u>	<u>1,679,657</u>	<u>87,822</u>
Capital contribution from governmental activities	-	-	-	-	12,000
Transfers in	175,000	-	156,000	331,000	215,000
Transfers out	(80,000)	(175,000)	-	(255,000)	-
Change in net position	2,219,310	(503,559)	39,906	1,755,657	314,822
Total net position, beginning	<u>34,565,490</u>	<u>5,984,243</u>	<u>519,961</u>	<u>41,069,694</u>	<u>3,008,252</u>
Prior period adjustment (Note 13)	(60,867)	(311,965)	(5,480)	(378,312)	-
Total net position, ending	<u>\$ 36,723,933</u>	<u>\$ 5,168,719</u>	<u>\$ 554,387</u>	<u>\$ 42,447,039</u>	<u>\$ 3,323,074</u>

See accompanying notes to financial statements.

**CITY OF KILGORE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Enterprise Funds				Internal Service
	Water and Sewer	Hospital	Golf Course	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 6,885,755	\$ 361,196	\$ 378,880	\$ 7,625,831	\$ 2,459,462
Cash payments to suppliers for goods and services	(2,282,357)	223,174	(204,450)	(2,263,633)	(2,169,238)
Cash payments to employees for services	(1,564,112)	(513,797)	(210,804)	(2,288,713)	-
Net cash provided by (used in) operating activities	<u>3,039,286</u>	<u>70,573</u>	<u>(36,374)</u>	<u>3,073,485</u>	<u>290,224</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating transfers out to other funds	(80,000)	(175,000)	-	(255,000)	-
Operating transfers in from other funds	175,000	-	156,000	331,000	215,000
Net cash provided by (used in) noncapital financing activities	<u>95,000</u>	<u>(175,000)</u>	<u>156,000</u>	<u>76,000</u>	<u>215,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital transfers in from other funds	-	-	-	-	12,000
Proceeds from sale of capital assets	-	-	-	-	27,207
Acquisition and construction of capital assets	(2,527,548)	-	-	(2,527,548)	(469,324)
Payments on capital lease obligations	-	-	(30,839)	(30,839)	-
Principal paid on general obligation bonds	(163,355)	-	-	(163,355)	-
Interest and fiscal charges on debt	(166,487)	-	(2,751)	(169,238)	-
Net cash provided by (used in) capital and related financing activities	<u>(2,857,390)</u>	<u>-</u>	<u>(33,590)</u>	<u>(2,890,980)</u>	<u>(430,117)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	4,946,918	-	-	4,946,918	-
Purchase of investments	(4,097,300)	(27,737)	(60,706)	(4,185,743)	6,492
Interest on investments	184,090	24,272	482	208,844	32,561
Reimbursement from trust	-	-	-	-	49,238
Proceeds from insurance payment	492	-	-	492	-
Net cash provided by (used in) investing activities	<u>1,034,200</u>	<u>(3,465)</u>	<u>(60,224)</u>	<u>970,511</u>	<u>88,291</u>
Net increase (decrease) in cash and cash equivalents	1,311,096	(107,892)	25,812	1,229,016	163,398
Cash and cash equivalents, beginning	<u>1,872,475</u>	<u>925,264</u>	<u>20,569</u>	<u>2,818,308</u>	<u>898,865</u>
Cash and cash equivalents, ending	<u>\$ 3,183,571</u>	<u>\$ 817,372</u>	<u>\$ 46,381</u>	<u>\$ 4,047,324</u>	<u>\$ 1,062,263</u>

See accompanying notes to financial statements.

CITY OF KILGORE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018
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)	\$ 2,143,719	\$ (352,831)	\$ (113,825)	\$ 1,677,063	\$ (21,184)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	1,202,232	248,126	67,550	1,517,908	381,487
Change in assets and liabilities:					
Decrease (increase) in assets:					
Receivables	(14,557)	(2,707)	(3,776)	(21,040)	(21,812)
Due from other funds	(175,000)	-	-	(175,000)	-
Inventories	20,320	-	2,927	23,247	-
Prepaid expense	-	-	-	-	1,721
Deposit on equipment	-	-	-	-	(25,120)
Deferred outflows	39,374	189,201	8,360	236,935	-
Increase (decrease) in liabilities:					
Accounts payable	10,576	14,026	7,619	32,221	(24,868)
Accrued payroll	1,357	4,450	897	6,704	-
Accrued expenses	-	-	(395)	(395)	-
Due to other funds	(51,238)	175,000	-	123,762	-
Customer deposits	(725)	-	-	(725)	-
Compensated absences	34,234	454	6,519	41,207	-
Other post employment benefits	(69,603)	34,148	881	(34,574)	-
Net pension liability	(470,051)	(832,968)	(42,316)	(1,345,335)	-
Deferred inflows	368,648	593,674	29,185	991,507	-
Total adjustments	<u>895,567</u>	<u>423,404</u>	<u>77,451</u>	<u>1,396,422</u>	<u>311,408</u>
Net cash provided by (used in) operating activities	<u>\$ 3,039,286</u>	<u>\$ 70,573</u>	<u>\$ (36,374)</u>	<u>\$ 3,073,485</u>	<u>\$ 290,224</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES					
Contribution of capital assets from governmental activities	\$ -	\$ -	\$ -	\$ -	\$ 12,000
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS					
Current assets:					
Cash and cash equivalents	\$ 3,160,971	\$ 817,372	\$ 46,381	\$ 4,024,724	\$ 1,062,263
Restricted assets - cash and cash equivalents	22,600	-	-	22,600	-
Total cash and cash equivalents	<u>\$ 3,183,571</u>	<u>\$ 817,372</u>	<u>\$ 46,381</u>	<u>\$ 4,047,324</u>	<u>\$ 1,062,263</u>

See accompanying notes to financial statements.

CITY OF KILGORE, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2018

	OPEB Trust	Agency
ASSETS		
Cash and cash equivalents	\$ -	\$ 11,934
Investments, at fair value:		
Collateral investment trust	1,068,719	-
Total assets	\$ 1,068,719	\$ 11,934
 LIABILITIES		
Intergovernmental payable	-	11,934
Total liabilities	-	\$ 11,934
 NET POSITION		
Held in trust for OPEB benefits	\$ 1,068,719	

See accompanying notes to financial statements.

CITY OF KILGORE, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2018

	<u>OPEB</u> <u>Trust</u>
ADDITIONS	
Net increase in fair value of investments	\$ 42,390
Total additions	<u>42,390</u>
DEDUCTIONS	
Administrative expenses	1,065
Miscellaneous expenses	<u>49,238</u>
Total deductions	<u>50,303</u>
Change in net position	(7,913)
Net Position - beginning of year	<u>1,076,632</u>
Net Position - end of year	<u><u>\$ 1,068,719</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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.

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, 2018

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, 2017.

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, 2018

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, 2018**

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 is 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, 2018 are as follows:

	Governmental Activities	Business-Type Activities
Customer deposits	\$ 63,255	\$ 22,600
Debt service/bond reserves	179,019	2,614,194
Special revenue purposes	1,046,464	-
Donations	7,862	-
Total restricted assets	\$ 1,296,600	\$ 2,636,794

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, 2018

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:

<u>Assets</u>	<u>Years</u>
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 and other post-employment benefits (OPEB), 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, 2018, the liability for unpaid leave was \$826,134, of which \$739,849 is reported in the governmental activities and \$86,285 in the business-type activities.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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, 2018

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 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.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, which improves consistency in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB statements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for certain debt extinguishments and to enhance the decision-usefulness of that information. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting by requiring reporting of certain lease liabilities that currently are not reported. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt*, which improves accounting and financial reporting by clarifying which liabilities governments should include in their note disclosures related to debt. 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 June 2018, the GASB issued Statement No. 89, *Accounting for Interest Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reported period. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests*, which clarifies the accounting and financial reporting requirements for a state or local government's majority equity interest in an organization that remains legally separate after acquisition. 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, 2018**

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 2018: 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, 2018. 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, 2018 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:	
Primary Government	
Cash and equivalents	\$ 9,658,774
Restricted cash and equivalents	564,982
Investments	18,156,333
Restricted investments	<u>3,368,412</u>
Total primary government	31,748,501
Component Units*	
Cash and equivalents	1,105,023
Investments	<u>14,813,683</u>
Total component units	<u>15,918,706</u>
Total cash and investments	<u><u>\$ 47,667,207</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, 2018, 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, 2018

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, 2018**

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	\$ 4,738,633	0.08
TexSTAR	5,721,005	0.08
Certificates of deposit	250,000	0.95
Municipal bonds	<u>10,815,107</u>	
Total primary government	<u>21,524,745</u>	
Component units:		
TexPool	7,526,669	0.08
TexSTAR	2,016,635	0.08
Fixed income	1,869,483	
Equities	2,938,613	
Alternative assets	<u>462,283</u>	
Total component units	<u>14,813,683</u>	
Total Reporting Entity	<u>\$ 36,338,428</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, 2018

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, 2018			
	Level 1	Level 2	Level 3	Total
Primary Government:				
Certificate of Deposit	\$ -	\$ 250,000	\$ -	\$ 250,000
Texas Government Investment Pool	-	10,459,638	-	10,459,638
Municipal Bonds	-	10,815,107	-	10,815,107
Total	<u>\$ -</u>	<u>\$ 21,524,745</u>	<u>\$ -</u>	<u>\$ 21,524,745</u>

	Assets at Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Fiduciary funds:				
Collateral Investment Trust	\$ -	\$ 1,068,719	\$ -	1,068,719
Total	<u>\$ -</u>	<u>\$ 1,068,719</u>	<u>\$ -</u>	<u>\$ 1,068,719</u>

	Assets at Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Component units:				
Fixed Income	\$ 1,869,483	\$ -	\$ -	\$ 1,869,483
Equities	2,938,613	-	-	2,938,613
Texas Government Investment Pool	-	9,543,304	-	9,543,304
Alternative assets	-	462,283	-	462,283
Total	<u>\$ 4,808,096</u>	<u>\$ 10,005,587</u>	<u>\$ -</u>	<u>\$ 14,813,683</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, 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.

NOTE 2: RECEIVABLES

Receivables at September 30, 2018 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	\$ 650,431	\$ -	\$ 86,614	\$ -	\$ -	\$ -	\$ -	\$ 737,045
Sales tax	2,236,237	-	-	-	-	-	-	2,236,237
Hotel tax	-	-	65,297	-	-	-	-	65,297
Municipal court Accounts	311,867	-	-	-	-	-	-	311,867
	<u>1,582,707</u>	<u>320,823</u>	<u>116,608</u>	<u>1,067,767</u>	<u>152,707</u>	<u>45,511</u>	<u>22,663</u>	<u>3,308,786</u>
Gross receivables	4,781,242	320,823	268,519	1,067,767	152,707	45,511	22,663	6,659,232
Less: allowance for uncollectibles	<u>(457,502)</u>	<u>-</u>	<u>(27,927)</u>	<u>(102,056)</u>	<u>(125,000)</u>	<u>(18,236)</u>	<u>-</u>	<u>(730,721)</u>
Total taxes and accounts receivable (net)	<u>\$ 4,323,740</u>	<u>\$ 320,823</u>	<u>\$ 240,592</u>	<u>\$ 965,711</u>	<u>\$ 27,707</u>	<u>\$ 27,275</u>	<u>\$ 22,663</u>	<u>\$ 5,928,511</u>

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2: RECEIVABLES (Cont'd)

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, 2018, the components of delinquent taxes receivables are as follows:

	General Fund	Interest & Sinking	Total
Delinquent taxes	\$ 650,431	\$ 86,614	\$ 737,045
Allowance	(195,888)	(27,927)	(223,815)
Totals	\$ 454,543	\$ 58,687	\$ 513,230

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,517,097	\$ 110,480	\$ -	\$ 1,627,577
Equipment (historical treasure)	40,000	-	-	40,000
Construction in progress	3,220,517	615,187	2,609,536	1,226,168
Total capital assets, not being depreciated	4,777,614	725,667	2,609,536	2,893,745
Capital assets, being depreciated:				
Buildings & system	35,796,849	2,877,051	-	38,673,900
Equipment & other	14,180,410	492,348	194,666	14,478,092
Total capital assets being depreciated	49,977,259	3,369,399	194,666	53,151,992
Less accumulated depreciation for:				
Buildings & system	(12,551,153)	(991,143)	-	(13,542,296)
Equipment & other	(11,202,022)	(642,665)	(194,666)	(11,650,021)
Total accumulated depreciation	(23,753,175)	(1,633,808)	(194,666)	(25,192,317)
Total capital assets, being depreciated, net	26,224,084	1,735,591	-	27,959,675
Governmental activities capital assets, net	\$ 31,001,698	\$ 2,461,258	\$ 2,609,536	\$ 30,853,420

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3: CAPITAL ASSETS (Cont'd)

Capital assets activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 372,036	\$ 50,000	\$ -	\$ 422,036
Construction in progress	1,640,837	1,804,998	649,323	2,796,512
Total capital assets, not being depreciated	<u>2,012,873</u>	<u>1,854,998</u>	<u>649,323</u>	<u>3,218,548</u>
Capital assets, being depreciated:				
Buildings & system	61,931,608	1,305,803	289,735	62,947,676
Equipment & other	11,706,567	16,070	-	11,722,637
Total capital assets being depreciated	<u>73,638,175</u>	<u>1,321,873</u>	<u>289,735</u>	<u>74,670,313</u>
Less accumulated depreciation for:				
Buildings & system	(31,316,799)	(1,281,108)	(252,231)	(32,345,676)
Equipment & other	(9,267,754)	(184,181)	-	(9,451,935)
Total accumulated depreciation	<u>(40,584,553)</u>	<u>(1,465,289)</u>	<u>(252,231)</u>	<u>(41,797,611)</u>
Total capital assets, being depreciated, net	<u>33,053,622</u>	<u>(143,416)</u>	<u>37,504</u>	<u>32,872,702</u>
Business-type activities capital assets, net	<u>\$ 35,066,495</u>	<u>\$ 1,711,582</u>	<u>\$ 686,827</u>	<u>\$ 36,091,250</u>

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

Governmental activities:	
General government	\$ 152,383
Public safety	416,221
Public works	904,270
Developmental Services	11,086
Culture and Recreation	114,683
Public Welfare	4,270
Sanitation	30,895
Total depreciation expense - governmental activities	<u>\$ 1,633,808</u>
Business-type activities:	
Water and sewer	\$ 1,149,613
Hospital	248,126
Golf course	67,550
Total depreciation expense - business-type activities	<u>\$ 1,465,289</u>

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3: CAPITAL ASSETS (Cont'd)

	Beginning Balance	Increases	Decreases	Ending Balance
Kilgore Economic Development Corporation:				
Capital assets, not being depreciated:				
Land	\$ 161,072	\$ -	\$ -	\$ 161,072
Construction in progress	-	112,775	-	112,775
Property held for resale/transfer	3,769,256	32,602	-	3,801,858
Total capital assets, not being depreciated	<u>3,930,328</u>	<u>145,377</u>	-	<u>4,075,705</u>
Capital assets, being depreciated:				
Buildings & improvements	10,157,625	18,941	-	10,176,566
Furniture, fixtures, & equipment	330,270	5,025	-	335,295
Total capital assets being depreciated	<u>10,487,895</u>	<u>23,966</u>	-	<u>10,511,861</u>
Less accumulated depreciation for:				
Buildings & improvements	(2,683,120)	(421,891)	-	(3,105,011)
Furniture, fixtures, & equipment	(217,497)	(25,198)	-	(242,695)
Total accumulated depreciation	<u>(2,900,617)</u>	<u>(447,089)</u>	-	<u>(3,347,706)</u>
Total capital assets, being depreciated, net Kilgore Economic Development Corporation capital assets, net	<u>7,587,278</u>	<u>(423,123)</u>	-	<u>7,164,155</u>
	<u>\$ 11,517,606</u>	<u>\$ (277,746)</u>	<u>\$ -</u>	<u>\$ 11,239,860</u>

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

Economic Development	\$ 447,089
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NOTE 4: LONG TERM DEBT

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. 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>\$ 3,345,000</u>
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Prior Year Defeased Debt

In prior years, the government defeased \$3,365,000 of general obligation refunding bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government's financial statements. At September 30, 2018, \$3,300,000 of defeased bonds remained outstanding.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 4: LONG TERM DEBT (Cont'd)

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2019	295,000	100,350
2020	290,000	91,500
2021	315,000	82,800
2022	310,000	73,350
2023	310,000	64,050
2024-2028	1,825,000	166,500
Total	<u>\$ 3,345,000</u>	<u>\$ 578,550</u>

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.

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>\$ 3,900,000</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
2019	160,000	122,100
2020	165,000	117,225
2021	170,000	112,200
2022	175,000	106,150
2023	185,000	98,950
2024-2028	1,030,000	385,700
2029-2033	1,200,000	214,350
2034-2036	815,000	37,125
Total	<u>\$ 3,900,000</u>	<u>\$ 1,193,800</u>

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

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 \$46,301. 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, 2018 are as follows:

PNC Golf Carts payable in 48 monthly installments of \$681.75, including interest at 3.85%, with a balloon payment of \$27,750 on April 7, 2021.

Golf Course Enterprise Fund	<u>\$ 44,594</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>\$ 19,037</u>
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Annual debt service requirements to maturity for capital leases are as follows:

Year Ending September 30	Proprietary Activities
2019	27,536
2020	8,181
2021	31,841
Total amount of minimum lease payments	67,558
Less: amount representing interest	(3,927)
Present value of minimum lease payments	\$ 63,631

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 4: LONG TERM DEBT (Cont'd)

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2018, was as follows:

	Balance 10/1/2017	Additions	Retirements	Balance 9/30/2018	Due Within One Year
Governmental activities:					
General obligation and certificates of obligation	\$ 3,635,000	\$ -	\$ (290,000)	\$ 3,345,000	\$ 295,000
Bond premiums	186,056	-	(17,174)	168,882	17,174
Total bonds payable	3,821,056	-	(307,174)	3,513,882	312,174
Notes payable	6,141	-	(6,141)	-	-
Net pension liability	6,164,017	3,546,713	(6,518,094)	3,192,636	-
OPEB - supplemental death	387,637 *	62,733	(3,749)	446,621	-
Compensated absences	661,134	619,943	(541,228)	739,849	295,239
Claims payable	55,328	49,096	(25,353)	79,071	79,071
Total governmental activities	<u>\$ 11,095,313</u>	<u>\$ 4,278,485</u>	<u>\$ (7,401,739)</u>	<u>\$ 7,972,059</u>	<u>\$ 686,484</u>
Business-type Activities:					
General obligation bonds	\$ 4,055,000	\$ -	\$ (155,000)	\$ 3,900,000	\$ 160,000
Less: bond premiums	153,870	-	(8,355)	145,515	8,355
Total bonds payable	4,208,870	-	(163,355)	4,045,515	168,355
Capital lease obligation	94,470	-	(30,839)	63,631	25,366
OPEB - supplemental death	382,252 *	46,113	(5,239)	423,126	-
Net pension liability	1,667,651	1,397,285	(2,414,579)	650,357	-
Compensated absences	99,427	33,642	(46,784)	86,285	32,674
Total business-type activities	<u>\$ 6,452,670</u>	<u>\$ 1,477,040</u>	<u>\$ (2,660,796)</u>	<u>\$ 5,268,914</u>	<u>\$ 226,395</u>
Component Units:					
Revenue bonds	\$ 3,465,000	\$ -	\$ (190,000)	\$ 3,275,000	\$ 200,000
Bond premium	101,341	-	(9,483)	91,858	9,083
Loans	291,064	-	(291,064)	-	-
Note payable to primary government	400,000	-	-	400,000	-
Total governmental activities	<u>\$ 4,257,405</u>	<u>\$ -</u>	<u>\$ (490,547)</u>	<u>\$ 3,766,858</u>	<u>\$ 209,083</u>

* These amounts have been adjusted for the prior period adjustment discussed in Note 13.

Within the governmental activities, the General Fund generally liquidates the liability for compensated absences payable, claims liability, the net pension liability, and the OPEB 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 \$ 1,720,000

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 \$ 1,555,000

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

NOTE 4: LONG TERM DEBT (Cont'd)

Component Unit – Kilgore Economic Development Corporation

The principal and interest requirements at September 30, 2018, for the component unit debt for the next five years and, thereafter, are as follows:

Year Ending September 30	KEDC	
	Principal	Interest
2019	200,000	125,338
2020	200,000	119,712
2021	210,000	112,412
2022	220,000	104,762
2023-2027	1,225,000	396,054
2028-2033	875,000	155,014
2034-2035	345,000	28,000
Total	\$ 3,275,000	\$ 1,041,292

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 833 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, 2018**

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 2018	Plan Year 2017
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, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	177
Inactive employees entitled to but not yet receiving benefits	116
Active employees	155
	448

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 15.06% and 15.05% in calendar years 2017 and 2018, respectively. The contributions for the Hospital were \$49,900 and \$39,454 in calendar years 2017 and 2018, respectively. The City's total contributions to TMRS for the year ended December 31, 2017, were \$1,198,022, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 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, 2018**

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, 2017, 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
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%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
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, 2018

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

Texas Municipal Retirement System (Cont'd)

Changes in City's Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/17	\$ 43,224,729	\$ 35,897,987	\$ 7,326,742
Changes for the year:			
Service cost	1,241,522	-	1,241,522
Interest	2,889,674	-	2,889,674
Difference between expected and actual experience	(1,050,914)	-	(1,050,914)
Contributions - employer	-	1,103,078	(1,103,078)
Contributions - employee	-	512,723	(512,723)
Net investment income	-	4,975,323	(4,975,323)
Benefit payments, including refunds of employee contributions	(2,071,022)	(2,071,022)	-
Administrative expense	-	(25,784)	25,784
Other changes	-	(1,309)	1,309
Net changes	<u>1,009,260</u>	<u>4,493,009</u>	<u>(3,483,749)</u>
Balance at 12/31/18	<u>\$ 44,233,989</u>	<u>\$ 40,390,996</u>	<u>\$ 3,842,993</u>

Changes in Hospital's Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset
	(a)	(b)	(a) - (b)
Balance at 12/31/17	\$ 11,802,663	\$ 11,297,737	\$ 504,926
Changes for the year:			
Service cost	777,184	-	777,184
Difference between expected and actual experience	(5,670)	-	(5,670)
Contributions - employer	-	49,900	(49,900)
Net investment income	-	1,563,106	(1,563,106)
Benefit payments, including refunds of employee contributions	(577,655)	(577,655)	-
Administrative expense	-	(8,115)	8,115
Other changes	-	(410)	410
Net changes	<u>193,859</u>	<u>1,026,826</u>	<u>(832,967)</u>
Balance at 12/31/18	<u>\$ 11,996,522</u>	<u>\$ 12,324,563</u>	<u>\$ (328,041)</u>

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

The following presents the net pension liability of the City and Hospital, calculated using the discount rate of 6.75%, as well as what the City's and Hospital'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	\$ 10,074,878	\$ 3,842,993	\$ (1,251,530)
Hospital's net pension liability	\$ 974,859	\$ (328,041)	\$ (1,426,269)

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

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

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, 2018, the city recognized pension expense of \$701,653.

At September 30, 2018, the city reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Changes in actuarial assumptions	\$ 18,407
Difference between projected and actual investment earnings	1,372,748
Contributions subsequent to the measurement date	927,883
Total	\$ 2,319,038

\$927,883 was 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, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2019	\$ 761,692
2020	630,105
2021	(642)

At September 30, 2018, the city reported deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources
Difference in expected and actual experience	\$ (910,796)
Difference between projected and actual earnings on plan investments	(2,682,173)
	\$ (3,592,969)

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

Year ended September 30:	
2019	\$ (1,012,921)
2020	(976,101)
2021	(933,406)
2022	(670,541)

Other Post-Employment Benefits (OPEB) – TMRS Supplemental Death Benefits Fund

Plan Description

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

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

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

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

Benefits provided

Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an other post-employment benefit and is a fixed amount of \$7,500.

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	138
Inactive employees entitled to but not yet receiving benefits	45
Active employees	155
	338
	338

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.23% for 2018 and 0.21% for 2017, of which 0.06% and 0.06%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered payroll. The Hospital contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was \$4,693 for 2018 and \$4,593 for 2017, respectively of which all represented the retiree-only portion of each year. 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 prefund retiree term life insurance during employees' entire careers. The City's retiree-only portion of contributions to the SDBF for the years ended September 30, 2018 and 2017 were \$8,910 and \$8,917, respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

Total OPEB Liability

The City's total OPEB liability was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Summary of Actuarial Assumptions:

Inflation	2.50%
Salary Increases	3.50% to 10.50% Including Inflation (None for the Hospital)
Discount Rate	3.31% (Based on Fidelity Index's 20-Year Municipal GO AA Index)
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - Service Retirees	RP2000 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.
Mortality Rates - Disabled Retirees	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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

Changes in Total OPEB Liability

	Increase (Decrease)
	Total OPEB Liability
Balance at 12/31/16	\$ 769,889
Changes for the year:	
Service cost	17,579
Interest	29,264
Changes of benefit terms	-
Changes of assumptions	62,003
Benefit payments	(8,988)
Net changes	99,858
Balance at 12/31/17	\$ 869,747

Sensitivity of the Total OPEB Liability to changes in the discount rate

The following presents the Total OPEB Liability of the City, calculated using the discount rate of 3.31%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
City's Total OPEB Liability	\$ 1,027,126	\$ 869,747	\$ 745,513

OPEB expense and deferred outflows of resources related to OPEB

For the year ended September 30, 2018, the city recognized OPEB expense of \$77,198.

At September 30, 2018, the city reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Changes in actuarial assumptions	\$ 31,648
Contributions subsequent to the measurement date	6,735
Total	\$ 38,383

\$6,735 was reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

	Year ended September 30:	
2019	\$	6,895
2020		6,895
2021		6,895
2022		6,895
2023		4,068

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

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

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, 2018, the balance of Plan assets was \$1,294,534. However, due to the fact that the City does not administer this plan, the plan is not included in the City's financial statements.

Other Post-Employment Benefits (OPEB) – Health Insurance

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, 2018, the monthly subsidy was equal to \$497.12.

Employees covered by benefit term

At September 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	6
Active employees	22
	28

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 6.5%. For the period ending September 30, 2018, 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, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018.

Actuarial assumption

The total OPEB liability in the September 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

	Plan Year 2018
Inflation	2.50%
Salary increases	3.5% to 10.50%, including inflation
Investment rate of return	6.50%
Healthcare cost trend rates	Initial rates of 7.50% declining to 4.25% after 15 years

For healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used 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.

The actuarial assumptions used in the September 30, 2018 valuation were based on the results of experience and demographics for that twelve month period.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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

Actuarial assumption (Cont'd)

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 6.50%

Discount rate

As of September 30, 2018, the City's discount rate is 6.50%. 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.

Changes in the Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at 9/30/17	\$ 673,266	\$ 1,076,632	\$ (403,366)
Changes for the year:			
Service cost	5,264	-	5,264
Interest	49,480	-	49,480
Difference between expected and actual experience	(261,390)	-	(261,390)
Net investment income	-	42,390	(42,390)
Benefit payments	(32,324)	(32,324)	-
Administrative expense	-	(1,065)	1,065
Other changes	-	(49,238)	49,238
Net changes	(238,970)	(40,237)	(198,733)
Balance at 9/30/18	\$ 434,296	\$ 1,036,395	\$ (602,099)

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 (5.5 percent) or 1-percentage-point higher (7.5 percent) than the current discount rate:

	1% Decrease in Discount Rate (5.50%)	Discount Rate (6.50%)	1% Increase in Discount Rate (7.50%)
City's total OPEB liability	\$ (567,029)	\$ (602,099)	\$ (634,249)

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

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

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$6,120. At September 30, 2018, the City reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Differences in expected and actual experience	\$ (232,771)
<u>Year ended September 30:</u>	
2019	\$ (28,619)
2020	(28,619)
2021	(28,619)
2022	(28,619)
2023	(28,619)
Thereafter	(89,676)

At September 30, 2018, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Difference between projected and actual investment earnings	\$ 29,074
<u>Year ended September 30:</u>	
2019	\$ 7,341
2020	7,341
2021	7,341
2022	7,051

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 6: INTERFUND TRANSACTIONS

Transfers between funds during the year were as follows:

	Transfers In					Total
	Governmental	Proprietary				
	Capital Projects Fund	Internal Service Funds	Water and Sewer Fund	Golf Course Fund		
Transfers Out:						
General Fund	\$ 1,095,750	\$ 135,000	\$ -	\$ 156,000	\$ -	\$ 1,386,750
Non-Major Governmental Funds	295,000	-	-	-	-	295,000
Water and Sewer Fund	-	80,000	-	-	-	80,000
Hospital Fund	-	-	175,000	-	-	175,000
Total	<u>\$ 1,390,750</u>	<u>\$ 215,000</u>	<u>\$ 175,000</u>	<u>\$ 156,000</u>	<u>\$ -</u>	<u>\$ 1,936,750</u>

Significant transfers are related to funding capital projects during the year. The General Fund transferred \$1,095,750 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. \$175,000 was transferred from the Hospital Fund to the Water and Sewer capital projects funds for the construction of cooling towers for the hospital. \$295,000 was transferred from the Hotel Occupancy Taxes Fund to the Capital Projects fund for the construction for the Texas Theatre Project.

The composition of interfund balances as of September 30, 2018, is as follows:

Due To:	Due From Proprietary	
	Hospital Fund	Total
Water and Sewer Fund	\$ 189,078	\$ 189,078
Total	<u>\$ 189,078</u>	<u>\$ 189,078</u>

Advances To:	Advances From		
	Governmental	Proprietary	Total
	Non-Major Governmental Funds	Water and Sewer	
General Fund	\$ 429,712	\$ 1,299,256	\$ 1,728,968
Total	<u>\$ 429,712</u>	<u>\$ 1,299,256</u>	<u>\$ 1,728,968</u>

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

NOTE 7: COMMITMENTS AND CONTINGENCIES

Grant Audits

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

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7: COMMITMENTS AND CONTINGENCIES (Cont'd)

Construction Commitments

The City has active construction projects as of September 30, 2018. 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
Wells St Construction	\$ 6,338	\$ 88,000
Trails Project	376,180	235,820
Baseball Park Phase II	18,414	76,586
Pool Reconstruction	65,524	139,476
Wells St Drainage	81,847	38,153
Danville Drive Drainage	109,725	40,275
Willow Springs St	12,579	32,421
Downtown Storm Drain	265,730	584,796
Texan Theatre	110,163	291,000
	\$ 1,046,500	\$ 1,526,527

Enterprise Projects		
Project	Spent-to-Date	Estimated Remaining Commitment
Water Supply Options	\$ 139,201	\$ 60,799
Rabbit Creek Lift Station Phase II	39,080	220,920
Riverside - Dudley Main	1,000,242	775,958
WWTP Improvements	330,166	2,253,834
Dudley Rd. Transmission Main	267,570	171,430
Raw Water Pump Station Rehab	203,266	10,734
Sedimentation Basin Rehab	65,621	359,379
Filter Rehab	191,767	308,233
Wellfield Chemical Feed Recon	117,055	132,945
	\$ 2,353,968	\$ 4,294,232

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, 2018 was \$52,619.

	Activities
Water Rights	\$ 1,289,164
Less: Accumulated amortization	(1,262,855)
Water Rights, Net	\$ 26,309

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

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, 2018, the administrator had not reported any such claims to the City.

NOTE 9: 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 2018, Allegiance withdrew from their lease agreement forcing the City to take over lease obligations once again. The lease income to the City was \$150,000, of which \$125,000 was deemed uncollectible and written off in the current year resulting with a net receivable balance of \$0. The leased building has a cost of \$21,082,413, accumulated depreciation of \$16,600,849 and a carrying value of \$4,481,564.

NOTE 10: RELATED PARTY TRANSACTIONS

The following schedule presents significant transactions between the primary government and its component units for the year ended September 30, 2018:

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 \$105,796 at September 30, 2018.
Roy H. Laird Memorial Hospital Foundation	\$46,733 contribution for the Texas Municipal Retirement System obligation for former City employees of the Roy H. Laird Memorial Hospital.

NOTE 11: 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.

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

NOTE 11: TAX ABATEMENTS (Cont'd)

For the year ended September 30, 2018, the City abated property taxes totaling \$298,782 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%	\$ 215,412
Drilltools, LLC	Construction and improvement to real property; personal property investment; jobs creation	25%	\$ 23,689
Skeeter Products, Inc.	Construction and improvement to real property; personal property investment; jobs creation	100%	\$ 59,681

NOTE 12: CHANGE IN ACCOUNTING ESTIMATES

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 \$23,745 increase in net position. It is management's opinion that the liability recorded for the City as of September 30, 2018 is adequate to cover insurance deductibles and potential claims outside of the insurance coverage.

During the year, the City reviewed the estimates for grant receivables recorded as of September 30, 2017 related to request for reimbursements for expenditure made during the year ended September 30, 2017. Due to the limited grant funds at the grant agency and the number of applications and requests for reimbursements by other local governments, the amount actually received by the City was less than the estimated receivable recorded. Based on this additional information, management made changes to the estimates of those receivables. The change in estimate for the Capital Projects Fund and Governmental Activities amounted to a \$68,869 decrease in fund balance/net position.

NOTE 13: CHANGE IN ACCOUNTING PRINCIPLE

During the year, the City implemented GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* related to its OPEB plan for supplemental benefits. Under GASB 75, the City is required to record the total OPEB liability (asset) and the related deferred inflows and outflows of resources. This change required a prior period adjustment to restate prior years in accordance with the change in accounting principle. The prior period adjustment recorded represents the total OPEB liability at September 30, 2017, less the related deferred outflows of resources. The restatements only affect the financial statements on the accrual basis of accounting, and were recorded as follows:

Governmental activities:	<u>\$ (384,764)</u>
Business-type activities:	
Water & Sewer Enterprise Fund	\$ (60,867)
Hospital Enterprise Fund	(311,965)
Golf Course Enterprise Fund	<u>(5,480)</u>
Total business-type activities	<u>\$ (378,312)</u>

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 14: SUBSEQUENT EVENTS

Subsequent to the date of the financials but before the financial statements were available to be issued, the City purchased 10.6 acres of land on Fritz Swanson Road, known as the King's Mobile Home Park, for \$750,000.

Subsequent to the date of the financials but before the financial statements were available to be issued, the City entered into a tax abatement agreement with Hammer Time Owner, LP, related to the Orgill, Inc. expansion.

Subsequent events have been evaluated through March 1 2019, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

CITY OF KILGORE, TEXAS

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

LAST 10 FISCAL YEARS*

(UNAUDITED)

	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Total Pension Liability				
Service Cost	\$ 1,088,874	\$ 1,199,295	\$ 1,262,881	\$ 1,241,522
Interest (on the Total Pension Liability)	3,458,531	3,502,728	3,538,354	3,666,858
Changes of Benefit Terms	-	-	-	-
Differences Between Expected and Actual Experience	(1,383,324)	(128,775)	(311,765)	(1,056,584)
Changes of Assumptions	-	394,324	-	-
Benefit Payments, Including Refunds of Employee Contributions	(2,440,704)	(2,735,118)	(2,501,409)	(2,648,677)
Net Change in Total Pension Liability	723,377	2,232,454	1,988,061	1,203,119
Total Pension Liability - Beginning	50,083,500	50,806,877	53,039,331	55,027,392
Total Pension Liability - Ending (a)	\$ 50,806,877	\$ 53,039,331	\$ 55,027,392	\$ 56,230,511
Plan Fiduciary Net Position				
Contributions - Employer	\$ 1,221,385	\$ 1,219,160	\$ 1,121,849	\$ 1,152,978
Contributions - Employee	525,562	512,864	522,777	512,723
Net Investment Income	2,529,283	67,908	3,043,747	6,538,429
Benefit Payments, Including Refunds of Employee Contributions	(2,440,704)	(2,735,118)	(2,501,409)	(2,648,677)
Administrative Expense	(26,409)	(41,364)	(34,380)	(33,899)
Other	(2,171)	(2,043)	(1,853)	(1,718)
Net Change in Plan Fiduciary Net Position	1,806,946	(978,593)	2,150,731	5,519,836
Plan Fiduciary Net Position - Beginning	44,216,640	46,023,586	45,044,993	47,195,724
Plan Fiduciary Net Position - Ending (b)	\$ 46,023,586	\$ 45,044,993	\$ 47,195,724	\$ 52,715,560
Net Pension Liability - Ending (a) - (b)	\$ 4,783,291	\$ 7,994,338	\$ 7,831,668	\$ 3,514,951
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.59%	84.93%	85.77%	93.75%
Covered Employee Payroll	\$ 7,070,216	\$ 7,330,652	\$ 7,468,248	\$ 7,324,612
Net Pension Liability as a Percentage of covered Employee Payroll	67.65%	109.05%	104.87%	47.99%

* 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)

	9/30/2015	9/30/2016	9/30/2017	9/30/2018
Actuarially Determined Contribution	\$ 1,250,879	\$ 1,196,297	\$ 1,160,509	\$ 1,219,997
Contributions in relation to the actuarially determined contribution	1,250,879	1,196,297	1,160,509	1,219,997
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 7,321,268	\$ 7,733,149	\$ 7,324,398	\$ 7,468,246
Contributions as a percentage of covered employee payroll	17.09%	15.47%	15.84%	16.34%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method

Entry Age Normal

Amortization Method

Level Percentage
of Payroll, Closed

Remaining Amortization Period

28 years (City)
/ 10 years
(Hospital)

8

10 Year smoothed market; 15% soft corridor

Inflation

2.50%

Salary Increases

3.5% to 10.5%

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
(HEALTH PLAN)**

LAST 10 FISCAL YEARS*

(UNAUDITED)

	9/30/2017	9/30/2018
Total OPEB Liability		
Service Cost	\$ 14,250	\$ 5,264
Interest (on the Total OPEB Liability)	46,972	49,480
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	-	(261,390)
Changes of Assumptions	-	-
Benefit Payments, Including Refunds of Employee Contributions	-	(32,324)
Net Change in Total OPEB Liability	61,222	(238,970)
Total OPEB Liability - Beginning	612,044	673,266
Total OPEB Liability - Ending (a)	\$ 673,266	\$ 434,296
 Plan Fiduciary Net Position		
Contributions - Employer	\$ -	\$ -
Net Investment Income	75,894	42,390
Benefit Payments	(60,261)	(32,324)
Administrative Expense	(636)	(1,065)
Other	-	(49,238)
Net Change in Plan Fiduciary Net Position	14,997	(40,237)
Plan Fiduciary Net Position - Beginning	1,061,635	1,076,632
Plan Fiduciary Net Position - Ending (b)	\$ 1,076,632	\$ 1,036,395
 Net OPEB Liability - Ending (a) - (b)	\$ (403,366)	\$ (602,099)
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	159.91%	238.64%
 Covered Employee Payroll	\$ 7,034,297	\$ 1,205,311
 Net OPEB Liability as a Percentage of covered Employee Payroll	-5.73%	-49.95%

* 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
(HEALTH PLAN)

LAST 10 FISCAL YEARS*

(UNAUDITED)

	9/30/2017	9/30/2018
Actuarially Determined Contribution	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 7,304,297	\$ 1,205,311
Contributions as a percentage of covered employee payroll	0.00%	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	2.50% per annum
Discount rate	6.50%
	Initial rates of 7.50% declining to ultimate rates of 4.25% after 15 years
Healthcare cost trend rate	
Mortality	RP2000 Combined Healthy Mortality Tables
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 become available.

CITY OF KILGORE, TEXAS

**REQUIRED SUPPLEMENTAL INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
(SUPPLEMENTAL DEATH BENEFITS PLAN)**

LAST 10 FISCAL YEARS*

(UNAUDITED)

	12/31/2017
Total OPEB Liability	
Service Cost	\$ 17,579
Interest on the Total OPEB Liability	29,264
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions or Other Inputs	62,003
Benefit Payments	(8,988)
Net Change in Total OPEB Liability	99,858
Total OPEB Liability - Beginning	769,889
Total OPEB Liability - Ending (a)	\$ 869,747
 Covered Employee Payroll	 \$ 7,324,612
 Total OPEB Liability as a Percentage of covered Employee Payroll	 11.87%

NOTES TO SCHEDULE OF CHANGES

No assets are accumulated in a trust for the supplemental death benefits plan to pay related benefits that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Summary of Actuarial Assumptions:

Inflation	2.50%
Salary Increases	3.50% to 10.50% Including Inflation (None for Hospital)
Discount Rate	3.31% (Based on Fidelity Index's 20-Year Municipal GO AA Index)
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - Service Retirees	RP2000 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.
Mortality Rates - Disabled Retirees	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

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

COMBINING FUND FINANCIAL STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

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

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

Tax Increment Reinvestment Zone Fund - To account 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, 2018**

	Special Revenue Funds				
	Hotel Occupancy Taxes		911 Emergency	Tax Increment Reinvestment Zone	Federal Drug Seizure
	Grant				
ASSETS					
Cash and cash equivalents	\$ 77,305	\$ 21,228	\$ 32,125	\$ -	\$ 127,856
Investments	192,115	52,755	86,592	-	317,738
Receivables (net of allowance for estimated uncollectible accounts):					
Taxes	65,297	-	-	-	-
Accounts	-	124	9,712	-	744
Interest on long-term receivable	-	-	-	105,796	-
Total assets	<u>\$ 334,717</u>	<u>\$ 74,107</u>	<u>\$ 128,429</u>	<u>\$ 105,796</u>	<u>\$ 446,338</u>
LIABILITIES					
Trade payables	\$ 44,942	\$ -	\$ 708	\$ -	\$ 1,151
Accrued payroll and related expenses	-	-	310	-	-
Advance payable	-	-	-	429,712	-
Total liabilities	<u>44,942</u>	<u>-</u>	<u>1,018</u>	<u>429,712</u>	<u>1,151</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	-	-	-	-	-
Unavailable revenue - interest on long-term receivable	-	-	-	105,796	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,796</u>	<u>-</u>
FUND BALANCES					
Restricted for:					
Debt service	-	-	-	-	-
Grant restrictions	-	74,107	-	-	-
Municipal court	-	-	-	-	-
Public safety	-	-	127,411	-	445,187
Tourism and convention facilities	289,775	-	-	-	-
Unassigned	-	-	-	(429,712)	-
Total fund balances	<u>289,775</u>	<u>74,107</u>	<u>127,411</u>	<u>(429,712)</u>	<u>445,187</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 334,717</u>	<u>\$ 74,107</u>	<u>\$ 128,429</u>	<u>\$ 105,796</u>	<u>\$ 446,338</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	
\$ 3,078	\$ 3,355	\$ 27,177	\$ 1,520	\$ 4,044	\$ 640	\$ 298,328	\$ 178,546	\$ 476,874
7,653	8,333	67,538	3,777	10,051	1,587	748,139	473	748,612
-	-	-	-	-	-	65,297	58,687	123,984
18	20	158	9	24	3	10,812	-	10,812
-	-	-	-	-	-	105,796	-	105,796
<u>\$ 10,749</u>	<u>\$ 11,708</u>	<u>\$ 94,873</u>	<u>\$ 5,306</u>	<u>\$ 14,119</u>	<u>\$ 2,230</u>	<u>\$ 1,228,372</u>	<u>\$ 237,706</u>	<u>\$ 1,466,078</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,801	\$ 4,901	\$ 51,702
-	-	-	-	-	-	310	-	310
-	-	-	-	-	-	429,712	-	429,712
-	-	-	-	-	-	476,823	4,901	481,724
-	-	-	-	-	-	-	58,687	58,687
-	-	-	-	-	-	105,796	-	105,796
-	-	-	-	-	-	105,796	58,687	164,483
-	-	-	-	-	-	-	174,118	174,118
-	-	-	-	-	-	74,107	-	74,107
-	11,708	94,873	-	-	-	106,581	-	106,581
10,749	-	-	-	-	-	583,347	-	583,347
-	-	-	5,306	14,119	2,230	311,430	-	311,430
-	-	-	-	-	-	(429,712)	-	(429,712)
<u>10,749</u>	<u>11,708</u>	<u>94,873</u>	<u>5,306</u>	<u>14,119</u>	<u>2,230</u>	<u>645,753</u>	<u>174,118</u>	<u>819,871</u>
<u>\$ 10,749</u>	<u>\$ 11,708</u>	<u>\$ 94,873</u>	<u>\$ 5,306</u>	<u>\$ 14,119</u>	<u>\$ 2,230</u>	<u>\$ 1,228,372</u>	<u>\$ 237,706</u>	<u>\$ 1,466,078</u>

CITY OF KILGORE, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Special Revenue Funds				
	Hotel Occupancy Taxes	Grant	911 Emergency	Tax Increment Reinvestment Zone	Federal Drug Seizure
REVENUES					
Taxes:					
Property	\$ -	\$ -	\$ -	\$ -	\$ -
Other	381,582	-	102,702	-	-
Charges for services:					
Police court fines and fees	-	-	-	-	-
Drug seizure revenue	-	-	-	-	585,207
Grants	-	100	-	-	-
Interest on investments	6,554	1,157	1,652	-	4,566
Miscellaneous	11,722	-	-	-	-
Total revenues	<u>399,858</u>	<u>1,257</u>	<u>104,354</u>	<u>-</u>	<u>589,773</u>
EXPENDITURES					
Current:					
Public safety:					
Police	-	125	84,226	-	144,586
Municipal court	-	-	-	-	-
Culture and recreation:					
Parks	-	-	-	-	-
Grants	308,732	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>308,732</u>	<u>125</u>	<u>84,226</u>	<u>-</u>	<u>144,586</u>
Excess (deficiency) of revenues over (under) expenditures	<u>91,126</u>	<u>1,132</u>	<u>20,128</u>	<u>-</u>	<u>445,187</u>
OTHER FINANCING SOURCES (USES)					
Transfers out	(295,000)	-	-	-	-
Total other financing sources (uses)	<u>(295,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(203,874)	1,132	20,128	-	445,187
Fund balance - beginning of year	<u>493,649</u>	<u>72,975</u>	<u>107,283</u>	<u>(429,712)</u>	<u>-</u>
Fund balance - end of year	<u>\$ 289,775</u>	<u>\$ 74,107</u>	<u>\$ 127,411</u>	<u>\$ (429,712)</u>	<u>\$ 445,187</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	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 308,089	\$ 308,089
-	-	-	-	-	-	484,284	-	484,284
-	9,753	7,350	-	-	-	17,103	-	17,103
7,315	-	-	-	-	-	592,522	-	592,522
-	-	-	-	-	-	100	-	100
138	130	1,436	83	220	47	15,983	8,760	24,743
-	-	-	-	-	2,096	13,818	-	13,818
<u>7,453</u>	<u>9,883</u>	<u>8,786</u>	<u>83</u>	<u>220</u>	<u>2,143</u>	<u>1,123,810</u>	<u>316,849</u>	<u>1,440,659</u>
2,003	5,417	-	-	-	-	236,357	-	236,357
-	-	31	-	-	-	31	-	31
-	-	-	2	4	4,435	4,441	-	4,441
-	-	-	-	-	-	308,732	-	308,732
-	-	-	-	-	-	-	290,000	290,000
-	-	-	-	-	-	-	113,925	113,925
<u>2,003</u>	<u>5,417</u>	<u>31</u>	<u>2</u>	<u>4</u>	<u>4,435</u>	<u>549,561</u>	<u>403,925</u>	<u>953,486</u>
5,450	4,466	8,755	81	216	(2,292)	574,249	(87,076)	487,173
-	-	-	-	-	-	(295,000)	-	(295,000)
-	-	-	-	-	-	(295,000)	-	(295,000)
5,450	4,466	8,755	81	216	(2,292)	279,249	(87,076)	192,173
5,299	7,242	86,118	5,225	13,903	4,522	366,504	261,194	627,698
<u>\$ 10,749</u>	<u>\$ 11,708</u>	<u>\$ 94,873</u>	<u>\$ 5,306</u>	<u>\$ 14,119</u>	<u>\$ 2,230</u>	<u>\$ 645,753</u>	<u>\$ 174,118</u>	<u>\$ 819,871</u>

INTERNAL SERVICE FUNDS

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

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

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

CITY OF KILGORE, TEXAS
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
SEPTEMBER 30, 2018

	Employee Benefit	Capital Equipment Purchase	Information Technology	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 719,789	\$ 274,371	\$ 68,103	\$ 1,062,263
Investments	250,000	681,847	47,229	979,076
Accounts receivable (net)	17,098	5,372	193	22,663
Deposit on equipment	-	25,120	-	25,120
Total current assets	<u>986,887</u>	<u>986,710</u>	<u>115,525</u>	<u>2,089,122</u>
Noncurrent assets:				
Capital assets (net)	-	1,123,687	115,629	1,239,316
Total noncurrent assets	<u>-</u>	<u>1,123,687</u>	<u>115,629</u>	<u>1,239,316</u>
Total assets	<u>986,887</u>	<u>2,110,397</u>	<u>231,154</u>	<u>3,328,438</u>
LIABILITIES				
Current liabilities:				
Trade payables	-	-	5,364	5,364
Total current liabilities	<u>-</u>	<u>-</u>	<u>5,364</u>	<u>5,364</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>5,364</u>	<u>5,364</u>
NET POSITION				
Net investment in capital assets	-	1,123,687	115,629	1,239,316
Unrestricted	986,887	986,710	110,161	2,083,758
Total net position	<u>\$ 986,887</u>	<u>\$ 2,110,397</u>	<u>\$ 225,790</u>	<u>\$ 3,323,074</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, 2018**

	Employee Benefit	Capital Equipment Purchase	Information Technology	Total
OPERATING REVENUES				
Charges for services	\$ 1,554,310	\$ 346,483	\$ 580,481	\$ 2,481,274
Total operating revenues	<u>1,554,310</u>	<u>346,483</u>	<u>580,481</u>	<u>2,481,274</u>
OPERATING EXPENSES				
Operating expenses	1,628,044	660	492,266	2,120,970
Depreciation and amortization	-	324,341	57,147	381,488
Total operating expenses	<u>1,628,044</u>	<u>325,001</u>	<u>549,413</u>	<u>2,502,458</u>
OPERATING INCOME (LOSS)	<u>(73,734)</u>	<u>21,482</u>	<u>31,068</u>	<u>(21,184)</u>
NONOPERATING REVENUES:				
Investment earnings	17,170	11,915	3,476	32,561
Miscellaneous	49,238	-	-	49,238
Gain (loss) on sale of assets	-	27,207	-	27,207
Total nonoperating revenues	<u>66,408</u>	<u>39,122</u>	<u>3,476</u>	<u>109,006</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	<u>(7,326)</u>	<u>60,604</u>	<u>34,544</u>	<u>87,822</u>
Capital contribution	-	12,000	-	12,000
Transfers in	-	195,000	20,000	215,000
Change in net position	(7,326)	267,604	54,544	314,822
Total net position, beginning	<u>994,213</u>	<u>1,842,793</u>	<u>171,246</u>	<u>3,008,252</u>
Total net position, ending	<u>\$ 986,887</u>	<u>\$ 2,110,397</u>	<u>\$ 225,790</u>	<u>\$ 3,323,074</u>

GOVERNMENTAL COMPLIANCE SECTION



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kilgore, Texas, as of and for the year ended September 30, 2018, 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 1, 2019.

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.

Longview, Texas
March 19, 2019

**CITY OF KILGORE, TEXAS
SUMMARY SCHEDULE OF PRIOR YEAR
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Finding

Current Status

Finding 2015-2 and 2016-2

During the audit, we noted the following conditions:

1. Lack of documentation for time served in jail.
2. Unapproved Community Service Records.

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