



CITY OF KILGORE, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2020

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

**CITY OF KILGORE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

TABLE OF CONTENTS

	<u>Page Number</u>
INTRODUCTORY SECTION	
Letter of Transmittal	i
FINANCIAL SECTION	
Independent Auditor’s Report	1
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	9
Statement of Activities	11
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	18
Proprietary Fund Financial Statements	
Statement of Net Position	20
Statement of Revenues, Expenses, and Changes in Net Position	21
Statement of Cash Flows	22
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Position	24
Statement of Changes in Fiduciary Net Position	25
Notes to the Financial Statements	26

**CITY OF KILGORE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

TABLE OF CONTENTS

	<u>Page Number</u>
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
Schedule of Changes in Net Pension Liability and Related Ratios: TMRS	59
Schedule of Contributions: TMRS	60
Schedule of Changes in Net OPEB Liability and Related Ratios (Health Plan)	61
Schedule of Contributions: OPEB (Health Plan)	62
Schedule of Changes in Total OPEB Liability and Related Ratios (Supplemental Death Benefits Plan)	63
 COMBINING FUND FINANCIAL STATEMENTS	
Nonmajor Governmental Funds	
Description of Nonmajor Governmental Funds	64
Combining Balance Sheet	65
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	67
 Internal Service Funds	
Description of Internal Service Funds	69
Combining Statement of Net Position	70
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position	71
 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	72
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	73
Schedule of Expenditures of Federal Awards	75
Notes to the Schedule of Expenditures of Federal Awards	76
Schedule of Findings and Questioned Costs	77

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, 2020, including the independent auditor's report, is hereby submitted. This Annual Financial Report is published to provide the Mayor and City Council, City staff, our citizens, representatives of financial institutions, our bond holders and other interested parties with detailed information concerning the financial condition and activities of the city.

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

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

The City's financial statements have been audited by Henry & Peters, P.C., a firm of licensed certified public accountants. The independent auditors issued an unmodified opinion on the City of Kilgore financial statements for the fiscal year ended September 30, 2020. 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 2021 is 14,962, which reflects substantial growth over the preceding nine years from a 2010 estimate of 12,975. Based on the US Census Bureau 2017 estimates, Kilgore is the 188th largest City in the State.

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 four companies in the oil and gas sector business which makes up 9.58% of the taxable base for the City of Kilgore. The remaining six companies are in the non-oilfield related business and make up 9.58% of the taxable values. Kilgore's property tax revenue is subject to fluctuations in the oil and gas economy; however, KEDC continues to focus on diversifying the economy and has had success in doing so as evidenced by a decrease in the percentage of closed projects that are energy sector related.
- 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 and has also partnered with the College to provide training at Bradshaw State Jail.
- The KEDC continues to focus on diversifying the Kilgore economy. During FY2019-2020 eleven projects were closed with only 35% being related to the energy sector.
- 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. During 2020 KEDC was awarded the Economic Development Organization of the Year by the International Development Council. The Texas Economic Development as recognized Kilgore KEDC as reaching Economic Excellence Status.
- During FY2019-2020 KEDC Board approved two new contracts with new and retained capital investments totaling \$5.1 million, job retention of 62 full time employees and the creation of 38 new full – time positions.

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 residential subdivisions within the City limits. Two of which had active residential construction projects. Creating opportunity for new diverse residential housing developments has been a goal of the City Council for several years, and these subdivisions represent the realization of that goal. During FY2020 the City continued to experience growth in the area of commercial development despite the pandemic. Commercial construction permits were issued with a value of \$1.1 million and commercial addition permits with a value of \$1.3 million. Orgil Inc. the world's largest independent hardline distributor completed construction in October of 2019 on their 328,207 square foot

expansion to their Kilgore distribution facility. This expansion doubled the size of the facility and brought additional jobs to the area. During the first quarter of fiscal year 2021 the City issued new commercial construction permits in the amount of \$4.3 million. These permits included an expansive CEFCO facility, Chick-fil-a restaurant, and an urgent care facility which all be located in the heart of Kilgore. The expansion of the new commercial businesses into 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 2019, 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 4,650, 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,

A handwritten signature in cursive script that reads "William E. Martin".

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, 2020, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kilgore, Texas, as of September 30, 2020, 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, net OPEB liability, total OPEB liability, and related ratios and schedules of contributions on pages 3-8, and 59-63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Kilgore, Texas' basic financial statements. The introductory section and combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is required by Title 2 U.S. Code of Federal Regulation (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2021, 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, P.C.

Tyler, Texas
March 17, 2021



**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, 2020. 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 \$93,309,212 (*net position*). Of this amount, \$26,256,962 (*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 \$1,944,161.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$17,213,350. Approximately 64 percent of this total amount, \$10,976,136, is available for spending at the government's discretion (unassigned fund balance).
- The City's total long term debt decreased by \$4,083,740 during the current fiscal year. This is due directly to a decrease in the net pension liability of \$3,818,514 and debt service payments on bonds.

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 cashflows*. 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 financial statements.

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 26-58 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 (71 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	
	2020	2019	2020	2019	2020	2019
Current and other Assets	\$ 23,255,111	\$ 24,564,994	\$ 13,897,335	\$ 16,229,228	\$ 37,152,446	\$ 40,794,222
Capital Assets	35,179,200	33,534,845	43,347,260	40,074,227	78,526,460	73,609,072
Total Assets	58,434,311	58,099,839	57,244,595	56,303,455	115,678,906	114,403,294
Deferred outflows of resources	3,109,596	4,048,317	1,266,576	1,776,529	4,376,172	5,824,846
Current liabilities	2,476,684	2,548,526	1,371,765	1,536,475	3,848,449	4,085,001
Noncurrent liabilities	6,794,644	9,554,485	10,212,262	11,683,076	17,006,906	21,237,561
Total Liabilities	9,271,328	12,103,011	11,584,027	13,219,551	20,855,355	25,322,562
Deferred inflows of resources	4,091,236	2,645,978	1,799,275	894,549	5,890,511	3,540,527
Net position:						
Net investment in						
Capital Assets	32,394,958	30,457,509	33,826,470	30,479,590	66,221,428	60,937,099
Restricted	830,822	1,068,668	-	-	830,822	1,068,668
Unrestricted	14,955,563	15,872,990	11,301,399	13,486,294	26,256,962	29,359,284
Total net position	\$ 48,181,343	\$ 47,399,167	\$ 45,127,869	\$ 43,965,884	\$ 93,309,212	\$ 91,365,051

An additional portion of the City’s net position (approximately .89 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$26,256,962) may be used to meet the government’s ongoing obligations to citizens and creditors.

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

CITY OF KILGORE
Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 3,078,316	\$ 3,120,733	\$ 7,354,909	\$ 7,477,896	\$ 10,433,225	\$ 10,598,629
Operating grants and contribution:	411,232	509,294	898,676	307,493	1,309,908	816,787
Capital grants and contributions	1,257,972	367,548	-	-	1,257,972	367,548
General Revenues:						
Property taxes	6,957,208	6,447,687	-	-	6,957,208	6,447,687
Sales taxes	4,820,959	6,735,627	-	-	4,820,959	6,735,627
Other taxes	1,062,302	1,192,993	-	-	1,062,302	1,192,993
Investment income	329,170	556,633	194,673	314,193	523,843	870,826
Miscellaneous income	327,046	238,522	9,483	23,256	336,529	261,778
Gain on sale of assets	16,307	29,092	-	-	16,307	29,092
Total Revenues	18,260,512	19,198,129	8,457,741	8,122,838	26,718,253	27,320,967
Expenses:						
General government	1,577,718	999,396	-	-	1,577,718	999,396
Public safety	8,333,020	8,501,240	-	-	8,333,020	8,501,240
Public Works	2,113,502	2,745,073	-	-	2,113,502	2,745,073
Developmental services	635,718	704,555	-	-	635,718	704,555
Sanitation	2,136,490	2,064,857	-	-	2,136,490	2,064,857
Culture and recreation	2,120,412	2,356,991	-	-	2,120,412	2,356,991
Public welfare	290,346	330,331	-	-	290,346	330,331
Interest and fiscal charges	98,400	86,568	-	-	98,400	86,568
Golf Course	-	-	479,581	498,408	479,581	498,408
Water and sewer	-	-	6,058,498	5,813,886	6,058,498	5,813,886
Hospital	-	-	958,004	979,909	958,004	979,909
Total Expenses	17,305,606	17,789,011	7,496,083	7,292,203	24,801,689	25,081,214
Excess (deficiency) before special items and transfers	954,906	1,409,118	961,658	830,635	1,916,564	2,239,753
Special items: change in accounting estimates	27,597	(39,452)	-	-	27,597	(39,452)
Transfers in (out)	(200,327)	(630,291)	200,327	630,291	-	-
Increase (decrease) in net position	782,176	739,375	1,161,985	1,460,926	1,944,161	2,200,301
Net position, beginning	47,399,167	46,659,792	43,965,884	42,504,958	91,365,051	89,164,750
Cumulative effect of change in accounting principle	-	-	-	-	-	-
Prior period adjustments	-	-	-	-	-	-
Net position, ending	\$ 48,181,343	\$ 47,399,167	\$ 45,127,869	\$ 43,965,884	\$ 93,309,212	\$ 91,365,051

Governmental activities. Governmental activities during the year increased the City's net position by \$782,176.

Business-type activities. Business-type activities during the year increased the City's net position by \$1,161,985.

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 \$17,213,350. Approximately 64% of this amount or \$10,976,136 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 a specific purpose because of formal action by the City Council. The City Council has committed \$3,934,611 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 \$19,972 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 \$11,405,848, while total fund balance reached \$12,886,937.

The fund balance of the City's General Fund decreased by \$475,883 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 \$39,904,664, net position for the hospital fund amounted to \$4,139,717, and net position for the golf course amounted to \$969,620. 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 \$12,886,937 which is a decrease of \$91,089 over the final budgeted amount. Revenues were \$1,421,582 less than anticipated and expenses were \$1,664,754 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, 2020, amounted to \$78,526,460 (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	
	2020	2019	2020	2019	2020	2019
Land	\$ 2,510,235	\$ 2,385,082	\$ 480,079	\$ 422,036	\$ 2,990,314	\$ 2,807,118
Equipment (historical treasure)	40,000	40,000	-	-	40,000	40,000
Construction in progress	2,137,879	2,253,571	2,933,132	5,692,929	5,071,011	7,946,500
Building and system	26,470,604	25,424,158	37,875,159	31,840,148	64,345,763	57,264,306
Equipment and other	4,020,482	3,432,034	2,058,890	2,119,114	6,079,372	5,551,148
Total Net Capital Assets	\$ 35,179,200	\$ 33,534,845	\$ 43,347,260	\$ 40,074,227	\$ 78,526,460	\$ 73,609,072

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

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$18,299,400. Of this amount, \$7,599,247 was outstanding for the governmental funds and \$10,700,153 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	
	2020	2019	2020	2019	2020	2019
General obligation bonds	\$ 2,760,000	\$ 3,050,000	\$ -	\$ -	\$ 2,760,000	\$ 3,050,000
Certificates of obligation	-	-	9,045,000	9,350,000	9,045,000	9,350,000
Bond Premiums	134,534	151,708	359,231	373,758	493,765	525,466
Net Pension Liability	3,104,497	5,722,641	602,557	1,802,927	3,707,054	7,525,568
OPEB - Supplemental Death	535,138	437,754	450,027	387,435	985,165	825,189
Capital Leases	-	-	116,559	38,017	116,559	38,017
Compensated absences	953,821	842,374	126,779	98,029	1,080,600	940,403
Claims payable	111,257	128,497	-	-	111,257	128,497
Total	\$ 7,599,247	\$ 10,332,974	\$ 10,700,153	\$ 12,050,166	\$ 18,299,400	\$ 22,383,140

Additional information on the City's long-term debt can be found in note 4 on page 40-42 of this report.

Economic Factors and Next Year's Budget and Rates

Factors considered in preparing the City's 2021 fiscal year budget were:

- The total budget for FY 2021 is \$37,010,616. Of this amount \$16,875,367 is appropriated for the General Fund and \$9,350,407 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 revenue which was projected at \$1.5 less than FY2020 due the downturn in the economy. Ad Valorem taxes were also decreased by \$109,712 due to a slight decrease in property values.
- The FY 2021 General Fund budget did not appropriate any funds to be transferred to the Governmental Capital Projects Fund due to the downturn in the economy. City Management's budget philosophy is to only appropriate Governmental Capital Project funds during good economic times when sales tax revenues exceed certain thresholds. The FY 2021 Utility Fund has \$3,905,000 appropriated to transfer to the Water & Sewer Capital Projects Funds from fund balance. In addition, new debt in the amount of \$5,200,000 will be issued in February of 2021 for Utility Fund projects that were identified during FY2016 and FY2017. Many of these projects funded by this debt will be ongoing during FY2021 and FY2022.
- 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 FY 2020 budget included \$6,169,192 for capital projects which were funded by cash (fund balance) from both the Water & Sewer and General Fund as well as future commitments from KEDC for park projects. The FY2021 budget included projects totaling \$10,105,000 for capital projects which were funded by cash (fund balance) and new debt (for Water & Sewer) from both the Water & Sewer Fund.

Requests for Information

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF KILGORE, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,393,615	\$ 3,384,004	\$ 7,777,619
Investments	11,634,457	9,587,582	21,222,039
Receivables (net of allowance for estimated uncollectible accounts):			
Taxes	1,389,390	-	1,389,390
Accounts	2,540,072	1,654,513	4,194,585
Notes and accrued interest	590,467	-	590,467
Internal balances	1,015,556	(1,015,556)	-
Inventory	19,972	47,823	67,795
Deposits and prepaid expenses	-	2,871	2,871
Restricted:			
Cash and cash equivalents	412,785	26,180	438,965
Investments	543,050	-	543,050
Net other post-employment benefits asset	715,747	114,015	829,762
Net pension asset	-	95,903	95,903
Capital assets (net of accumulated depreciation)	35,179,200	43,347,260	78,526,460
Property held for resale	-	-	-
Total Assets	<u>58,434,311</u>	<u>57,244,595</u>	<u>115,678,906</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	2,890,285	1,245,361	4,135,646
Deferred outflows related to OPEB - health	23,159	3,495	26,654
Deferred outflows related to OPEB - supplemental death	85,860	17,720	103,580
Deferred loss on refunding, net of amortization	110,292	-	110,292
Total Deferred Outflows of Resources	<u>3,109,596</u>	<u>1,266,576</u>	<u>4,376,172</u>
LIABILITIES			
Accounts payable	847,206	763,246	1,610,452
Due to other governments	452,874	-	452,874
Accrued expenses	297,085	56,393	353,478
Accrued interest payable	10,350	38,055	48,405
Customer deposits	64,566	26,180	90,746
Long-term debt			
Due within one year	804,603	487,891	1,292,494
Due in more than one year	6,794,644	10,212,262	17,006,906
Total Liabilities	<u>9,271,328</u>	<u>11,584,027</u>	<u>20,855,355</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	3,773,810	1,744,196	5,518,006
Deferred inflows related to OPEB - health	281,574	40,951	322,525
Deferred inflows related to OPEB - supplemental death	35,852	5,998	41,850
Advance from Hospital Foundation	-	8,130	8,130
Total Deferred Inflows of Resources	<u>4,091,236</u>	<u>1,799,275</u>	<u>5,890,511</u>
NET POSITION			
Net investment in capital assets	32,394,958	33,826,470	66,221,428
Restricted for debt service	187,153	-	187,153
Restricted for capital projects	-	-	-
Restricted for grant restrictions	76,761	-	76,761
Restricted for municipal court	133,046	-	133,046
Restricted for public safety	253,663	-	253,663
Restricted for tourism and convention	180,199	-	180,199
Unrestricted	14,955,563	11,301,399	26,256,962
Total Net Position	<u>\$ 48,181,343</u>	<u>\$ 45,127,869</u>	<u>\$ 93,309,212</u>

See accompanying notes to financial statements.

Component Units

Kilgore Economic Development Corporation	Kilgore Redevelopment Authority	KCDC	Hospital Foundation
\$ 437,221	\$ 179,513	\$ 25,735	\$ 2,260,979
11,434,534	-	98,044	5,795,771
-	-	-	-
351,645	13,780	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
11,594,193	-	-	-
3,801,858	-	112,695	-
<u>27,619,451</u>	<u>193,293</u>	<u>236,474</u>	<u>8,056,750</u>
-	-	-	-
-	-	-	-
-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-
66,348	-	-	-
54,732	-	-	-
-	-	-	-
-	135,735	-	-
-	-	-	-
386,269	-	-	-
6,793,685	400,000	-	-
<u>7,301,034</u>	<u>535,735</u>	<u>-</u>	<u>-</u>
-	-	-	-
-	-	-	-
-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-
8,216,115	-	112,695	-
540,470	-	-	-
76,966	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
11,484,866	(342,442)	123,779	8,056,750
<u>\$ 20,318,417</u>	<u>\$ (342,442)</u>	<u>\$ 236,474</u>	<u>\$ 8,056,750</u>

**CITY OF KILGORE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ 1,772,078	100,375	\$ 69,212	\$ -
Public safety	8,333,020	380,551	335,020	-
Public works	2,113,502	-	-	1,257,972
Developmental services	635,718	83,990	-	-
Sanitation	1,942,130	2,495,467	-	-
Culture and recreation	2,120,412	17,933	7,000	-
Public welfare	290,346	-	-	-
Interest and fiscal charges	98,400	-	-	-
Total Governmental activities	<u>17,305,606</u>	<u>3,078,316</u>	<u>411,232</u>	<u>1,257,972</u>
Business-Type activities:				
Water and sewer	6,058,498	6,702,369	898,676	-
Hospital	958,004	340,793	-	-
Golf course	479,581	311,747	-	-
Total Business-Type activities	<u>7,496,083</u>	<u>7,354,909</u>	<u>898,676</u>	<u>-</u>
Total Primary Government	<u>\$ 24,801,689</u>	<u>\$ 10,433,225</u>	<u>\$ 1,309,908</u>	<u>\$ 1,257,972</u>
Component Units:				
Economic Development Corporation	\$ 2,705,416	\$ -	\$ -	\$ -
Redevelopment Authority	15,193	-	-	-
KCDC	2,700	-	-	-
Hospital Foundation	116,432	-	-	-
Total Component Units	<u>\$ 2,839,741</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

Net position - end of year

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (1,602,491)	\$ -	\$ (1,602,491)	\$ -
(7,617,449)	-	(7,617,449)	-
(855,530)	-	(855,530)	-
(551,728)	-	(551,728)	-
553,337	-	553,337	-
(2,095,479)	-	(2,095,479)	-
(290,346)	-	(290,346)	-
(98,400)	-	(98,400)	-
<u>(12,558,086)</u>	<u>-</u>	<u>(12,558,086)</u>	<u>-</u>
-	1,542,547	1,542,547	-
-	(617,211)	(617,211)	-
-	<u>(167,834)</u>	<u>(167,834)</u>	<u>-</u>
-	757,502	757,502	-
<u>(12,558,086)</u>	<u>757,502</u>	<u>(11,800,584)</u>	<u>-</u>
			(2,705,416)
			(15,193)
			(2,700)
			<u>(116,432)</u>
			<u>(2,839,741)</u>
6,957,208	-	6,957,208	24,887
4,820,959	-	4,820,959	2,411,025
1,062,302	-	1,062,302	-
329,170	194,673	523,843	1,684,901
327,046	9,483	336,529	230,640
16,307	-	16,307	70,133
27,597	-	27,597	-
<u>(200,327)</u>	<u>200,327</u>	<u>-</u>	<u>-</u>
<u>13,340,262</u>	<u>404,483</u>	<u>13,744,745</u>	<u>4,421,586</u>
782,176	1,161,985	1,944,161	1,581,845
47,399,167	43,965,884	91,365,051	26,687,354
<u>\$ 48,181,343</u>	<u>\$ 45,127,869</u>	<u>\$ 93,309,212</u>	<u>\$ 28,269,199</u>

FUND FINANCIAL STATEMENTS

**CITY OF KILGORE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020**

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,531,407	\$ 786,444	\$ 346,065	\$ 3,663,916
Investments	8,340,500	2,646,173	535,897	11,522,570
Receivables (net of allowance for estimated uncollectible accounts):				
Taxes	1,315,961	-	73,429	1,389,390
Accounts	1,726,845	843,573	9,793	2,580,211
Interest on long-term receivable	-	-	135,735	135,735
Advance receivable	1,559,136	-	-	1,559,136
Inventory, at lower of cost or net realizable value	19,972	-	-	19,972
Total assets	<u>\$ 15,493,821</u>	<u>\$ 4,276,190</u>	<u>\$ 1,100,919</u>	<u>\$ 20,870,930</u>
LIABILITIES				
Trade payables	\$ 469,178	\$ 241,579	\$ 120,555	\$ 831,312
Customer deposits	64,566	-	-	64,566
Accrued payroll and related expenses	296,469	-	616	297,085
Due to other governments	352,874	100,000	-	452,874
Advance payable	-	-	429,712	429,712
Total liabilities	<u>1,183,087</u>	<u>341,579</u>	<u>550,883</u>	<u>2,075,549</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	280,477	-	22,499	302,976
Unavailable revenue - fines	88,700	-	-	88,700
Unavailable revenue - assessments	1,054,620	-	-	1,054,620
Unavailable revenue - interest on long-term receivable	-	-	135,735	135,735
Total deferred inflows of resources	<u>1,423,797</u>	<u>-</u>	<u>158,234</u>	<u>1,582,031</u>
FUND BALANCES				
Nonspendable:				
Inventory	19,972	-	-	19,972
Restricted for:				
Debt service	-	-	187,153	187,153
Grant restrictions	-	-	76,761	76,761
Municipal court	-	-	133,046	133,046
Public safety	-	-	244,355	244,355
Tourism and convention	-	-	180,199	180,199
Other purposes	9,308	-	-	9,308
Committed to:				
Capital projects	-	3,934,611	-	3,934,611
Residential development	250,131	-	-	250,131
Assigned to:				
Cemeteries	1,201,678	-	-	1,201,678
Unassigned	11,405,848	-	(429,712)	10,976,136
Total fund balances	<u>12,886,937</u>	<u>3,934,611</u>	<u>391,802</u>	<u>17,213,350</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 15,493,821</u>	<u>\$ 4,276,190</u>	<u>\$ 1,100,919</u>	<u>\$ 20,870,930</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, 2020

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

Total fund balance per balance sheet	\$ 17,213,350
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	32,997,355
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.	1,982,031
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	(1,065,078)
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.	457,331
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.	(485,130)
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.	(6,772,257)
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.	(10,350)
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.	3,864,091
Net position of governmental activities	\$ 48,181,343

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, 2020

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 6,572,727	\$ -	\$ 388,854	\$ 6,961,581
Sales	4,820,959	-	-	4,820,959
Other	701,004	-	361,298	1,062,302
Charges for services:				
Garbage collection	2,496,867	-	-	2,496,867
Police court fines and fees	342,626	-	11,032	353,658
Permits	82,590	-	-	82,590
Cemetery	88,125	-	-	88,125
Swimming pool	14,572	-	-	14,572
Library	3,361	-	-	3,361
KMHP rental income	12,250	-	-	12,250
County support	69,444	-	-	69,444
Drug seizure revenue	-	-	17,596	17,596
Donations	2,162	112,500	-	114,662
Grants	330,192	1,137,310	-	1,467,502
Interest on investments	221,531	51,126	16,018	288,675
Miscellaneous	210,584	89,487	18,588	318,659
Total revenues	<u>15,968,994</u>	<u>1,390,423</u>	<u>813,386</u>	<u>18,172,803</u>
EXPENDITURES				
Current:				
General government:				
Administration	249,531	142,257	-	391,788
Finance	329,929	85,302	-	415,231
Cemetery	169,071	34,289	-	203,360
City council	57,429	-	-	57,429
Contingency	1,171	-	-	1,171
Building maintenance	185,972	-	-	185,972
Human resources	85,887	-	-	85,887
KMHP maintenance expense	111,256	-	-	111,256
Property and liability insurance	194,360	-	-	194,360
Public safety:				
Police	4,776,018	290,168	318,720	5,384,906
Fire	3,047,261	123,158	-	3,170,419
Rescue unit	92,801	-	-	92,801
Municipal court	216,488	-	40	216,528
Public works:				
Streets	1,493,542	1,112,581	-	2,606,123
Water	-	-	-	-
Developmental services:				
Inspection	189,894	-	-	189,894
Equipment Services	206,689	5,930	-	212,619
Planning and zoning	246,229	-	-	246,229
Sanitation: garbage collection	1,942,130	-	-	1,942,130
Culture and recreation:				
Parks	988,860	764,843	3,114	1,756,817
Library	419,158	3,704	-	422,862
Swimming pool	86,987	-	-	86,987
Grants	-	184,000	338,276	522,276
Public welfare: health/code enforcement department	290,797	-	-	290,797

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, 2020
CONTINUED

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Debt service:				
Principal	-	-	290,000	290,000
Interest and fiscal charges	-	-	92,250	92,250
Total expenditures	<u>15,381,460</u>	<u>2,746,232</u>	<u>1,042,400</u>	<u>19,170,092</u>
Excess (deficiency) of revenues over (under) expenditures	<u>587,534</u>	<u>(1,355,809)</u>	<u>(229,014)</u>	<u>(997,289)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from loans	1,931	-	-	1,931
Transfers in	364,344	1,261,692	-	1,626,036
Transfers out	<u>(1,429,692)</u>	<u>(381,671)</u>	<u>(15,000)</u>	<u>(1,826,363)</u>
Total other financing sources (uses)	<u>(1,063,417)</u>	<u>880,021</u>	<u>(15,000)</u>	<u>(198,396)</u>
Net change in fund balances	(475,883)	(475,788)	(244,014)	(1,195,685)
Fund balance - beginning of year	<u>13,362,820</u>	<u>4,410,399</u>	<u>635,816</u>	<u>18,409,035</u>
Fund balance - end of year	<u>\$ 12,886,937</u>	<u>\$ 3,934,611</u>	<u>\$ 391,802</u>	<u>\$ 17,213,350</u>

**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, 2020**

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

Net change in fund balance - total governmental funds	\$ (1,195,685)
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.	1,358,494
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	35,783
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.	67,406
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 decrease in the total OPEB liability plus the decrease in the related deferred outflows and inflows.	(40,654)
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.	(94,206)
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
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 \$2,618,144, the decrease in the deferred outflows related to pensions of \$975,388, and the increase in deferred inflows of \$1,391,513.	251,243
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.	(9,244)
Internal service funds are used by management to charge the costs of equipment management, information technology, and health insurance to individual funds. The net income of certain activities of internal service funds is reported within governmental activities.	<u>115,945</u>
Change in net position of governmental activities	<u><u>\$ 782,176</u></u>

See accompanying notes to financial statements.

CITY OF KILGORE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 6,469,712	\$ 6,469,712	\$ 6,572,727	\$ 103,015
Sales	6,200,000	6,200,000	4,820,959	(1,379,041)
Other	732,000	732,000	701,004	(30,996)
Charges for services:				
Garbage collection	2,395,000	2,395,000	2,496,867	101,867
Police court fines and fees	500,000	500,000	342,626	(157,374)
Permits	67,900	67,900	82,590	14,690
Cemetery	62,000	62,000	88,125	26,125
Swimming pool	36,500	36,500	14,572	(21,928)
Library	6,000	6,000	3,361	(2,639)
KMHP rental income	-	-	12,250	12,250
County support	61,000	61,000	69,444	8,444
Donations	-	-	2,162	2,162
Grants	18,000	18,000	330,192	312,192
Interest on investments	260,120	260,120	221,531	(38,589)
Miscellaneous	582,041	582,344	210,584	(371,760)
Total revenues	<u>17,390,273</u>	<u>17,390,576</u>	<u>15,968,994</u>	<u>(1,421,582)</u>
EXPENDITURES				
Current:				
General government:				
Administration	372,495	372,495	249,531	122,964
Finance	430,397	430,397	329,929	100,468
Cemetery	167,449	167,449	169,071	(1,622)
City council	88,113	88,113	57,429	30,684
Contingency	201,171	201,171	1,174	199,997
Building Maintenance	241,574	241,574	185,969	55,605
Human resources	119,924	119,924	85,887	34,037
KMHP maintenance expense	-	-	111,256	(111,256)
Property and liability insurance	173,000	173,000	194,360	(21,360)
Public safety:				
Police	4,899,995	4,899,995	4,776,018	123,977
Fire	3,275,049	3,275,049	3,047,261	227,788
Rescue unit	121,522	121,522	92,801	28,721
Municipal court	242,614	242,614	216,488	26,126
Public works:				
Streets	1,992,991	1,992,991	1,493,542	499,449
Developmental services:				
Building maintenance and inspection	257,786	257,786	189,894	67,892
Equipment Services	293,865	293,865	206,689	87,176
Planning and zoning	379,402	328,569	246,229	82,340
Sanitation: garbage collection	1,877,600	1,877,600	1,942,130	(64,530)
Culture and recreation:				
Parks	1,041,280	1,041,280	988,860	52,420
Library	451,903	451,903	419,158	32,745
Swimming pool	133,004	133,004	86,987	46,017
Public welfare: health/code enforcement department	335,913	335,913	290,797	45,116
Total expenditures	<u>17,097,047</u>	<u>17,046,214</u>	<u>15,381,460</u>	<u>1,664,754</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, 2020
CONTINUED

	Budget		Actual	Variance with Final Budget
	Original	Final		
Excess (deficiency) of revenues over (under) expenditures	293,226	344,362	587,534	243,172
OTHER FINANCING SOURCES (USES)				
Proceeds from loans	-	-	1,931	1,931
Transfers in	132,000	496,344	364,344	(132,000)
Transfers out	(3,966,500)	(1,225,500)	(1,429,692)	(204,192)
Total other financing sources (uses)	(3,834,500)	(729,156)	(1,063,417)	(334,261)
Net change in fund balances	(3,541,274)	(384,794)	(475,883)	(91,089)
Fund balance - beginning of year	13,362,820	13,362,820	13,362,820	-
Fund balance - end of year	\$ 9,821,546	\$ 12,978,026	\$ 12,886,937	\$ (91,089)

See accompanying notes to financial statements.

CITY OF KILGORE, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2020

	Enterprise Funds				Internal Service
	Water and Sewer	Hospital	Golf Course	Total	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 2,824,514	\$ 407,874	\$ 151,616	\$ 3,384,004	\$ 1,142,484
Investments	9,570,340	16,090	1,152	9,587,582	654,933
Accounts receivable (net)	1,581,767	51,319	21,427	1,654,513	14,592
Due from other funds	14,078	-	-	14,078	-
Inventory, at lower of cost or net realizable value	41,440	-	6,383	47,823	-
Deposits and prepaid expenses	-	-	2,871	2,871	-
Restricted assets:					
Cash	26,180	-	-	26,180	-
Total current assets	<u>14,058,319</u>	<u>475,283</u>	<u>183,449</u>	<u>14,717,051</u>	<u>1,812,009</u>
Noncurrent assets:					
Capital assets (net)	37,897,845	4,348,405	1,101,010	43,347,260	2,181,845
Net OPEB asset - health	114,015	-	-	114,015	-
Net pension asset	-	95,903	-	95,903	-
Total noncurrent assets	<u>38,011,860</u>	<u>4,444,308</u>	<u>1,101,010</u>	<u>43,557,178</u>	<u>2,181,845</u>
Total assets	<u>52,070,179</u>	<u>4,919,591</u>	<u>1,284,459</u>	<u>58,274,229</u>	<u>3,993,854</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pensions	434,367	743,817	67,177	1,245,361	-
Deferred outflows related to OPEB - health	3,495	-	-	3,495	-
Deferred outflows related to OPEB - supplemental death	12,598	3,357	1,765	17,720	-
Total deferred outflows of resources	<u>450,460</u>	<u>747,174</u>	<u>68,942</u>	<u>1,266,576</u>	<u>-</u>
LIABILITIES					
Current liabilities:					
Trade payables	732,725	20,260	10,261	763,246	15,895
Accrued payroll and related expenses	44,272	4,207	7,914	56,393	-
Accrued expenses	37,656	-	399	38,055	-
Advance payable	1,129,424	-	-	1,129,424	-
Due to other funds	-	14,078	-	14,078	-
Compensated absences - current	39,833	870	2,181	42,884	-
Capital lease payable - current	-	-	54,308	54,308	-
Bonds and notes payable - current	390,699	-	-	390,699	-
Restricted liabilities:					
Restricted deposits	26,180	-	-	26,180	-
Total current liabilities	<u>2,400,789</u>	<u>39,415</u>	<u>75,063</u>	<u>2,515,267</u>	<u>15,895</u>
Noncurrent liabilities:					
Capital lease payable - long term	-	-	62,251	62,251	-
Bonds and notes payable - long term	9,013,532	-	-	9,013,532	-
Compensated absences - long term	60,382	8,122	15,391	83,895	-
Net pension liability	458,933	-	143,624	602,557	-
Total OPEB liability - supplemental death	83,700	358,091	8,236	450,027	-
Total noncurrent liabilities	<u>9,616,547</u>	<u>366,213</u>	<u>229,502</u>	<u>10,212,262</u>	<u>-</u>
Total liabilities	<u>12,017,336</u>	<u>405,628</u>	<u>304,565</u>	<u>12,727,529</u>	<u>15,895</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions	552,436	1,113,290	78,470	1,744,196	-
Deferred inflows related to OPEB - health	40,951	-	-	40,951	-
Deferred inflows related to OPEB - supplemental death	5,252	-	746	5,998	-
Advance from Hospital Foundation	-	8,130	-	8,130	-
Total deferred inflows of resources	<u>598,639</u>	<u>1,121,420</u>	<u>79,216</u>	<u>1,799,275</u>	<u>-</u>
NET POSITION					
Net investment in capital assets	28,493,614	4,348,405	984,451	33,826,470	2,181,845
Unrestricted	11,411,050	(208,688)	(14,831)	11,187,531	1,796,114
Total net position	<u>\$ 39,904,664</u>	<u>\$ 4,139,717</u>	<u>\$ 969,620</u>	<u>\$ 45,014,001</u>	<u>\$ 3,977,959</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, 2020

	Enterprise Funds				Internal Service
	Water and Sewer	Hospital	Golf Course	Total	
OPERATING REVENUES					
Charges for services	\$ 6,660,553	\$ -	\$ 306,775	\$ 6,967,328	\$ 2,762,599
Intergovernmental	890,621	-	-	890,621	-
Other operating revenue	49,871	340,793	4,972	395,636	-
Total operating revenues	<u>7,601,045</u>	<u>340,793</u>	<u>311,747</u>	<u>8,253,585</u>	<u>2,762,599</u>
OPERATING EXPENSES					
Operating expenses	4,337,282	727,616	419,480	5,484,378	2,241,755
Depreciation and amortization	1,354,511	231,215	58,894	1,644,620	441,009
Total operating expenses	<u>5,691,793</u>	<u>958,831</u>	<u>478,374</u>	<u>7,128,998</u>	<u>2,682,764</u>
OPERATING INCOME (LOSS)	<u>1,909,252</u>	<u>(618,038)</u>	<u>(166,627)</u>	<u>1,124,587</u>	<u>79,835</u>
NONOPERATING REVENUES (EXPENSES):					
Investment earnings	188,475	5,390	808	194,673	25,301
Interest expense and fiscal charges	(377,707)	-	(3,214)	(380,921)	-
Miscellaneous	9,028	-	455	9,483	24,645
Total nonoperating revenues	<u>(180,204)</u>	<u>5,390</u>	<u>(1,951)</u>	<u>(176,765)</u>	<u>49,946</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>1,729,048</u>	<u>(612,648)</u>	<u>(168,578)</u>	<u>947,822</u>	<u>129,781</u>
Transfers in	47,240	-	617,140	664,380	-
Transfers out	(464,053)	-	-	(464,053)	-
Change in net position	1,312,235	(612,648)	448,562	1,148,149	129,781
Total net position, beginning	<u>38,592,429</u>	<u>4,752,365</u>	<u>521,058</u>	<u>43,865,852</u>	<u>3,848,178</u>
Total net position, ending	<u>\$ 39,904,664</u>	<u>\$ 4,139,717</u>	<u>\$ 969,620</u>	<u>\$ 45,014,001</u>	<u>\$ 3,977,959</u>

See accompanying notes to financial statements.

**CITY OF KILGORE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Enterprise Funds				Internal Service
	Water and Sewer	Hospital	Golf Course	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 7,144,855	\$ 340,291	\$ 312,116	\$ 7,797,262	\$ 2,749,216
Cash payments to suppliers for goods and services	(3,269,471)	(393)	(207,845)	(3,477,709)	(2,234,874)
Cash payments to employees for service:	(1,483,328)	(507,723)	(215,613)	(2,206,664)	-
Net cash provided by (used in) operating activities	<u>2,392,056</u>	<u>(167,825)</u>	<u>(111,342)</u>	<u>2,112,889</u>	<u>514,342</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating transfers out to other funds	(464,053)	-	-	(464,053)	-
Operating transfers in from other funds	47,240	-	617,140	664,380	-
Net cash (used in) provided by noncapital financing activities	<u>(416,813)</u>	<u>-</u>	<u>617,140</u>	<u>200,327</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	-	-	455	455	16,306
Acquisition and construction of capital assets	(4,301,997)	(57,592)	(461,140)	(4,820,729)	(726,869)
Payments on capital lease obligations	-	-	(18,381)	(18,381)	-
Principal paid on general obligation bonds	(319,527)	-	-	(319,527)	-
Interest and fiscal charges on debt	(377,707)	-	(3,214)	(380,921)	-
Proceeds from insurance payments	9,028	-	-	9,028	-
Net cash provided by (used in) capital and related financing activities	<u>(4,990,203)</u>	<u>(57,592)</u>	<u>(482,280)</u>	<u>(5,530,075)</u>	<u>(710,563)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	5,234,027	186,026	-	5,420,053	-
Purchase of investments	(4,097,300)	-	70,162	(4,027,138)	96,837
Interest on investments	188,475	5,390	808	194,673	25,302
Reimbursement from trust	-	-	-	-	8,338
Net cash (used in) provided by investing activities	<u>1,325,202</u>	<u>191,416</u>	<u>70,970</u>	<u>1,587,588</u>	<u>130,477</u>
Net increase (decrease) in cash and cash equivalents	(1,689,758)	(34,001)	94,488	(1,629,271)	(65,744)
Cash and cash equivalents, beginning	<u>4,540,452</u>	<u>441,875</u>	<u>57,128</u>	<u>5,039,455</u>	<u>1,208,228</u>
Cash and cash equivalents, ending	<u>\$ 2,850,694</u>	<u>\$ 407,874</u>	<u>\$ 151,616</u>	<u>\$ 3,410,184</u>	<u>\$ 1,142,484</u>

See accompanying notes to financial statements.

**CITY OF KILGORE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020
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)	\$ 1,909,252	\$ (618,038)	\$ (166,627)	\$ 1,124,587	\$ 79,835
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	1,354,511	231,215	58,894	1,644,620	441,009
Change in assets and liabilities:					
(Increase) decrease in assets:					
Receivables	(456,190)	(502)	369	(456,323)	(13,383)
Inventories	12,348	-	591	12,939	-
Prepaid expense	-	-	(2,189)	(2,189)	-
Deferred outflows	106,290	396,432	7,231	509,953	-
Increase (decrease) in liabilities:					
Accounts payable	(283,263)	(393)	(1,374)	(285,030)	6,881
Accrued payroll	10,684	194	907	11,785	-
Accrued expenses	(14,734)	-	277	(14,457)	-
Due to other funds	(116,801)	-	-	(116,801)	-
Customer deposits	2,190	-	-	2,190	-
Compensated absences	21,461	2,311	4,978	28,750	-
Other post employment benefits	(3,916)	46,302	2,026	44,412	-
Net pension liability	(383,472)	(858,331)	(54,470)	(1,296,273)	-
Deferred inflows	233,696	632,985	38,045	904,726	-
Total adjustments	<u>482,804</u>	<u>450,213</u>	<u>55,285</u>	<u>988,302</u>	<u>434,507</u>
Net cash provided by (used in) operating activities	<u>\$ 2,392,056</u>	<u>\$ (167,825)</u>	<u>\$ (111,342)</u>	<u>\$ 2,112,889</u>	<u>\$ 514,342</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of equipment by capital lease	\$ -	\$ -	\$ 96,923	\$ -	\$ -
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS					
Current assets:					
Cash and cash equivalents	\$ 2,824,514	\$ 407,874	\$ 151,616	\$ 3,384,004	\$ 1,142,484
Restricted assets - cash and cash equivalents	26,180	-	-	26,180	-
Total cash and cash equivalents	<u>\$ 2,850,694</u>	<u>\$ 407,874</u>	<u>\$ 151,616</u>	<u>\$ 3,410,184</u>	<u>\$ 1,142,484</u>

See accompanying notes to financial statements.

CITY OF KILGORE, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2020

	<u>OPEB</u>	<u>Agency</u>
	<u>Trust</u>	<u>Agency</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 70,698
Investments, at fair value:		
Collateral investment trust	1,156,230	-
Total assets	<u>\$ 1,156,230</u>	<u>\$ 70,698</u>
 LIABILITIES		
Intergovernmental payable	-	70,698
Total liabilities	<u>-</u>	<u>\$ 70,698</u>
 NET POSITION		
Held in trust for OPEB benefits	<u>\$ 1,156,230</u>	

See accompanying notes to financial statements.

CITY OF KILGORE, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2020

	<u>OPEB Trust</u>
ADDITIONS	
Net increase in fair value of investments	\$ 76,260
Total additions	<u>76,260</u>
DEDUCTIONS	
Administrative expenses	<u>1,092</u>
Total deductions	<u>1,092</u>
Change in net position	75,168
Net Position - beginning of year	<u>1,081,062</u>
Net Position - end of year	<u><u>\$ 1,156,230</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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 it’s 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, 815 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, 2020

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, 2019.

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, 2020

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 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, 2020

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, 2020 are as follows:

	Governmental Activities	Business-Type Activities
Customer deposits	\$ 64,566	\$ 26,180
Debt service/bond reserves	187,473	-
Special revenue purposes	694,488	-
Donations	9,308	-
Total restricted assets	\$ 955,835	\$ 26,180

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 net realizable value, 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, 2020

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

Capital Assets

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

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has three types of deferred outflows, which arise only under the accrual basis of accounting. The deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt. Deferred outflows related to pensions and other post-employment benefits (OPEB), are reported only in the government-wide and proprietary statements of net position. These amounts are deferred and amortized over the actuarial determined recognition period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of deferred inflows. Unavailable revenue, which only arises on a modified accrual basis of accounting, is comprised of property taxes, municipal court revenue, special assessments, and interest on a long-term note receivable and is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Advance from Hospital Foundation, in the government-wide and proprietary statements of net position, represents funds on hand in which the eligibility requirements have been met; however, the funds have not yet been expended. These amounts are deferred and recognized as an inflow of resources in the period in which the expenditure is incurred. Deferred inflows related to pensions 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, 2020, the liability for unpaid leave was \$1,080,600, of which \$953,821 is reported in the governmental activities and \$126,779 in the business-type activities.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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, 2020

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, 2019. The implementation of this statement did not result in any changes to the financial statements.

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, 2019. 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 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, 2020. 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, 2019. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, which enhances the reporting of conduit debt obligations by issuers and eliminates diversity in practice associated with commitments extended by issuers, arrangements with conduit debt obligations, and related note disclosures. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2021. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issued 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, 2021. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, which assists state and local governments in the transition away from existing interbank offered rates (IBORs) to other reference rates. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2021. 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, 2020

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

New Accounting Pronouncements (Cont'd)

In May 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improves accounting and financial reporting for public-private and public-public partnership arrangements (commonly referred to as P3s) and availability payment arrangements (APAs). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2022. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, which provides accounting and financial reporting guidance for subscription-based information technology arrangements (SBITAs). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2022. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In May 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, which increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform, mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements, and enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2021. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The City Council adopts an annual operating budget, which can be amended by the Council throughout the year. Legal budgets are adopted for the City's major funds and certain non-major funds. The following non-major funds did not have budgets adopted for fiscal year 2020: 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, 2020. The deficit fund balance is a result of a loan the City made to the Kilgore Redevelopment Authority in the amount of \$400,000 plus interest to accrue at 3% per year. The City plans to cover the deficit fund equity of the Tax Increment Reinvestment Zone Fund as future property tax revenue is received from the Zone which KRA will use to repay the loan and accrued interest.

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

III. DETAILED NOTES ON ALL FUNDS

NOTE 1: DEPOSITS AND INVESTMENTS

Cash and investments as of September 30, 2020 consist of and are classified in the accompanying financial statements as follows:

Statement of net position:	
Primary Government	
Cash and equivalents	\$ 7,777,619
Restricted cash and equivalents	438,965
Investments	21,222,039
Restricted investments	<u>543,050</u>
Total primary government	29,981,673
Component Units:*	
Cash and equivalents	2,903,448
Investments	<u>17,328,349</u>
Total component units	<u>20,231,797</u>
Total cash and investments	<u>\$ 50,213,470</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, 2020, the City and its component units' deposits were covered by Federal Depository Insurance or by collateral held by a third-party custodian.

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.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1: DEPOSITS AND INVESTMENTS (Cont'd)

Credit Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

Concentration of Credit Risk

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

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

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Primary government		
TexPool	\$ 9,182,674	0.10
TexSTAR	4,773,644	0.11
Certificates of deposit	314,566	0.89
Municipal bonds	<u>7,494,207</u>	
Total primary government	<u>21,765,091</u>	
Component units:		
TexPool	8,859,849	0.09
TexSTAR	2,672,729	0.10
Fixed income	2,446,719	
Equities	3,089,863	
Alternative assets	<u>259,189</u>	
Total component units	<u>17,328,349</u>	
Total Reporting Entity	<u>\$ 39,093,440</u>	

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1: DEPOSITS AND INVESTMENTS (Cont'd)

Concentration of Credit Risk (Cont'd)

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

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

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

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

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

	<u>Total</u>	<u>Assets at Fair Value as of September 30, 2020</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Primary Government:				
Certificate of Deposit	\$ 314,566	\$ -	\$ 314,566	\$ -
Municipal Bonds	7,494,207	-	7,494,207	-
Total investments at fair value	<u>7,808,773</u>	<u>-</u>	<u>7,808,773</u>	<u>-</u>
Investments measured at NAV				
Texpool	9,182,674			
TexSTAR	4,773,644			
Total investments measured at NAV	<u>13,956,318</u>			
Total investments of the primary government	<u>\$ 21,765,091</u>			
Fiduciary funds:				
<u>Assets at Fair Value as of September 30, 2020</u>				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Collateral Investment Trust	1,156,230	\$ -	\$ 1,156,230	\$ -
Total	<u>\$ 1,156,230</u>	<u>\$ -</u>	<u>\$ 1,156,230</u>	<u>\$ -</u>
Component units:				
<u>Assets at Fair Value as of September 30, 2020</u>				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed Income	\$ 2,446,719	\$ 2,446,719	\$ -	\$ -
Equities	3,089,863	3,089,863	-	-
Alternative assets	259,189	-	259,189	-
Total	<u>5,795,771</u>	<u>5,536,582</u>	<u>259,189</u>	<u>-</u>
Investments measured at NAV				
Texpool	8,859,849			
TexSTAR	2,672,729			
Total investments measured at NAV	<u>11,532,578</u>			
Total investments of the component units	<u>\$ 17,328,349</u>			

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1: DEPOSITS AND INVESTMENTS (Cont'd)

Concentration of Credit Risk (Cont'd)

Certificates of deposit, categorized as Level 2, are valued by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer. Municipal bonds, 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. Investment values are subject to market fluctuations that may cause a decline in the value of investments held at year-end.

NOTE 2: RECEIVABLES

Receivables at September 30, 2020 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	\$ 396,797	\$ -	\$ 38,304	\$ -	\$ -	\$ -	\$ -	\$ 435,101
Sales tax	1,035,484	-	-	-	-	-	-	1,035,484
Hotel tax	-	-	50,930	-	-	-	-	50,930
Municipal court Accounts	253,607	-	-	-	-	-	-	253,607
	1,766,789	843,573	145,528	1,779,065	176,319	41,083	14,592	4,766,949
Gross receivables	3,452,677	843,573	234,762	1,779,065	176,319	41,083	14,592	6,542,071
Less: allowance for uncollectibles	(409,871)	-	(15,805)	(197,298)	(125,000)	(19,656)	-	(767,630)
Total taxes and accounts receivable (net)	<u>\$ 3,042,806</u>	<u>\$ 843,573</u>	<u>\$ 218,957</u>	<u>\$ 1,581,767</u>	<u>\$ 51,319</u>	<u>\$ 21,427</u>	<u>\$ 14,592</u>	<u>\$ 5,774,441</u>

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

At September 30, 2020, the components of delinquent taxes receivables are as follows:

	General Fund	Interest & Sinking	Total
Delinquent taxes	\$ 396,797	\$ 38,304	\$ 435,101
Allowance	(116,320)	(15,805)	(132,125)
Totals	<u>\$ 280,477</u>	<u>\$ 22,499</u>	<u>\$ 302,976</u>

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 3: CAPITAL ASSETS

Capital assets activity for governmental activities for the year ended September 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,385,083	\$ 125,152	\$ -	\$ 2,510,235
Equipment (historical treasure)	40,000	-	-	40,000
Construction in progress	2,253,571	2,532,306	2,647,998	2,137,879
Total capital assets, not being depreciated	<u>4,678,654</u>	<u>2,657,458</u>	<u>2,647,998</u>	<u>4,688,114</u>
Capital assets, being depreciated:				
Buildings & system	40,090,086	2,245,693	-	42,335,779
Equipment & other	15,641,802	1,356,924	202,485	16,796,241
Total capital assets being depreciated	<u>55,731,888</u>	<u>3,602,617</u>	<u>202,485</u>	<u>59,132,020</u>
Less accumulated depreciation for:				
Buildings & system	(14,665,928)	(1,199,247)	-	(15,865,175)
Equipment & other	(12,209,768)	(768,476)	(202,485)	(12,775,759)
Total accumulated depreciation	<u>(26,875,696)</u>	<u>(1,967,723)</u>	<u>(202,485)</u>	<u>(28,640,934)</u>
Total capital assets, being depreciated, net	<u>28,856,192</u>	<u>1,634,894</u>	<u>-</u>	<u>30,491,086</u>
Governmental activities capital assets, net	<u>\$ 33,534,846</u>	<u>\$ 4,292,352</u>	<u>\$ 2,647,998</u>	<u>\$ 35,179,200</u>

Capital assets activity for business-type activities for the year ended September 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 422,036	\$ 58,043	\$ -	\$ 480,079
Construction in progress	5,692,481	4,741,975	7,501,324	2,933,132
Total capital assets, not being depreciated	<u>6,114,517</u>	<u>4,800,018</u>	<u>7,501,324</u>	<u>3,413,211</u>
Capital assets, being depreciated:				
Buildings & system	65,497,524	7,501,324	-	72,998,848
Equipment & other	11,747,543	118,083	-	11,865,626
Total capital assets being depreciated	<u>77,245,067</u>	<u>7,619,407</u>	<u>-</u>	<u>84,864,474</u>
Less accumulated depreciation for:				
Buildings & system	(33,657,376)	(1,466,313)	-	(35,123,689)
Equipment & other	(9,628,429)	(178,307)	-	(9,806,736)
Total accumulated depreciation	<u>(43,285,805)</u>	<u>(1,644,620)</u>	<u>-</u>	<u>(44,930,425)</u>
Total capital assets, being depreciated, net	<u>33,959,262</u>	<u>5,974,787</u>	<u>-</u>	<u>39,934,049</u>
Business-type activities capital assets, net	<u>\$ 40,073,779</u>	<u>\$ 10,774,805</u>	<u>\$ 7,501,324</u>	<u>\$ 43,347,260</u>

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 3: CAPITAL ASSETS (Cont'd)

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

Governmental activities:			
General government		\$	180,637
Public safety			450,042
Public works			989,514
Development services			15,488
Culture and recreation			281,760
Public welfare			3,755
Sanitation			46,527
Total depreciation expense - governmental activities		<u>\$</u>	<u>1,967,723</u>
Business-type activities:			
Water and sewer		\$	1,354,511
Hospital			231,215
Golf course			58,894
Total depreciation expense - business-type activities		<u>\$</u>	<u>1,644,620</u>

Capital assets activity for Kilgore Economic Development Corporation for the year ended September 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Kilgore Economic Development Corporation:				
Capital assets, not being depreciated:				
Land	\$ 161,072	\$ -	\$ -	\$ 161,072
Construction in progress	1,890,168	4,081,258	1,020,109	4,951,317
Total capital assets, not being depreciated	2,051,240	4,081,258	1,020,109	5,112,389
Capital assets, being depreciated:				
Buildings & improvements	9,014,968	1,020,109	-	10,035,077
Furniture, fixtures, & equipment	251,463	-	-	251,463
Total capital assets being depreciated	9,266,431	1,020,109	-	10,286,540
Less accumulated depreciation for:				
Buildings & improvements	(3,154,735)	(415,396)	-	(3,570,131)
Furniture, fixtures, & equipment	(228,785)	(5,820)	-	(234,605)
Total accumulated depreciation	(3,383,520)	(421,216)	-	(3,804,736)
Total capital assets, being depreciated, net Kilgore Economic Development Corporation capital assets, net	5,882,911	598,893	-	6,481,804
	<u>\$ 7,934,151</u>	<u>\$ 4,680,151</u>	<u>\$ 1,020,109</u>	<u>\$ 11,594,193</u>

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

Economic Development	\$ 421,216
----------------------	------------

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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>\$ 2,760,000</u>
-------------------------	---------------------

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, 2020, \$2,750,000 of defeased bonds remained outstanding.

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

Year Ending September 30	Governmental Activities	
	Principal	Interest
2021	315,000	82,800
2022	310,000	73,350
2023	310,000	64,050
2024	355,000	54,750
2025	350,000	44,100
2026-2028	1,120,000	67,650
Total	\$ 2,760,000	\$ 386,700

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.

On May 8, 2019, the City also issued \$5,610,000 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 and 2019 Combination Tax and Limited Pledge Revenue Certificates of Obligation are expected to be repaid from proprietary fund revenues; therefore, they have been reported in the proprietary funds.

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 4: LONG TERM DEBT (Cont'd)

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%.	<u><u>\$ 3,575,000</u></u>
2019 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in various annual principal installments through February 2039, interest at 1.70-2.90%.	<u><u>\$ 5,470,000</u></u>
Total Water & Sewer Enterprise Fund	<u><u>\$ 9,045,000</u></u>

Annual debt service requirements to maturity for certificate of obligations are as follows:

Year Ending September 30	Business-Type Activities	
	Principal	Interest
2021	370,000	296,250
2022	385,000	279,950
2023	405,000	262,000
2024	425,000	243,125
2025	445,000	224,550
2026-2030	2,460,000	877,350
2031-2035	2,845,000	474,975
2036-2039	1,710,000	91,500
Total	<u><u>\$ 9,045,000</u></u>	<u><u>\$ 2,749,700</u></u>

Capital Leases

The City is obligated under a capital lease for golf carts. The equipment acquired through capital lease has a net book value of \$3,375. The lease payments relating to the equipment have been capitalized and included in equipment in the golf course enterprise fund.

The City is obligated under a capital lease for mowers. The equipment acquired through capital lease has a net book value of \$84,808. 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, 2020 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.	<u><u>\$ 31,179</u></u>
John Deere Mower payable in 48 monthly installments of \$2,189.44, including interest at 4.20%.	<u><u>\$ 85,380</u></u>
Golf Course Enterprise Fund	<u><u>\$ 116,559</u></u>

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 4: LONG TERM DEBT (Cont'd)

Capital Leases (Cont'd)

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

Year Ending September 30	Proprietary Activities
2021	58,114
2022	26,273
2023	26,273
2024	13,137
Total amount of minimum lease payments	123,797
Less: amount representing interest	(7,238)
Present value of minimum lease payments	<u>\$ 116,559</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2020, was as follows:

	Balance 10/1/2019	Additions	Retirements	Balance 9/30/2020	Due Within One Year
Governmental activities:					
General obligation and certificates of obligation	\$ 3,050,000	\$ -	\$ (290,000)	\$ 2,760,000	\$ 315,000
Bond premiums	151,708	-	(17,174)	134,534	17,174
Total bonds payable	3,201,708	-	(307,174)	2,894,534	332,174
Net pension liability	5,722,641	3,958,099	(6,576,243)	3,104,497	-
OPEB liability	437,754	116,042	(18,658)	535,138	-
Compensated absences	842,374	557,913	(446,466)	953,821	361,172
Claims payable	128,497	187,245	(204,485)	111,257	111,257
Total governmental activities	<u>\$ 10,332,974</u>	<u>\$ 4,819,299</u>	<u>\$ (7,553,026)</u>	<u>\$ 7,599,247</u>	<u>\$ 804,603</u>
Business-type Activities:					
General obligation and certificates of obligation	\$ 9,350,000	\$ -	\$ (305,000)	\$ 9,045,000	\$ 370,000
Bond premiums	373,758	-	(14,527)	359,231	20,699
Total bonds payable	9,723,758	-	(319,527)	9,404,231	390,699
Capital lease obligation	38,017	96,923	(18,381)	116,559	54,308
Net pension liability	1,802,927	1,700,197	(2,900,567)	602,557	-
OPEB liability	387,435	71,116	(8,524)	450,027	-
Compensated absences	98,029	100,554	(71,804)	126,779	42,884
Total business-type activities	<u>\$ 12,050,166</u>	<u>\$ 1,968,790</u>	<u>\$ (3,318,803)</u>	<u>\$ 10,700,153</u>	<u>\$ 487,891</u>
Component Units:					
Revenue bonds	\$ 7,445,000	\$ -	\$ (305,000)	\$ 7,140,000	\$ 375,000
Bond premium	45,632	-	(5,678)	39,954	11,269
Note payable to primary government	400,000	-	-	400,000	-
Total component units	<u>\$ 7,890,632</u>	<u>\$ -</u>	<u>\$ (310,678)</u>	<u>\$ 7,579,954</u>	<u>\$ 386,269</u>

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.

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 4: LONG TERM DEBT (Cont'd)

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%	<u>\$ 1,460,000</u>
2015 Sales Tax Revenue Bonds, due in various principal installments through September 15, 2035, interest from 2.0% to 4.0%	<u>\$ 1,415,000</u>
2019 Sales Tax Revenue Bonds, due in various principal installments through September 15, 2039, interest from 2.0% to 4.0%	<u>\$ 4,265,000</u>
Total Kilgore Economic Development Corporation	<u>\$ 7,140,000</u>

The principal and interest requirements at September 30, 2020, for the component unit debt are as follows:

Year Ending September 30	KEDC	
	Principal	Interest
2021	375,000	267,868
2022	390,000	255,763
2023	405,000	243,038
2024	415,000	229,580
2025	430,000	215,742
2026-2030	2,185,000	834,641
2031-2035	1,775,000	457,617
2036-2039	1,165,000	122,958
Total	\$ 7,140,000	\$ 2,627,207

Kilgore Redevelopment Authority

The note payable owed to the City of Kilgore (Note 10) in the amount of \$400,000 currently does not have a payment timeline established. The note continues to accrue interest at a rate of 3% annually.

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 5: PENSION AND EMPLOYEE BENEFIT PLANS

Texas Municipal Retirement System

Plan Description

The City of Kilgore participates as one of 887 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.tMrs.com.

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

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

Benefits provided

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

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

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

	Plan Year 2019	Plan Year 2018
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, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	196
Inactive employees entitled to but not yet receiving benefits	120
Active employees	160
	476

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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

Texas Municipal Retirement System (Cont'd)

Benefits provided (Cont'd)

Contributions

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

Employees for the City and the Hospital were required to contribute 7% and 5% of their annual gross earnings during the fiscal year, respectively. The contribution rates for the City were 13.78% and 14.21% in calendar years 2020 and 2019, respectively. The contributions for the Hospital were \$31,671 and \$27,117 in calendar years 2020 and 2019, respectively. The City's total contributions to TMRS for the year ended September 30, 2020, were \$1,150,490, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, 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, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 11.50% including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experiences of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. 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:

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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

Texas Municipal Retirement System (Cont'd)
Net Pension Liability (Cont'd)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%
Total	100.00%	

Discount Rate

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

Changes in City's Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/18	\$ 45,382,783	\$ 38,619,644	\$ 6,763,139
Changes for the year:			
Service cost	1,353,111	-	1,353,111
Interest	3,034,981	-	3,034,981
Difference between expected and actual experience	2,721	-	2,721
Changes of assumptions	194,616	-	194,616
Contributions - employer	-	1,140,637	(1,140,637)
Contributions - employee	-	566,319	(566,319)
Net investment income	-	5,969,307	(5,969,307)
Benefit payments, including refunds of employee contributions	(2,193,308)	(2,193,308)	-
Administrative expense	-	(33,736)	33,736
Other changes	-	(1,013)	1,013
Net changes	2,392,121	5,448,206	(3,056,085)
Balance at 12/31/19	\$ 47,774,904	\$ 44,067,850	\$ 3,707,054

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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

Texas Municipal Retirement System (Cont'd)

Changes in Hospital's Net Pension Liability (Asset)	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/18	\$ 12,177,823	\$ 11,415,396	\$ 762,427
Changes for the year:			
Service cost	800,292	-	800,292
Difference between expected and actual experience	(11,531)	-	(11,531)
Changes of assumptions	131,653	-	131,653
Contributions - employer	-	27,117	(27,117)
Net investment income	-	1,761,899	(1,761,899)
Benefit payments, including refunds of employee contributions	(643,276)	(643,276)	-
Administrative expense	-	(9,972)	9,972
Other changes	-	(300)	300
Net changes	277,138	1,135,468	(858,330)
Balance at 12/31/19	\$ 12,454,961	\$ 12,550,864	\$ (95,903)

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	\$ 10,362,412	\$ 3,707,054	\$ (1,736,393)
Hospital's net pension liability (asset)	\$ 1,189,753	\$ (95,903)	\$ (1,186,179)

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, 2020, the city recognized pension expense of \$1,054,571.

At September 30, 2020, the city reported deferred outflows of resources related to pensions from the following sources:

Changes in actuarial assumptions	\$ 141,587
Difference between projected and actual experience	1,980
Difference between projected and actual investment earnings	3,081,853
Contributions subsequent to the measurement date	910,226
Total	\$ 4,135,646

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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

Texas Municipal Retirement System (Cont'd)

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

\$910,226 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, 2020. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2021	\$ 1,081,055
2022	1,081,055
2023	1,063,310
Total	\$ 3,225,420

At September 30, 2020, the city reported deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources
Difference in expected and actual experience	\$ (693,206)
Difference between projected and actual earnings on plan investments	(4,824,800)
Total	\$ (5,518,006)

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

Year ended September 30:	
2021	\$ (2,024,379)
2022	(1,752,091)
2023	(870,768)
2024	(870,768)
Total	\$ (5,518,006)

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.

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.

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

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

Employees covered by benefit terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	151
Inactive employees entitled to but not yet receiving benefits	35
Active employees	160
	346
	346

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.25% for 2020 and 0.24% for 2019, of which 0.07% 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 \$4,707 for 2020 and \$4,593 for 2019, 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, 2020 and 2019 were \$10,511 and \$10,557, 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, 2019 and was determined by an actuarial valuation as of that date.

The Total OPEB Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Summary of Actuarial Assumptions:

Inflation	2.50%
Salary Increases	N/A
Discount Rate	2.75% (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	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality Rates - Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

Other Post-Employment Benefits (OPEB) – TMRS Supplemental Death Benefits Fund (Cont'd)
Changes in Total OPEB Liability

	Increase (Decrease)
	Total OPEB Liability
Balance at 12/31/18	\$ 825,189
Changes for the year:	
Service cost	19,957
Interest	30,781
Changes of benefit terms	-
Differences between expected and actual experience	(14,575)
Changes of assumptions	134,804
Benefit payments	(10,991)
Net changes	159,976
Balance at 12/31/19	\$ 985,165

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 2.75%, 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 (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

	1% Decrease in Discount Rate (1.75%)	Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
City's Total OPEB Liability	\$ 1,174,718	\$ 985,165	\$ 836,868

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

For the year ended September 30, 2020, the city recognized OPEB expense of \$105,100.

At September 30, 2020, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Changes in actuarial assumptions	\$ 95,720
Contributions subsequent to the measurement date	7,860
Total	\$ 103,580

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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

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

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

\$7,860 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, 2020. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:		
2021	\$	25,215
2022		25,215
2023		22,388
2024		18,320
2025		4,582
Total	\$	95,720

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

At September 30, 2020, the City reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Difference between expected and actual experience	\$ (22,375)
Difference between projected and actual economic experience	(19,475)
Total	\$ (41,850)

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

Year ended September 30:		
2021	\$	(11,091)
2022		(11,091)
2023		(11,091)
2024		(7,806)
2025		(771)
Total	\$	(41,850)

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, 2020, the balance of Plan assets was \$1,035,191. However, due to the fact that the City does not administer this plan, the plan is not included in the City's financial statements.

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

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

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, 2020, the monthly subsidy was equal to \$505.59.

Employees covered by benefit term

At September 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Active employees	15
	19
	19

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 5.5%. For the period ending September 30, 2020, the actuarially determined contribution amount was zero and no contributions were made, there is no plan to contribute for FY 2020.

Net OPEB Liability

The City's net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020.

Actuarial assumption

The total OPEB liability in the September 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

	Plan Year 2020
Inflation	2.50%
Salary increases	3.5% to 11.50%, including inflation
Investment rate of return	6.50%
Healthcare cost trend rates	Initial rates of 7.00% declining to 4.15% after 15 years

For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables were used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables to account for future mortality improvements.

The actuarial assumptions used in the September 30, 2020 valuation were based on the results of experience and demographics for that twelve-month period.

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

The OPEB assets are 100% invested in a commingled fund and the best estimate of arithmetic real rate of return for the asset class is 5.50%

Discount rate

As of September 30, 2020, the City's discount rate is 5.50%. 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.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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

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 (Asset)	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at 9/30/19	\$ 360,699	\$ 1,045,154	\$ (684,455)
Changes for the year:			
Service cost	3,778	-	3,778
Interest	22,758	-	22,758
Difference between expected and actual experience	(91,299)	-	(91,299)
Changes of assumptions	(5,376)	-	(5,376)
Net investment income	-	76,260	(76,260)
Benefit payments	(24,936)	(24,936)	-
Administrative expense	-	(1,092)	1,092
Net changes	(95,075)	50,232	(145,307)
Balance at 9/30/20	<u>\$ 265,624</u>	<u>\$ 1,095,386</u>	<u>\$ (829,762)</u>

Sensitivity of the net OPEB liability (asset) 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 (4.5 percent) or 1-percentage-point higher (6.5 percent) than the current discount rate:

	1% Decrease in Discount Rate (4.50%)	Discount Rate (5.50%)	1% Increase in Discount Rate (6.50%)
City's total OPEB liability (asset) \$	(808,975) \$	(829,762) \$	(849,208)

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

For the year ended September 30, 2020, the City recognized OPEB expense of \$(77,045). At September 30, 2020, the City reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Differences between expected and actual experience	\$ (317,760)
Changes in assumptions	(4,765)
Total	<u>\$ (322,525)</u>

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

Year ended September 30:	
2021	\$ (49,012)
2022	(49,012)
2023	(49,012)
2024	(49,013)
2025	(47,178)
Thereafter	(79,298)
Total	<u>\$ (322,525)</u>

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

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

At September 30, 2020, 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	\$ 26,654

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

Year ended September 30:	
2020	\$ 11,427
2021	11,138
2022	4,089
Total	\$ 26,654

NOTE 6: INTERFUND TRANSACTIONS

Transfers between funds during the year were as follows:

Transfers Out:	Transfers In				Total
	Governmental		Proprietary		
	General Fund	Capital Projects Fund	Water and Sewer Fund	Golf Course Fund	
General Fund	\$ -	\$ 1,246,692	\$ 27,000	\$ 156,000	\$ 1,429,692
Capital Project Fund	361,431	-	20,240	-	381,671
Non-Major Governmental Funds	-	15,000	-	-	15,000
Water and Sewer Fund	2,913	-	-	461,140	464,053
Total	\$ 364,344	\$ 1,261,692	\$ 47,240	\$ 617,140	\$ 2,290,416

Significant transfers are related to funding capital projects during the year. The General Fund transferred \$1,246,692 to the Capital Projects Fund to fund governmental projects during the year. \$156,000 was transferred from General Fund to the Golf Course Fund for administrative support. The Capital Project Fund transferred \$361,431 to the general fund for unused capital project funding. The Water and Sewer Fund transferred \$461,140 to the Golf Course Fund to capitalize completed projects during the year.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 6: INTERFUND TRANSACTIONS (Cont'd)

The composition of interfund balances as of September 30, 2020, is as follows:

Due To:	Due From		Total
	Governmental	Proprietary	
	Non-Major Fund	Hospital Fund	
Water and Sewer Fund	\$ -	\$ 14,078	\$ 14,078
Total	\$ -	\$ 14,078	\$ 14,078

Advances To:	Advances From		Total
	Governmental	Proprietary	
	Non-Major Governmental Funds	Water and Sewer	
General Fund	\$ 429,712	\$ 1,129,424	\$ 1,559,136
Total	\$ 429,712	\$ 1,129,424	\$ 1,559,136

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

NOTE 7: COMMITMENTS AND CONTINGENCIES

Grant Audits

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

Construction Commitments

The City has active construction projects as of September 30, 2020. The projects include street construction, drainage construction, and the construction of water and sewer facilities. At year-end, the City's commitments with contractors are as follows:

Project	Governmental Projects	
	Spent-to-Date	Estimated Remaining Commitment
Texan Theatre	\$ 320,464	\$ 158,735
Trails Project (Phase II)	569,944	7,537
Downtown Storm Drain	265,730	584,796
Pool Building	37,777	192,223
Danville Cemetery Irrigation System	-	459,151
Main Street Improvements	255,665	1,429,543
	\$ 1,449,580	\$ 2,831,985

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 7: COMMITMENTS AND CONTINGENCIES (Cont'd)

Construction Commitments (Cont'd)

Enterprise Projects		
Project	Spent-to-Date	Estimated Remaining Commitment
Main Street Improvements	\$ -	\$ 68,105
Rabbit Creek Lift Station Ph 2	317,904	22,096
Dudley Rd. Transmission Main	1,434,550	554,450
South Commerce Waterline Imp	31,500	818,500
High Service Pump Station	161,506	319,576
	\$ 1,945,460	\$ 1,782,727

The street construction projects and municipal facilities construction projects are funded from the general fund balance. Water and sewer construction projects are funded by revenue bond proceeds and cash from operating revenues of the water and sewer system.

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. The water rights were fully amortized as of year ending September 30, 2020.

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

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, 2020, the administrator had not reported any such claims to the City.

**CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 9: CITY AS LESSOR

The city entered into a long-term lease agreement with various tenants 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. The lease is accounted for in the Hospital Fund (a proprietary fund). The lease income to the City for the year ending September 30, 2020, was \$300,531. The leased building has a cost of \$21,408,918, accumulated depreciation of \$17,060,513 and a carrying value of \$4,348,405.

The city entered into a long-term lease agreement with the residents of King’s Mobile Home Park (“KMHP”) for 10.609 acres of land that the city acquired with a cost value of \$757,506. The agreement in place began November 15, 2018 and expired on May 16, 2020. The lease is accounted for under the General Fund (a governmental fund). The lease income to the City for the year ending September 30, 2020, was \$12,250.

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, 2020:

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 \$135,735 at September 30, 2020.
Roy H. Laird Memorial Hospital Foundation	\$35,427 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.

For the year ended September 30, 2020, the City abated property taxes totaling \$76,625 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>
Skeeter Products, Inc.	Construction and improvement to real property; personal property investment; jobs creation	50%	\$ 76,625

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 \$27,597 decrease in net position. It is management’s opinion that the liability recorded for the City as of September 30, 2020 is adequate to cover insurance deductibles and potential claims outside of the insurance coverage.

CITY OF KILGORE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 13: ECONOMIC DEPENDENCE

The extent of the operational and financial impact of the ongoing Coronavirus (COVID-19) global pandemic has yet to be fully determined by the City and is dependent on its duration and spread, any related operational restrictions and the overall economy. The City is unable to accurately predict how COVID-19 will continue to affect the results of its operations because the virus's severity and the duration of the pandemic are uncertain. Potential impacts in the future include, but are not limited to, additional costs for responding to COVID-19, loss of, or reduction to public support and personnel and salary reductions. The City is taking appropriate actions to respond to the pandemic; however, the full impact is unknown and cannot be reasonably estimated at the date the financial statements were available for issuance.

NOTE 14: SUBSEQUENT EVENTS

On January 1, 2021, the City issued Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021 in the amount of \$5,070,000.

On February 17, 2021 the City entered into a capital lease purchase agreement for equipment. According to the agreement, the lease requires 20 semi-annual payments of \$40,957 and has an interest rate of 1.17%.

Subsequent events have been evaluated through March 17, 2021, 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	12/31/2018	12/31/2019
Total Pension Liability						
Service Cost	\$ 1,088,874	\$ 1,199,295	\$ 1,262,881	\$ 1,241,522	\$ 1,296,010	\$ 1,353,111
Interest (on the Total Pension Liability)	3,458,531	3,502,728	3,538,354	3,666,858	3,744,641	3,835,273
Differences Between Expected and Actual Experience	(1,383,324)	(128,775)	(311,765)	(1,056,584)	(905,857)	(8,810)
Changes of Assumptions	-	394,324	-	-	-	326,269
Benefit Payments, Including Refunds of Employee Contributor	(2,440,704)	(2,735,118)	(2,501,409)	(2,648,677)	(2,804,699)	(2,836,584)
Net Change in Total Pension Liability	723,377	2,232,454	1,988,061	1,203,119	1,330,095	2,669,259
Total Pension Liability - Beginning	50,083,500	50,806,877	53,039,331	55,027,392	56,230,511	57,560,606
Total Pension Liability - Ending (a)	<u>\$ 50,806,877</u>	<u>\$ 53,039,331</u>	<u>\$ 55,027,392</u>	<u>\$ 56,230,511</u>	<u>\$ 57,560,606</u>	<u>\$ 60,229,865</u>
Plan Fiduciary Net Position						
Contributions - Employer	\$ 1,221,385	\$ 1,219,160	\$ 1,121,849	\$ 1,152,978	\$ 1,196,332	\$ 1,167,754
Contributions - Employee	525,562	512,864	522,777	512,723	538,083	566,319
Net Investment Income	2,529,283	67,908	3,043,747	6,538,429	(1,578,123)	7,731,206
Benefit Payments, Including Refunds of Employee Contributor	(2,440,704)	(2,735,118)	(2,501,409)	(2,648,677)	(2,804,699)	(2,836,584)
Administrative Expense	(26,409)	(41,364)	(34,380)	(33,899)	(30,518)	(43,708)
Other	(2,171)	(2,043)	(1,853)	(1,718)	(1,595)	(1,313)
Net Change in Plan Fiduciary Net Position	1,806,946	(978,593)	2,150,731	5,519,836	(2,680,520)	6,583,674
Plan Fiduciary Net Position - Beginning	44,216,640	46,023,586	45,044,993	47,195,724	52,715,560	50,035,040
Plan Fiduciary Net Position - Ending (b)	<u>\$ 46,023,586</u>	<u>\$ 45,044,993</u>	<u>\$ 47,195,724</u>	<u>\$ 52,715,560</u>	<u>\$ 50,035,040</u>	<u>\$ 56,618,714</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 4,783,291</u>	<u>\$ 7,994,338</u>	<u>\$ 7,831,668</u>	<u>\$ 3,514,951</u>	<u>\$ 7,525,566</u>	<u>\$ 3,611,151</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.59%	84.93%	85.77%	93.75%	86.93%	94.00%
Covered Employee Payroll	\$ 7,070,216	\$ 7,330,652	\$ 7,468,248	\$ 7,324,612	\$ 7,686,894	\$ 7,982,957
Net Pension Liability as a Percentage of covered Employee Payroll	67.65%	109.05%	104.87%	47.99%	97.90%	45.24%

* 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	9/30/2019	9/30/2020
Actuarially Determined Contribution	\$ 1,250,879	\$ 1,196,297	\$ 1,160,509	\$ 1,219,997	\$ 1,186,664	\$ 1,206,271
Contributions in relation to the actuarially determined contribution	1,250,879	1,196,297	1,160,509	1,219,997	1,186,664	1,206,271
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 7,321,268	\$ 7,733,149	\$ 7,324,398	\$ 7,468,246	\$ 7,866,598	\$ 8,291,004
Contributions as a percentage of covered employee payroll	17.09%	15.47%	15.84%	16.34%	15.08%	14.55%

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
 Amortization Method
 Remaining Amortization Period
 Asset Valuation Method
 Inflation
 Salary Increases
 Investment Rate of Return
 Retirement Age

Entry Age Normal
 Level Percentage of Payroll, Closed
 26 years (City) / 9 years (Hospital)
 10 Year smoothed market; 12% soft corridor
 2.50%
 3.5% to 11.5% including inflation (City) / N/A (Hospital)
 6.75%
 Experience-based table of rates that are specific to the City's plan of benefit
 Last updated for the 2019 valuation pursuant to an experience study of
 the period 2014-2018
 Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The
 rates are projected on a fully generational basis with scale UMP.
 Pre retirement: PUB(10) mortality tables, with the Public Safety table used for
 males and the General Employee table used for females. The rates are
 projected on a fully generational basis with scale UMF

Mortality

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	9/30/2019	9/30/2020
Total OPEB Liability				
Service Cost	\$ 14,250	\$ 5,264	\$ 4,216	\$ 3,778
Interest (on the Total OPEB Liability)	46,972	49,480	27,199	22,758
Differences Between Expected and Actual Experience	-	(261,390)	(69,105)	(91,299)
Changes of Assumptions	-	-	-	(5,376)
Benefit Payments, Including Refunds of Employee Contributions	-	(32,324)	(35,907)	(24,936)
Net Change in Total OPEB Liability	61,222	(238,970)	(73,597)	(95,075)
Total OPEB Liability - Beginning	612,044	673,266	434,296	360,699
Total OPEB Liability - Ending (a)	\$ 673,266	\$ 434,296	\$ 360,699	\$ 265,624
Plan Fiduciary Net Position				
Net Investment Income	\$ 75,894	\$ 42,390	\$ 45,727	\$ 76,260
Benefit Payments	(60,261)	(32,324)	(35,907)	(24,936)
Administrative Expense	(636)	(1,065)	(1,061)	(1,092)
Other	-	(49,238)	-	-
Net Change in Plan Fiduciary Net Position	14,997	(40,237)	8,759	50,232
Plan Fiduciary Net Position - Beginning	1,061,635	1,076,632	1,036,395	1,045,154
Plan Fiduciary Net Position - Ending (b)	\$ 1,076,632	\$ 1,036,395	\$ 1,045,154	\$ 1,095,386
Net OPEB Liability - Ending (a) - (b)	\$ (403,366)	\$ (602,099)	\$ (684,455)	\$ (829,762)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	159.91%	238.64%	289.76%	412.38%
Covered Employee Payroll	\$ 7,034,297	\$ 1,205,311	\$ 1,093,370	\$ 1,001,602
Net OPEB Liability as a Percentage of covered Employee Payroll	-5.73%	-49.95%	-62.60%	-82.84%

* 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)

	<u>9/30/2017</u>	<u>9/30/2018</u>	<u>9/30/2019</u>	<u>9/30/2020</u>
Actuarially Determined Contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 7,304,297	\$ 1,205,311	\$ 1,093,370	\$ 1,001,602
Contributions as a percentage of covered employee payroll	0.00%	0.00%	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	5.50%
	Initial rates of 7.00% declining to ultimate rates of 4.15% after 15 years
Healthcare cost trend rate	
Mortality	2019 Municipal Retirees of Texas 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	12/31/2018	12/31/2019
Total OPEB Liability			
Service Cost	\$ 17,579	\$ 21,523	\$ 19,957
Interest on the Total OPEB Liability	29,264	28,991	30,781
Differences Between Expected and Actual Experience	-	(31,583)	(14,575)
Changes of Assumptions or Other Inputs	62,003	(54,184)	134,804
Benefit Payments	(8,988)	(9,305)	(10,991)
Net Change in Total OPEB Liability	99,858	(44,558)	159,976
Total OPEB Liability - Beginning	769,889	869,747	825,189
Total OPEB Liability - Ending (a)	<u>\$ 869,747</u>	<u>\$ 825,189</u>	<u>\$ 985,165</u>
Covered Employee Payroll	\$ 7,324,612	\$ 7,686,894	\$ 7,982,957
Total OPEB Liability as a Percentage of covered Employee Payroll	11.87%	10.74%	12.34%

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	2.75% (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	2019 Municipal Retirees of Texas mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality Rates - Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the 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.

Local Truancy/Prevention Diversion Fund – To account for fees assessed by the Municipal Court to be used on necessary expenditures related to the position of juvenile case manager.

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, 2020**

Special Revenue Funds

	Hotel Occupancy Taxes	Grant	911 Emergency	Tax Increment Reinvestment Zone	Federal Drug Seizure	Chapter 59 Drug Seizure
ASSETS						
Cash and cash equivalents	\$ 27,228	\$ 17,710	\$ 44,448	\$ -	\$ 31,070	\$ 2,507
Investments	90,452	58,828	154,626	-	103,207	8,330
Receivables (net of allowance for estimated uncollectible accounts):						
Taxes	50,930	-	-	-	-	-
Accounts	-	223	8,691	-	391	32
Interest on long-term receivable	-	-	-	135,735	-	-
Total assets	<u>\$ 168,610</u>	<u>\$ 76,761</u>	<u>\$ 207,765</u>	<u>\$ 135,735</u>	<u>\$ 134,668</u>	<u>\$ 10,869</u>
LIABILITIES						
Trade payables	\$ 11,903	\$ -	\$ 81,411	\$ -	\$ 26,920	\$ -
Accrued payroll and related expenses	-	-	616	-	-	-
Due to other funds	-	-	-	-	-	-
Advance payable	-	-	-	429,712	-	-
Total liabilities	<u>11,903</u>	<u>-</u>	<u>82,027</u>	<u>429,712</u>	<u>26,920</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - property taxes	-	-	-	-	-	-
Unavailable revenue - interest on long-term receivable	-	-	-	135,735	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>135,735</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Restricted for:						
Debt service	-	-	-	-	-	-
Grant restrictions	-	76,761	-	-	-	-
Municipal court	-	-	-	-	-	-
Public safety	-	-	125,738	-	107,748	10,869
Tourism and convention facilities	156,707	-	-	-	-	-
Unassigned	-	-	-	(429,712)	-	-
Total fund balances	<u>156,707</u>	<u>76,761</u>	<u>125,738</u>	<u>(429,712)</u>	<u>107,748</u>	<u>10,869</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 168,610</u>	<u>\$ 76,761</u>	<u>\$ 207,765</u>	<u>\$ 135,735</u>	<u>\$ 134,668</u>	<u>\$ 10,869</u>

							Debt Service Fund	Total Nonmajor Governmental Funds
Court Technology	Court Security	Main Street Hotel	Main Street Theater Restoration	Kilgogh Art Festival	Local Truancy/Prevention Diversion	Total	Interest & Sinking	
\$ 4,664	\$ 25,353	\$ 1,268	\$ 3,375	\$ 777	\$ 680	\$ 159,080	\$ 186,985	\$ 346,065
15,486	84,218	4,212	11,210	2,582	2,258	535,409	488	535,897
-	-	-	-	-	-	50,930	22,499	73,429
59	319	16	42	10	9	9,792	1	9,793
-	-	-	-	-	-	135,735	-	135,735
<u>\$ 20,209</u>	<u>\$ 109,890</u>	<u>\$ 5,496</u>	<u>\$ 14,627</u>	<u>\$ 3,369</u>	<u>\$ 2,947</u>	<u>\$ 887,999</u>	<u>\$ 209,973</u>	<u>\$ 1,100,919</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 120,234	\$ 321	\$ 120,555
-	-	-	-	-	-	616	-	616
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	429,712	-	429,712
-	-	-	-	-	-	550,562	321	550,883
-	-	-	-	-	-	-	22,499	22,499
-	-	-	-	-	-	135,735	-	135,735
-	-	-	-	-	-	135,735	22,499	158,234
-	-	-	-	-	-	-	187,153	187,153
-	-	-	-	-	-	76,761	-	76,761
20,209	109,890	-	-	-	2,947	133,046	-	133,046
-	-	-	-	-	-	244,355	-	244,355
-	-	5,496	14,627	3,369	-	180,199	-	180,199
-	-	-	-	-	-	(429,712)	-	(429,712)
<u>20,209</u>	<u>109,890</u>	<u>5,496</u>	<u>14,627</u>	<u>3,369</u>	<u>2,947</u>	<u>204,649</u>	<u>187,153</u>	<u>391,802</u>
<u>\$ 20,209</u>	<u>\$ 109,890</u>	<u>\$ 5,496</u>	<u>\$ 14,627</u>	<u>\$ 3,369</u>	<u>\$ 2,947</u>	<u>\$ 887,999</u>	<u>\$ 209,973</u>	<u>\$ 1,100,919</u>

CITY OF KILGORE, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Special Revenue Funds					
	Hotel Occupancy Taxes	Grant	911 Emergency	Tax Increment Reinvestment Zone	Federal Drug Seizure	Chapter 59 Drug Seizure
REVENUES						
Taxes:						
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	266,473	-	94,825	-	-	-
Charges for services:						
Police court fines and fees	-	-	-	-	-	-
Drug seizure revenue	-	-	-	-	17,596	-
Interest on investments	2,165	1,031	2,486	-	2,486	146
Miscellaneous	2,500	-	7,975	-	-	-
Total revenues	<u>271,138</u>	<u>1,031</u>	<u>105,286</u>	<u>-</u>	<u>20,082</u>	<u>146</u>
EXPENDITURES						
Current:						
Public safety:						
Police	-	31	149,007	-	168,120	4
Municipal court	-	-	-	-	-	-
Culture and recreation:						
Parks	-	-	-	-	-	-
Grants	338,276	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>338,276</u>	<u>31</u>	<u>149,007</u>	<u>-</u>	<u>168,120</u>	<u>4</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(67,138)</u>	<u>1,000</u>	<u>(43,721)</u>	<u>-</u>	<u>(148,038)</u>	<u>142</u>
OTHER FINANCING SOURCES (USES)						
Transfers out	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(82,138)	1,000	(43,721)	-	(148,038)	142
Fund balance - beginning of year	<u>238,845</u>	<u>75,761</u>	<u>169,459</u>	<u>(429,712)</u>	<u>255,786</u>	<u>10,727</u>
Fund balance - end of year	<u>\$ 156,707</u>	<u>\$ 76,761</u>	<u>\$ 125,738</u>	<u>\$ (429,712)</u>	<u>\$ 107,748</u>	<u>\$ 10,869</u>

							Debt Service Fund	Total Nonmajor Governmental Funds
Court Technology	Court Security	Main Street Hotel	Main Street Theater Restoration	Kilgogh Art Festival	Local Truancy/Prevention Diversion	Total	Interest & Sinking	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 388,854	\$ 388,854
-	-	-	-	-	-	361,298	-	361,298
5,677	5,355	-	-	-	-	11,032	-	11,032
-	-	-	-	-	-	17,596	-	17,596
241	1,445	74	196	34	9	10,313	5,705	16,018
-	-	-	-	5,175	2,938	18,588	-	18,588
<u>5,918</u>	<u>6,800</u>	<u>74</u>	<u>196</u>	<u>5,209</u>	<u>2,947</u>	<u>418,827</u>	<u>394,559</u>	<u>813,386</u>
1,558	-	-	-	-	-	318,720	-	318,720
-	40	-	-	-	-	40	-	40
-	-	2	3	3,109	-	3,114	-	3,114
-	-	-	-	-	-	338,276	-	338,276
-	-	-	-	-	-	-	290,000	290,000
-	-	-	-	-	-	-	92,250	92,250
<u>1,558</u>	<u>40</u>	<u>2</u>	<u>3</u>	<u>3,109</u>	<u>-</u>	<u>660,150</u>	<u>382,250</u>	<u>1,042,400</u>
<u>4,360</u>	<u>6,760</u>	<u>72</u>	<u>193</u>	<u>2,100</u>	<u>2,947</u>	<u>(241,323)</u>	<u>12,309</u>	<u>(229,014)</u>
-	-	-	-	-	-	(15,000)	-	(15,000)
-	-	-	-	-	-	(15,000)	-	(15,000)
4,360	6,760	72	193	2,100	2,947	(256,323)	12,309	(244,014)
15,849	103,130	5,424	14,434	1,269	-	460,972	174,844	635,816
<u>\$ 20,209</u>	<u>\$ 109,890</u>	<u>\$ 5,496</u>	<u>\$ 14,627</u>	<u>\$ 3,369</u>	<u>\$ 2,947</u>	<u>\$ 204,649</u>	<u>\$ 187,153</u>	<u>\$ 391,802</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, 2020

	Employee Benefit	Capital Equipment Purchase	Information Technology	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,020,580	\$ 54,973	\$ 66,931	\$ 1,142,484
Investments	250,000	182,607	222,326	654,933
Accounts receivable (net)	-	13,749	843	14,592
Total current assets	<u>1,270,580</u>	<u>251,329</u>	<u>290,100</u>	<u>1,812,009</u>
Noncurrent assets:				
Capital assets (net)	-	2,072,340	109,505	2,181,845
Total noncurrent assets	<u>-</u>	<u>2,072,340</u>	<u>109,505</u>	<u>2,181,845</u>
Total assets	<u>1,270,580</u>	<u>2,323,669</u>	<u>399,605</u>	<u>3,993,854</u>
LIABILITIES				
Current liabilities:				
Trade payables	1,090	2,260	12,545	15,895
Total current liabilities	<u>1,090</u>	<u>2,260</u>	<u>12,545</u>	<u>15,895</u>
Total liabilities	<u>1,090</u>	<u>2,260</u>	<u>12,545</u>	<u>15,895</u>
NET POSITION				
Net investment in capital assets	-	2,072,340	109,505	2,181,845
Unrestricted	1,269,490	249,069	277,555	1,796,114
Total net position	<u>\$ 1,269,490</u>	<u>\$ 2,321,409</u>	<u>\$ 387,060</u>	<u>\$ 3,977,959</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, 2020**

	Employee Benefit	Capital Equipment Purchase	Information Technology	Total
OPERATING REVENUES				
Charges for services	\$ 1,665,952	\$ 357,168	\$ 739,479	\$ 2,762,599
Total operating revenues	<u>1,665,952</u>	<u>357,168</u>	<u>739,479</u>	<u>2,762,599</u>
OPERATING EXPENSES				
Operating expenses	1,658,417	209	583,129	2,241,755
Depreciation and amortization	-	395,111	45,898	441,009
Total operating expenses	<u>1,658,417</u>	<u>395,320</u>	<u>629,027</u>	<u>2,682,764</u>
OPERATING INCOME (LOSS)	<u>7,535</u>	<u>(38,152)</u>	<u>110,452</u>	<u>79,835</u>
NONOPERATING REVENUES:				
Investment earnings	17,517	4,444	3,340	25,301
Miscellaneous	-	24,645	-	24,645
Total nonoperating revenues	<u>17,517</u>	<u>29,089</u>	<u>3,340</u>	<u>49,946</u>
Change in net position	25,052	(9,063)	113,792	129,781
Total net position, beginning	<u>1,244,438</u>	<u>2,330,472</u>	<u>273,268</u>	<u>3,848,178</u>
Total net position, ending	<u>\$ 1,269,490</u>	<u>\$ 2,321,409</u>	<u>\$ 387,060</u>	<u>\$ 3,977,959</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 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, 2020, 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 <arcj 17, 2021.

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.



Tyler, Texas
March 17, 2021



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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Kilgore, Texas' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Kilgore, Texas' major federal programs for the year ended September 30, 2020. The City of Kilgore, Texas' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Kilgore, Texas' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards, and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Kilgore, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City of Kilgore, Texas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

Report on Internal Control Over Compliance

Management of the City of Kilgore, Texas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Kilgore, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Kilgore, Texas' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Henry + Peters, P.C.

Tyler, Texas
March 17, 2021

**CITY OF KILGORE, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>U. S. DEPARTMENT OF JUSTICE</u>			
Direct Program:			
Crime Victim Assistance	16.575	N/A	\$ 35,152
Bulletproof Vest Partnership Program	16.607	N/A	<u>4,190</u>
Total U. S. Department of Justice			39,342
<u>U. S. DEPARTMENT OF TREASURY</u>			
Passed Through the Texas Division of Emergency Management:			
Coronavirus Relief Fund +	21.019	2020-CF-21019	<u>817,410</u>
Total U. S. Department of Treasury			817,410
Total Expenditures of Federal Awards			<u><u>\$ 856,752</u></u>

+ Denotes Major Program

CITY OF KILGORE, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly, when such funds are received, they are recorded as deferred inflows of resources until earned.

The accompanying Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the activities of the City, it is not intended to and does not present the basic financial statements of the City.

NOTE 2 – INDIRECT COST RATE

For indirect costs, the amounts expended are claimed as an indirect cost recovery using an approved cost allocation plan. The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**CITY OF KILGORE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Section I - Summary of Auditor's Results

Financial Statements

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

Federal and State Awards

Internal Control over major programs:	
Material Passed Through the Texas Division of Emergency Management:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None reported

Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Major Program:</u>
21.019	Coronavirus Relief Fund

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
--	-------------------

Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
--	---

Section II - Findings Required to be Reported by *Government Auditing Standards*

No matters requiring reporting were noted.

Section III - Findings Required to be Reported by the Uniform Guidance

No matters requiring reporting were noted.