

**KAUFMAN INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT FOR THE**  
**YEAR ENDED AUGUST 31, 2016**

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2016

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
CERTIFICATE OF BOARD	2	
Independent Auditors' Report	3	
Management's Discussion and Analysis	5	
<u>Basic Financial Statements</u>		
Government Wide Statements:		
Statement of Net Position	13	A-1
Statement of Activities	15	B-1
Governmental Fund Financial Statements:		
Balance Sheet	16	C-1
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17	C-2
Statement of Revenues, Expenditures, and Changes in Fund Balances	18	C-3
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	19	C-4
Statement of Revenues, Expenditures, and Changes in Fund Balance-		
Budget and Actual - General Fund	21	C-5
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Position	22	E-1
Statement of Changes in Fiduciary Fund Net Position	23	E-2
Notes to the Financial Statements	25	
<u>Required Supplementary Information</u>		
Schedule of the District's Proportionate Share of the Net Pension Liability – Teacher Retirement System of Texas	50	G-1
Schedule of District Contributions – Teacher Retirement System of Texas	51	G-2
Notes to Required Supplementary Information	52	
<u>Combining Schedules</u>		
Nonmajor Governmental Funds:		
Combining Balance Sheet	54	H-1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	58	H-2
<u>Required TEA Schedules</u>		
Schedule of Delinquent Taxes	64	J-1
Budgetary Comparison Schedule – Child Nutrition Fund	66	J-2
Budgetary Comparison Schedule – Debt Service Fund	67	J-3
<u>Federal Awards Section</u>		
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	71	
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	73	
Schedule of Findings and Questioned Costs	75	
Schedule of Status of Prior Findings	77	
Corrective Action Plan	78	
Schedule of Expenditures of Federal Awards	79	K-1
Notes on Accounting Policies for Federal Awards	80	

CERTIFICATE OF BOARD


Kaufman Independent School District  
Name of School District

Kaufman  
County

129-903  
Co. - Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2016, at a meeting of the Board of Trustees of such school district on the 9th day of January, 2017.

  
Signature of Board Secretary

  
Signature of Board President

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**HANKINS, EASTUP, DEATON,  
TONN & SEAY**  
A PROFESSIONAL CORPORATION  

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**CERTIFIED PUBLIC ACCOUNTANTS**

**Independent Auditor's Report**

To the Board of Trustees  
Kaufman Independent School District  
Kaufman, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kaufman Independent School District (the District), as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District'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 opinions on these financial statements based on our audit. 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 Standard* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District'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, each major fund, and the aggregate remaining fund information of Kaufman Independent School District as of August 31, 2016, and the respective changes in financial position 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* on pages 5 through 10 and the *pension schedules* on pages 50 and 51 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 Kaufman Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements and the required TEA schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, the required TEA schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the required TEA schedules, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2017 on our consideration of Kaufman Independent School District's internal control over financial reporting and on our test 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 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 Kaufman Independent School District's internal control over financial reporting and compliance.

  
Hankins, Eastup, Deaton, Tonn & Seay, PC  
Denton, Texas

January 4, 2017

**KAUFMAN INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED AUGUST 31, 2016  
(UNAUDITED)**

As management of Kaufman Independent School District, we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2016. Please read this narrative in conjunction with the independent auditors' report on page 3, and the District's Basic Financial Statements that begin on page 13.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of Kaufman Independent School District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$26,573,914 (net position). Of this amount, \$8,047,946 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors in accordance with the District's fund balance and fiscal policies.
- The District's total net position increased by \$1,307,889 during the fiscal year.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$31,162,891. Over 34% of this total amount (\$10,853,248) is unassigned and available for use within the District's fund balance policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$10,853,248 or 35.5% of the total general fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 13 and 15). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 16) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 25) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

## **Reporting the District as a Whole**

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

The analysis of the District's overall financial condition and operations begins on page 13. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and deferred outflows of resources; and liabilities and deferred inflows of resources at the end of the year while the Statement of Activities includes all revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting (the basis used by private sector companies).

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets and deferred outflows of resources are reported whether they serve the current year or future years. Liabilities and deferred inflows of resources are considered regardless of whether they must be paid in the current or future years.

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

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

- Governmental activities—Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.
- Business-type activities—The District does not have any programs in which it charges a fee to “customers” to help it cover all or most of the cost of services it provides. Thus, the District had no business-type activities during the current fiscal year.

## **Reporting the District's Most Significant Funds**

### **Fund Financial Statements**

The fund financial statements begin on page 16 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities).

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

## **The District as Trustee**

### **Reporting the District's Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for money raised by student activities and for a scholarship fund. The District's fiduciary activity is reported in a separate Statement of Fiduciary Net Position on page 22 and a Statement of Changes in Fiduciary Fund Net Position on page 23. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in this fund are used for their intended purposes.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The analysis below presents both current and prior year data and discusses significant changes in the accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities increased from \$25,266,025 to \$26,573,914. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$8,047,946 at August 31, 2016. The increase in governmental net position was the result of higher revenues not fully offset by increased expenses.

**Table I**  
**Kaufman Independent School District**

### **NET POSITION**

	Governmental Activities 2016	Governmental Activities 2015
Current and other assets	\$38,087,916	\$18,111,469
Capital assets	73,303,702	50,344,453
Total assets	111,391,618	68,455,922
Deferred outflows of resources	4,179,101	1,543,252
Long-term liabilities	82,123,755	40,049,206
Other liabilities	6,371,082	3,695,649
Total liabilities	88,494,837	43,744,855
Deferred inflows of resources	501,968	988,294
Net Position:		
Net investment in capital assets	16,883,799	20,242,836
Restricted	1,642,169	581,527
Unrestricted	8,047,946	4,441,662
Total net position	\$26,573,914	\$25,266,025



**Table II**  
**Kaufman Independent School District**  
**CHANGES IN NET POSITION**

	Governmental Activities 2016	Governmental Activities 2015
Revenues:		
Program Revenues:		
Charges for services	\$ 1,430,148	\$ 1,311,918
Operating grants and contributions	7,834,180	6,809,505
General Revenues:		
Maintenance and operations taxes	7,106,177	7,112,891
Debt service taxes	1,746,119	788,446
State aid	23,859,383	22,570,800
Investment Earnings	74,559	38,981
Miscellaneous	44,318	42,333
Total Revenue	<u>42,094,884</u>	<u>38,674,874</u>
Expenses:		
Instruction, curriculum and media services	22,705,060	20,851,399
Instructional and school leadership	2,693,257	2,454,142
Student support services	2,971,270	2,727,582
Food services	2,025,250	2,028,091
Extracurricular activities	1,777,876	1,720,322
General administration	901,872	838,736
Plant maintenance, security & data processing	4,797,184	4,801,577
Community services	302,594	407,923
Debt services	2,455,489	1,327,055
Facilities acquisition, construction	43,037	350,324
Other intergovernmental charges	114,106	95,059
Total Expenses	<u>40,786,995</u>	<u>37,602,210</u>
Increase in net position	1,307,889	1,072,664
Net position at beginning of year	25,266,025	27,853,806
Prior period adjustment	-	(3,660,445)
Net position at end of year	<u>\$26,573,914</u>	<u>\$25,266,025</u>

Although this financial report presents relatively balanced revenues and expenditures as well as an acceptable fund balance in the General and Debt Service Funds, a number of adjustments were necessary in the preparation of the 2015-16 Budget to enable the District to maintain a sound financial position.

- General Fund expenditures decreased 0.5% due primarily to lower capital outlay offset by higher personnel costs resulting from staff raises. General Fund revenues increased 5.0% due to increases in the State of Texas funding formula and higher average daily attendance.
- The District's maintenance and operations tax rate remained \$1.17 per \$100 valuation for the sixth consecutive year. The Debt Service tax rate increased from \$0.13 per \$100 valuation to \$0.29 per \$100 valuation. The District's taxable property value increased 0.4%.

The cost of all governmental activities for the current fiscal year was \$40,786,995. However, as shown in the Statement of Activities on page 15, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$8,852,296 because some of the costs were paid by those who directly benefited from the programs (\$1,430,148) or by other governments and organizations that subsidized certain programs with grants and contributions (\$7,834,180) or by State equalization funding (\$23,859,383).

## **THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$31,162,891, which is \$17,434,815 more than last year's total of \$13,728,076. Included in this year's total change in fund balance is an increase of \$2,661,201 in the District's General Fund and an increase of \$13,990,362 in the Capital Projects Fund.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2015). The second category includes changes that the Board made during the year to reflect new information regarding revenue sources and expenditure needs. The primary amendment was for additional facilities acquisition and construction budgeted for land acquisition and other construction projects. The third category involves amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

The District's General Fund balance of \$11,980,532 reported on page 16 differs from the General Fund's budgetary fund balance of \$7,754,700 reported in the budgetary comparison schedule on page 21. This is principally due to cost savings in most functional categories and revenues higher than budgeted amounts.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At August 31, 2016, the District had \$73,303,702 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of \$22,959,249, or 45.6 percent, less than last year.

More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

### **Debt Administration**

At August 31, 2016, the District had \$75,378,169 in bonds, notes, and capital leases outstanding (including accreted interest on bonds) versus \$36,818,465 last year—an increase of \$38,559,704. The District issued \$37.2 million (par value) of new school building bonds in April 2016. The District's general obligation bond rating is AAA (as a result of guarantees of the Texas Permanent School Fund) according to national rating agencies.

More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The District's maintenance and operations tax rate remained \$1.17 per \$100 valuation. The debt service tax rate increased from \$0.29 per \$100 valuation to \$0.36 per \$100 valuation.
- General Fund revenue from the State is budgeted to increase approximately \$300,000 due to changes in the state funding formula.
- Expenditures are budgeted to increase approximately \$870,000 due primarily to increased capital outlay and higher personnel costs.
- The 2016-2017 budget has budgeted revenue equal to budgeted expenditures.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Kaufman Independent School District, 1000 S. Houston Street, Kaufman, Texas 75142 (972) 932-2622.

## BASIC FINANCIAL STATEMENTS

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KAUFMAN INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2016

EXHIBIT A-1

Data Control Codes		Primary Government
		Governmental Activities
<b>ASSETS</b>		
1110	Cash and Cash Equivalents	\$ 35,535,813
1220	Property Taxes Receivable (Delinquent)	728,012
1230	Allowance for Uncollectible Taxes	(65,521)
1240	Due from Other Governments	724,398
1290	Other Receivables, net	37,930
1410	Prepayments	368,279
	Capital Assets:	
1510	Land	2,302,563
1520	Buildings, Net	45,881,381
1530	Furniture and Equipment, Net	1,345,512
1580	Construction in Progress	23,774,246
1800	Restricted Assets	759,005
1000	Total Assets	<u>111,391,618</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
1701	Deferred Charge on Bond Refundings	856,462
1705	Deferred Outflows Related to TRS	3,322,639
1700	Total Deferred Outflows of Resources	<u>4,179,101</u>
<b>LIABILITIES</b>		
2110	Accounts Payable	4,635,960
2140	Accrued Interest Payable	108,548
2160	Accrued Wages Payable	1,342,761
2200	Accrued Expenses	227,379
2300	Unearned Revenue	56,434
	Noncurrent Liabilities	
2501	Due Within One Year	2,305,369
2502	Due in More Than One Year	73,072,800
2540	Net Pension Liability (District's Share)	6,745,586
2000	Total Liabilities	<u>88,494,837</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
2605	Deferred Inflows Related to TRS	501,968
2600	Total Deferred Inflows of Resources	<u>501,968</u>
<b>NET POSITION</b>		
3200	Net Investment in Capital Assets	16,883,799
3820	Restricted for Federal and State Programs	1,825
3850	Restricted for Debt Service	1,640,344
3900	Unrestricted	8,047,946
3000	Total Net Position	<u><u>\$ 26,573,914</u></u>

The notes to the financial statements are an integral part of this statement.

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KAUFMAN INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
		Charges for Services	Operating Grants and Contributions	
	Expenses			6 Primary Gov. Governmental Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 21,814,285	\$ 362,071	\$ 3,335,817	\$ (18,116,397)
12 Instructional Resources and Media Services	327,012	-	18,413	(308,599)
13 Curriculum and Staff Development	563,763	-	37,688	(526,075)
21 Instructional Leadership	168,644	-	38,017	(130,627)
23 School Leadership	2,524,613	-	304,645	(2,219,968)
31 Guidance, Counseling and Evaluation Services	1,233,925	-	311,139	(922,786)
33 Health Services	481,309	-	90,772	(390,537)
34 Student (Pupil) Transportation	1,256,036	-	450,418	(805,618)
35 Food Services	2,025,250	357,001	1,641,654	(26,595)
36 Extracurricular Activities	1,777,876	602,234	49,419	(1,126,223)
41 General Administration	901,872	-	44,049	(857,823)
51 Facilities Maintenance and Operations	3,608,643	496	73,675	(3,534,472)
52 Security and Monitoring Services	290,295	-	17,763	(272,532)
53 Data Processing Services	898,246	-	50,659	(847,587)
61 Community Services	302,594	108,346	46,001	(148,247)
72 Debt Service - Interest on Long Term Debt	1,874,928	-	1,324,051	(550,877)
73 Debt Service - Bond Issuance Cost and Fees	580,561	-	-	(580,561)
81 Capital Outlay	43,037	-	-	(43,037)
99 Other Intergovernmental Charges	114,106	-	-	(114,106)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 40,786,995	\$ 1,430,148	\$ 7,834,180	(31,522,667)

Data Control Codes		
	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	7,106,177
DT	Property Taxes, Levied for Debt Service	1,746,119
SF	State Aid - Formula Grants	23,859,383
IE	Investment Earnings	74,559
MI	Miscellaneous Local and Intermediate Revenue	44,318
TR	Total General Revenues	32,830,556
CN	Change in Net Position	1,307,889
NB	Net Position - Beginning	25,266,025
NE	Net Position--Ending	\$ 26,573,914

The notes to the financial statements are an integral part of this statement.



KAUFMAN INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2016

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 12,740,877	\$ 22,140,324	\$ 654,612	\$ 35,535,813
1220 Property Taxes - Delinquent	618,676	-	109,336	728,012
1230 Allowance for Uncollectible Taxes (Credit)	(55,681)	-	(9,840)	(65,521)
1240 Receivables from Other Governments	116,262	-	608,136	724,398
1260 Due from Other Funds	-	-	111,750	111,750
1290 Other Receivables	-	-	37,930	37,930
1410 Prepayments	368,279	-	-	368,279
1800 Restricted Assets	759,005	-	-	759,005
1000 Total Assets	<u>\$ 14,547,418</u>	<u>\$ 22,140,324</u>	<u>\$ 1,511,924</u>	<u>\$ 38,199,666</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ 449,694	\$ 4,046,229	\$ 140,037	\$ 4,635,960
2160 Accrued Wages Payable	1,215,068	-	127,693	1,342,761
2170 Due to Other Funds	111,750	-	-	111,750
2200 Accrued Expenditures	227,379	-	-	227,379
2300 Unearned Revenues	-	-	56,434	56,434
2000 Total Liabilities	<u>2,003,891</u>	<u>4,046,229</u>	<u>324,164</u>	<u>6,374,284</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2601 Unavailable Revenue - Property Taxes	562,995	-	99,496	662,491
2600 Total Deferred Inflows of Resources	<u>562,995</u>	<u>-</u>	<u>99,496</u>	<u>662,491</u>
<b>FUND BALANCES</b>				
Nonspendable Fund Balance:				
3430 Prepaid Items	368,279	-	-	368,279
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	1,825	1,825
3470 Capital Acquisition and Contractual Obligation	-	18,094,095	-	18,094,095
3480 Retirement of Long-Term Debt	759,005	-	890,391	1,649,396
Committed Fund Balance:				
3545 Other Committed Fund Balance	-	-	196,048	196,048
3600 Unassigned Fund Balance	10,853,248	-	-	10,853,248
3000 Total Fund Balances	<u>11,980,532</u>	<u>18,094,095</u>	<u>1,088,264</u>	<u>31,162,891</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 14,547,418</u>	<u>\$ 22,140,324</u>	<u>\$ 1,511,924</u>	<u>\$ 38,199,666</u>

The notes to the financial statements are an integral part of this statement.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2016

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 31,162,891</b>
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.	111,140,305
2 Accumulated depreciation is not reported in the fund financial statements.	(37,836,603)
3 Bonds payable, capital leases payable, and notes payable are not reported in the fund financial statements.	(68,468,348)
4 Accreted interest payable on capital appreciation bonds is not reported in the fund financial statements.	(7,708)
5 Premiums and discounts on outstanding bonds payable are not recognized in the fund financial statements.	(6,902,113)
6 Property tax revenue reported as unavailable revenue in the fund financial statements is recognized as revenue in the government-wide financial statements.	662,491
7 Interest on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.	(108,548)
8 The deferred charge on bond refundings is not recognized in the fund financial statements.	856,462
9 Included in the items related to government-wide long-term debt is the recognition of the District's proportionate share of the net pension liability required by GASB #68 and #71 in the amount of \$6,745,586, Deferred Resource Inflows related to TRS in the amount of \$501,968, and Deferred Resource Outflows related to TRS in the amount of \$3,322,639. This results in a net decrease in Net Position in the amount of \$3,924,915.	(3,924,915)
<b>19 Net Position of Governmental Activities</b>	<b>\$ 26,573,914</b>

The notes to the financial statements are an integral part of this statement.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT C-3

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 7,416,609	\$ 29,651	\$ 2,712,867	\$ 10,159,127
5800 State Program Revenues	25,580,201	-	1,625,749	27,205,950
5900 Federal Program Revenues	325,002	-	3,683,468	4,008,470
5020 Total Revenues	33,321,812	29,651	8,022,084	41,373,547
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	17,510,299	-	1,858,776	19,369,075
0012 Instructional Resources and Media Services	298,217	-	-	298,217
0013 Curriculum and Instructional Staff Development	504,780	-	12,711	517,491
0021 Instructional Leadership	120,168	-	26,422	146,590
0023 School Leadership	2,098,672	-	120,091	2,218,763
0031 Guidance, Counseling and Evaluation Services	853,083	-	230,961	1,084,044
0033 Health Services	366,188	-	57,489	423,677
0034 Student (Pupil) Transportation	1,155,462	-	-	1,155,462
0035 Food Services	15,572	-	2,002,461	2,018,033
0036 Extracurricular Activities	1,167,049	-	568,550	1,735,599
0041 General Administration	852,095	-	-	852,095
0051 Facilities Maintenance and Operations	3,546,098	-	-	3,546,098
0052 Security and Monitoring Services	264,539	-	-	264,539
0053 Data Processing Services	824,553	-	-	824,553
0061 Community Services	65,317	-	211,417	276,734
Debt Service:				
0071 Principal on Long Term Debt	408,188	-	752,524	1,160,712
0072 Interest on Long Term Debt	66,365	-	2,526,159	2,592,524
0073 Bond Issuance Cost and Fees	3,286	392,245	185,030	580,561
Capital Outlay:				
0081 Facilities Acquisition and Construction	355,937	24,754,244	-	25,110,181
Intergovernmental:				
0099 Other Intergovernmental Charges	114,106	-	-	114,106
6030 Total Expenditures	30,589,974	25,146,489	8,552,591	64,289,054
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	2,731,838	(25,116,838)	(530,507)	(22,915,507)
<b>OTHER FINANCING SOURCES (USES):</b>				
7901 Refunding Bonds Issued	-	-	17,550,000	17,550,000
7911 Capital Related Debt Issued (Regular Bonds)	-	37,200,000	-	37,200,000
7915 Transfers In	-	-	70,637	70,637
7916 Premium or Discount on Issuance of Bonds	-	1,907,200	4,021,947	5,929,147
8911 Transfers Out (Use)	(70,637)	-	-	(70,637)
8949 Other (Uses)	-	-	(20,328,825)	(20,328,825)
7080 Total Other Financing Sources (Uses)	(70,637)	39,107,200	1,313,759	40,350,322
1200 Net Change in Fund Balances	2,661,201	13,990,362	783,252	17,434,815
0100 Fund Balance - September 1 (Beginning)	9,319,331	4,103,733	305,012	13,728,076
3000 Fund Balance - August 31 (Ending)	\$ 11,980,532	\$ 18,094,095	\$ 1,088,264	\$ 31,162,891

The notes to the financial statements are an integral part of this statement.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2016

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<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ 17,434,815</b>
Current year capital asset additions are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The effect of reclassifying the current year capital asset additions is to increase net position.	25,221,536
Depreciation is not recognized as an expense in government funds since it does not require the use of current financial resources. The effect of the current year's depreciation expense is to decrease net position.	(2,262,287)
Current year long-term debt principal payments on capital leases payable and bonds payable and payments of accreted interest payable on capital appreciation bonds are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.	1,978,888
Current year interest accretion on capital appreciation bonds is not reflected in the fund financial statements, but is shown as an increase in long-term liabilities in the government-wide financial statements.	(157,255)
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due.	(50,543)
Revenues from property taxes are recorded as unavailable revenue in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed, net of an allowance for uncollectible amounts, in the government-wide financial statements.	(83,258)
Current year amortization of the premiums/discounts on bonds payable is not recognized in the fund financial statements, but is shown as an increase in long-term debt in the government-wide financial statements.	287,023
Current year amortization of the deferred charge on bond refundings is not recognized in the fund financial statements, but is shown as a reduction of the deferred charge in the government-wide financial statements.	(42,249)
The current year issuance of refunding bonds and capital related bonds is shown as other resources in the fund financial statements, but is shown as an increase in long-term debt in the government-wide financial statements.	(54,750,000)
The premiums on the current year issuance of refunding bonds and capital related bonds are recorded as other financing sources in the fund financial statements, but are shown as an increase in long-term debt in the government-wide financial statements.	(5,929,147)

The notes to the financial statements are an integral part of this statement.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2016

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The current year payment to the escrow agent for refunding debt is an other financing use in the fund financial statements, but is reported as a reduction in long-term debt in the government-wide financial statements. The payment of \$20,328,825 includes the payment to refund bonds of \$20,010,787 plus accrued interest of \$137,556 and a deferred loss on bond refundings of \$644,117.	20,191,269
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. TRS contributions made after the measurement date of 8/31/15 caused the change in the ending net position to increase by \$23,600. These contributions were replaced with the District's pension expense for the year of \$554,503, which caused a decrease in the change in net position. The net effect of all of these is to decrease the change in net position by \$530,903.	(530,903)
<b>Change in Net Assets of Governmental Activities</b>	<hr/> \$ 1,307,889 <hr/>

The notes to the financial statements are an integral part of this statement.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 7,262,559	\$ 7,262,559	\$ 7,416,609	\$ 154,050
5800	State Program Revenues	23,765,124	23,765,124	25,580,201	1,815,077
5900	Federal Program Revenues	150,000	150,000	325,002	175,002
5020	Total Revenues	31,177,683	31,177,683	33,321,812	2,144,129
EXPENDITURES:					
Current:					
0011	Instruction	17,057,281	18,581,931	17,510,299	1,071,632
0012	Instructional Resources and Media Services	309,182	329,182	298,217	30,965
0013	Curriculum and Instructional Staff Development	492,420	522,420	504,780	17,640
0021	Instructional Leadership	120,874	150,874	120,168	30,706
0023	School Leadership	2,134,533	2,164,533	2,098,672	65,861
0031	Guidance, Counseling and Evaluation Services	992,448	952,073	853,083	98,990
0033	Health Services	401,671	431,671	366,188	65,483
0034	Student (Pupil) Transportation	1,215,005	1,265,005	1,155,462	109,543
0035	Food Services	79	20,079	15,572	4,507
0036	Extracurricular Activities	1,092,656	1,225,031	1,167,049	57,982
0041	General Administration	850,986	870,986	852,095	18,891
0051	Facilities Maintenance and Operations	3,674,142	3,707,886	3,546,098	161,788
0052	Security and Monitoring Services	244,243	287,243	264,539	22,704
0053	Data Processing Services	900,357	900,357	824,553	75,804
0061	Community Services	67,246	75,246	65,317	9,929
Debt Service:					
0071	Principal on Long Term Debt	658,439	659,322	408,188	251,134
0072	Interest on Long Term Debt	70,064	69,181	66,365	2,816
0073	Bond Issuance Cost and Fees	-	20,000	3,286	16,714
Capital Outlay:					
0081	Facilities Acquisition and Construction	212,000	389,294	355,937	33,357
Intergovernmental:					
0099	Other Intergovernmental Charges	115,000	120,000	114,106	5,894
6030	Total Expenditures	30,608,626	32,742,314	30,589,974	2,152,340
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	569,057	(1,564,631)	2,731,838	4,296,469
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	-	-	(70,637)	(70,637)
1200	Net Change in Fund Balances	569,057	(1,564,631)	2,661,201	4,225,832
0100	Fund Balance - September 1 (Beginning)	9,319,331	9,319,331	9,319,331	-
3000	Fund Balance - August 31 (Ending)	\$ 9,888,388	\$ 7,754,700	\$ 11,980,532	\$ 4,225,832

The notes to the financial statements are an integral part of this statement.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2016

	Private Purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 192,453	\$ 101,119
Total Assets	<u>192,453</u>	<u>\$ 101,119</u>
<b>LIABILITIES</b>		
Accounts Payable	1,300	\$ 5,844
Due to Student Groups	-	95,275
Total Liabilities	<u>1,300</u>	<u>\$ 101,119</u>
<b>NET POSITION</b>		
Unrestricted Net Position	<u>191,153</u>	
Total Net Position	<u>\$ 191,153</u>	

The notes to the financial statements are an integral part of this statement.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2016

	Private Purpose Trust Fund
ADDITIONS:	
Local and Intermediate Sources	\$ 74,952
Total Additions	<u>74,952</u>
DEDUCTIONS:	
Other Operating Costs	<u>77,584</u>
Total Deductions	<u>77,584</u>
Change in Net Position	(2,632)
 Total Net Position -September 1 (Beginning)	 <u>193,785</u>
 Total Net Position - August 31 (Ending)	 <u><u>\$ 191,153</u></u>

The notes to the financial statements are an integral part of this statement.



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KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

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

Kaufman Independent School District's (the "District") combined financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

**A. REPORTING ENTITY**

The Board of Trustees, a seven member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The board of trustees is elected by the public. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the trustees, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

The District's basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, Kaufman Independent School District has no component units.

**B. BASIS OF PRESENTATION**

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity, within the governmental and business-type activities columns, has 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. The District had no business-type activities.

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

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

Fund Financial Statements:

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental fund:

1. **General Fund** - This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities.
2. **Capital Projects Fund** - This fund is established to account for proceeds, from the sale of bonds and other resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishings and equipping of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the Debt Service Fund and are used to retire related bond principal.

Additionally, the District reports the following fund types:

1. **Special Revenue Funds** - These funds are established to account for federally financed or expenditures legally restricted for specified purposes. In many special revenue funds, any unused balances are returned to the grantor at the close of specified project periods. For funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.
2. **Debt Service Fund** - This fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund. Any unused debt service fund balances are transferred to the General Fund after all of the related debt obligations have been met.
3. **Private Purpose Trust Fund** - The District accounts for donations which have the stipulation that the funds be used for a specific purpose in this fund. The District's Private Purpose Trust Fund is a scholarship fund. These funds are not budgeted.
4. **Agency Funds** - These custodial funds are used to account for activities of student groups and other organizational activities requiring clearing accounts. Financial resources for the Agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. If any unused resources are declared surplus by the student groups, they are transferred to the General Fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

**C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and deferred outflows of resources; and liabilities and deferred inflows of resources (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The revenues susceptible to accrual are property taxes, charges for services, interest income and intergovernmental revenues. All other Governmental Fund Type revenues are recognized when received.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables.

Revenue from investments, including governmental external investment pool, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pool are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

In accordance with the FAR, the District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Accounting Code Section of the FAR.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

**D. BUDGETARY CONTROL**

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's FAR module, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within Fund Groups at the function code level and revenue object code level.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, the Debt Service Fund and the Food Service Fund. The other special revenue funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting. The budget is amended throughout the year by the Board of Trustees. Such amendments are reflected in the official minutes of the Board.

A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

August 31, 2016	
<u>Fund Balance</u>	
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ -
Nonappropriated Budget Funds	<u>197,873</u>
All Special Revenue Funds	<u>\$197,873</u>

**E. ENCUMBRANCE ACCOUNTING**

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. The District had no material encumbrances outstanding at August 31, 2016.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

**F. IMPLEMENTATION OF NEW STANDARDS**

In fiscal year 2015, the District implemented the following new standards:

GASB Statement 68, *Accounting and Financial Reporting for Pensions* ("GASB 68") establishes accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or similar arrangements that meet certain criteria. The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Implementation is reflected in the financial statements, notes to the financial statements and required supplementary information.

GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* ("GASB 71") amends the transition provisions of GASB 68. GASB 71 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. Implementation is reflected in the financial statements and the notes to the financial statements.

**G. INVENTORIES**

The District records purchases of supplies and materials as expenditures.

**H. INTERFUND RECEIVABLES AND PAYABLES**

Short-term amounts owed between funds are classified as "Due to/from other funds". Interfund loans are classified as "Advances to/from other funds" and are offset by a fund balance reserve account.

**I. CAPITAL ASSETS**

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental activities columns in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over one-year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	40 Years
Furniture and Equipment	5-20 Years

**J. COMPENSATED ABSENCES**

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016**

**K. CASH EQUIVALENTS**

Investments are considered to be cash equivalents if they are highly liquid with maturity within three months or less when purchased.

**L. NET POSITION**

Net position represents the difference between assets and deferred outflows of resources; less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, 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 legislation's adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

When both restricted and unrestricted net position is available, restricted net position is expended before unrestricted net position if such use is consistent with the restricted purpose.

**M. LONG-TERM OBLIGATIONS**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**N. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2016, the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**O. ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2. FUND BALANCES**

The District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form, such as prepaid items, or (b) are legally or contractually required to be maintained intact. The District has nonspendable fund balance for prepaid items.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources 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. General Fund amounts that have been deposited into a sinking fund account for future debt service payments on the District's 2010 Maintenance Tax Notes is restricted for retirement of long-term debt. Capital Projects fund balance is restricted for future approved bond projects. Debt service fund resources are to be used for future servicing of the District's bonded debt and are restricted through debt covenants. Federal and State grant resources are restricted because their use is restricted pursuant to the grant requirements.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Board of Trustees has committed resources as of August 31, 2016 for campus activities.
- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Trustees or through the Board of Trustees delegating this responsibility to other individuals in the District. Under the District's adopted policy, only the Board of Trustees may assign amounts for specific purposes. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District has not assigned any fund balance as of August 31, 2016.
- Unassigned: This classification includes all amounts not included in other spendable classifications, including the residual fund balance of the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

The details of the fund balances are included in the Governmental Funds Balance Sheet and are described below:

**General Fund**

The General Fund has \$368,279 of nonspendable fund balance for prepaid items.

The General Fund has \$759,005 of fund balance restricted for future retirement of long-term debt on the QSC Maintenance Tax Notes issued in October 2010. The General Fund has unassigned fund balance of \$10,853,248 at August 31, 2016.



KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

**Capital Projects Fund**

The Capital Projects Fund has \$18,094,095 of fund balance at August 31, 2016 restricted for future construction and other approved projects.

**Debt Service Fund**

The Debt Service Fund has restricted funds of \$890,391 at August 31, 2016 consisting primarily of property tax collections that are restricted for debt service payments on bonded debt.

**Other Funds**

The fund balance of \$196,048 of the Campus Activity Funds (a special revenue fund) is shown as committed due to Board policy committing those funds to campus activities. The following special revenue fund fund balance is restricted by Federal or State grant restrictions:

Advanced Placement Incentives	<u>\$1,825</u>
Total	<u>\$1,825</u>

**NOTE 3. DEPOSITS AND INVESTMENTS**

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust, with the District's agent bank, approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At August 31, 2016, the carrying amount of the District's deposits (checking accounts and interest-bearing demand accounts) was \$32,353,291 and the bank balance was \$32,720,646. The District's cash deposits at August 31, 2016 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. There was one day during the fiscal year ended August 31, 2016 when the District's cash deposits were not entirely covered by FDIC insurance or by pledged collateral.

2. Investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- a. **Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2016, the District's cash deposits totaled \$32,720,646. This entire amount was either collateralized with securities held by the District's agent or covered by FDIC insurance. Thus, the District's deposits are not exposed to custodial credit risk as of August 31, 2016. There was one day during the fiscal year ended August 31, 2016 when the District's cash deposits were not entirely covered by FDIC insurance or by pledged collateral.
- b. **Custodial Credit Risk - Investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At August 31, 2016, the District held investments in three public funds investment pools. Investments in external investment pools are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.
- c. **Credit Risk:** This is the risk that an issuer or other counterparty to 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. The credit quality rating for all three of the external investment pools held by the District at year-end was AAAm (Standard & Poor's).
- d. **Interest Rate Risk:** This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District 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 weighted average maturity for the District's investment in external investment pools is less than 90 days.
- e. **Foreign Currency Risk:** This is the risk that exchange rates will adversely affect the fair value of an investment. At August 31, 2016, the District was not exposed to foreign currency risk.
- f. **Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investment pools are excluded from the 5 percent disclosure requirement.

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

The District's investments at August 31, 2016, are shown below:

Name	Carrying Amount	Market Value
Lone Star Investment Pool	\$ 4,307	\$ 4,307
TexPool Investment Pool	2,860	2,860
MBIA Texas CLASS	<u>3,468,925</u>	<u>3,468,925</u>
	<u>\$3,476,092</u>	<u>\$3,476,092</u>

**Fair Value Measurements**

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. 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. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset or liability.

The District's investments in Public Investment Pools are not required to be measured at fair value but are measured at amortized cost.

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2016, was as follows:

	Balance <u>September 1</u>	Additions/ <u>Completions</u>	Retirement/ <u>Adjustments</u>	Balance <u>August 31</u>
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 2,302,563	\$ -	\$ -	\$ 2,302,563
Construction in Progress	<u>4,494,366</u>	<u>24,628,644</u>	<u>5,348,764</u>	<u>23,774,246</u>
Total Capital assets not being depreciated	<u>6,796,929</u>	<u>24,628,644</u>	<u>5,348,764</u>	<u>26,076,809</u>
Capital assets, being depreciated				
Buildings	71,407,865	5,675,451	-	77,083,316
Furniture and Equipment	<u>7,713,975</u>	<u>266,205</u>	-	<u>7,980,180</u>
Total capital assets being depreciated	<u>79,121,840</u>	<u>5,941,656</u>	-	<u>85,063,496</u>
Less accumulated depreciation for:				
Buildings	(29,562,323)	(1,639,612)	-	(31,201,935)
Furniture and Equipment	<u>(6,011,993)</u>	<u>(622,675)</u>	-	<u>(6,634,668)</u>
Total accumulated depreciation	<u>(35,574,316)</u>	<u>(2,262,287)</u>	-	<u>(37,836,603)</u>
Total capital assets, being depreciated, net	<u>43,547,524</u>	<u>3,679,369</u>	-	<u>47,226,893</u>
Governmental activities capital assets, net	<u>\$ 50,344,453</u>	<u>\$28,308,013</u>	<u>\$ 5,348,764</u>	<u>\$ 73,303,702</u>

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

Depreciation expense was charged as direct expense to programs of the District as follows:

Governmental activities:	
Instruction	\$1,548,067
Instructional Resources & Media Services	19,880
Curriculum & Instructional Staff Development	27,606
Instructional Leadership	11,047
School Leadership	186,231
Guidance, Counseling & Evaluation Services	87,176
Health Services	34,929
Student (Pupil) Transportation	77,563
Food Services	2,702
Cocurricular/Extracurricular Activities	50,850
General Administration	50,189
Plant Maintenance and Operations	77,787
Security and Monitoring	18,517
Data Processing Services	50,653
Community Services	<u>19,090</u>
Total depreciation expense-Governmental activities	<u>\$2,262,287</u>

**NOTE 5. MAINTENANCE TAX NOTES PAYABLE**

Kaufman Independent School District Qualified School Construction Maintenance Tax Notes, Taxable Series 2010 were issued by the District on October 12, 2010 with an interest rate of 5.298%.

Debt service payments for the notes will be paid from the General Fund. 2010 Maintenance Tax Note payment requirements are as follows:

Year Ended August 31,	Loans		Total Requirements
	Principal	Interest	
2017	\$ -	\$ 185,430	\$ 185,430
2018	-	185,430	185,430
2019	-	185,430	185,430
2020	-	185,430	185,430
2021	-	185,430	185,430
2022-2026	-	927,150	927,150
2027	3,500,000	185,430	3,685,430
Thereafter	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$3,500,000</u>	<u>\$2,039,730</u>	<u>\$5,539,730</u>

The District is required to transfer into a sinking fund \$250,000 on August 15, 2014 and \$250,000 annually through August 15, 2027. These deposits are recorded as restricted cash in the General Fund and as a restriction of fund balance for retirement of long-term debt. At August 31, 2016 the District had \$759,005 in the sinking fund.

The District will receive an interest subsidy payment on the notes from the federal government of up to \$175,000 per year through 2027.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

**NOTE 6. CAPITAL LEASES PAYABLE**

The following is a summary of leased property under capital leases at August 31, 2016:

Equipment	\$ 296,175
Buses	<u>1,769,433</u>
Total	<u>\$2,065,608</u>

The following is a schedule of future minimum lease payments as of August 31, 2016, for each of the next five years and in the aggregate:

<u>Year Ended</u> <u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Lease</u> <u>Payment</u>
2017	\$ 417,600	\$ 34,622	\$ 452,222
2018	420,780	18,643	439,423
2019	174,111	6,857	180,968
2020	177,506	3,461	180,967
2021	-	-	-
Thereafter	-	-	-
	<u>\$1,189,997</u>	<u>\$ 63,583</u>	<u>\$1,253,580</u>

The lease payments will be made out of local general fund revenues. The interest rate on the capital leases are 2.87%-10.73%.

**NOTE 7. LONG-TERM DEBT**

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, loans, and capital leases. All long-term debt represents transactions in the District's governmental activities.

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

The following is a summary of the changes in the District's Long-term Debt for the year ended August 31, 2016:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Outstanding 9/1/15</u>	<u>Issued Current Year</u>	<u>Interest Accretion</u>	<u>Retired/ Refunded</u>	<u>Amounts Outstanding 8/31/16</u>	<u>Due Within One Year</u>
Bonded Indebtedness:							
2002 School Bldg.							
& Refunding Bonds	2.88-5.96%	\$ 572,525	\$ -	\$ -	\$ 572,525	\$ -	\$ -
2006 Refunding Bonds	3.86-4.50%	17,730,424	-	-	17,730,424	-	-
2014 Refunding Bonds	1.00-2.14%	733,351	-	-	-	733,351	6,514
2015 Unlimited Tax School							
Building Bonds	4.00%	8,295,000	-	-	-	8,295,000	-
2016 Unlimited Tax School Bldg.							
& Refunding Bonds	2.00-5.00%	-	54,750,000	-	-	54,750,000	1,105,000
Total Bonded Indebtedness:		<u>27,331,300</u>	<u>54,750,000</u>	<u>-</u>	<u>18,302,949</u>	<u>63,778,351</u>	<u>1,111,514</u>
Other Direct Obligations:							
Accreted Interest -							
Capital Appreciation Bonds		1,894,886	-	157,255	2,044,432	7,709	2,651
Premiums/Discounts on Bonds Payable		2,494,094	5,929,147	-	1,521,129	6,902,112	773,604
Qualified School Construction							
Maint. Tax Notes, 2010	5.298%	3,500,000	-	-	-	3,500,000	-
Capital Leases Payable	2.87-10.73%	<u>1,598,185</u>	<u>-</u>	<u>-</u>	<u>408,188</u>	<u>1,189,997</u>	<u>417,600</u>
Total Other Obligations:		<u>9,487,165</u>	<u>5,929,147</u>	<u>157,255</u>	<u>3,973,749</u>	<u>11,599,818</u>	<u>1,193,855</u>
Total Obligations of District		<u>\$36,818,465</u>	<u>\$60,679,147</u>	<u>\$157,255</u>	<u>\$22,276,698</u>	<u>\$75,378,169</u>	<u>\$2,305,369</u>

Presented below is a summary of general obligation bond requirements to maturity:

<u>Year Ended August 31,</u>	<u>General Obligation</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2017	\$ 1,111,514	\$ 3,036,380	\$ 4,147,894
2018	838,966	2,537,578	3,376,544
2019	1,131,931	2,519,963	3,651,894
2020	1,450,940	2,487,904	3,938,844
2021	1,540,000	2,394,119	3,934,119
2022-2026	8,705,000	10,988,756	19,693,756
2027-2031	11,010,000	8,674,118	19,684,118
2032-2036	11,585,000	6,329,018	17,914,018
2037-2041	13,490,000	3,971,959	17,461,959
2042-2045	<u>12,915,000</u>	<u>1,058,500</u>	<u>13,973,500</u>
	<u>\$63,778,351</u>	<u>\$43,998,295</u>	<u>\$107,776,646</u>

The 2014 and 2016 bond series include Capital Appreciation Bonds. No interest is paid on these bonds prior to maturity. The bonds mature variously in 2017 through 2020. Interest accrues on these bonds each February 15 and August 15 even though the interest is not paid until maturity.

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the District. General Obligation Bonds require the District to compute, at the time taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The District is in compliance with this requirement.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2016.

**NOTE 8. DEBT ISSUANCES AND DEFEASED DEBT**

In April 2016, the District issued \$37,200,000 (par value) in Unlimited Tax School Building Bonds Series 2016 to provide funds for approved construction and other projects. The net proceeds of \$38,715,000 (\$37,200,000 par amount of the bonds plus \$1,907,200 of premium paid on the bonds less \$392,200 of underwriting fees and other issuance costs) were deposited in the Capital Projects Fund.

In April 2016, the District issued \$17,550,000 (par value) in Unlimited Tax School Refunding Bonds Series 2016 to advance refund \$17,550,425 (par value) of outstanding bonds. The net proceeds of \$21,387,717 (\$17,550,000 par amount of the bonds plus \$4,021,947 of premium paid on the bonds less \$184,230 of underwriting fees, insurance, and other issuance costs) were used to advance refund \$17,550,425 of principal plus interest on the refunded bonds and a deposit of \$1,058,893 to the Debt Service Fund. The refunded bonds were repaid from the irrevocable trust when the bonds reached their call date on April 25, 2016.

The refunding was undertaken to reduce the District's total debt service payments by \$3,188,639 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$2,569,005.

In prior years, the District has refunded certain bond series in advanced refunding transactions. Funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. All refunded bonds have been repaid.

The District's deferred charges on bond refundings are as follows:

Balance – August 31, 2015	\$718,229
Increase due to current year refunding	180,482
Current year amortization	<u>(42,249)</u>
Balance – August 31, 2016	<u>\$856,462</u>

**NOTE 9. PROPERTY TAXES**

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll upon which the levy for the 2015-16 fiscal year was based was \$611,281,966. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15 % delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2016, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.17 and \$0.29 per \$100 valuation, respectively, for a total of \$1.46 per \$100 valuation.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

Current tax collections for the year ended August 31, 2016 were 97.1% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of August 31, 2016, property taxes receivable, net of estimated uncollectible taxes, totaled \$562,995 and \$99,496 for the General and Debt Service Funds, respectively.

Property taxes are recorded as receivables and unavailable revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected.

**NOTE 10. DEFINED BENEFIT PENSION PLAN**

**Plan Description.** Kaufman Independent School District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

**Pension Plan Fiduciary Net Position.** Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2015 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2015.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$163,887,375,172
Less: Plan Fiduciary Net Position	<u>(128,538,706,212)</u>
Net Pension Liability	<u>\$ 35,348,668,960</u>
Net Position as percentage of Total Pension Liability	78.43%

**Benefits Provided.** TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.



KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

**Contributions.** Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2015 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2015 and 2016.

	<u>Contribution Rates</u>	
	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Kaufman ISD FY2016 Employer Contributions	\$	588,657
Kaufman ISD FY2016 Member Contributions	\$	1,529,202
State of Texas 2015 NECE On-Behalf Contributions	\$	1,114,206

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during the fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding source or a privately sponsored source, from non-educational and general, or local funds.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

**Actuarial Assumptions.** The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases Including Inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

**Discount Rate.** The single discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. 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. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates 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. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
<b>Global Equity</b>			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation	0%		2.2%
Alpha	0%		1.0%
<b>Total</b>	<b>100%</b>		<b>8.7%</b>

\* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact on the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Kaufman ISD's proportionate share of the net pension liability:	\$ 10,569,062	\$ 6,745,586	\$ 3,560,868

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At August 31, 2016, Kaufman Independent School District reported a liability of \$6,745,586 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Kaufman Independent School District. The amount recognized by Kaufman Independent School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with Kaufman Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$ 6,745,586
State's proportionate share that is associated with the District	<u>13,297,354</u>
Total	<u>\$ 20,042,940</u>

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 thru August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.019083% an increase of 57.8% from its proportionate share of 0.012095 % at August 31, 2014.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

**Changes Since the Prior Actuarial Valuation** – The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

*Economic Assumptions*

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

*Mortality Assumptions*

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

*Other Demographic Assumptions*

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

*Actuarial Methods and Policies*

13. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the year ended August 31, 2016, Kaufman Independent School District recognized pension expense of \$1,894,659 and revenue of \$1,894,659 for support provided by the State.

**KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016**

At August 31, 2016, Kaufman Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 41,553	\$ 259,239
Changes in actuarial assumptions	174,652	240,653
Difference between projected and actual investment earnings	920,703	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,597,074	2,076
Contributions paid to TRS subsequent to the measurement date	588,657	-
Total	\$ 3,322,639	\$ 501,968

\$588,657 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31:	Pension Expense Amount
2017	\$ 397,718
2018	397,718
2019	397,719
2020	644,580
2021	226,669
2022	167,610

**NOTE 11. SCHOOL DISTRICT RETIREE HEALTH PLAN**

*Plan Description.* Kaufman Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees authority to establish and amend the basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at [www.trs.state.tx.us](http://www.trs.state.tx.us), by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

*Funding Policy.* Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal year 2016, 2015, and 2014. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2016, 2015, and 2014, the State's contributions to TRS-Care were \$196,004, \$188,163, and \$184,157, respectively, the active member contributions were \$138,052, \$132,385, and \$129,521, respectively, and the school district's contribution were \$133,198, \$127,528, and \$124,698, respectively, which equaled the required contributions each year.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments are recognized as equal revenues and expenditures/expenses by the District. For the year ended August 31, 2016, the contribution made on behalf of the District was \$62,590.

**NOTE 12. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund receivables and payables at August 31, 2016 represented short-term advances between funds. These amounts are expected to be repaid in less than one year from August 31, 2016.

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Major Governmental Funds:		
General Fund:		
Special Revenue Funds:		
Campus Activity Fund	\$ -	\$ 1,107
Debt Service Fund	<u>-</u>	<u>110,643</u>
Total Major Governmental Funds	<u>-</u>	<u>111,750</u>
Nonmajor Governmental Funds:		
Special Revenue Funds:		
General Fund	1,107	-
Debt Service Fund:		
General Fund	<u>110,643</u>	<u>-</u>
Total Nonmajor Governmental Funds	<u>111,750</u>	<u>-</u>
Total	<u>\$111,750</u>	<u>\$111,750</u>

During the fiscal year ended August 31, 2016, \$64,111 was transferred from the General Fund to the District's Child Care Center. The District also transferred \$6,526 from the General Fund to the Child Nutrition Fund. These transfers were made to cover the operating deficits of the Child Care Center and the Child Nutrition Program.

**NOTE 13. HEALTH CARE**

During the year ended August 31, 2016, employees of Kaufman Independent School District were covered by a health insurance plan (the Plan). The District contributed \$260 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay any additional contribution and contributions for dependents. All contributions were paid to a fully insured plan.

**NOTE 14. WORKERS COMPENSATION**

The District participates in the Texas Educational Insurance Association Workers Compensation Self-Insurance Joint Fund. The District is partially self-funded to a loss fund maximum of \$227,013 for the 15-16 fiscal year. Additionally, the District incurred fixed costs of \$57,066 for their share of claims administration, loss control, record keeping, and cost of excess insurance.

Claims Administrative Services, Inc. provides claims administration. Reinsurance is provided for aggregate claim losses exceeding \$500,000 for the entire pool. The fixed cost charge is based on total payroll paid by the District. Increases or decreases in the fixed costs will adjust subsequent year charges.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

The accrued liability for workers compensation self-insurance of \$227,379 includes incurred but not reported claims. This liability is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," which require that a liability for claims be reported if information indicates that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The liability recorded is an undiscounted actuarial calculation.

Changes in workers compensation claims liability amounts in fiscal years 2016 and 2015 are represented below:

Fiscal Year	September 1 Claims Liability	Claims and Changes in Estimates	Claims Payments	August 31 Claims Liability
2016	\$202,334	\$112,252	\$ 87,207	\$227,379
2015	236,050	23,000	56,716	202,334

**NOTE 15. DUE FROM OTHER GOVERNMENTS**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation, Per Capita, Existing Debt Allotment, and Instruction Facilities Allotment Programs. Amounts due from federal and state governments as of August 31, 2016, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

Fund	State Entitlements	Federal Grants	Local Governments	Total
General	\$116,262	\$ -	\$ -	\$116,262
Debt Service Fund	-	-	-	-
Nonmajor Special Revenue	<u>150,751</u>	<u>457,385</u>	-	<u>608,136</u>
Total	<u>\$267,013</u>	<u>\$457,385</u>	<u>\$ -</u>	<u>\$724,398</u>

**NOTE 16. LITIGATION AND CONTINGENCIES**

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2016 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016

**NOTE 17. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES**

During the current year, revenues from local and intermediate sources consisted of the following:

	General Fund	Capital Projects Fund	Special Revenue Funds	Debt Service Fund	Total
Property Taxes	\$7,013,158	\$ -	\$ -	\$1,701,292	\$ 8,714,450
Food Sales	-	-	357,001	-	357,001
Investment Income	42,758	29,651	-	2,150	74,559
Penalties, interest and other tax related income	186,946	-	-	34,158	221,104
Co-curricular student activities	95,814	-	501,380	-	597,194
Other	77,933	-	116,886	-	194,819
Total	<u>\$7,416,609</u>	<u>\$ 29,651</u>	<u>\$975,267</u>	<u>\$1,737,600</u>	<u>\$10,159,127</u>

**NOTE 18. UNEARNED REVENUE**

Unearned revenue at year-end consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Read to Succeed	\$ -	\$ 406	\$ -	\$ 406
Tobacco Grant	-	40	-	40
State Funding	-	-	55,988	55,988
	<u>\$ -</u>	<u>\$ 446</u>	<u>\$55,988</u>	<u>\$56,434</u>

**NOTE 19. CONSTRUCTION COMMITMENTS**

As of August 31, 2016, the District had entered into construction related contracts for construction projects totaling \$49,995,308. At August 31, 2016, there was \$27,175,127 of remaining costs under these contracts. These projects are being funded by the District's Capital Projects Fund.

**NOTE 20. EXCESS OF EXPENDITURES OVER APPROPRIATIONS BY FUNCTION**

The Texas Education Agency requires the budgets for certain Governmental fund types to be filed with the Texas Education Agency. The budget should not be exceeded in any functional category under TEA requirements. Expenditures exceeded appropriations in two functional categories in the Debt Service Fund for the year ended August 31, 2016.



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## REQUIRED SUPPLEMENTARY INFORMATION

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-1

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.019083%	0.012095%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 6,745,586	\$ 3,230,741
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	13,297,354	11,592,865
Total	<u>\$ 20,042,940</u>	<u>\$ 14,823,606</u>
District's Covered-Employee Payroll	\$ 20,367,180	\$ 19,926,088
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	33.12%	16.21%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR FISCAL YEAR 2016

EXHIBIT G-2

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 588,657	\$ 565,057
Contribution in Relation to the Contractually Required Contribution	(588,657)	(565,057)
Contribution Deficiency (Excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
District's Covered-Employee Payroll	\$ 21,238,941	\$ 20,367,180
Contributions as a Percentage of Covered-Employee Payroll	2.77%	2.77%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31, 2014 for Fiscal Year 2015 and August 31, 2015 for Fiscal Year 2016.

Note: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED AUGUST 31, 2016

**PENSION INFORMATION**

*Changes of benefit terms.*

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

*Changes of assumptions.*

The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

*Economic Assumptions*

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

*Mortality Assumptions*

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

*Other Demographic Assumptions*

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

*Actuarial Methods and Policies*

13. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

## COMBINING SCHEDULES

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
AUGUST 31, 2016

Data Control Codes		205	211	224	225
			ESEA I, A	IDEA - Part B	IDEA - Part B
		Head Start	Improving Basic Program	Formula	Preschool
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ (90,833)	\$ (92,049)	\$ (71,618)	\$ (1,574)
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Receivables from Other Governments	126,730	143,064	100,935	2,908
1260	Due from Other Funds	-	-	-	-
1290	Other Receivables	-	-	-	-
1000	Total Assets	<u>\$ 35,897</u>	<u>\$ 51,015</u>	<u>\$ 29,317</u>	<u>\$ 1,334</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ 36	\$ -	\$ 2,968	\$ -
2160	Accrued Wages Payable	35,861	51,015	26,349	1,334
2300	Unearned Revenues	-	-	-	-
2000	Total Liabilities	<u>35,897</u>	<u>51,015</u>	<u>29,317</u>	<u>1,334</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
3480	Retirement of Long-Term Debt	-	-	-	-
Committed Fund Balance:					
3545	Other Committed Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 35,897</u>	<u>\$ 51,015</u>	<u>\$ 29,317</u>	<u>\$ 1,334</u>

240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	392 Non-Ed. Community Based Support	397 Advanced Placement Incentives	410 State Textbook Fund	423 Read to Succeed
\$ 36,080	\$ -	\$ (8,552)	\$ (10,778)	\$ (9,109)	\$ 1,825	\$ (135,129)	\$ 406
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
61,593	-	8,552	13,603	11,044	-	139,707	-
-	-	-	-	-	-	-	-
34,230	-	-	-	-	-	-	-
<u>\$ 131,903</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,825</u>	<u>\$ 1,935</u>	<u>\$ 1,825</u>	<u>\$ 4,578</u>	<u>\$ 406</u>
\$ 128,938	\$ -	\$ -	\$ -	\$ 1,935	\$ -	\$ 4,578	\$ -
2,965	-	-	2,825	-	-	-	-
-	-	-	-	-	-	-	406
<u>131,903</u>	<u>-</u>	<u>-</u>	<u>2,825</u>	<u>1,935</u>	<u>-</u>	<u>4,578</u>	<u>406</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1,825	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1,825	-	-
<u>\$ 131,903</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,825</u>	<u>\$ 1,935</u>	<u>\$ 1,825</u>	<u>\$ 4,578</u>	<u>\$ 406</u>



KAUFMAN INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
AUGUST 31, 2016

Data Control Codes		427 Tobacco Grant	461 Campus Activity Funds	498 Child Care Center	Total Nonmajor Special Revenue Funds
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ 40	\$ 192,823	\$ 7,344	\$ (181,124)
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Receivables from Other Governments	-	-	-	608,136
1260	Due from Other Funds	-	1,107	-	1,107
1290	Other Receivables	-	3,700	-	37,930
1000	Total Assets	<u>\$ 40</u>	<u>\$ 197,630</u>	<u>\$ 7,344</u>	<u>\$ 466,049</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ -	\$ 1,582	\$ -	\$ 140,037
2160	Accrued Wages Payable	-	-	7,344	127,693
2300	Unearned Revenues	40	-	-	446
2000	Total Liabilities	<u>40</u>	<u>1,582</u>	<u>7,344</u>	<u>268,176</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	1,825
3480	Retirement of Long-Term Debt	-	-	-	-
Committed Fund Balance:					
3545	Other Committed Fund Balance	-	196,048	-	196,048
3000	Total Fund Balances	<u>-</u>	<u>196,048</u>	<u>-</u>	<u>197,873</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 40</u>	<u>\$ 197,630</u>	<u>\$ 7,344</u>	<u>\$ 466,049</u>

599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 835,736	\$ 654,612
109,336	109,336
(9,840)	(9,840)
-	608,136
110,643	111,750
-	37,930
<u>\$ 1,045,875</u>	<u>\$ 1,511,924</u>
\$ -	\$ 140,037
-	127,693
55,988	56,434
<u>55,988</u>	<u>324,164</u>
99,496	99,496
<u>99,496</u>	<u>99,496</u>
-	1,825
890,391	890,391
-	196,048
<u>890,391</u>	<u>1,088,264</u>
<u>\$ 1,045,875</u>	<u>\$ 1,511,924</u>

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		205	211	224	225
		Head Start	ESEA I, A Improving Basic Program	IDEA - Part B Formula	IDEA - Part B Preschool
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800	State Program Revenues	-	-	-	-
5900	Federal Program Revenues	519,353	663,185	673,169	18,607
5020	Total Revenues	519,353	663,185	673,169	18,607
EXPENDITURES:					
Current:					
0011	Instruction	409,950	575,613	415,786	18,607
0013	Curriculum and Instructional Staff Development	12,711	-	-	-
0021	Instructional Leadership	-	-	26,422	-
0023	School Leadership	32,519	87,572	-	-
0031	Guidance, Counseling and Evaluation Services	-	-	230,961	-
0033	Health Services	57,489	-	-	-
0035	Food Services	-	-	-	-
0036	Extracurricular Activities	-	-	-	-
0061	Community Services	6,684	-	-	-
Debt Service:					
0071	Principal on Long Term Debt	-	-	-	-
0072	Interest on Long Term Debt	-	-	-	-
0073	Bond Issuance Cost and Fees	-	-	-	-
6030	Total Expenditures	519,353	663,185	673,169	18,607
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES):					
7901	Refunding Bonds Issued	-	-	-	-
7915	Transfers In	-	-	-	-
7916	Premium or Discount on Issuance of Bonds	-	-	-	-
8949	Other (Uses)	-	-	-	-
7080	Total Other Financing Sources (Uses)	-	-	-	-
1200	Net Change in Fund Balance	-	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	392 Non-Ed. Community Based Support	397 Advanced Placement Incentives	410 State Textbook Fund	423 Read to Succeed
\$ 357,001	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11,536	-	-	-	21,724	450	257,064	-
1,627,398	37,787	80,137	63,832	-	-	-	-
1,995,935	37,787	80,137	63,832	21,724	450	257,064	-
-	37,787	80,137	63,832	-	-	257,064	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,002,461	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	21,724	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,002,461	37,787	80,137	63,832	21,724	-	257,064	-
(6,526)	-	-	-	-	450	-	-
-	-	-	-	-	-	-	-
6,526	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
6,526	-	-	-	-	-	-	-
-	-	-	-	-	450	-	-
-	-	-	-	-	1,375	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,825	\$ -	\$ -

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		427 Tobacco Grant	461 Campus Activity Funds	498 Child Care Center	Total Nonmajor Special Revenue Funds
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ 509,920	\$ 108,346	\$ 975,267
5800	State Program Revenues	-	372	10,552	301,698
5900	Federal Program Revenues	-	-	-	3,683,468
5020	Total Revenues	-	510,292	118,898	4,960,433
EXPENDITURES:					
Current:					
0011	Instruction	-	-	-	1,858,776
0013	Curriculum and Instructional Staff Development	-	-	-	12,711
0021	Instructional Leadership	-	-	-	26,422
0023	School Leadership	-	-	-	120,091
0031	Guidance, Counseling and Evaluation Services	-	-	-	230,961
0033	Health Services	-	-	-	57,489
0035	Food Services	-	-	-	2,002,461
0036	Extracurricular Activities	-	568,550	-	568,550
0061	Community Services	-	-	183,009	211,417
Debt Service:					
0071	Principal on Long Term Debt	-	-	-	-
0072	Interest on Long Term Debt	-	-	-	-
0073	Bond Issuance Cost and Fees	-	-	-	-
6030	Total Expenditures	-	568,550	183,009	5,088,878
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(58,258)	(64,111)	(128,445)
OTHER FINANCING SOURCES (USES):					
7901	Refunding Bonds Issued	-	-	-	-
7915	Transfers In	-	-	64,111	70,637
7916	Premium or Discount on Issuance of Bonds	-	-	-	-
8949	Other (Uses)	-	-	-	-
7080	Total Other Financing Sources (Uses)	-	-	64,111	70,637
1200	Net Change in Fund Balance	-	(58,258)	-	(57,808)
0100	Fund Balance - September 1 (Beginning)	-	254,306	-	255,681
3000	Fund Balance - August 31 (Ending)	\$ -	\$ 196,048	\$ -	\$ 197,873

599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 1,737,600	\$ 2,712,867
1,324,051	1,625,749
-	3,683,468
3,061,651	8,022,084
-	1,858,776
-	12,711
-	26,422
-	120,091
-	230,961
-	57,489
-	2,002,461
-	568,550
-	211,417
752,524	752,524
2,526,159	2,526,159
185,030	185,030
3,463,713	8,552,591
(402,062)	(530,507)
17,550,000	17,550,000
-	70,637
4,021,947	4,021,947
(20,328,825)	(20,328,825)
1,243,122	1,313,759
841,060	783,252
49,331	305,012
\$ 890,391	\$ 1,088,264

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## REQUIRED T.E.A. SCHEDULES



KAUFMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED AUGUST 31, 2016

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2007 and prior years	Various	Various	\$ 585,122,547
2008	1.040000	0.260000	625,455,230
2009	1.040000	0.260000	662,907,636
2010	1.040000	0.260000	643,399,255
2011	1.170000	0.130000	640,085,175
2012	1.170000	0.130000	630,217,324
2013	1.170000	0.130000	611,557,905
2014	1.170000	0.130000	609,875,328
2015	1.170000	0.130000	608,966,432
2016 (School year under audit)	1.170000	0.290000	611,281,966
1000 TOTALS			

(10) Beginning Balance 9/1/2015		(20) Current Year's Total Levy		(31) Maintenance Collections		(32) Debt Service Collections		(40) Entire Year's Adjustments		(50) Ending Balance 8/31/2016	
\$	101,382	\$	-	\$	3,921	\$	595	\$	(3,207)	\$	93,659
	38,225		-		5,599		1,400		(924)		30,302
	44,560		-		8,426		2,106		(593)		33,435
	42,894		-		8,162		2,040		(522)		32,170
	46,590		-		11,642		1,294		(521)		33,133
	58,402		-		16,938		1,882		(820)		38,762
	62,774		-		20,239		2,249		(498)		39,788
	105,863		-		45,164		5,018		2,684		58,365
	318,815		-		175,085		19,454		(6,806)		117,470
	-		8,770,563		6,718,316		1,665,224		(136,095)		250,928
\$	819,505	\$	8,770,563	\$	7,013,492	\$	1,701,262	\$	(147,302)	\$	728,012

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 322,787	\$ 322,787	\$ 357,001	\$ 34,214
5800 State Program Revenues	12,464	12,464	11,536	(928)
5900 Federal Program Revenues	1,516,525	1,516,525	1,627,398	110,873
5020 Total Revenues	1,851,776	1,851,776	1,995,935	144,159
EXPENDITURES:				
0035 Food Services	2,038,613	2,038,613	2,002,461	36,152
6030 Total Expenditures	2,038,613	2,038,613	2,002,461	36,152
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(186,837)	(186,837)	(6,526)	180,311
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	6,526	6,526
1200 Net Change in Fund Balances	(186,837)	(186,837)	-	186,837
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ (186,837)	\$ (186,837)	\$ -	\$ 186,837

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND  
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 1,739,139	\$ 2,798,032	\$ 1,737,600	\$ (1,060,432)
5800	State Program Revenues	1,319,063	1,319,063	1,324,051	4,988
5020	Total Revenues	3,058,202	4,117,095	3,061,651	(1,055,444)
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	752,525	752,525	752,524	1
0072	Interest on Long Term Debt	2,142,432	2,142,432	2,526,159	(383,727)
0073	Bond Issuance Cost and Fees	3,000	3,000	185,030	(182,030)
6030	Total Expenditures	2,897,957	2,897,957	3,463,713	(565,756)
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	160,245	1,219,138	(402,062)	(1,621,200)
OTHER FINANCING SOURCES (USES):					
7901	Refunding Bonds Issued	-	-	17,550,000	17,550,000
7916	Premium or Discount on Issuance of Bonds	-	-	4,021,947	4,021,947
8949	Other (Uses)	-	-	(20,328,825)	(20,328,825)
7080	Total Other Financing Sources (Uses)	-	-	1,243,122	1,243,122
1200	Net Change in Fund Balances	160,245	1,219,138	841,060	(378,078)
0100	Fund Balance - September 1 (Beginning)	49,331	49,331	49,331	-
3000	Fund Balance - August 31 (Ending)	\$ 209,576	\$ 1,268,469	\$ 890,391	\$ (378,078)

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## FEDERAL AWARDS SECTION

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INDEPENDENT AUDITORS' 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 Board of Trustees  
Kaufman Independent School District  
Kaufman, 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, each major fund, and the aggregate remaining fund information of Kaufman Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise Kaufman Independent School District's basic financial statements, and have issued our report dated January 4, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's 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 District'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001.



### **Kaufman Independent School District's Response to Finding**

The District's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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



Hankins, Eastup, Deaton, Tonn & Seay, PC  
Denton, Texas

January 4, 2017

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

To the Board of Trustees  
Kaufman Independent School District  
Kaufman, Texas

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

We have audited Kaufman Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Kaufman Independent School District's major federal programs for the year ended August 31, 2016. Kaufman Independent School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of finding and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Kaufman Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs 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 Kaufman Independent School District's 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 Kaufman Independent School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Kaufman Independent School District 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 August 31, 2016.

## Report on Internal Control Over Compliance

Management of Kaufman Independent School District 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 Kaufman Independent School District's 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 Kaufman Independent School District's 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.



Hankins, Eastup, Deaton, Tonn & Seay, PC  
Denton, Texas

January 4, 2017

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2016

I. Summary of Auditor's Results

1. Type of auditor's report issued on the financial statements: Unmodified.
2. Internal control over financial reporting:  
Material weakness(es) identified: None  
Significant deficiency(ies) identified that are not considered to be material weaknesses: None reported
3. Noncompliance which is material to the financial statements: None
4. Internal controls over major federal programs:  
Material weakness(es) identified: None  
Significant deficiency(ies) identified that are not considered to be material weaknesses: None reported
5. Type of auditor's report on compliance for major federal programs: Unmodified.
6. Did the audit disclose findings which are required to be reported in accordance with 2 CFR 200.516(a)?: No
7. Major programs include:  
  
CFDA 84.010A ESEA, Title I, Part A - Improving Basic Programs  
  
Special Education Cluster:  
CFDA 84.027 IDEA-Part B, Formula  
CFDA 84.173 IDEA-Part B, Preschool
8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.
9. Low risk auditee: Yes

II. Findings Related to the Financial Statements

None

III. Findings and Questioned Costs Related to Federal Awards

None

IV. Other Finding

Finding 2016-001 – Pledged collateral less than required amount

Criteria: The Texas Public Funds Investment Act (the Act) requires the District's depository bank to pledge securities or letters of credit to the District to fully secure any bank balances that exceed the FDIC deposit insurance coverage on District bank balances. When certain types of securities are pledged, the Act requires that the value of the pledged collateral must equal 110% of uninsured deposits.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016

IV. Other Finding-continued

Condition: During the year ended August 31, 2016, there was one day on which the amount of collateral pledged by the depository bank was less than the District's uninsured deposits.

Questioned Costs: None

Cause: The District monitors the level of deposits and pledged securities on a regular basis. Large deposits from tax collections caused the deposit balance to increase above normal levels.

Effect: Pledged collateral was less than the amount required by the Act on one day during the fiscal year. The amount of deposits not fully collateralized were approximately \$643,000.

Recommendation: The District has procedures in place to monitor balances and pledged securities on a regular basis. The District will continue to closely monitor daily deposits and pledged collateral as necessary.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF STATUS OF PRIOR FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2016

**PRIOR YEAR FINDING/NONCOMPLIANCE**

Finding 2015-001 – Child Nutrition Program Capital Asset Acquisition Approval

Status: The District established additional procedures for budgeting and purchase order approval for approval of Child Nutrition Program capital asset purchases.

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED AUGUST 31, 2016

**CORRECTIVE ACTION PLAN**

Finding 2016-001 – Pledged collateral less than required amount

The District will continue to monitor its cash balances and securities pledged on a daily basis, especially at times when large deposits are expected, and have its depository bank pledge additional collateral when needed.

Contact Person: Brian Carter, Chief Financial Officer

KAUFMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2016

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed Through Region 10 Service Center</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101057950	\$ 610,989
ESEA, Title I, Part A - Improving Basic Programs	84.010A	17610101057950	52,196
Total CFDA Number 84.010A			663,185
Title III, Part A - English Language Acquisition	84.365A	16671001057950	61,007
Title III, Part A - English Language Acquisition	84.365A	17671001057950	2,825
Total CFDA Number 84.365A			63,832
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	16694501057950	80,137
Total Passed Through Region 10 Service Center			\$ 807,154
<u>Passed Through State Department of Education</u>			
*IDEA - Part B, Formula	84.027	166600011299036600	\$ 646,820
*IDEA - Part B, Formula	84.027	176600011299036600	26,349
Total CFDA Number 84.027			673,169
*IDEA - Part B, Preschool	84.173	166610011299036610	17,273
*IDEA - Part B, Preschool	84.173	176610011299036610	1,334
Total CFDA Number 84.173			18,607
Total Special Education Cluster (IDEA)			691,776
Career and Technical - Basic Grant	84.048	1620006129903	37,787
Total Passed Through State Department of Education			\$ 729,563
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			\$ 1,536,717
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Direct Programs</u>			
Head Start	93.600	06CH01015002	\$ 519,353
Total Direct Programs			\$ 519,353
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			\$ 519,353
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401601	\$ 353,004
*National School Lunch Program - Cash Assistance	10.555	71301601	1,117,266
*National School Lunch Prog. - Non-Cash Assistance	10.555	71301601	157,128
Total CFDA Number 10.555			1,274,394
Total Child Nutrition Cluster			1,627,398
Total Passed Through the State Department of Agriculture			\$ 1,627,398
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			\$ 1,627,398
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ 3,683,468

\*Clustered Programs

See Accompanying Notes to the Schedule of Expenditures of Federal Awards



KAUFMAN INDEPENDENT SCHOOL DISTRICT  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2016

1. The District uses the fund types specified in Texas Education Agency's Financial Accountability System Resource Guide. Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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 revenues until earned.

3. The District participates in numerous state and Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2016, may be impaired. In the opinion of the District, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions has been recorded in the accompanying combined financial statements for such contingencies.
4. The District also received \$325,002 of School Health and Related Services (SHARS) payments. These payments are not considered Federal awards for purposes of the Schedule of Expenditures of Federal Awards and were recorded as Federal revenues in the General Fund.