

**KILGORE
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2016

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Kilgore Independent School District
Annual Financial Report
For The Year Ended August 31, 2016

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Introductory Section

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CERTIFICATE OF BOARD

Kilgore Independent School District
Name of School District

Gregg
County

092-902
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 12th day of December, 2016.



Signature of Board Secretary



Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):
(attach list as necessary)

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Financial Section

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BROWN, BRONSTAD, HABENICHT & ROSSON, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 1790

KILGORE, TEXAS 75663-1790

SHAREHOLDER:

LYNDA R. NEWSOME, C.P.A.

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MEMBERS

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KILGORE, TEXAS 75662

Independent Auditors' Report

To the Board of Trustees
Kilgore Independent School District
301 N Kilgore St
Kilgore, Texas 75662

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kilgore 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.

Auditors' 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 Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 District'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 Kilgore Independent School District as of August 31, 2016, and the respective changes in financial position, 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, budgetary comparison information, schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kilgore Independent School District's basic financial statements. The introductory section and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart F -- Audit Requirements (Uniform Guidance) and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

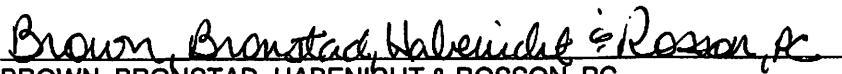
The individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 on our consideration of Kilgore Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over

financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Kilgore Independent School District's internal control over financial reporting and compliance.


BROWN, BRONSTAD, HABENICHT & ROSSON, PC

Kilgore, TX
November 30, 2016

Kilgore Independent School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Kilgore Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2016. Please read it in conjunction with the independent auditors' report on page 6, and the District's Basic Financial Statements which begin on page 16.

USING THIS ANNUAL REPORT

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 17 and 18). 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 19) 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. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers, and how the sales revenues covered the expenses of the goods or services. 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 27) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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 16. 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 of the District's assets and liabilities at the end of the year while the Statement of Activities includes all of the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting, which is 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 outside the district and grants provided by the U.S. Department of Education to assist children with disabilities from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All of the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net assets and changes in them. The District's net assets (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are 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 combine the District into one kind of activity:

- Governmental activities—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.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 19 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 federal grants 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). The District's two kinds of funds – governmental and fiduciary – use different accounting approaches:

- 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.
- Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Kilgore Independent School District's own programs. The District includes the Student Activity Funds on the Fiduciary 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. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 26. 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 these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental type activities.

Net position of the District's governmental activities increased from \$34,468,783 to \$34,656,990. 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 \$11,020,130 at August 31, 2016.

Table I
Kilgore Independent School District
Net Position

	Governmental Activities 08-31-2016	Governmental Activities 08-31-2015
Current and other assets	20,311,704	19,571,996
Capital assets	71,932,195	74,083,919
Total assets	92,243,899	93,655,915
Deferred outflow related to TRS	2,836,935	682,971
Current Liabilities	3,700,072	3,132,088
Long-term liabilities	56,308,670	55,953,321
Total liabilities	60,008,742	59,085,409
Deferred inflow related to TRS	415,102	784,694
Net Assets:		
Invested in capital assets, net of related debt	21,451,864	18,775,773
Restricted	2,184,996	3,698,549
Unrestricted	11,020,130	11,994,461
Total net position	34,656,990	34,468,783

Table II
Kilgore Independent School District
Changes in Net Position

	Governmental Activities 8-31-2016	Governmental Activities 8-31-2015
Revenues:		
Program Revenues:		
Charges for Services	923,643	1,010,426
Operating grants and contributions	3,129,250	3,077,055
General Revenues:		
Maintenance and debt service taxes	21,198,369	21,035,371
State aid – formula grants	14,526,253	12,238,413
Investment Earnings	87,341	28,448
Loss on sale of capital assets	(1,986,530)	-0-
Miscellaneous	456,388	491,137
Total Revenue	38,334,714	37,880,850
Expenses:		
Instruction, curriculum and media services	21,402,155	20,494,313
Instructional and school leadership	2,631,351	2,412,444
Student support services	2,742,147	2,445,034
Child nutrition	2,165,656	2,073,422
Co-curricular activities	1,659,480	1,659,711
General administration	1,304,411	1,183,238
Plant maintenance, security & data processing	3,830,558	3,796,918
Community Services	6,245	6,490
Debt services	2,090,550	2,168,802
Other intergovernmental charges	313,954	308,139
Total Expenses	38,146,507	36,548,511
Increase in net position before transfers and special items	188,207	1,332,339
Net position, beginning	34,468,783	36,042,797
Prior Period Adjustment – GASB 68	-0-	(2,906,353)
Net position, ending	34,656,990	34,468,783

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 19) reported a combined fund balance of \$16,208,378, which is a decrease of \$268,764. Included in this year's total change in fund balance is an increase of \$1,096,560 in the District's General Fund.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments were not significant.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had \$71,932,195, net of depreciation, invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

Debt

At year-end, the District had \$51,380,000 in general obligation bonds payable. More detailed information about the District's long-term liabilities is presented in Note F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered the following factors when setting the fiscal year 2017 budget and tax rates:

- The District's taxable value for the 2016 year decreased, \$88,624,724 or 5.2% from 2015 values. Declining values have been a trend for the past five years. The tax year 2015 was the only year during that five year period that showed a taxable value increase, and that increase was a result of changes to homestead exemptions. Some would assume value decreases are a direct result of declining mineral values, but mineral values make up only a small portion of our tax roll, 3.48%. Kilgore ISD's loss in values relates to declines in Commercial and Industrial Personal property from oil field service companies, as Kilgore has been a hub for Oil and Gas Service companies for many years
- The District's Board of Trustees at a special called meeting on June 29, 2015, rescinded the Kilgore ISD optional homestead exemption. The decision to remove the exemption was made in an effort to maintain local control and "options for funding" prior to the Senate Bill 1 by the 84th Texas State Legislature taking effect. The District is currently being sued by three local taxpayers along with Texas Attorney General intervention in relation to this action.
- Federal, State and Local revenue combined for general fund expenditures for 2017 are currently projected to decrease from 2016 levels by \$497,139, or 1.62%. This decrease results from the aforementioned taxable value decline producing a decrease in property taxes. The decrease is somewhat offset by an increase in state funding as a result of the loss of property taxes in the prior fiscal year.
- Actual general operating fund expenditure budget is expected to decrease from the 2016 budget by the same \$497,139. These reductions were accomplished through minor reductions in support and administrative budgets district wide.
- Currently, the District is in the wrap-up phase for additions and renovations to both the High School and Intermediate School Cafeterias. The District awarded guaranteed maximum price contracts totaling \$2,521,443 for the combined cost of these two projects, which was \$550,978 less than the original projections for these projects. These projects

were funded with \$1,019,157 of excess Food Service Fund reserves, approximately \$650,000 of construction fund reserves, with the remainder coming from General Fund reserves.

- The 2016-2017 Budget adopted for Debt Service reflects a surplus of revenue over expenses of \$415,193. This is part of plan to keep the debt service rate consistent and use any excess proceeds to advance pay debt service in an effort to reduce overall interest charges on bonds and pay down debt as quickly as possible.
- The 2016-2017 budget was based on anticipated average daily attendance remaining unchanged as a result of the slow economy. Since budget adoption, attendance numbers for the first two six weeks of school have shown an increase in total enrollment of approximately sixty (60) students.
- Kilgore Independent School District is currently designated as a Chapter 41 District, although no recapture will be paid at our current wealth per student, and none is expected in the foreseeable future. Based on current values, current year enrollment increases could have Kilgore ISD losing its Chapter 41 designation as values could possibly fall below the \$319,500 level.

These indicators were taken into account when adopting the general fund budget for 2017. The maintenance and operations tax rate remained unchanged for the tenth straight year at \$1.04, the maximum rate allowable by state law without taxpayer approval. There are only two ways in which Kilgore Independent School District can generate additional operating revenue: 1) additional students in average daily attendance and 2) receive voter approval for a tax rate above \$1.04.

The overall Kilgore economy is continuing a slowdown that has now lasted for two years as a result of the continued slump in oil and gas prices. The slump has effected not only our Kilgore and East Texas economy, but that of our entire state. Sales tax revenues generated by the City of Kilgore have declined for the year to date ending November 2016 over the same twelve months the prior year by 20.15%. Unemployment rates for September 2016 in Gregg and Rusk Counties, 6.6% and 6.3% respectfully, are above the state rate of 4.8% and the national average of 5.0%. As a result of the many uncertainties related to public education funding in Texas and our ever changing local economy, we continue to remain conservative in our budgeting strategies and strive for efficiency in every aspect of our operations.

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 Kilgore Independent School District, 301 N. Kilgore Street, Kilgore, Texas 75662.

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Basic Financial Statements

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

1

Data Control Codes		Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 3,643,697
1120	Current Investments	13,382,852
1225	Property Taxes Receivable (Net)	2,195,059
1240	Due from Other Governments	948,286
1290	Other Receivables (Net)	53,358
1300	Inventories	58,091
Capital Assets:		
1510	Land	3,132,484
1520	Buildings and Improvements, Net	63,326,495
1530	Furniture and Equipment, Net	3,851,749
1580	Construction in Progress	1,621,467
1800	Restricted Assets	30,361
1000	Total Assets	<u>92,243,899</u>
DEFERRED OUTFLOWS OF RESOURCES:		
1705	Deferred Outflow Related to Pensions	2,836,935
1700	Total Deferred Outflows of Resources	<u>2,836,935</u>
LIABILITIES:		
2110	Accounts Payable	683,964
2140	Interest Payable	91,805
2165	Accrued Liabilities	1,178,323
2300	Unearned Revenue	45,980
Noncurrent Liabilities:		
2501	Due Within One Year	1,700,000
2502	Due in More Than One Year	50,730,120
2540	Net Pension Liability	5,578,550
2000	Total Liabilities	<u>60,008,742</u>
DEFERRED INFLOWS OF RESOURCES:		
	Deferred Revenue	415,102
2600	Total Deferred Inflows of Resources	<u>415,102</u>
NET POSITION:		
3200	Net Investment in Capital Assets	21,451,864
Restricted For:		
3820	State and Federal Programs	647,723
3850	Debt Service	1,537,273
3900	Unrestricted	11,020,130
3000	Total Net Position	<u>\$ 34,656,990</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 19,945,134	\$ 297,365	\$ 1,412,879	\$ (18,234,890)
12	Instructional Resources and Media Services	524,353	--	--	(524,353)
13	Curriculum and Staff Development	932,668	--	142,435	(790,233)
21	Instructional Leadership	389,758	--	7,246	(382,512)
23	School Leadership	2,241,593	--	14,995	(2,226,598)
31	Guidance, Counseling, & Evaluation Services	1,137,418	--	26,260	(1,111,158)
33	Health Services	328,474	--	4,984	(323,490)
34	Student Transportation	1,276,255	--	--	(1,276,255)
35	Food Service	2,165,656	523,218	1,502,186	(140,252)
36	Cocurricular/Extracurricular Activities	1,659,480	97,508	--	(1,561,972)
41	General Administration	1,304,411	--	--	(1,304,411)
51	Facilities Maintenance and Operations	3,238,044	5,552	15,776	(3,216,716)
52	Security and Monitoring Services	187,836	--	--	(187,836)
53	Data Processing Services	403,743	--	--	(403,743)
61	Community Services	6,245	--	2,489	(3,756)
72	Interest on Long-term Debt	2,083,802	--	--	(2,083,802)
73	Bond Issuance Costs and Fees	6,748	--	--	(6,748)
81	Capital Outlay	935	--	--	(935)
99	Other Intergovernmental Charges	313,954	--	--	(313,954)
TG	Total Governmental Activities	<u>38,146,507</u>	<u>923,643</u>	<u>3,129,250</u>	<u>(34,093,614)</u>
TP	Total Primary Government	<u>\$ 38,146,507</u>	<u>\$ 923,643</u>	<u>\$ 3,129,250</u>	<u>(34,093,614)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				16,809,961
DT	Property Taxes, Levied for Debt Service				4,388,408
IE	Investment Earnings				87,341
GC	Grants and Contributions Not Restricted to Specific Programs				14,526,253
MI	Miscellaneous				456,388
S1	Special Item - Loss on Sale of Capital Assets				(1,986,530)
TR	Total General Revenues				<u>34,281,821</u>
CN	Change in Net Position				188,207
NB	Net Position - Beginning				<u>34,468,783</u>
NE	Net Position - Ending				<u>\$ 34,656,990</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2016

Data Control Codes		10 General Fund	50 Debt Service Fund
	ASSETS:		
1110	Cash and Cash Equivalents	\$ 510,478	\$ 1,541,046
1120	Current Investments	12,213,346	--
1225	Taxes Receivable, Net	1,841,092	353,967
1240	Due from Other Governments	662,695	--
1260	Due from Other Funds	162,929	--
1290	Other Receivables	44,920	8,293
1300	Inventories	--	--
1800	Restricted Assets	--	--
1000	Total Assets	<u>15,435,460</u>	<u>1,903,306</u>
	LIABILITIES:		
	Current Liabilities:		
2110	Accounts Payable	\$ 46,845	\$ --
2150	Payroll Deductions & Withholdings	3,679	--
2160	Accrued Wages Payable	1,050,637	--
2170	Due to Other Funds	15,379	12,066
2300	Unearned Revenue	<u>1,841,092</u>	<u>353,967</u>
2000	Total Liabilities	<u>2,957,632</u>	<u>366,033</u>
	FUND BALANCES:		
	Nonspendable Fund Balances:		
3410	Inventories	--	--
3425	Endowment Principal	--	--
	Restricted Fund Balances:		
3450	Federal/State Funds Grant Restrictions	--	--
3470	Capital Acquisitions & Contractual Obligations	--	--
3480	Retirement of Long-Term Debt	--	1,537,273
	Committed Fund Balances:		
3510	Construction	3,000,000	--
3530	Capital Expenditures for Equipment	2,000,000	--
3545	Other Committed Fund Balance	--	--
3600	Unassigned	<u>7,477,828</u>	<u>--</u>
3000	Total Fund Balances	<u>12,477,828</u>	<u>1,537,273</u>
4000	Total Liabilities and Fund Balances	<u>\$ 15,435,460</u>	<u>\$ 1,903,306</u>

The accompanying notes are an integral part of this statement.

60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 780,283	\$ 811,890	\$ 3,643,697
1,169,506	--	13,382,852
--	--	2,195,059
--	285,591	948,286
--	15,379	178,308
--	145	53,358
--	58,091	58,091
--	30,361	30,361
<u>1,949,789</u>	<u>1,201,457</u>	<u>20,490,012</u>
\$ 545,401	\$ 91,718	\$ 683,964
--	--	3,679
--	124,007	1,174,644
--	150,863	178,308
--	45,980	2,241,039
<u>545,401</u>	<u>412,568</u>	<u>4,281,634</u>
--	58,091	58,091
--	30,000	30,000
--	589,632	589,632
1,404,388	--	1,404,388
--	--	1,537,273
--	--	3,000,000
--	--	2,000,000
--	111,166	111,166
--	--	7,477,828
<u>1,404,388</u>	<u>788,889</u>	<u>16,208,378</u>
\$ <u>1,949,789</u>	\$ <u>1,201,457</u>	\$ <u>20,490,012</u>

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

Total fund balances - governmental funds balance sheet	\$ 16,208,378
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	71,932,195
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	2,195,059
Payables for bond principal which are not due in the current period are not reported in the funds.	(52,430,120)
Payables for bond interest which are not due in the current period are not reported in the funds.	(91,805)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	<u>(3,156,717)</u>
Net position of governmental activities - Statement of Net Position	\$ <u>34,656,990</u>

The accompanying notes are an integral part of this statement.

BROWN, BRONSTAD, HABENICHT & ROSSON, PC – CERTIFIED PUBLIC ACCOUNTANTS

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

Data Control Codes		10 General Fund	50 Debt Service Fund
REVENUES:			
5700	Local and Intermediate Sources	\$ 17,131,359	\$ 4,386,790
5800	State Program Revenues	12,786,272	97,760
5900	Federal Program Revenues	759,060	138,635
5020	Total Revenues	<u>30,676,691</u>	<u>4,623,185</u>
EXPENDITURES:			
Current:			
0011	Instruction	16,453,347	--
0012	Instructional Resources and Media Services	460,457	--
0013	Curriculum and Staff Development	723,545	--
0021	Instructional Leadership	353,970	--
0023	School Leadership	1,957,744	--
0031	Guidance, Counseling, & Evaluation Services	992,860	--
0033	Health Services	284,726	--
0034	Student Transportation	1,177,175	--
0035	Food Service	47,150	--
0036	Cocurricular/Extracurricular Activities	1,277,986	--
0041	General Administration	1,218,199	--
0051	Facilities Maintenance and Operations	3,038,986	--
0052	Security and Monitoring Services	176,946	--
0053	Data Processing Services	337,358	--
0061	Community Services	3,781	--
0071	Principal on Long-term Debt	--	2,800,000
0072	Interest on Long-term Debt	--	2,086,000
0073	Bond Issuance Costs and Fees	--	6,748
0081	Capital Outlay	212,034	--
0099	Other Intergovernmental Charges	313,954	--
6030	Total Expenditures	<u>29,030,218</u>	<u>4,892,748</u>
1100	Excess (Deficiency) of Revenues Over (Under)		
1100	Expenditures	<u>1,646,473</u>	<u>(269,563)</u>
Other Financing Sources and (Uses):			
7912	Sale of Real or Personal Property	560,087	--
7915	Transfers In	--	--
8911	Transfers Out	<u>(1,110,000)</u>	<u>--</u>
7080	Total Other Financing Sources and (Uses)	<u>(549,913)</u>	<u>--</u>
1200	Net Change in Fund Balances	1,096,560	(269,563)
0100	Fund Balances - Beginning	11,381,268	1,806,836
3000	Fund Balances - Ending	<u>\$ 12,477,828</u>	<u>\$ 1,537,273</u>

The accompanying notes are an integral part of this statement.

BROWN, BRONSTAD, HABENICHT & ROSSON, PC – CERTIFIED PUBLIC ACCOUNTANTS

EXHIBIT C-2

60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 4,962	\$ 846,314	\$ 22,369,425
--	109,852	12,993,884
--	3,036,554	3,934,249
<u>4,962</u>	<u>3,992,720</u>	<u>39,297,558</u>
--	1,548,923	18,002,270
--	13,101	473,558
--	142,385	865,930
--	7,227	361,197
--	85,341	2,043,085
--	31,613	1,024,473
--	4,984	289,710
--	--	1,177,175
--	1,907,410	1,954,560
--	171,977	1,449,963
--	--	1,218,199
--	20,021	3,059,007
--	--	176,946
--	--	337,358
--	2,464	6,245
--	--	2,800,000
--	--	2,086,000
--	--	6,748
2,267,997	--	2,480,031
--	--	313,954
<u>2,267,997</u>	<u>3,935,446</u>	<u>40,126,409</u>
<u>(2,263,035)</u>	<u>57,274</u>	<u>(828,851)</u>
--	--	560,087
2,129,157	--	2,129,157
--	(1,019,157)	(2,129,157)
<u>2,129,157</u>	<u>(1,019,157)</u>	<u>560,087</u>
<u>(133,878)</u>	<u>(961,883)</u>	<u>(268,764)</u>
1,538,266	1,750,772	16,477,142
<u>\$ 1,404,388</u>	<u>\$ 788,889</u>	<u>\$ 16,208,378</u>

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

Net change in fund balances - total governmental funds	\$ (268,764)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	2,776,713
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,381,820)
The gain or loss on the sale of capital assets is not reported in the funds.	(1,986,530)
All proceeds from the sale of capital assets are reported in the funds but not in the SOA.	(560,087)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	218,290
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	2,800,000
(Increase) decrease in accrued interest from beginning of period to end of period.	2,198
Bond premiums and discounts are reported in the funds but not in the SOA.	78,026
Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred resource outflows.	<u>(489,819)</u>
Change in net position of governmental activities - Statement of Activities	\$ <u><u>188,207</u></u>

The accompanying notes are an integral part of this statement.

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

<u>Data Control Codes</u>	<u>Agency Fund</u>	<u>Student Activity</u>
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ 101,358	
1000 <i>Total Assets</i>	<u>101,358</u>	
LIABILITIES:		
<i>Current Liabilities:</i>		
2190 <i>Due to Student Groups</i>	<u>101,358</u>	
2000 <i>Total Liabilities</i>	<u>101,358</u>	
NET POSITION:		
3000 <i>Total Net Position</i>	<u>\$ --</u>	

The accompanying notes are an integral part of this statement.

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

A. Summary of Significant Accounting Policies

The basic financial statements of Kilgore Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has 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 ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Debt Service Fund: This fund is established to account for payment of principal and interest on long-term general obligation debt for which a tax has been dedicated.

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 of major capital facilities.

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

In addition, the District reports the following fund types:

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property 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.

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

b. Inventories and Prepaid Items

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

e. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

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

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

h. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

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

j. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

k. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

4. Pensions

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' 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.

5. New Accounting Standards Adopted

In fiscal year 2016, the District adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 72, *Fair Value Measurement and Application*
- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*
- Statement No. 77, *Tax Abatement Disclosures*

- a. Statement No. 72 requires state and local governments to measure investments at fair value using a consistent definition and valuation techniques; also defines what assets and liabilities governments should measure at fair value and expands fair value disclosures in financial disclosure notes. While the Statement generally requires restatement of prior period balances in the year of implementation, the nature of the District's investments was such that their carrying amount was not affected.
- b. The GAAP hierarchy prioritizes guidance governments follow when preparing U.S. GAAP financial statements. Statement No. 76 reduces authoritative GAAP hierarchy from four categories to two and lists the order of priority for pronouncements to which a government should look for guidance.
- c. Statement No. 77 requires governments granting tax abatements to individuals and businesses to disclose program information in the notes to the financial statements through the agreement's duration and also requires disclosures about tax abatements entered into by other governments that reduce the reporting government's tax revenue. Prior year balances were not restated because there are no tax abatements associated with the District or any other government which affect the District's tax revenue.

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

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. 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 (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,741,517 and the bank balance was \$4,175,935. The District's cash deposits at August 31, 2016 and during the year ended 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.

The District's cash deposits can be tied to the exhibits as follows:

Exhibit C-1 - Cash and Cash Equivalents	\$ 3,643,697
Exhibit E-1 - Cash and Cash Equivalents	101,358
	<u>3,745,055</u>
Less Petty Cash	(3,538)
Total Investments	<u>\$ 3,741,517</u>

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, 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, and (9) bid solicitation preferences for certificates of deposit.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, has established appropriate policies and the District has adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

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

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Lone Star Investment Pool	N/A	\$ 6,055,933
Logic First Southwest	N/A	1,169,507
Texas CLASS	N/A	5,689,761
TexStar	N/A	506
Texpool	N/A	497,507
Total Investments		<u>\$ 13,413,214</u>

The District's investments can be tied to the exhibits as follows:

Exhibit C-1 - Current Investments	\$ 13,382,852
Exhibit C-1 - Restricted Assets	30,361
Total Investments	<u>\$ 13,413,213</u>

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

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

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

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.

LOGIC

The District invests in the Local Government Investment Cooperative (LOGIC), which is a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. LOGIC's governing body is a five-member board of directors comprised of employees, officers or elected officials of participant government entities or individuals who do not have a business relationship with LOGIC and are qualified to advise it. A maximum of two advisory board members represent the co-administrators of LOGIC. The co-administrators of the day to day administration of LOGIC are First Southwest Company and J. P. Morgan Investment Management, Inc. LOGIC is rated at a AAA or equivalent rating from at least one nationally recognized rating agency and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. LOGIC seeks to maintain a net asset value of \$1.00 per unit and is designed to be used for investment of funds which may be needed at any time.

TexSTAR

The District invests in the Texas Short Term Asset Reserve Program (TexSTAR), which has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR is managed by a five-member board of directors (Board). In accordance with the Public Funds Investment Act, TexSTAR maintains an advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Advisory board members are appointed and serve at the will of the Board of Directors. J. P. Morgan Investment Management, Inc. (JPMIM) and First Southwest Company (FSC) serve as co-administrators for TexSTAR under an

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agreement with the Board. JPMIM provides investment management services, and FSC provides participant services and marketing. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investor Services Co. Transfer agency services are provided by Boston Financial Data Services, Inc. The business affairs of TexSTAR are managed by the Board in accordance with its bylaws. The bylaws set forth procedures governing the selection procedures governing the selection of, and action taken by, the Board. Board oversight of TexSTAR is maintained through various reporting requirements. TexSTAR is rated AAAM by Standard and Poor's and is not operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which generally approximates the market value of the securities. The stated objective of TexSTAR is to maintain a stable \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured.

Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus. Government and Corporate Overnight maintain a net asset value of one dollar and the Corporate Overnight Plus maintains a net asset value of 50 cents.

TexPool

The District invests in the Texas Local Government Investment Pool (TexPool), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAM by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

Texas CLASS

Texas CLASS is a local government investment pool that was established in 1996 in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. Texas CLASS is a Trust, managed by Public Trust Advisors, LLC as administrators, and Wells Fargo Bank Texas, NA as Custodian. The Board of Trustees has appointed a four-member Advisory Board composed of two qualified participants and two qualified non-participants of the Pool to advise the Trust. The Advisory Board provides advice to the Board of Trustees and the Program Administrator about the Investment Policy and Investment Strategy of the Trust and about other matters as requested by the Board of Trustees and the Program Administrator. Texas CLASS is rated AAAM by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of Texas Class is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or

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insured. The financial statements can be obtained from the website at www.texasclass.com. approximates the market value of the securities. The stated objective of Texas Class is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the website at www.texasclass.com.

D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,187,826	\$ 212,034	\$ 267,376	\$ 3,132,484
Construction in progress	219,040	1,529,966	127,539	1,621,467
Total capital assets not being depreciated	<u>3,406,866</u>	<u>1,742,000</u>	<u>394,915</u>	<u>4,753,951</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	89,383,071	864,635	8,029,279	82,218,427
Equipment	10,772,874	54,892	1,394,103	9,433,663
Vehicles	3,865,011	242,726	77,990	4,029,747
Total capital assets being depreciated	<u>104,020,956</u>	<u>1,162,253</u>	<u>9,501,372</u>	<u>95,681,837</u>
Less accumulated depreciation for:				
Buildings and improvements	(23,310,263)	(1,675,212)	(6,093,543)	(18,891,932)
Equipment	(6,888,399)	(474,170)	(1,050,598)	(6,311,971)
Vehicles	(3,145,242)	(232,438)	(77,990)	(3,299,690)
Total accumulated depreciation	<u>(33,343,904)</u>	<u>(2,381,820)</u>	<u>(7,222,131)</u>	<u>(28,503,593)</u>
Total capital assets being depreciated, net	<u>70,677,052</u>	<u>(1,219,567)</u>	<u>2,279,241</u>	<u>67,178,244</u>
Governmental activities capital assets, net	<u>\$ 74,083,918</u>	<u>\$ 522,433</u>	<u>\$ 2,674,156</u>	<u>\$ 71,932,195</u>

Depreciation was charged to functions as follows:

Instruction	\$ 1,162,661
Instructional Resources and Media Services	32,661
Curriculum and Staff Development	35,274
Instructional Leadership	13,064
School Leadership	107,441
Guidance, Counseling, & Evaluation Services	71,854
Health Services	26,129
Student Transportation	315,818
Food Services	176,967
Extracurricular Activities	172,531
General Administration	40,500
Plant Maintenance and Operations	158,676
Security and Monitoring Services	10,355
Data Processing Services	57,889
	<u>\$ 2,381,820</u>

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E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2016, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Capital Projects	\$ 12,066	Short-term loans
Special Revenue	General Fund	15,379	For transfer of federal receipts
General Fund	Special Revenue	150,863	Capital projects expenditures
	Total	<u>\$ 178,308</u>	

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2016, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General fund	Capital Projects	\$ 1,110,000	Capital Improvements
Food Service	Capital Projects	1,019,157	Capital Improvements
	Total	<u>\$ 2,129,157</u>	

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2016, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Governmental activities:</u>					
General obligation bonds	\$ 54,180,000	\$ --	\$ 2,800,000	\$ 51,380,000	\$ 1,700,000
Bond Issue Premium	1,130,757	--	78,254	1,052,503	--
Bond Issue Discount	(2,611)	--	(228)	(2,383)	--
Net Pension Liability *	2,565,175	3,480,672	467,297	5,578,550	--
Total governmental activities	<u>\$ 57,873,321</u>	<u>\$ 3,480,672</u>	<u>\$ 3,345,323</u>	<u>\$ 58,008,670</u>	<u>\$ 1,700,000</u>

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Net Pension Liability *	Governmental	General Fund

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2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2016, are as follows:

<u>Year Ending August 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,700,000	\$ 2,010,527	\$ 3,710,527
2018	1,755,000	1,951,805	3,706,805
2019	1,810,000	1,903,143	3,713,143
2020	2,175,000	1,853,543	4,028,543
2021	2,240,000	1,790,118	4,030,118
2022-2026	11,970,000	7,914,282	19,884,282
2027-2031	10,615,000	5,344,250	15,959,250
2032-2036	13,065,000	2,751,731	15,816,731
2037-2041	6,050,000	267,531	6,317,531
Totals	\$ 51,380,000	\$ 25,786,930	\$ 77,166,930

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 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.

H. Pension Plan

1. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS' defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The TRS 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.

2. Pension Plan Fiduciary Net Position

Detailed information about the TRS' 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 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.

3. 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

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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 in (1.) above.

4. 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 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

<u>Contribution Rates</u>		
	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2016 Employer Contributions	\$ 467,467	
District's 2016 Member Contributions	\$ 1,295,578	
NECE 2015 On-Behalf Contributions to District	\$ 1,085,619	

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, 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 and junior colleges, 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 TRS pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical 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 sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

- When employing a retiree of the TRS the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school 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.

5. Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial evaluation 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%
Long-term expected Investment Rate of Return	8%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
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.

6. Discount Rate

The discount rate used to measure the total pension liability was 8%. 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:

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Teacher Retirement System of Texas Asset Allocation and Long-Term Expected Real Rate of Return As of August 31, 2015			
	Target Allocation	Long-term Expected Geometric Real Rate of Return	Expected Contribution to Long-term Portfolio Returns *
Global Equity			
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%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflat. Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation	0%		2.2%
Alpha	0%		1.0%
Total	100%		8.7%

* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of 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%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 8,740,537	\$ 5,578,550	\$ 2,944,812

8. Pension Liabilities, Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

At August 31, 2016, the District reported a liability of \$5,578,550 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the 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 the District were as follows:

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District's proportionate share of the collective net pension liability	\$ 5,578,550
State's proportionate share of the net pension liability associated with the District	<u>12,956,186</u>
Total	<u>\$ 18,534,736</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 District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 through August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0157815%, which was an increase (decrease) of 0.0061782% from its proportion measured as of August 31, 2014.

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

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

Mortality Assumptions

- e. 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.
- f. 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.
- g. 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

- h. 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.

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- i. 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 termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- j. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- k. 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.
- l. 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

- m. 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, the District recognized pension expense of \$1,846,048 and revenue of \$1,846,048 for support provided by the State.

At August 31, 2016, the District reported its proportionate share of the TRS' 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	\$ 32,993	\$ 214,389
Changes in actuarial assumptions	138,671	199,018
Difference between projected and actual investment earnings	785,857	--
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	1,411,947	1,695
District contributions paid to TRS subsequent to the measurement date	467,467	--
Total	<u>\$ 2,836,935</u>	<u>\$ 415,102</u>

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The net amounts of the District's balances of 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	\$ 351,064
2018	\$ 351,064
2019	\$ 351,066
2020	\$ 547,071
2021	\$ 201,542
Thereafter	\$ 152,559

I. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

The 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). 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 the authority to establish and amend 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.trstate.tx.us under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

b. 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. Funding for free basic coverage is provided by the program based upon public school district payroll. 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. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal years 2016, 2015 and 2014. The active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2016, 2015 and 2014. For the years ended August 31, 2016, 2015, and 2014, the State's contributions to TRS-Care were \$189,489, \$183,746, and \$180,190, respectively, the active member contributions were \$131,582, \$128,001, and \$125,211, respectively, and the District's contributions were \$111,399, \$108,309, and \$100,830, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

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 Part 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. For the fiscal years ended August 31, 2016, 2015, and 2014, the subsidy payments received by TRS-Care on behalf of the District were \$59,474, \$57,967, and \$51,643, respectively.

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

J. Employee Health Care Coverage

During the year ended August 31, 2016, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$150 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable September 1, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Plan have been filed with the Texas Board of Insurance, Austin, Texas and are public record.

K. Commitments and Contingencies

1. Contingencies

The District participates in 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, refunds of any money received may be required and the collectibility of any related receivable 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 basic financial statements for such contingencies.

2. Litigation

The District is involved in a lawsuit whereby taxpayers are seeking to recover the additional local option homestead exemption with the District's Board of Trustees rescinded in 2015. This litigation has just begun and the District intends to vigorously defend the litigation. Given the very recent nature of the litigation, any evaluation of the potential outcome is premature.

L. Worker's Compensation Fund

The District participates in the Deep East Texas Self Insurance Fund for workers' compensation. The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for workers' compensation coverage and develop a comprehensive loss control program. The District pays an annual premium to the Fund for its workers' compensation coverage and transfers the risk of loss to the Fund. The District's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and will provide, through commercial companies, reinsurance contracts. The Fund maintains stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2,000,000 per accident. In the event that the Fund was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the Fund. In addition, 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.

M. Unemployment Compensation Insurance

During the year ended August 31, 2016, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund).

The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

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

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2016, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

N. Auto, Liability and Other Property Insurance

During the year ended August 31, 2016, the District participated in the following TASB Risk Management Fund (the Fund) programs:

Auto Liability
 Auto Physical Damage
 Legal Liability
 Privacy and Information Security
 Property

The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2016, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

O. Due from Other Governments

The District participated in a variety of federal and state programs from which it received grants to partially or fully finance certain activities. The District also receives entitlements from the State through the School Foundation and Per Capita Programs. In addition, the District receives a refund of taxes paid on gasoline or diesel fuel. Amounts due from federal and state governments as of August 31, 2016 are summarized below:

	General Fund	Special Revenue Funds	Total
Federal Revenue	\$ --	\$ 285,591	\$ 285,591
Other	662,695	--	662,695
Totals	<u>\$ 662,695</u>	<u>\$ 285,591</u>	<u>\$ 948,286</u>

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

P. Taxes Receivable

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property 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.

At August 31, 2016 the components of delinquent taxes receivable are as follows:

	General Fund	Debt Service
Delinquent taxes	\$ 2,521,437	\$ 428,003
Allowance	(680,345)	(74,036)
Totals	<u>\$ 1,841,092</u>	<u>\$ 353,967</u>

Q. Other Receivables

Other receivables as of August 31, 2016 consisted primarily of taxes collected by the tax office, but not yet deposited to the District's bank and miscellaneous other receivables:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Ad Valorem Taxes	\$ 31,651	\$ --	\$ 8,293	\$ 39,944
Other	13,269	145	--	13,414
Total	<u>\$ 44,920</u>	<u>\$ 145</u>	<u>\$ 8,293</u>	<u>\$ 53,358</u>

R. Revenue from Local and Intermediate Sources

During the year ending August 31, 2016, revenues from local and intermediate sources consisted of the following:

	General Fund	Debt Service Fund	Other	Total
Property Taxes	\$ 16,599,893	\$ 4,380,187	\$ --	\$ 20,980,080
Investment Earnings	75,527	4,841	6,971	87,339
Co-curricular Activities	97,508	--	23,381	120,889
Food Service	--	--	528,770	528,770
Gifts and Bequests	16,729	--	11,602	28,331
Other Revenue	341,702	1,762	280,552	624,016
Totals	<u>\$ 17,131,359</u>	<u>\$ 4,386,790</u>	<u>\$ 851,276</u>	<u>\$ 22,369,425</u>

S. Other Committed Fund Balance

Other committed fund balance includes the following commitments of funds:

Campus Activity Funds	\$ 110,804
Gene and Nora Elder Scholarship	362
Total Other Committed Fund Balance	<u>\$ 111,166</u>

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

KILGORE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and Intermediate Sources	\$ 17,173,081	\$ 17,214,585	\$ 17,131,359	\$ (83,226)
5800	State Program Revenues	13,102,904	13,102,904	12,786,272	(316,632)
5900	Federal Program Revenues	300,000	550,000	759,060	209,060
5020	Total Revenues	30,575,985	30,867,489	30,676,691	(190,798)
	EXPENDITURES:				
	Current:				
	Instruction & Instructional Related Services:				
0011	Instruction	17,063,958	17,003,085	16,453,347	549,738
0012	Instructional Resources and Media Services	474,295	471,666	460,457	11,209
0013	Curriculum and Staff Development	821,336	795,628	723,545	72,083
	Total Instruction & Instr. Related Services	18,359,589	18,270,379	17,637,349	633,030
	Instructional and School Leadership:				
0021	Instructional Leadership	366,596	375,683	353,970	21,713
0023	School Leadership	1,927,603	1,965,448	1,957,744	7,704
	Total Instructional & School Leadership	2,294,199	2,341,131	2,311,714	29,417
	Support Services - Student (Pupil):				
0031	Guidance, Counseling and Evaluation Services	979,945	1,008,519	992,860	15,659
0033	Health Services	301,657	301,657	284,726	16,931
0034	Student (Pupil) Transportation	1,418,912	1,418,912	1,177,175	241,737
0035	Food Services	19,104	74,104	47,150	26,954
0036	Cocurricular/Extracurricular Activities	1,256,095	1,295,914	1,277,986	17,928
	Total Support Services - Student (Pupil)	3,975,713	4,099,106	3,779,897	319,209
	Administrative Support Services:				
0041	General Administration	1,305,711	1,312,979	1,218,199	94,780
	Total Administrative Support Services	1,305,711	1,312,979	1,218,199	94,780
	Support Services - Nonstudent Based:				
0051	Plant Maintenance and Operations	3,662,418	3,708,632	3,038,986	669,646
0052	Security and Monitoring Services	269,213	272,362	176,946	95,416
0053	Data Processing Services	389,342	390,502	337,358	53,144
	Total Support Services - Nonstudent Based	4,320,973	4,371,496	3,553,290	818,206
	Ancillary Services:				
0061	Community Services	5,800	7,443	3,781	3,662
	Total Ancillary Services	5,800	7,443	3,781	3,662
	Capital Outlay:				
0081	Capital Outlay	--	250,000	212,034	37,966
	Total Capital Outlay	--	250,000	212,034	37,966
0099	Other Intergovernmental Charges	314,000	314,000	313,954	46
	Total Intergovernmental Charges	314,000	314,000	313,954	46
6030	Total Expenditures	30,575,985	30,966,534	29,030,218	1,936,316
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	(99,045)	1,646,473	1,745,518

Other Financing Sources (Uses):

BROWN, BRONSTAD, HABENICHT & ROSSON, PC - CERTIFIED PUBLIC ACCOUNTANTS

KILGORE INDEPENDENT SCHOOL DISTRICT**GENERAL FUND****BUDGETARY COMPARISON SCHEDULE****FOR THE YEAR ENDED AUGUST 31, 2016****EXHIBIT G-1**

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
7912	<i>Sale of Real or Personal Property</i>	--	551,066	560,087	9,021
8911	<i>Transfers Out</i>	--	(1,110,000)	(1,110,000)	--
7080	Total Other Financing Sources and (Uses)	--	(558,934)	(549,913)	9,021
1200	Net Change in Fund Balance	--	(657,979)	1,096,560	1,754,539
0100	Fund Balance - Beginning	11,381,268	11,381,268	11,381,268	--
3000	Fund Balance - Ending	<u>\$ 11,381,268</u>	<u>\$ 10,723,289</u>	<u>\$ 12,477,828</u>	<u>\$ 1,754,539</u>

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

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.015782%	0.009603%
District's proportionate share of the net pension liability (asset)	\$ 5,578,550	\$ 2,565,175
State's proportionate share of the net pension liability (asset) associated with the District	12,956,186	11,379,214
Total	<u>\$ 18,534,736</u>	<u>\$ 13,944,389</u>
District's Covered Employee Payroll	\$ 19,695,497	\$ 19,266,252
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	28.32%	13.31%
Plan fiduciary net position as a percentage of the total pension liability	78.43%	83.25%

Note: Only two years of data is presented in accordance with GASB #68, paragraph 138. "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."

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

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 467,467	\$ 476,561
Contributions in relation to the contractually required contribution	(467,467)	(476,561)
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 20,243,405	\$ 19,695,497
Contributions as a percentage of covered-employee payroll	2.31%	2.42%

Note: GASB 68, Paragraph 81.2b required that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2014 - August 31, 2015.

Note: Only two years of data is presented in accordance with GASB #68, paragraph 138. "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."

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED AUGUST 31, 2016

Budget

The official budget was prepared for adoption for all required Governmental Funds. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

- a. Prior to August 21 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings.

Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

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

Changes since the prior actuarial valuation for assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date can be found in Note H, Item 8 to the financial statements.

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

KILGORE INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF DELINQUENT TAXES RECEIVABLE****FOR THE YEAR ENDED AUGUST 31, 2016**

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2007 and Prior Years	\$	Various	\$	Various	\$	Various
2008		1.040		.0931		1,260,683,523
2009		1.040		.0810		1,585,005,174
2010		1.040		.0692		1,679,917,890
2011		1.040		.0692		1,637,686,080
2012		1.040		.2692		1,655,149,175
2013		1.040		.2692		1,660,756,722
2014		1.040		.2692		1,642,326,612
2015		1.040		.2692		1,625,663,916
2016 (School Year Under Audit)		1.040		.2692		1,621,378,017

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

10 Beginning Balance 9/1/15	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/16
\$ 404,823	\$ --	\$ 6,500	\$ 476	\$ (35,530)	\$ 362,317
116,741	--	2,317	207	38	114,255
106,836	--	3,688	287	(7)	102,854
97,392	--	5,717	380	(236)	91,059
97,891	--	7,771	517	(533)	89,070
125,066	--	15,523	4,018	(2,662)	102,863
474,295	--	22,119	5,725	(2,575)	443,876
508,168	--	40,815	10,565	(3,878)	452,910
703,108	--	117,470	30,407	(55,475)	499,756
--	21,227,081	16,235,842	4,202,585	(98,174)	690,480
<u>\$ 2,634,320</u>	<u>\$ 21,227,081</u>	<u>\$ 16,457,762</u>	<u>\$ 4,255,167</u>	<u>\$ (199,032)</u>	<u>\$ 2,949,440</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

KILGORE INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT J-2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
REVENUES:					
5700	Local and Intermediate Sources	\$ 593,400	\$ 618,538	\$ 530,382	\$ (88,156)
5800	State Program Revenues	10,700	10,700	15,229	4,529
5900	Federal Program Revenues	1,475,985	1,475,985	1,502,733	26,748
5020	Total Revenues	<u>2,080,085</u>	<u>2,105,223</u>	<u>2,048,344</u>	<u>(56,879)</u>
EXPENDITURES:					
Current:					
Support Services - Student (Pupil):					
0035	Food Services	<u>2,055,085</u>	<u>2,058,928</u>	<u>1,907,410</u>	<u>151,518</u>
	Total Support Services - Student (Pupil)	<u>2,055,085</u>	<u>2,058,928</u>	<u>1,907,410</u>	<u>151,518</u>
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	<u>25,000</u>	<u>25,000</u>	<u>20,021</u>	<u>4,979</u>
	Total Support Services - Nonstudent Based	<u>25,000</u>	<u>25,000</u>	<u>20,021</u>	<u>4,979</u>
6030	Total Expenditures	<u>2,080,085</u>	<u>2,083,928</u>	<u>1,927,431</u>	<u>156,497</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>--</u>	<u>21,295</u>	<u>120,913</u>	<u>99,618</u>
Other Financing Sources (Uses):					
8911	Transfers Out	<u>(1,000,000)</u>	<u>(1,019,157)</u>	<u>(1,019,157)</u>	<u>--</u>
7080	Total Other Financing Sources and (Uses)	<u>(1,000,000)</u>	<u>(1,019,157)</u>	<u>(1,019,157)</u>	<u>--</u>
1200	Net Change in Fund Balance	<u>(1,000,000)</u>	<u>(997,862)</u>	<u>(898,244)</u>	<u>99,618</u>
0100	Fund Balance - Beginning	<u>1,545,967</u>	<u>1,545,967</u>	<u>1,545,967</u>	<u>--</u>
3000	Fund Balance - Ending	<u>\$ 545,967</u>	<u>\$ 548,105</u>	<u>\$ 647,723</u>	<u>\$ 99,618</u>

KILGORE INDEPENDENT SCHOOL DISTRICT**EXHIBIT J-3****DEBT SERVICE****BUDGETARY COMPARISON SCHEDULE****FOR THE YEAR ENDED AUGUST 31, 2016**

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and Intermediate Sources	\$ 4,090,048	\$ 4,090,048	\$ 4,386,790	\$ 296,742
5800	State Program Revenues	100,000	100,000	97,760	(2,240)
5900	Federal Program Revenues	148,750	148,750	138,635	(10,115)
5020	Total Revenues	<u>4,338,798</u>	<u>4,338,798</u>	<u>4,623,185</u>	<u>284,387</u>
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long-Term Debt	2,800,000	2,800,000	2,800,000	--
0072	Interest on Long-Term Debt	2,095,998	2,095,998	2,086,000	9,998
0073	Bond Issuance Costs and Fees	10,000	10,000	6,748	3,252
	Total Debt Service	<u>4,905,998</u>	<u>4,905,998</u>	<u>4,892,748</u>	<u>13,250</u>
6030	Total Expenditures	<u>4,905,998</u>	<u>4,905,998</u>	<u>4,892,748</u>	<u>13,250</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>(567,200)</u>	<u>(567,200)</u>	<u>(269,563)</u>	<u>297,637</u>
1200	Net Change in Fund Balance	<u>(567,200)</u>	<u>(567,200)</u>	<u>(269,563)</u>	<u>297,637</u>
0100	Fund Balance - Beginning	<u>1,806,836</u>	<u>1,806,836</u>	<u>1,806,836</u>	<u>--</u>
3000	Fund Balance - Ending	\$ <u>1,239,636</u>	\$ <u>1,239,636</u>	\$ <u>1,537,273</u>	\$ <u>297,637</u>

BROWN, BRONSTAD, HABENICHT & ROSSON, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
P. O. BOX 1790
KILGORE, TEXAS 75663-1790

SHAREHOLDER:
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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**

Board of Trustees
Kilgore Independent School District
301 N Kilgore St
Kilgore, Texas 75662

Members of the Board of Trustees:

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 Kilgore Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise Kilgore Independent School District's basic financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Kilgore Independent School 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 Kilgore Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Kilgore Independent School 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Kilgore Independent School 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 2016-01.

Kilgore Independent School District's Response to Findings

Kilgore Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Kilgore Independent School 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


BROWN, BRONSTAD, HABENICHT & ROSSON, PC

Kilgore, TX
November 30, 2016

BROWN, BRONSTAD, HABENICHT & ROSSON, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
P. O. BOX 1790
KILGORE, TEXAS 75663-1790

SHAREHOLDER:
LYNDA R. NEWSOME, C.P.A.

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**Independent Auditors' Report on Compliance for Each Major Program and on Internal
Control Over Compliance Required by the Uniform Guidance**

Board of Trustees
Kilgore Independent School District
301 N Kilgore St
Kilgore, Texas 75662

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited the Kilgore 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 Kilgore Independent School District's major federal program for the year ended August 31, 2016. Kilgore Independent School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Kilgore 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, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Kilgore 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 the Kilgore Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Kilgore 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 its major federal program for the year ended August 31, 2016.

Report on Internal Control Over Compliance

Management of the Kilgore 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 the Kilgore 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 the Kilgore 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 considered 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.


BROWN, BRONSTAD, HABENICHT & ROSSON, PC

Kilgore, TX
November 30, 2016

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

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553-10.555	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? X Yes No

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

B. Financial Statement Findings

Finding 2016-01

Criteria and Condition:

The District should spend 58% of its current FSP allotment for career and technology on direct costs related to career and technology educational services.

Cause:

The District did not spend 58% of its current FSP allotment for career and technology on direct costs related to career and technology educational services.

Effect:

The District is not in compliance with spending requirements for its current FSP allotment related to career and technology educational services.

Recommendation:

The District should closely monitor its spending to ensure the minimum requirements are met regarding FSP allotments.

C. Federal Award Findings and Questioned Costs

NONE

KILGORE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2016

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
No prior audit findings		

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

Finding 2016-01

The District should spend 58% of its current FSP allotment for career and technology on direct costs related to career and technology educational services.

Corrective Action

The District will closely monitor its spending to ensure it meets the minimum spending requirements related to the FSP allotment for career and technology.

Contact

Revard Pfeffer, Chief Financial Officer

Implementation Timeline

Immediately

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

EXHIBIT K-1
Page 1 of 2

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients Federal Expenditures
CHILD NUTRITION CLUSTER:			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	092-902	\$ 368,193
National School Lunch Program	10.555	092-902	1,075,809
National School Lunch Program (Non-cash)	10.555	092-902	43,233
Total CFDA Number 10.555		--	1,119,042
Summer Food Service Program	10.559	092-902	15,498
Total Passed Through State Department of Education		--	1,502,733
Total U. S. Department of Agriculture		--	1,502,733
Total Child Nutrition Cluster		--	1,502,733
MEDICAID CLUSTER:			
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Education:			
Medicaid Administrative Claiming Program - MAC	93.778	092-902	4,984
Total U. S. Department of Health and Human Services		--	4,984
Total Medicaid Cluster		--	4,984
SPECIAL EDUCATION (IDEA) CLUSTER:			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
IDEA-B Formula	84.027	1666000109290	536,628
IDEA-B Formula	84.027	1766000109290	12,659
Total CFDA Number 84.027		--	549,287
IDEA-B Preschool	84.173	1666100109290	4,497
Total Passed Through State Department of Education		--	553,784
Total U. S. Department of Education		--	553,784
Total Special Education (IDEA) Cluster		--	553,784
OTHER PROGRAMS:			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
ESEA Title I Part A - Improving Basic Programs	84.010a	1661010109290	683,557
Career and Technical - Basic Grant	84.048	1642000609290	42,035
Title III Part A English Language Acq. and Lang. Enhancement	84.365	1667100109290	95,358
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367a	1669450109290	149,651
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367a	1769450109290	--
Total CFDA Number 84.367a		--	149,651
Summer School LEP	84.369a	69551402	4,452
Total Passed Through State Department of Education		--	975,053
Total U. S. Department of Education		--	975,053
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ --	\$ 3,036,554

The accompanying notes are an integral part of this schedule.

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

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Kilgore Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Presented below is a reconciliation of federal revenues:

Total Expenditures of Federal Awards per Exhibit K-1	\$	3,036,554
School Health and Related Services (SHARS) reported in the general fund		769,060
Interest Subsidy on Qualified School Construction Bonds		138,635
Total Federal Revenues	\$	<u>3,944,249</u>

KILGORE INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2016**

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ --
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 5,578,550
SF13	Pension Expense (object 6147) at fiscal year-end.	\$ 489,819