

**KILGORE  
INDEPENDENT SCHOOL DISTRICT**

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED AUGUST 31, 2019*

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Kilgore Independent School District  
Annual Financial Report  
For The Year Ended August 31, 2019

TABLE OF CONTENTS

	Page	Exhibit
 INTRODUCTORY SECTION		
Certificate of Board.....	1	
 FINANCIAL SECTION		
Independent Auditors' Report.....	3	
Management's Discussion and Analysis (Required Supplementary Information).....	6	
 <u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Position.....	15	A-1
Statement of Activities.....	16	B-1
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	17	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position.....	18	C-1R
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	19	C-2
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	20	C-3
Statement of Fiduciary Net Position - Fiduciary Funds.....	21	E-1
Notes to the Financial Statements .....	22	
 <u>Required Supplementary Information</u>		
Budgetary Comparison Schedules:		
General Fund.....	49	G-1
Schedule of the District's Proportionate Share of the		
Net Pension Liability - Teacher Retirement System.....	51	G-2
Schedule of District's Contributions - Teacher Retirement System Of Texas.....	52	G-3
Schedule of the District's Proportionate Share of the		
Net OPEB Liability - OPEB Plan.....	53	G-4
Schedule of District's Contributions - OPEB Plan.....	54	G-5
Notes to Required Supplementary Information.....	55	
 OTHER SUPPLEMENTARY INFORMATION SECTION		
Schedule of Delinquent Taxes Receivable.....	57	J-1
Budgetary Comparison Schedules Required by the Texas Education Agency:		
National School Breakfast and Lunch Program.....	59	J-2
Debt Service.....	60	J-3
Report on Internal Control over Financial Reporting and on Compliance and		
Other Matters Based on an Audit of Financial Statements Performed		
in Accordance with <i>Government Auditing Standards</i> .....	61	
Report on Compliance for Each Major Federal Program and Report on Internal		

Kilgore Independent School District  
Annual Financial Report  
For The Year Ended August 31, 2019

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Control over Compliance Required by the Uniform Guidance.....	63	
Schedule of Findings and Questioned Costs .....	65	
Summary Schedule of Prior Audit Findings.....	66	
Corrective Action Plan.....	67	
Schedule of Expenditures of Federal Awards .....	68	K-1
Notes to the Schedule of Expenditures of Federal Awards.....	69	
Schedule of Required Responses to Selected School First Indicators.....	70	K-2

## *Introductory Section*

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, 2019, at a meeting of the board of trustees of such school district on the 18th day of November, 2019.

  
\_\_\_\_\_  
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)

*Financial Section*

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

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2019, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2019, 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, and budgetary comparison information and schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions, and schedule of the District's proportionate share of the net OPEB liability and schedule of District OPEB 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 4, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 4, 2019

## 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, 2019. Please read it in conjunction with the independent auditors' report on page 3, and the District's Basic Financial Statements which begin on page 15.

#### 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 15 and 16). 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 17) 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 22 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 15. 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 17 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 21. 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 \$22,612,910 to \$24,665,977. 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 (\$2,059,726) at August 31, 2019.

Table I  
Kilgore Independent School District  
Net Position

	Governmental Activities 08-31-2019	Governmental Activities 08-31-2018
Current and other assets	24,303,904	23,372,407
Capital assets	68,542,183	69,761,192
Total assets	92,846,087	93,133,599
Deferred outflow related to Pensions & OPEB	6,199,414	1,996,948
Current Liabilities	3,779,393	4,745,780
Long-term liabilities	65,804,542	62,234,701
Total liabilities	69,583,935	66,980,481
Deferred inflow related to Pensions & OPEB	4,795,589	5,537,156
Net Assets:		
Invested in capital assets, net of related debt	23,112,058	21,936,442
Restricted	3,613,645	3,144,768
Unrestricted	(2,059,726)	(2,468,300)
Total net position	24,665,977	22,612,910

Table II  
Kilgore Independent School District  
Changes in Net Position

	Governmental Activities 8-31-2019	Governmental Activities 8-31-2018
Revenues:		
Program Revenues:		
Charges for Services	611,499	795,186
Operating grants and contributions	4,724,784	(351,076)
General Revenues:		
Maintenance and debt service taxes	20,186,746	19,313,070
State aid – formula grants	17,505,150	14,676,549
Investment Earnings	631,603	423,262
Miscellaneous	562,450	583,703
Total Revenue	44,222,232	35,440,694
Expenses:		
Instruction, curriculum and media services	22,458,021	14,697,395
Instructional and school leadership	3,664,544	1,767,318
Student support services	3,330,584	2,262,815
Child nutrition	2,333,555	2,116,330
Co-curricular activities	1,818,122	1,207,870
General administration	1,360,466	936,360
Plant maintenance, security & data processing	4,954,431	4,561,021
Community Services	6,541	3,781
Debt services	1,838,463	1,926,469
Other intergovernmental charges	334,438	309,773
Total Expenses	42,169,165	29,789,132
Increase in net position before transfers and special items	2,053,067	5,651,562
Net position, beginning	22,612,910	36,953,083
Prior Period Adjustment – GASB 75	-0-	(19,991,735)
Net position, ending	24,665,977	22,612,910

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$20,915,389, which is an increase of \$2,612,044. Included in this year's total change in fund balance is an increase of \$2,015,822 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 2019, the District had \$68,542,183, 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 \$44,585,000 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 Kilgore Independent School District Board of Trustees and district administrators considered the following factors when setting the budget and tax rates for 2019-2020.

- The District's taxable value for 2019 increased \$145,249,613, or 9.091% from 2018 values.
- The District's Board of Trustees, at a special called meeting on June 29, 2015, rescinded the Kilgore ISD local optional homestead exemption (LOHE).
  - History:
    - In June of 1963, in an effort to help reduce local taxes for local Kilgore homeowners, Kilgore ISD implemented its first LOHE at 40% per \$100 property valuation.
    - Over time, the state of Texas mandated a reduction in the amount school districts could award their local communities, thereby lowering Kilgore ISD's optional homeowner exemption down to 30% in 1985 and eventually 20% in 1988.
    - In 2014, Kilgore ISD reported awarding \$64,164,540.00 in LOHE exemptions. Senate Bill 1, 84<sup>th</sup> Texas State Legislature, proposed to take effect in September, 2015 outlined that the approximate 80 school districts in Texas that were still awarding their local homeowners a LOHE would lose their ability to repeal their local optional homeowner exemptions.
  - Reasons given for removing the LOHE included:
    - Kilgore ISD's local economy had shown a 2% - 4% drop in each of the three (3) years preceding 2015,
    - The inability for Kilgore to repeal their long standing 20% LOHE after September, 2015 would legally bind the district into awarding their 20% LOHE through December, 2019, and
    - In an effort to aide Kilgore ISD in its effort to maintain local control and all "options for funding" available to the school district.
- The District is currently the defendant in an ongoing lawsuit filed by three (3) local Kilgore taxpayers along with Texas Attorney General Intervention in relation to the removal of the LOHE, Axberg v. Kilgore ISD. The plaintiff's plea was originally filed on September 29, 2016 in the State of Texas, District Court of Gregg County. The latest action on this matter was a denial for rehearing from the Supreme Court of Texas in Cause No. 19-0274. At the time of this report the District is awaiting further responses from the court. Legal representation states that the maximum liability faced by the district at the current time is the difference between what the

three (3) plaintiffs paid in taxes and what they would have paid if the LOHE remained in place, a de minimis amount.

- Even in light of the previous statement concerning potential liability for the Axberg v. Kilgore ISD lawsuit, the District continues to set aside estimated revenues generated as a result of the exemption removal in fund balance as a conservative, precautionary measure. As of August 31, 2019, the estimated total of this set-aside was \$5,762,689 (\$4,592,741 General Fund and \$1,169,948 Debt Service) with an additional \$1,401,711 (\$1,097,208 General Fund and \$304,503 Debt Service) estimated to be added to this total in the 2019-2020 fiscal year.
- Federal, state and local revenue combined for general fund are expected to increase from the 2018-2019 final amended budget, \$4,213,576 or 12.44%. This increase is a result of a material change to the State Funding Formula, and the current year increase in property values. Copying from the Texas Education Agency website, *“House Bill 3(HB 3), a sweeping and historic school finance bill was passed by the 86th Texas Legislature in 2019 and signed by Gov. Greg Abbott. The bill provides more money for Texas classrooms, increases teacher compensation, reduces recapture and cuts local property taxes for Texas taxpayers. HB 3 is one of the most transformative Texas education bills in recent history.”* For further details see the Texas Education Agency website at [www.texas.texas.gov](http://www.texas.texas.gov).
- The 2019 general operating expenditure budget increased from 2018 levels, an increase of \$5,241,531 or 16.51%. This largest portion of this increase was committed to salary increases, exceeding requirements of House Bill 3. Additionally, the district has within this expenditure budget \$3,084,799 for needed upgrades and repairs to district property and equipment. The general fund budget does reflect a projected net profit of \$1,097,208 which is a result of setting aside certain raised revenue for LOHE issues mentioned prior.
- The Board of Trustees and administrators continue their review of current and long-term capital needs. As was mentioned earlier, the District has set aside funds in the current year budget for such matters and could consider budget amendments to resolve some of these stated needs, using fund balance determined to be expendable.
- The 2019-2020 budget adopted for debt service reflects an excess of \$610,491. This excess is for two purposes. First, \$470,000 of this excess will be set aside as part of Kilgore ISD’s long term debt strategy to pay the principal on Series 2012 Qualified School Construction Bonds on their call date in 2027. Secondly, the remaining portion of this excess is part of the District’s long-term plan to keep the debt service rate constant and using accumulated fund balance to pay down callable debt, saving as much interest cost as possible for the taxpayers of Kilgore ISD.
- The 2019-2020 general fund budget was based on anticipated average daily attendance mimicking that from 2018-2019.
- Unemployment rates for both Gregg and Rusk Counties have improved for the third consecutive year, with rates again lower than they were just twelve months ago. That stated, each continues to hover above the state and are relatively equal to national averages. Gregg and Rusk County rates for August 2019, at 3.9% and 3.8% respectively, compare to the state and national averages of 3.4% and 3.8 respectively.
- Sales tax numbers for the City of Kilgore show materially consistent numbers for the past two years, remaining above levels from 2015 through 2017, although still below many of the years from 2008 through 2014. These numbers point to the overall Kilgore economy being flat. The Kilgore and East Texas economy once very reliant on the oil and gas industry continues to make strides attempting to diversify into other industries.

The district’s overall tax rate for 2019-2020 was lowered by \$0.07 from 2018-2019 to \$1.2392, \$0.97 maintenance and operations plus \$0.2692 debt service. The rate is the first change since 2007-2008. The District’s debt service portion of rate has remained unchanged at \$0.2692 since 2011-2012, nine years.



As was noted previously, the decrease in the maintenance and operations rate is a direct result of HB3 passage.

Kilgore ISD will be very conservative in budgeting in the near future as we wait to see if these new resources are sustainable. Avenues for increases to the Districts overall revenue stream with the passage of HB3 will be even more limited than they have been in the past. HB3 added a 2.5% increase cap to what was already a short list of potential revenue generating possibilities.

All of these items considered, Kilgore ISD continued to use an overall conservative approach to setting the budget for 2019-2020. The district seeks a balance in the budget between committing resources to salary increases and other continuing expenditures and one-time commitments that can be removed easily if sustainability of these resources is not possible. We optimistically watch indicators in an attempt to maintain the best balance in the budget possible for our students, staff and community.

#### 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, 2019**

1

Data Control Codes		Governmental Activities
<b>ASSETS:</b>		
1110	Cash and Cash Equivalents	\$ 13,143,535
1120	Current Investments	5,886,315
1225	Property Taxes Receivable (Net)	1,393,549
1240	Due from Other Governments	3,229,574
1290	Other Receivables (Net)	51,179
1300	Inventories	93,142
	Capital Assets:	
1510	Land	3,132,484
1520	Buildings and Improvements, Net	62,155,478
1530	Furniture and Equipment, Net	3,254,221
1800	Restricted Assets	506,610
1000	Total Assets	<u>92,846,087</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
	Deferred Outflow Related to Pensions	4,468,859
	Deferred Outflow Related to OPEB	1,730,555
1700	Total Deferred Outflows of Resources	<u>6,199,414</u>
<b>LIABILITIES:</b>		
2110	Accounts Payable	144,452
2140	Interest Payable	79,427
2165	Accrued Liabilities	1,762,213
2180	Due to Other Governments	578
2300	Unearned Revenue	87,723
	Noncurrent Liabilities:	
2501	Due Within One Year	1,705,000
2502	Due in More Than One Year	43,725,125
2540	Net Pension Liability	8,457,612
2545	Net OPEB Liability	13,621,805
2000	Total Liabilities	<u>69,583,935</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
	Deferred Inflow Related to Pensions	488,046
	Deferred Inflow Related to OPEB	4,307,543
2600	Total Deferred Inflows of Resources	<u>4,795,589</u>
<b>NET POSITION:</b>		
3200	Net Investment in Capital Assets	23,112,058
	Restricted For:	
3820	State and Federal Programs	801,161
3850	Debt Service	2,812,484
3900	Unrestricted	(2,059,726)
3000	Total Net Position	<u>\$ 24,665,977</u>

The accompanying notes are an integral part of this statement.

**KILGORE INDEPENDENT SCHOOL DISTRICT****STATEMENT OF ACTIVITIES****FOR THE YEAR ENDED AUGUST 31, 2019**

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Program Revenues Charges for Services	Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 21,992,323	\$ 183,700	\$ 2,152,923	\$ (19,655,700)
12	Instructional Resources and Media Services	535,698	89	26,873	(508,736)
13	Curriculum and Staff Development	965,123	131	207,023	(757,969)
21	Instructional Leadership	409,404	69	24,914	(384,421)
23	School Leadership	2,290,017	375	116,646	(2,172,996)
31	Guidance, Counseling, & Evaluation Services	1,526,728	227	164,634	(1,361,867)
33	Health Services	312,828	52	16,544	(296,232)
34	Student Transportation	1,491,028	221	54,806	(1,436,001)
35	Food Service	2,333,555	358,340	1,781,146	(194,069)
36	Cocurricular/Extracurricular Activities	1,818,122	67,181	40,189	(1,710,752)
41	General Administration	1,360,466	233	64,638	(1,295,595)
51	Facilities Maintenance and Operations	4,180,737	744	55,499	(4,124,494)
52	Security and Monitoring Services	288,611	52	1,011	(287,548)
53	Data Processing Services	485,083	84	17,167	(467,832)
61	Community Services	6,541	1	771	(5,769)
72	Interest on Long-term Debt	1,833,363	--	--	(1,833,363)
73	Bond Issuance Costs and Fees	5,100	--	--	(5,100)
99	Other Intergovernmental Charges	334,438	--	--	(334,438)
TG	Total Governmental Activities	<u>42,169,165</u>	<u>611,499</u>	<u>4,724,784</u>	<u>(36,832,882)</u>
TP	Total Primary Government	<u>\$ 42,169,165</u>	<u>\$ 611,499</u>	<u>\$ 4,724,784</u>	<u>(36,832,882)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				15,946,138
DT	Property Taxes, Levied for Debt Service				4,240,608
IE	Investment Earnings				631,603
GC	Grants and Contributions Not Restricted to Specific Programs				17,505,150
MI	Miscellaneous				562,450
TR	Total General Revenues				<u>38,885,949</u>
CN	Change in Net Position				2,053,067
NB	Net Position - Beginning				22,612,910
NE	Net Position - Ending				<u>\$ 24,665,977</u>

The accompanying notes are an integral part of this statement.

**KILGORE INDEPENDENT SCHOOL DISTRICT****BALANCE SHEET - GOVERNMENTAL FUNDS**

AUGUST 31, 2019

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
<b>ASSETS:</b>				
1110 <i>Cash and Cash Equivalents</i>	\$ 10,273,658	\$ 2,067,079	\$ 802,798	\$ 13,143,535
1120 <i>Current Investments</i>	5,886,125	190	--	5,886,315
1225 <i>Taxes Receivable, Net</i>	1,147,213	246,336	--	1,393,549
1240 <i>Due from Other Governments</i>	2,803,507	--	426,067	3,229,574
1260 <i>Due from Other Funds</i>	156,704	18,938	36,421	212,063
1290 <i>Other Receivables</i>	45,258	5,891	30	51,179
1300 <i>Inventories</i>	--	--	93,142	93,142
1800 <i>Restricted Assets</i>	--	474,628	31,982	506,610
1000 <b>Total Assets</b>	<u>20,312,465</u>	<u>2,813,062</u>	<u>1,390,440</u>	<u>24,515,967</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
2110 <i>Accounts Payable</i>	\$ 144,113	\$ --	\$ 339	\$ 144,452
2150 <i>Payroll Deductions &amp; Withholdings</i>	2,736	--	--	2,736
2160 <i>Accrued Wages Payable</i>	1,549,976	--	209,501	1,759,477
2170 <i>Due to Other Funds</i>	55,359	--	156,704	212,063
2180 <i>Due to Other Governments</i>	--	578	--	578
2300 <i>Unearned Revenue</i>	1,147,213	246,336	87,723	1,481,272
2000 <b>Total Liabilities</b>	<u>2,899,397</u>	<u>246,914</u>	<u>454,267</u>	<u>3,600,578</u>
<b>FUND BALANCES:</b>				
Nonspendable Fund Balances:				
3410 <i>Inventories</i>	--	--	93,141	93,141
3425 <i>Endowment Principal</i>	--	--	30,000	30,000
Restricted Fund Balances:				
3450 <i>Federal/State Funds Grant Restrictions</i>	--	--	708,020	708,020
3480 <i>Retirement of Long-Term Debt</i>	--	2,566,148	--	2,566,148
Committed Fund Balances:				
3510 <i>Construction</i>	3,000,000	--	--	3,000,000
3530 <i>Capital Expenditures for Equipment</i>	2,000,000	--	--	2,000,000
3545 <i>Other Committed Fund Balance</i>	--	--	105,012	105,012
Assigned Fund Balances:				
3560 <i>Claims and Judgments</i>	4,592,741	--	--	4,592,741
3600 <i>Unassigned</i>	7,820,327	--	--	7,820,327
3000 <b>Total Fund Balances</b>	<u>17,413,068</u>	<u>2,566,148</u>	<u>936,173</u>	<u>20,915,389</u>
4000 <b>Total Liabilities and Fund Balances</b>	<u>\$ 20,312,465</u>	<u>\$ 2,813,062</u>	<u>\$ 1,390,440</u>	<u>\$ 24,515,967</u>

The accompanying notes are an integral part of this statement.

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**AUGUST 31, 2019**

Total fund balances - governmental funds balance sheet	\$ 20,915,389
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.	68,542,183
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,393,549
Payables for bond principal which are not due in the current period are not reported in the funds.	(45,430,125)
Payables for bond interest which are not due in the current period are not reported in the funds.	(79,427)
The SOA includes the District's proportionate share of the TRS net pension liability, as well as certain pension related transactions accounted for as Deferred Inflows and Outflows of Resources.	(4,476,799)
The SOA included the District's proportionate share of the TRS OPEB liability, as well as certain OPEB related transactions accounted for as Deferred Inflows and Outflows of Resources.	(16,198,793)
Net position of governmental activities - Statement of Net Position	\$ <u>24,665,977</u>

The accompanying notes are an integral part of this statement.

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
<b>REVENUES:</b>				
5700 <i>Local and Intermediate Sources</i>	\$ 17,637,390	\$ 4,473,111	\$ 630,402	\$ 22,740,903
5800 <i>State Program Revenues</i>	16,010,680	92,740	754,624	16,858,044
5900 <i>Federal Program Revenues</i>	304,150	139,528	3,850,567	4,294,245
5020 <i>Total Revenues</i>	<u>33,952,220</u>	<u>4,705,379</u>	<u>5,235,593</u>	<u>43,893,192</u>
<b>EXPENDITURES:</b>				
Current:				
0011 <i>Instruction</i>	16,945,711	--	2,523,196	19,468,907
0012 <i>Instructional Resources and Media Services</i>	469,114	--	9,984	479,098
0013 <i>Curriculum and Staff Development</i>	691,403	--	192,903	884,306
0021 <i>Instructional Leadership</i>	366,372	--	6,619	372,991
0023 <i>School Leadership</i>	2,004,142	--	64,151	2,068,293
0031 <i>Guidance, Counseling, &amp; Evaluation Services</i>	1,206,759	--	145,587	1,352,346
0033 <i>Health Services</i>	273,133	--	--	273,133
0034 <i>Student Transportation</i>	1,238,375	--	--	1,238,375
0035 <i>Food Service</i>	4,250	--	2,071,226	2,075,476
0036 <i>Cocurricular/Extracurricular Activities</i>	1,479,752	--	145,981	1,625,733
0041 <i>General Administration</i>	1,234,544	--	--	1,234,544
0051 <i>Facilities Maintenance and Operations</i>	4,774,100	--	11,896	4,785,996
0052 <i>Security and Monitoring Services</i>	434,873	--	3,750	438,623
0053 <i>Data Processing Services</i>	445,653	--	--	445,653
0061 <i>Community Services</i>	5,754	--	787	6,541
0071 <i>Principal on Long-term Debt</i>	--	2,340,000	--	2,340,000
0072 <i>Interest on Long-term Debt</i>	--	1,836,942	--	1,836,942
0073 <i>Bond Issuance Costs and Fees</i>	--	5,100	--	5,100
0081 <i>Capital Outlay</i>	34,164	--	--	34,164
0099 <i>Other Intergovernmental Charges</i>	334,438	--	--	334,438
6030 <i>Total Expenditures</i>	<u>31,942,537</u>	<u>4,182,042</u>	<u>5,176,080</u>	<u>41,300,659</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>				
1100 <i>Expenditures</i>	<u>2,009,683</u>	<u>523,337</u>	<u>59,513</u>	<u>2,592,533</u>
Other Financing Sources and (Uses):				
7912 <i>Sale of Real or Personal Property</i>	6,139	--	--	6,139
7949 <i>Other Resources</i>	--	--	13,372	13,372
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>6,139</u>	<u>--</u>	<u>13,372</u>	<u>19,511</u>
1200 <i>Net Change in Fund Balances</i>	<u>2,015,822</u>	<u>523,337</u>	<u>72,885</u>	<u>2,612,044</u>
0100 <i>Fund Balances - Beginning</i>	<u>15,397,246</u>	<u>2,042,811</u>	<u>863,288</u>	<u>18,303,345</u>
3000 <i>Fund Balances - Ending</i>	<u>\$ 17,413,068</u>	<u>\$ 2,566,148</u>	<u>\$ 936,173</u>	<u>\$ 20,915,389</u>

The accompanying notes are an integral part of this statement.

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



**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, 2019*

Net change in fund balances - total governmental funds	\$ 2,612,044
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,191,069
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,410,078)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(822,739)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	2,340,000
(Increase) decrease in accrued interest from beginning of period to end of period.	3,579
Bond premiums and discounts are reported in the funds but not in the SOA.	54,623
GASB 68 requires certain pension plan expenditures to be de-expended and recorded as Deferred Resource Outflows or expensed and recorded as Deferred Resource Inflows. This is the net result.	(696,574)
GASB 75 requires certain OPEB plan expenditures to be de-expended and recorded as Deferred Resource Outflows or expensed and recorded as Deferred Resource Inflows. This is the net result.	(218,857)
Change in net position of governmental activities - Statement of Activities	<u>\$ 2,053,067</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 FIDUCIARY NET POSITION****FIDUCIARY FUNDS****AUGUST 31, 2019**

Data Control Codes	Agency Fund
	Student Activity
<b>ASSETS:</b>	
1110 <i>Cash and Cash Equivalents</i>	\$ 113,758
1000 Total Assets	<u>113,758</u>
<b>LIABILITIES:</b>	
Current Liabilities:	
2190 <i>Due to Student Groups</i>	<u>113,758</u>
2000 Total Liabilities	<u>113,758</u>
<b>NET POSITION:</b>	
3000 Total Net Position	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

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

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

**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 accounts for the use of ad valorem taxes and other revenues collected for the purpose of retiring bond principal and paying interest when due. The main source of revenue for debt service is the apportionment of local property taxes.

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

The District reports the following non-major governmental funds:

**Special Revenue Fund:** These funds are used to account for Food Services activities, federal and state financed programs and other local programs.

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.

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

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.

**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 capital 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.

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

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

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, 2019**

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's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

5. Other Post-Employment Benefits

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan 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 OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/ deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

6. Implementation of New Standards

In the current fiscal year, the District implemented the following new standards. The applicable provisions of the new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

**GASB 88 - Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements**

The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

*GASB Statement No. 83, Certain Asset Retirement Obligations*

This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement.

The District does not currently have any AROs and does not expect that implementation of the pronouncement will have an impact on the financial statements.

*GASB Statement No. 90, Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. This Statement also establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

*GASB Statement No. 84, Fiduciary Activities*

This statement establishes standards of accounting and financial reporting by establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The focus of the criteria generally is on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

**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



**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

**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, 2019, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$13,253,206 and the bank balance was \$13,808,936. The District's cash deposits at August 31, 2019 and during the year ended August 31, 2019, 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	\$ 13,143,535
Exhibit E-1 - Cash and Cash Equivalents	113,758
	<hr/> 13,257,293
Less Petty Cash	(4,087)
Total Cash and Cash Equivalents	<hr/> <u>\$ 13,253,206</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.

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 and establishment of appropriate policies, the District 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.

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

The District's investments at August 31, 2019 are shown below:

	Assets at Fair Value as of August 31, 2019			
	Level 1	Level 2	Level 3	Total
Lone Star Investment Pool	\$ --	\$ 2,218,072	\$ --	\$ 2,218,072
Texas CLASS	--	3,180,189	--	3,180,189
TexPool	--	519,846	--	519,846
BOK Financial	--	474,818	--	474,818
Total Investments	<u>\$ --</u>	<u>\$ 6,392,925</u>	<u>\$ --</u>	<u>\$ 6,392,925</u>

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

Exhibit C-1 - Current Investments	\$ 5,886,315
Exhibit C-1 - Restricted Assets	506,610
Total Investments	<u>\$ 6,392,925</u>

**3. Analysis of Specific Deposit and Investment Risks**

GASB Statement No. 40 required 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.

**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.

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

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.

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 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 Overnight, Corporate Overnight, and Corporate Overnight Plus maintain a net asset value of one dollar.

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](http://www.ttstc.org).

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

**Texas CLASS**

The District invests in Texas CLASS, 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. The pool is governed by a board of trustees, elected annually by its participants. The parties to the Trust Agreement are Texas local government entities that choose to participate in the Trust (the "Participants"), Public Trust Advisors LLC (PTA) as Program Administrator and Wells Fargo Bank Texas, N.A. as Custodian. Texas CLASS is rated at a AAAM 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. Texas CLASS 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.

**D. Capital Assets**

Capital asset activity for the year ended August 31, 2019, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,132,484	\$ --	\$ --	\$ 3,132,484
Total capital assets not being depreciated	<u>3,132,484</u>	<u>--</u>	<u>--</u>	<u>3,132,484</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	85,512,797	796,232	--	86,309,029
Equipment	10,119,206	208,806	--	10,328,012
Vehicles	4,149,678	186,031	53,611	4,282,098
Total capital assets being depreciated	<u>99,781,681</u>	<u>1,191,069</u>	<u>53,611</u>	<u>100,919,139</u>
Less accumulated depreciation for:				
Buildings and improvements	(22,378,279)	(1,775,272)	--	(24,153,551)
Equipment	(7,183,474)	(440,060)	--	(7,623,534)
Vehicles	(3,591,220)	(194,746)	(53,611)	(3,732,355)
Total accumulated depreciation	<u>(33,152,973)</u>	<u>(2,410,078)</u>	<u>(53,611)</u>	<u>(35,509,440)</u>
Total capital assets being depreciated, net	<u>66,628,708</u>	<u>(1,219,009)</u>	<u>--</u>	<u>65,409,699</u>
Governmental activities capital assets, net	<u>\$ 69,761,192</u>	<u>\$ (1,219,009)</u>	<u>\$ --</u>	<u>\$ 68,542,183</u>

Depreciation was charged to functions as follows:

Instruction	\$ 1,242,185
Instructional Resources and Media Services	28,991
Curriculum and Staff Development	37,777
Instructional Leadership	11,860
School Leadership	103,510
Guidance, Counseling, & Evaluation Services	86,118
Health Services	22,402
Student Transportation	268,301
Food Services	181,436
Extracurricular Activities	177,884
General Administration	48,758
Plant Maintenance and Operations	170,719
Security and Monitoring Services	8,092
Data Processing Services	22,045
	<u>\$ 2,410,078</u>

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

**E. Interfund Balances and Activities**

**1. Due To and From Other Funds**

Balances due to and due from other funds at August 31, 2019, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Special Revenue Funds	\$ 156,704	Short-term loans
Special Revenue Funds	General Fund	36,421	For transfer of federal receipts
Debt Service Fund	General Fund	18,938	Short-term loans
	Total	<u>\$ 212,063</u>	

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

**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, 2019, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b><u>Governmental activities:</u></b>					
General obligation bonds	\$ 46,925,000	\$ --	\$ 2,340,000	\$ 44,585,000	\$ 1,705,000
Bond Issue Premium	901,675	--	54,851	846,824	--
Bond Issue Discount	(1,927)	--	(228)	(1,699)	--
Net Pension Liability *	4,819,036	4,156,205	517,629	8,457,612	--
Net OPEB Liability *	11,400,917	2,409,090	188,202	13,621,805	--
Total governmental activities	<u>\$ 64,044,701</u>	<u>\$ 6,565,295</u>	<u>\$ 3,100,454</u>	<u>\$ 67,509,542</u>	<u>\$ 1,705,000</u>

Interest rates on bonds range from 1.5% to 5.5%.

\* 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
Net OPEB Liability *	Governmental	General

**2. Debt Service Requirements**

Debt service requirements on long-term debt at August 31, 2019, are as follows:

<u>Year Ending August 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,705,000	1,766,043	3,471,043
2021	1,770,000	1,702,618	3,472,618
2022	1,835,000	1,636,292	3,471,292
2023	1,905,000	1,566,855	3,471,855
2024	1,970,000	1,494,305	3,464,305
2025-2029	13,765,000	5,976,455	19,741,455
2030-2034	12,030,000	3,356,575	15,386,575
2035-2039	9,605,000	729,188	10,334,188
Totals	<u>\$ 44,585,000</u>	<u>\$ 18,228,331</u>	<u>\$ 62,813,331</u>

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

**3. Bond Redemption**

On October 22, 2018, the District passed an order to redeem a portion of the Kilgore Independent School District Unlimited Tax School Building Bonds, Series 2011, scheduled to mature on February 15, 2038 and aggregating in principal amount of \$1,000,000. These bonds were redeemed on February 15, 2019 at the price of par plus accrued interest to the date of redemption. The District saved a total of \$831,250 in interest by redeeming the bonds. After redeeming the bonds, there is remaining outstanding principal of \$1,090,000 of the original bonds scheduled to mature on February 15, 2038.

**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 2019, 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 that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS) and is established and administered in accordance with the Texas Constitution, Article XVI, Section 67, and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

**2. Pension Plan Fiduciary Net Position**

Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; on the internet at <https://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; 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% (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (1.) above.

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

**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 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same.

	<b><u>Contribution Rates</u></b>	
	<u>2018</u>	<u>2019</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2019 Employer Contributions	\$ 533,152	
District's 2019 Member Contributions	\$ 1,627,457	
2018 NECE On-Behalf Contributions (state)	\$ 1,124,610	

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 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.

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district 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, 2017 actuarial valuation rolled forward to August 31, 2018 was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.907%
Long-term expected Investment Rate of Return	7.25%
Inflation	2.30%
Salary Increases including inflation	3.05% to 9.05%
Payroll Growth Rate	3.00%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the three year period ending August 31, 2017 and adopted in July, 2018.

**6. Discount Rate**

The single discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on the pension plan investments of 7.25% and a municipal bond rate of 3.69%. The projection of cash flows used to determine the discount rate assumed the 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 sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal 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 arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2018 are summarized below:



**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

<b>Teacher Retirement System of Texas</b> <b>Asset Allocation and Long-Term Expected Rate of Return</b> <b>As of August 31, 2018</b>			
<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Geometric Real Rate of Return</b>	<b>Expected Contribution to Long-term Portfolio Returns *</b>
<b>Global Equity</b>			
U.S.	18.0%	5.7%	1.0%
Non-U.S. Developed	13.0%	6.9%	0.9%
Emerging Markets	9.0%	8.9%	0.8%
Directional Hedge Funds	4.0%	3.5%	0.1%
Private Equity	13.0%	10.2%	1.3%
<b>Stable Value</b>			
U.S. Treasuries	11.0%	1.1%	0.1%
Absolute Return	0.0%	0.0%	0.0%
Stable Value Hedge Funds	4.0%	3.1%	0.1%
Cash	1.0%	-0.3%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3.0%	0.7%	0.0%
Real Assets	14.0%	5.2%	0.7%
Energy & Natural Resources	5.0%	7.5%	0.4%
Commodities	0.0%	0.0%	0.0%
<b>Risk Parity</b>			
Risk Parity	5.0%	3.7%	0.2%
Inflation Expectation			2.3%
Alpha			-0.8%
<b>Total</b>	<b>100.0%</b>		<b>7.2%</b>
* Target allocation are based on the FY 2016 policy model.			
** 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 (6.907%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate 5.907%	Discount Rate 6.907%	1% Increase in Discount Rate 7.907%
District's proportionate share of the net pension liability	\$ 12,764,565	\$ 8,457,612	\$ 4,970,879

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

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

At August 31, 2019, the District reported a liability of \$8,457,612 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:

District's proportionate share of the collective net pension liability	\$ 8,457,612
State's proportionate share that is associated with District	<u>18,386,603</u>
Total	<u>\$ 26,844,215</u>

The net pension liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2017 rolled forward to August 31, 2018. 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, 2017 through August 31, 2018.

At August 31, 2018 the employer's proportion of the collective net pension liability was 0.0153656%, which was an increase (decrease) of 0.0002941794% from its proportion measured as of August 31, 2017.

**Changes Since the Prior Actuarial Valuation -**

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

- The Total Pension Liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8.0% as of August 31, 2017 to 6.907% as of August 31, 2018.
- The long-term assumed rate of return changed from 8.0% to 7.25%.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the Net Pension Liability.

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, 2019, the District recognized pension expense of \$3,049,510 and revenue of \$1,819,784 for support provided by the State.

At August 31, 2019, 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: (The amounts below will be the cumulative layers from the current and prior years combined)

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 52,718	\$ 207,516
Changes in actuarial assumptions	3,049,377	95,293
Difference between projected and actual investment earnings	--	160,477
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	833,612	24,760
Contributions paid to TRS subsequent to the measurement date	533,152	--
Total	<u>\$ 4,468,859</u>	<u>\$ 488,046</u>

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
2020	\$ 934,254
2021	\$ 596,541
2022	\$ 498,856
2023	\$ 544,186
2024	\$ 529,476
Thereafter	\$ 344,348

**I. Defined Other Post-Employment Benefit Plans**

**1. Plan Description**

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

**2. OPEB Plan Fiduciary Net Position**

Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

**3. Benefits Provided**

TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes, including automatic COLAs.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for a retiree with and without Medicare coverage.

TRS-Care Monthly for Retirees January 1, 2018 thru December 31, 2018		
	Medicare	Non-Medicare
Retiree*	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1,020	999
* or surviving spouse		

**4. Contributions**

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

Contribution Rates		
	2018	2019
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
District's 2019 Employer Contributions		\$ 194,825
District's 2019 Member Contributions		\$ 137,278
2018 NECE On-Behalf Contributions (state)		\$ 239,817

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether they participate in the TRS Care OPEB program). When hiring a TRS retiree, employers are required to pay to TRS-Care a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional \$212 million in one-time, supplemental funding for the FY2018-19 biennium to continue to support the program. This was also received in FY2018 bringing the total appropriations received in fiscal year 2018 to \$394.6 million.

**5. Actuarial Assumptions**

The total OPEB liability in the August 31, 2017 actuarial valuation was rolled forward to August 31, 2018. The actuarial valuation was determined using the following actuarial assumptions:

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed on the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation, salary increases, and general payroll growth, used in the OPEB valuation were identical to those used in the respective TRS pension valuation. Since the assumptions were based upon a recent actuarial experience study performed and they were reasonable for this OPEB valuation, they were employed in the 2018 CAFR for the Teacher Retirement System of Texas.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation that was rolled forward to August 31, 2018:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

**Additional Actuarial Methods and Assumptions:**

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate *	3.69% *
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	3.00%
Projected Salary Increases	3.05% to 9.05%, including inflation ***
Healthcare Trend Rates **	8.50% **
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% after age 65.
Ad Hoc Post-Employment Benefit Changes	None

\*Sourced from fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2018.

\*\*8.50% for FY2019, decreasing 0.5% per year to 4.50% for FY2027 and later years.

\*\*\* Includes inflation at 2.5%.

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

**6. Discount Rate**

A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of .27% in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active 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 OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

**7. Discount Rate Sensitivity Analysis**

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used in measuring the net OPEB liability.

	1% Decrease in Discount Rate (2.69%)	Current Single Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District's proportionate share of net OPEB liability	\$ 16,214,628	\$ 13,621,805	\$ 11,570,714

**8. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs**

At August 31, 2019, the District reported a liability of \$13,621,805 for its proportionate share of the TRS's Net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 13,621,805
State's proportionate share that is associated with the District	<u>17,382,427</u>
Total	<u>\$ 31,004,232</u>

The Net OPEB liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the Total OPEB Liability used to calculate the Net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the Net OPEB liability was based on the District's contributions to OPEB relative to the contributions of all employers to the plan for the period September 1, 2017 thru August 31, 2018.

At August 31, 2019 the District's proportion of the collective net OPEB liability was 0.0272813%, which was an increase of .0010640102% from its proportion measured as of August 31, 2017.

The following schedule shows the impact of the net OPEB liability if a healthcare trend rate that is 1% less than and 1% greater than the assumed 8.5% rate is used.

	1% Decrease Rate (8.5%)	Current Single Healthcare Trend Rate (8.5%)	1% Increase
District's proportionate share of net OPEB liability	\$ 11,313,131	\$ 13,621,805	\$ 16,662,378

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

**9. Changes Since the Prior Actuarial Valuation**

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

- Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the Total OPEB Liability.
- The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the Total OPEB Liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the Total OPEB Liability.
- The discount rate was changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. This change lowered the Total OPEB Liability \$2.3 billion.
- Change of Benefit Terms Since the Prior Measurement Date - Please see the 2018 TRS CAFR, page 68, section B for a list of changes made effective September 1, 2017 by the 85th Texas Legislature.

In this valuation the impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850 / \$2,292 were indexed annually by 2.50%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25 basis-point addition to the long term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provision or applicable law.

Changes of benefit terms that affected measurement of the total OPEB liability during the measurement period are listed below:

The 85th Legislature, Regular Session, passed the following statutory changes in House Bill 3976 which became effective on September 1, 2017:

- Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.
- Allowed the System to provide other appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
- Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.
- Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during Plan Years 2018 through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

For the year ended August 31, 2019, the District recognized OPEB expense of \$1,045,950 and revenue of \$632,268 for support provided by the State.

At August 31, 2019, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual economic experience	\$ 722,859	\$ 214,972
Changes in actuarial assumptions	227,311	4,092,571
Differences between projected and actual investment earnings	2,382	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	583,178	--
Contributions paid to TRS subsequent to the measurement date	194,825	--
Total	<u>\$ 1,730,555</u>	<u>\$ 4,307,543</u>

The net amounts of the District's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended August 31	Amount
2020	\$ (463,573)
2021	\$ (463,573)
2022	\$ (463,573)
2023	\$ (464,024)
2024	\$ (464,282)
Thereafter	\$ (452,787)

**10. 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 current fiscal year ended August 31, 2019 the subsidy payment received by TRS-Care on behalf of the District was \$81,714.

**J. Employee Health Care Coverage**

During the year ended August 31, 2019, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$241 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.



**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

Latest financial statements for the Plan have been filed with the Texas State Board of Insurance and are available as 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 which the District's Board of Trustees rescinded in 2015. The District intends to vigorously defend the litigation. Although the District believes it was correct in its decision to rescind the local homestead option, they have decided to assign \$4,592,741 of fund balance in the general fund, taking a conservative approach in planning for the District's future.

**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 worker's 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**

During the year ended August 31, 2019, 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.

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, 2019, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contributions.

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

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, 2018, 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 Property Insurance**

During the year ended August 31, 2019, the District participated in the following TASB Risk Management Fund (the Fund) programs:

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

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, 2019, 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, 2018, 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, 2019 are summarized by fund type below:

	General	Special Revenue	Total
Federal Revenue	\$ --	\$ 426,067	\$ 426,067
State Revenue	2,384,314	--	2,384,314
Other	419,193	--	419,193
Totals	<u>\$ 2,803,507</u>	<u>\$ 426,067</u>	<u>\$ 3,229,574</u>

Amounts due to federal and state governments as of August 31, 2019 are summarized below:

	Debt Service
State Revenue	<u>\$ 578</u>

**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.

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

At August 31, 2019, the components of delinquent taxes receivable are as follows:

	General Fund	Debt Service	Total
Delinquent Taxes	\$ 1,780,075	\$ 314,738	\$ 2,094,813
Allowance	(632,862)	(68,402)	(701,264)
Net Taxes Receivable	<u>\$ 1,147,213</u>	<u>\$ 246,336</u>	<u>\$ 1,393,549</u>

**Q. Other Receivables**

Other receivables as of August 31, 2019, consisted primarily of taxes collected by the tax office, but not yet deposited to the District's bank, a grant from a local foundation and miscellaneous other receivables:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Ad Valorem Taxes	\$ 21,611	\$ --	\$ 5,891	\$ 27,502
Other	23,647	30	--	23,677
Total Other Receivables	<u>\$ 45,258</u>	<u>\$ 30</u>	<u>\$ 5,891</u>	<u>\$ 51,179</u>

**R. Other Committed or Assigned Fund Balance**

Other committed fund balance includes the following commitments of funds:

Campus Activity Funds	\$ 103,030
Gene and Nora Elder Scholarship	1,982
Total Other Committed Fund Balance	<u>\$ 105,012</u>

**S. Local and State Revenue**

During the year ending August 31, 2019, revenues from local and intermediate sources consisted of the following:

	General Fund	Debt Service Fund	Other	Total
Property Taxes	\$ 16,626,644	\$ 4,382,843	\$ --	\$ 21,009,487
Investment Earnings	513,887	89,618	28,098	631,603
Co-curricular Activities	66,910	--	74,695	141,605
Food Service	--	--	358,343	358,343
Gifts and Bequests	56,352	--	17,436	73,788
Other Revenue	379,736	650	165,202	545,588
Totals	<u>\$ 17,643,529</u>	<u>\$ 4,473,111</u>	<u>\$ 643,774</u>	<u>\$ 22,760,414</u>

**T. Restricted Assets**

Restricted assets at August 31, 2019 consist of the following:

Gene and Nora Elder Scholarship Funds	\$ 31,982
Sinking Fund Investment Account for the Unlimited Tax	
Qualified School Construction Bonds, Series 2012	474,628
	<u>\$ 506,610</u>

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### *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, 2019

**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	\$ 17,475,603	\$ 17,542,043	\$ 17,637,390	\$ 95,347
5800	State Program Revenues	15,739,087	15,739,087	16,010,680	271,593
5900	Federal Program Revenues	620,000	620,000	304,150	(315,850)
5020	Total Revenues	33,834,690	33,901,130	33,952,220	51,090
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	17,405,611	17,324,018	16,945,711	378,307
0012	Instructional Resources and Media Services	438,258	485,287	469,114	16,173
0013	Curriculum and Staff Development	797,633	775,634	691,403	84,231
	Total Instruction & Instr. Related Services	18,641,502	18,584,939	18,106,228	478,711
Instructional and School Leadership:					
0021	Instructional Leadership	374,858	382,284	366,372	15,912
0023	School Leadership	1,955,851	2,026,404	2,004,142	22,262
	Total Instructional & School Leadership	2,330,709	2,408,688	2,370,514	38,174
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	1,300,087	1,226,645	1,206,759	19,886
0033	Health Services	279,133	289,133	273,133	16,000
0034	Student (Pupil) Transportation	1,378,830	1,404,452	1,238,375	166,077
0035	Food Services	1,600	21,864	4,250	17,614
0036	Cocurricular/Extracurricular Activities	1,380,449	1,505,995	1,479,752	26,243
	Total Support Services - Student (Pupil)	4,340,099	4,448,089	4,202,269	245,820
Administrative Support Services:					
0041	General Administration	1,308,128	1,317,778	1,234,544	83,234
	Total Administrative Support Services	1,308,128	1,317,778	1,234,544	83,234
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	4,918,904	4,943,020	4,774,100	168,920
0052	Security and Monitoring Services	300,770	467,588	434,873	32,715
0053	Data Processing Services	514,073	542,576	445,653	96,923
	Total Support Services - Nonstudent Based	5,733,747	5,953,184	5,654,626	298,558
Ancillary Services:					
0061	Community Services	6,325	12,191	5,754	6,437
	Total Ancillary Services	6,325	12,191	5,754	6,437
Capital Outlay:					
0081	Capital Outlay	--	45,000	34,164	10,836
	Total Capital Outlay	--	45,000	34,164	10,836
0099	Other Intergovernmental Charges	332,090	350,090	334,438	15,652
	Total Intergovernmental Charges	332,090	350,090	334,438	15,652
6030	Total Expenditures	32,692,600	33,119,959	31,942,537	1,177,422
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	1,142,090	781,171	2,009,683	1,228,512

**KILGORE INDEPENDENT SCHOOL DISTRICT****GENERAL FUND****BUDGETARY COMPARISON SCHEDULE****FOR THE YEAR ENDED AUGUST 31, 2019****EXHIBIT G-1**

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	Other Financing Sources (Uses):				
7912	<i>Sale of Real or Personal Property</i>	\$ --	\$ --	\$ 6,139	\$ 6,139
7080	Total Other Financing Sources and (Uses)	--	--	6,139	6,139
1200	Net Change in Fund Balance	1,142,090	781,171	2,015,822	1,234,651
0100	Fund Balance - Beginning	15,397,246	15,397,246	15,397,246	--
3000	Fund Balance - Ending	<u>\$ 16,539,336</u>	<u>\$ 16,178,417</u>	<u>\$ 17,413,068</u>	<u>\$ 1,234,651</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, 2019*

	Fiscal Year				
	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.015%	0.015%	0.015%	0.016%	0.010%
District's proportionate share of the net pension liability (asset)	\$ 8,457,612	\$ 4,819,036	\$ 5,608,679	\$ 5,578,550	\$ 2,565,175
State's proportionate share of the net pension liability (asset) associated with the District	18,386,603	10,929,124	13,494,212	12,956,186	11,379,214
Total	<u>\$ 26,844,215</u>	<u>\$ 15,748,160</u>	<u>\$ 19,102,891</u>	<u>\$ 18,534,736</u>	<u>\$ 13,944,389</u>
District's covered-employee payroll	\$ 21,106,735	\$ 20,477,271	\$ 19,102,891	\$ 18,534,736	\$ 13,944,389
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	40.07%	23.53%	29.36%	30.10%	18.40%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	82.17%	78.00%	78.43%	83.25%

Note: Only five 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 OF TEXAS  
FOR THE YEAR ENDED AUGUST 31, 2019*

	Fiscal Year Ended August 31,				
	2019	2018	2017	2016	2015
Contractually required contribution	\$ 532,767	\$ 517,705	\$ 489,665	\$ 467,467	\$ 476,561
Contributions in relation to the contractually required contribution	(533,152)	(517,705)	(489,665)	(467,467)	(476,561)
Contribution deficiency (excess)	<u>\$ (385)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 21,134,970	\$ 21,106,735	\$ 20,477,271	\$ 20,243,405	\$ 19,695,497
Contributions as a percentage of covered-employee payroll	2.52%	2.45%	2.39%	2.31%	2.42%

Note: Only five 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 THE DISTRICT'S PROPORTIONATE**SHARE OF THE NET OPEB LIABILITY**TEACHER RETIREMENT SYSTEM OF TEXAS**FOR THE YEAR ENDED AUGUST 31, 2019*

	Measurement Year Ended August 31,	
	2018	2017
District's proportion of the collective net OPEB liability	0.027%	0.026%
District's proportionate share of the collective net OPEB liability	\$ 13,621,805	\$ 11,400,917
State proportionate share of the collective net OPEB liability associated with the District	17,382,427	15,603,594
Total	<u>\$ 31,004,232</u>	<u>\$ 27,004,511</u>
District's covered-employee payroll	\$ 21,106,735	\$ 20,477,271
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	64.54%	55.68%
Plan fiduciary net position as a percentage of the total OPEB liability	1.57%	0.91%

Note: Only two years of data is presented in accordance with GASB #75, paragraph 245. "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 THE DISTRICT'S OPEB CONTRIBUTIONS**  
**TEACHER RETIREMENT SYSTEM OF TEXAS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

	Fiscal Year Ended August 31,	
	2019	2018
Statutorily or contractually required District contribution	\$ 194,290	\$ 188,224
Contributions recognized by OPEB in relation to statutorily or contractually required contribution	194,825	188,224
Contribution deficiency (excess)	<u>\$ (535)</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 21,134,970	\$ 21,106,735
Contributions as a percentage of covered-employee payroll	0.92%	0.89%

Note: Only two years of data is presented in accordance with GASB #75, paragraph 245. "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, 2019

### Budget

The official budget was prepared for adoption for all Governmental Fund Types. 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*

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

### *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, 2019**

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2010 and Prior Years	\$	Various	\$	Various	\$	Various
2011		1.0400		.0692		1,637,686,080
2012		1.0400		.2692		1,655,149,175
2013		1.0400		.2692		1,660,756,722
2014		1.0400		.2692		1,642,326,612
2015		1.0400		.2692		1,625,663,916
2016		1.0400		.2692		1,621,378,017
2017		1.0400		.2692		1,525,689,929
2018		1.0400		.2692		1,522,560,412
2019 (School Year Under Audit)		1.0400		.2692		1,596,699,358

1000 Totals

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

10 Beginning Balance 9/1/18	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/19
\$ 552,201	\$ --	\$ 7,532	\$ 561	\$ (86,388)	\$ 457,220
77,190	--	1,475	132	(3,945)	71,638
84,674	--	3,443	268	(3,596)	77,367
401,400	--	(27,971)	(1,861)	(317,283)	113,949
382,443	--	13,281	884	(243,133)	125,145
373,634	--	18,332	4,745	(213,805)	136,752
412,570	--	30,656	7,935	(218,867)	155,112
342,560	--	59,416	15,379	(87,117)	180,648
518,453	--	152,931	39,586	(38,455)	287,481
--	20,903,988	16,186,745	4,189,877	(38,365)	489,001
<u>\$ 3,145,125</u>	<u>\$ 20,903,988</u>	<u>\$ 16,445,840</u>	<u>\$ 4,257,506</u>	<u>\$ (1,250,954)</u>	<u>\$ 2,094,813</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

**KILGORE INDEPENDENT SCHOOL DISTRICT****NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM****BUDGETARY COMPARISON SCHEDULE****FOR THE YEAR ENDED AUGUST 31, 2019****EXHIBIT J-2**

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
<b>REVENUES:</b>					
5700	Local and Intermediate Sources	\$ 435,000	\$ 435,000	\$ 377,856	\$ (57,144)
5800	State Program Revenues	11,000	11,000	11,008	8
5900	Federal Program Revenues	1,828,000	1,828,000	1,770,138	(57,862)
5020	Total Revenues	<u>2,274,000</u>	<u>2,274,000</u>	<u>2,159,002</u>	<u>(114,998)</u>
<b>EXPENDITURES:</b>					
Current:					
	Support Services - Student (Pupil):				
0035	Food Services	<u>2,434,328</u>	<u>2,457,078</u>	<u>2,071,226</u>	<u>385,852</u>
	Total Support Services - Student (Pupil)	<u>2,434,328</u>	<u>2,457,078</u>	<u>2,071,226</u>	<u>385,852</u>
6030	Total Expenditures	<u>2,434,328</u>	<u>2,457,078</u>	<u>2,071,226</u>	<u>385,852</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>(160,328)</u>	<u>(183,078)</u>	<u>87,776</u>	<u>270,854</u>
1200	Net Change in Fund Balance	<u>(160,328)</u>	<u>(183,078)</u>	<u>87,776</u>	<u>270,854</u>
0100	Fund Balance - Beginning	<u>713,385</u>	<u>713,385</u>	<u>713,385</u>	<u>--</u>
3000	Fund Balance - Ending	<u>\$ 553,057</u>	<u>\$ 530,307</u>	<u>\$ 801,161</u>	<u>\$ 270,854</u>



# KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

## DEBT SERVICE

### BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 4,094,659	\$ 4,234,187	\$ 4,473,111	\$ 238,924
5800	State Program Revenues	102,917	102,917	92,740	(10,177)
5900	Federal Program Revenues	138,932	138,932	139,528	596
5020	Total Revenues	4,336,508	4,476,036	4,705,379	229,343
EXPENDITURES:					
Debt Service:					
0071	Principal on Long-Term Debt	2,340,000	2,810,000	2,340,000	470,000
0072	Interest on Long-Term Debt	2,190,460	1,859,888	1,836,942	22,946
0073	Bond Issuance Costs and Fees	5,000	5,100	5,100	--
	Total Debt Service	4,535,460	4,674,988	4,182,042	492,946
6030	Total Expenditures	4,535,460	4,674,988	4,182,042	492,946
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(198,952)	(198,952)	523,337	722,289
1200	Net Change in Fund Balance	(198,952)	(198,952)	523,337	722,289
0100	Fund Balance - Beginning	2,042,811	2,042,811	2,042,811	--
3000	Fund Balance - Ending	\$ 1,843,859	\$ 1,843,859	\$ 2,566,148	\$ 722,289

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

CERTIFIED PUBLIC ACCOUNTANTS

PO BOX 1790

KILGORE, TEXAS 75663-1790

SHAREHOLDER:

Lynda R. Newsome, CPA

PROFESSIONAL STAFF:

Cindy Alford, CPA

Terri Boring

Kim Martin

Carla McKnight

MEMBER

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1116 N. Kilgore St.

Kilgore, Texas 75662

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, 2019, 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 4, 2019.

**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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

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

  
BROWN, BRONSTAD, HABENICHT & ROSSON, PC

Kilgore, TX  
November 4, 2019

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

CERTIFIED PUBLIC ACCOUNTANTS

PO BOX 1790

KILGORE, TEXAS 75663-1790

**SHAREHOLDER:**

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Kilgore, Texas 75662

**Independent Auditors' Report on Compliance for Each Major Federal Program and  
Report 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, 2019. 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, 2019.

### **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 a 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 4, 2019

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

**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

Version of compliance supplement used in audit: August 2019

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>
84.010a	ESEA Title I, Part A

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

Auditee qualified as low-risk auditee?   X   Yes        No

**B. Financial Statement Findings**

NONE

**C. Federal Award Findings and Questioned Costs**

NONE

**KILGORE INDEPENDENT SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

<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, 2019***

None needed



**KILGORE INDEPENDENT SCHOOL DISTRICT****SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2019****EXHIBIT K-1**

(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
<b>CHILD NUTRITION CLUSTER:</b>				
<u>U. S. Department of Agriculture</u>				
Passed Through State Department of Education:				
School Breakfast Program	10.553	092-902	\$ --	\$ 440,845
National School Lunch Program	10.555	092-902	--	1,210,950
National School Lunch Program (Non-cash)	10.555	092-902	--	118,343
Total CFDA Number 10.555			--	1,329,293
Total Passed Through State Department of Education			--	1,770,138
Total U. S. Department of Agriculture			--	1,770,138
Total Child Nutrition Cluster			--	1,770,138
<b>SPECIAL EDUCATION (IDEA) CLUSTER:</b>				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
IDEA-B Formula	84.027	186600010929026600	--	477,747
IDEA-B Formula	84.027	196600010929026600	--	101,601
IDEA-B Formula	84.027	196600010929026600	--	323,618
Total CFDA Number 84.027			--	902,966
IDEA-B Preschool	84.173	186610010929026610	--	4,796
IDEA-B Preschool	84.173	196610010929026610	--	--
Total CFDA Number 84.173			--	4,796
Total Passed Through State Department of Education			--	907,762
Total U. S. Department of Education			--	907,762
Total Special Education (IDEA) Cluster			--	907,762
<b>OTHER PROGRAMS:</b>				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
ESEA Title I Part A - Improving Basic Programs	84.010a	17610101092902	--	78,787
ESEA Title I Part A - Improving Basic Programs	84.010a	19610101092902	--	770,707
Total CFDA Number 84.010a			--	849,494
Career and Technical - Basic Grant	84.048	19420006092902	--	49,797
Title III Part A English Language Acq. and Language Enh.	84.365	19671001092902	--	4,497
Title III Part A English Language Acq. and Language Enh.	84.365	19671001092902	--	60,004
Total CFDA Number 84.365			--	64,501
ESEA Title II Part A - Teacher & Principal Training & Rec.	84.367a	19694501092902	--	5,125
ESEA Title II Part A - Teacher & Principal Training & Rec.	84.367a	19694501092902	--	171,658
Total CFDA Number 84.367a			--	176,783
Title IV, Part A, Subpart 1	84.424a	19680101092902	--	32,092
Total U. S. Department of Education			--	1,172,667
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ --	\$ 3,850,567

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, 2019**

**Basis of Presentation**

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of Kilgore Independent School District. The information in the 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* ("Uniform Guidance"). Therefore, some amounts 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	\$	3,850,567
School Health and Related Services (SHARS) reported in the general fund		304,150
Interest Subsidy on Qualified School Construction Bonds		139,528
Total Federal Revenues	\$	<u>4,294,245</u>

**Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Kilgore Independent School District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**KILGORE INDEPENDENT SCHOOL DISTRICT****SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS  
AS OF AUGUST 31, 2019**

<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.	\$ 8,457,612
SF13	Pension Expense (object 6147) at fiscal year-end.	\$

In correspondence to all school administrators dated November 1, 2017, the TEA's Director of Financial Compliance stated "For 2017, and until further notice, no data should be entered in the field for data feed Schedule L-1 question SF13. If the AFR and data feed has been submitted no additional steps need to be taken."

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