

**KILGORE
INDEPENDENT SCHOOL
DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

AUGUST 31, 2013

KILGORE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
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CERTIFICATE OF BOARD

KILGORE INDEPENDENT SCHOOL DISTRICT

Name of School

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

[X] APPROVED --- [] DISAPPROVED

(Check One)

for the year ended August 31, 2013 at a meeting of the Board of Trustees of such school district on the 18th day of November, 2013.

SIGNATURE OF BOARD SECRETARY

SIGNATURE OF BOARD PRESIDENT

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

FINANCIAL SECTION

HLSK

Hereford, Lynch, Sellars & Kirkham

Certified Public Accountants • A Professional Corporation

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Kilgore Independent School District
301 N. Kilgore St.
Kilgore, TX 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 Kilgore Independent School District (District), as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Managements 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 auditors' judgment, including the assessments of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 Kilgore Independent School District, as of August 31, 2013, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note I. F. *Accounting Changes* in the notes to the financial statements, for August 31, 2013, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed 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 Government 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 Kilgore Independent School District's basic financial statements. The combining funds financial statements and other supplementary information, including the schedule of required responses to selected school first indicators, are presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2013, on our consideration of the Kilgore Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kilgore Independent School District's internal control over financial reporting and compliance.

Respectfully,

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
November 18, 2013

Management's Discussion and Analysis

As management of the Kilgore Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2013.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$34,773,834 (*net position*). Of this amount, \$13,172,674 (*unrestricted net position*) may be used to meet the District's ongoing obligations to students and creditors.
- The District's total net position decreased \$1,127,947 from current operations and decreased \$626,533 from implementation of GASB 65.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$15,387,348, a decrease of \$29,394,886.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,194,485, or 20 percent of total general fund expenditures.
- The District's total bonded debt increased by \$7,314,612 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include *Instruction, Instructional Resources and Media Services, Curriculum and Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Health Services, Student Transportation, Food Service, Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Facilities Repair and Maintenance, and Other Intergovernmental Charges*.

The government-wide financial statements can be found as noted in the table of contents of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital project funds, which are considered to be major funds. Data from the other sixteen governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found as noted in the table of contents of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of students. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is similar to the accounting used for proprietary funds.

The basic fiduciary fund financial statements can be found as noted in the table of contents of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as noted in the table of contents of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents combining funds financial statements and other supplementary information, which includes schedules required by the Texas Education Agency. The combining funds financial statements and other supplementary information can be found as noted in the table of contents of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$34,773,834 at the close of the most recent fiscal year.

KILGORE INDEPENDENT SCHOOL DISTRICT'S NET POSITION

	Governmental Activities					
	2013		2012		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and Other Assets	\$ 21,631,386	22	\$ 51,327,518	55	\$ (29,696,132)	(58)
Capital Assets	77,131,411	78	41,838,479	45	35,292,932	84
Total Assets	98,762,797	100	93,165,997	100	5,596,800	
Noncurrent Liabilities	59,144,198	92	51,829,586	92	7,314,612	14
Other Liabilities	4,844,765	8	4,808,097	8	36,668	1
Total Liabilities	63,988,963	100	56,637,683	100	7,351,280	
Net Position:						
Net Investment in Capital Assets	20,579,160	59	21,941,448	60	(1,362,288)	(6)
Restricted	1,022,000	3	820,722	2	201,278	25
Unrestricted	13,172,674	38	13,766,144	38	(593,470)	(4)
Total Net Position	\$ 34,773,834	100	\$ 36,528,314	100	\$ (1,754,480)	

The largest portion of the District's net position (59 percent) reflects its investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted

net position (\$1,022,000 or 3 percent of net position) are restricted for debt service. The remaining balance of *unrestricted net position* (\$13,172,674) may be used to meet the District's ongoing obligations to students and creditors.

Governmental activities. Governmental activities decreased the District's net position by \$1,127,947 from current operations and decreased \$626,533 from the implementation of GASB 65 as described in the notes to the financial statements. Key elements of this change are as follows:

KILGORE INDEPENDENT SCHOOL DISTRICT'S CHANGES IN NET POSITION

	Governmental Activities					
	2013		2012		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program Revenues:						
Charges for Services	\$ 1,036,977	3	\$ 1,295,012	4	\$ (258,035)	(20)
Operating Grants and Contributions	4,432,351	13	5,038,054	14	(605,703)	(12)
General Revenues:						
Property Taxes, Levied for General Purpose	17,118,124	49	17,290,236	47	(172,112)	(1)
Property Taxes, Levied for Debt Service	4,527,066	13	4,522,507	12	4,559	-
Grants and Contributions Not Restricted to Specific Programs	7,645,342	22	8,119,806	22	(474,464)	(6)
Investment Earnings	76,702	-	388,829	1	(312,127)	(80)
Miscellaneous	39,143	-	174,965	-	(135,822)	(78)
Total Revenues	34,875,705	100	36,829,409	100	(1,953,704)	
Expenses:						
Instruction	17,518,709	48	17,412,275	54	106,434	1
Instructional Resources and Media Services	497,662	1	396,765	1	100,897	25
Curriculum and Staff Development	673,250	2	556,898	2	116,352	21
Instructional Leadership	388,455	1	341,066	1	47,389	14
School Leadership	1,841,112	5	1,854,223	6	(13,111)	(1)
Guidance, Counseling, and Evaluation Services	923,018	3	790,292	2	132,726	17
Health Services	277,955	1	236,347	1	41,608	18
Student Transportation	1,354,924	4	1,306,048	4	48,876	4
Food Service	1,849,151	5	1,670,710	5	178,441	11
Extracurricular Activities	1,477,336	4	1,431,849	4	45,487	3
General Administration	1,054,653	3	1,147,798	4	(93,145)	(8)
Plant Maintenance and Operations	2,700,807	8	2,658,482	8	42,325	2
Security and Monitoring Services	144,532	-	151,651	-	(7,119)	(5)
Data Processing Services	273,935	1	264,070	1	9,865	4
Community Services	1,999	-	3,748	-	(1,749)	(47)
Interest on Long-term Debt	2,298,661	6	2,070,312	6	228,349	11
Facilities Repair and Maintenance	2,421,375	7	10,495	-	2,410,880	22,972
Other Intergovernmental Charges	306,118	1	300,968	1	5,150	2
Total Expenses	36,003,652	100	32,603,997	100	3,399,655	
Change in Net Position	(1,127,947)		4,225,412		(5,353,359)	
Net Position - Beginning	36,528,314		32,302,902		4,225,412	
Prior Period Adjustment - Implement GASB 65 for Bond Issuance Costs	(626,533)		-		(626,533)	
Net Position - Beginning, as restated	35,901,781		32,302,902		3,598,879	
Net Position - Ending	\$ 34,773,834		\$ 36,528,314		\$ (1,754,480)	

Revenues are generated primarily from two sources. Grants and contributions (program and general revenues totaling \$12,077,693) represent 35 percent of total revenues and property taxes (\$21,645,190) represent 62 percent of total revenues. The remaining 3 percent is generated from charges for services, investment earnings, and miscellaneous revenues. The most significant change was a decrease in grants and contributions due to a decrease in state and federal revenue received in the current year.

The primary functional expense of the District is instruction (\$17,518,709), which represents 48 percent of total expenses. The remaining functional categories of expenses are individually 10 percent or less than total expenses. The significant change was an increase to facilities repair and maintenance.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$15,387,348, a decrease of \$29,394,886.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,194,485 while total fund balance reached \$10,194,485. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 20 percent of total general fund expenditures, while total fund balance represents 39 percent of that same amount.

The fund balance of the District's general fund decreased by \$331,421 during the current fiscal year. The decrease was primarily due to a reduction in state revenue while expenditures increased due to instructional expenditures paid from the General Fund that were previously paid from the Education Jobs Fund Grant in the prior year.

The debt service fund has a total fund balance of \$893,733, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$116,928 and was due to the increase in property tax revenue resulting from property values exceeding the increase in debt requirements.

The capital projects fund has a total fund balance of \$2,591,947. The decrease in fund balance is due to the completion of capital projects for two schools.

General Fund Budgetary Highlights

The District amends the budget as needed throughout the year. There were not significant differences between the original budget and the final amended budget of the general fund.

There were no significant variations between final budget and actual results.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental type activities as of August 31, 2013, amounts to \$77,131,411 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 84 percent.

Major capital asset additions during the current fiscal year included the following:

- \$36,135,556 Construction on new elementary and intermediate school
- \$163,172 New vehicles

KILGORE INDEPENDENT SCHOOL DISTRICT'S CAPITAL ASSETS (net of depreciation)

	Governmental Activities					
	2013		2012		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land	\$ 3,187,826	4	\$ 1,309,401	3	\$ 1,878,425	143
Buildings and Improvements, net	68,716,628	89	18,896,608	45	49,820,020	264
Furniture and Equipment, net	5,226,957	7	5,320,357	13	(93,400)	(2)
Construction in Progress	-	-	16,312,113	39	(16,312,113)	(100)
Totals	\$ 77,131,411	100	\$ 41,838,479	100	\$ 35,292,932	

Additional information on the District's capital assets can be found in notes to the financial statements as noted in the table of contents of this report.

Long-term liabilities. At the end of the current fiscal year, the District had total long-term liabilities outstanding of \$59,144,198 for debt backed by the full faith and credit of the District.

KILGORE INDEPENDENT SCHOOL DISTRICT'S OUTSTANDING DEBT

	Governmental Activities					
	2013		2012		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General Obligation Bonds (Net)	\$ 59,144,198	100	\$ 51,829,586	100	\$ 7,314,612	14
Totals	\$ 59,144,198	100	\$ 51,829,586	100	\$ 7,314,612	

The District's bonded debt increased by \$7,314,612 during the current fiscal year. The key factor was the issuance of unlimited tax building bonds.

The District's general obligation debt is backed by the full faith and credit District and is further guaranteed by the Texas Permanent School Fund Guarantee Program.

State statutes do not limit the rate or amount for the support of school districts bonded indebtedness.

Additional information on the District's long-term debt can be found in the notes to the financial statements as indicated in the table of contents of this report.

Economic Factors and Next Year's Budgets and Rates

The District's elected and appointed officials considered the following factors when setting the fiscal year 2014 budget and tax rates:

- The District's appraised value for the 2014 year remained materially unchanged, decreasing \$15,316,209 or 0.9% over 2013 values. This value decrease continues a trend since 1997 in which the local values have only decreased insignificantly twice in that time (2010 & current).
- Federal, State and Local revenue combined for general fund expenditures for 2014 are currently projected to increase significantly from prior year, \$1,770,467 or 6.73%. The most recent 2013 legislative session, began to increase the funding mechanisms driving Texas State School District revenue calculations back to pre 2011 levels.
- The District's overall general fund revenue is still being controlled by the target revenue system implemented by HB 1 in 2009. The system created a "revenue per student" system made up of both local and state sources. Districts across the state are still awaiting information on various lawsuits challenging this system in court. There is no expectation for meaningful change within the next few years.
- Actual general operating fund spending per student is expected to increase from the 2013 budget due to the increased funding levels mentioned prior.
- Kilgore Independent School District used the greatest portion of the increased funding to reward District employees with raises. Teachers, who make up greater than fifty percent of all employees, were given steps that were increased by \$1,000 over the same step the prior year. The majority of all other employees were given six percent of midpoint raises based on the program developed by Texas Association of School Boards.
- Personnel units were increased by two professional and one non-professional full time equivalent over the prior year. Within this slight increase were many changes made by current administration to focus District resources into areas with greater current relevance.
- The Kilgore Independent School District Board of Trustees, administrators and its entire staff remain focused heavily on making low impact cost reductions trying to be conservative in the face of an unknown financial funding formula and the still unknown total effect of the opening of the new Primary and Middle School campuses for the return of students and teachers for the 2013-2014 school year.
- The District's average daily attendance is expected to increase from 2013 levels by approximately one percent, 3,657 to 3,687. The District Average Daily Attendance increased from 2012 to 2013 by 30 students, or one percent. This trend is expected to continue as several classes with smaller enrollments will be graduating in the next few years and continued larger numbers replacing them at the lower grades.
- Kilgore Independent School District is designated as a Chapter 41 District, although no recapture will be paid at our current wealth per student. Barring any changes to current state law or extraordinarily large increases to our local property values, no recapture is foreseen in the next few years.
- Kilgore Independent School District on May 14, 2011, passed a fifty-five million dollar bond issue for building two new campuses, Pre-K through first grade and sixth through eighth grade, as well as renovations and small additions to both the Intermediate School and Chandler Elementary campuses.

The last series of bonds from that issue were sold on December 12, 2012. The construction was substantially complete and both teachers and students moved into the buildings for the opening of the 2013-2014 school year.

These indicators were taken into account when adopting the general fund budget for 2014. The maintenance and operations tax rate remained unchanged at \$1.04, the maximum rate allowable by state law without taxpayer approval. There are only two ways in which Kilgore Independent School District can generate additional revenue: 1) additional students in average daily attendance and 2) receive voter approval for a tax rate above \$1.04.

The overall Kilgore economy is hard to gauge at this time. The Kilgore economy, even with many attempts to diversify, remains highly reliant upon the oil and gas industry. Sales tax revenues generated by the City of Kilgore have been level over the past few months, seeing minor increases and decreases each month. Unemployment rates for Gregg and Rusk Counties, 6.2% and 6.7%, which portions of Kilgore Independent School District reside within surround the state rate of 6.4%. As a result of the many uncertainties related to public education funding in Texas we continue to remain conservative in our budgeting strategies and strive for efficiency in every aspect of our operations.

All of these factors were considered in preparing the District's budget for the 2014 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, Kilgore Independent School District 301 N. Kilgore St. Kilgore, TX 75662.

BASIC FINANCIAL STATEMENTS

KILGORE INDEPENDENT SCHOOL DISTRICT**EXHIBIT A-1****STATEMENT OF NET POSITION****AUGUST 31, 2013**

1

Data
Control
CodesGovernmental
Activities**ASSETS:**

1110	Cash and Cash Equivalents	\$	3,936,876
1120	Current Investments		14,872,401
1225	Property Taxes Receivable (Net)		1,498,107
1240	Due from Other Governments		1,246,678
1290	Other Receivables (Net)		21,494
1300	Inventories		55,830
	Capital Assets:		
1510	Land		3,187,826
1520	Buildings and Improvements (Net)		68,716,628
1530	Furniture and Equipment (Net)		5,226,957
1000	Total Assets		<u>98,762,797</u>

LIABILITIES:

2110	Accounts Payable		3,869,023
2140	Interest Payable		98,834
2160	Accrued Wages Payable		831,776
2300	Unearned Revenue		45,132
	Noncurrent Liabilities:		
2501	Due Within One Year		1,815,000
2502	Due in More Than One Year		57,329,198
2000	Total Liabilities		<u>63,988,963</u>

NET POSITION:

3200	Net Investment in Capital Assets		20,579,160
3850	Restricted for Debt Service		1,022,000
3900	Unrestricted		13,172,674
3000	Total Net Position	\$	<u>34,773,834</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT B-1

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
0011	Instruction	\$ 17,518,709	\$ 115,367	\$ 2,253,297	\$ (15,150,045)
0012	Instructional Resources and Media Services	497,662	10,237	20,433	(466,992)
0013	Curriculum and Staff Development	673,250	-	149,828	(523,422)
0021	Instructional Leadership	388,455	-	48,661	(339,794)
0023	School Leadership	1,841,112	41,594	77,691	(1,721,827)
0031	Guidance, Counseling, and Evaluation Services	923,018	-	51,705	(871,313)
0033	Health Services	277,955	-	29,227	(248,728)
0034	Student Transportation	1,354,924	-	49,080	(1,305,844)
0035	Food Service	1,849,151	573,139	1,485,170	209,158
0036	Extracurricular Activities	1,477,336	286,640	29,555	(1,161,141)
0041	General Administration	1,054,653	-	46,432	(1,008,221)
0051	Plant Maintenance and Operations	2,700,807	10,000	38,624	(2,652,183)
0052	Security and Monitoring Services	144,532	-	-	(144,532)
0053	Data Processing Services	273,935	-	8,420	(265,515)
0061	Community Services	1,999	-	1,949	(50)
0072	Interest on Long-term Debt	2,298,661	-	142,279	(2,156,382)
0081	Facilities Repair and Maintenance	2,421,375	-	-	(2,421,375)
0099	Other Intergovernmental Charges	306,118	-	-	(306,118)
TG	Total Governmental Activities	<u>36,003,652</u>	<u>1,036,977</u>	<u>4,432,351</u>	<u>(30,534,324)</u>
TP	Total Primary Government	<u>\$ 36,003,652</u>	<u>\$ 1,036,977</u>	<u>\$ 4,432,351</u>	<u>(30,534,324)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				17,118,124
DT	Property Taxes, Levied for Debt Services				4,527,066
GC	Grants and Contributions Not Restricted to Specific Programs				7,645,342
IE	Investment Earnings				76,702
MI	Miscellaneous				39,143
TR	Total General Revenues				<u>29,406,377</u>
CN	Change in Net Position				<u>(1,127,947)</u>
NB	Net Position - Beginning				36,528,314
PA	Prior Period Adjustment - Implement GASB 65 for Bond Issuance Costs				<u>(626,533)</u>
	Net Position - Beginning, as restated				<u>35,901,781</u>
NE	Net Position - Ending				<u>\$ 34,773,834</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT**BALANCE SHEET - GOVERNMENTAL FUNDS****AUGUST 31, 2013**

		199	599
Data Control Codes		General Fund	Debt Service Fund
ASSETS:			
1110	Cash and Cash Equivalents	\$ 1,368,624	\$ 897,955
1120	Current Investments	8,371,338	-
1225	Property Taxes Receivable (Net)	1,271,006	227,101
1240	Due from Other Governments	827,423	-
1260	Due from Other Funds	374,963	-
1290	Other Receivables (Net)	18,160	3,255
1300	Inventories	-	-
1000	Total Assets	<u>\$ 12,231,514</u>	<u>\$ 1,128,311</u>
LIABILITIES:			
2110	Accounts Payable	\$ 21,836	\$ -
2160	Accrued Wages Payable	744,187	-
2170	Due to Other Funds	-	7,477
2300	Unearned Revenue	-	-
2000	Total Liabilities	<u>766,023</u>	<u>7,477</u>
DEFERRED INFLOWS OF RESOURCES:			
2600	Unavailable Revenue - Property Taxes	<u>1,271,006</u>	<u>227,101</u>
	Total Deferred Inflows of Resources	<u>1,271,006</u>	<u>227,101</u>
FUND BALANCES:			
3410	Nonspendable - Inventories	-	-
3425	Nonspendable Endowment Principal	-	-
3470	Restricted - Capital Acquisitions and Contractual Obligations	-	-
3480	Restricted - Debt Service	-	893,733
3510	Committed - Construction	3,000,000	-
3530	Committed - Capital Expenditures for Equipment	2,000,000	-
3545	Committed - Other	-	-
3600	Unassigned	<u>5,194,485</u>	<u>-</u>
3000	Total Fund Balances	<u>10,194,485</u>	<u>893,733</u>
4000	Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 12,231,514</u>	<u>\$ 1,128,311</u>

The accompanying notes are an integral part of this statement.

616	Other Governmental Funds	98 Total Governmental Funds
Capital Projects Fund		
\$ -	\$ 1,670,297	\$ 3,936,876
6,470,908	30,155	14,872,401
-	-	1,498,107
-	419,255	1,246,678
-	-	374,963
-	79	21,494
-	55,830	55,830
<u>\$ 6,470,908</u>	<u>\$ 2,175,616</u>	<u>\$ 22,006,349</u>
\$ 3,847,187	\$ -	\$ 3,869,023
-	87,589	831,776
31,774	335,712	374,963
-	45,132	45,132
<u>3,878,961</u>	<u>468,433</u>	<u>5,120,894</u>
-	-	1,498,107
-	-	<u>1,498,107</u>
-	29,404	29,404
-	30,000	30,000
2,591,947	-	2,591,947
-	-	893,733
-	-	3,000,000
-	-	2,000,000
-	1,647,779	1,647,779
-	-	5,194,485
<u>2,591,947</u>	<u>1,707,183</u>	<u>15,387,348</u>
<u>\$ 6,470,908</u>	<u>\$ 2,175,616</u>	<u>\$ 22,006,349</u>

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KILGORE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2013

EXHIBIT C-1R

Total Fund Balances - Governmental Funds (Exhibit C-1) **\$ 15,387,348**

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental Capital Assets Costs	\$ 105,546,346	
Accumulated Depreciation of Governmental Capital Assets	<u>(28,414,935)</u>	77,131,411

Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.	1,498,107
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to bonds payable consisted of:

Bonds Payable, at Original Par	\$ (57,860,000)	
Premium on Bonds Payable	(1,287,265)	
Discount on Bonds Payable	3,067	
Accrued Interest on the Bonds	<u>(98,834)</u>	<u>(59,243,032)</u>

Total Net Position - Governmental Activities (Exhibit A-1) **\$ 34,773,834**

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, 2013

		199	599
Data Control Codes		General Fund	Debt Service Fund
REVENUES:			
5700	Local and Intermediate Sources	\$ 17,390,865	\$ 4,454,804
5800	State Program Revenues	8,416,521	-
5900	Federal Program Revenues	196,372	142,279
5020	Total Revenues	26,003,758	4,597,083
EXPENDITURES:			
Current:			
0011	Instruction	15,255,417	-
0012	Instructional Resources and Media Services	452,369	-
0013	Curriculum and Staff Development	529,840	-
0021	Instructional Leadership	340,211	-
0023	School Leadership	1,737,374	-
0031	Guidance, Counseling, and Evaluation Services	862,859	-
0033	Health Services	249,640	-
0034	Student Transportation	1,217,877	-
0035	Food Service	5,697	-
0036	Extracurricular Activities	1,209,466	-
0041	General Administration	1,027,972	-
0051	Plant Maintenance and Operations	2,722,649	-
0052	Security and Monitoring Services	150,252	-
0053	Data Processing Services	267,939	-
0061	Community Services	50	-
Debt Service:			
0071	Principal on Long-term Debt	-	2,255,000
0072	Interest on Long-term Debt	-	2,225,763
0073	Issuance Costs and Fees	-	3,400
Capital Outlay:			
0081	Facilities Acquisition and Construction	-	-
Intergovernmental:			
0099	Other Intergovernmental Charges	306,118	-
6030	Total Expenditures	26,335,730	4,484,163
1100	Excess (Deficiency) of Revenues Over (Under)		
1100	Expenditures	(331,972)	112,920
OTHER FINANCING SOURCES (USES):			
7911	Capital-related Debt Issued (Regular Bonds)	-	-
7912	Sale of Real and Personal Property	551	-
7915	Transfers In	-	4,008
7916	Premium or Discount on Issuance of Bonds	-	-
8911	Transfers Out	-	-
7080	Total Other Financing Sources (Uses)	551	4,008
1200	Net Change in Fund Balances	(331,421)	116,928
0100	Fund Balances - Beginning	10,525,906	776,805
3000	Fund Balances - Ending	\$ 10,194,485	\$ 893,733

The accompanying notes are an integral part of this statement.

EXHIBIT C-2

616	Other Governmental Funds	98 Total Governmental Funds
Capital Projects Fund		
\$ 57,563	\$ 870,943	\$ 22,774,175
-	242,793	8,659,314
-	2,791,520	3,130,171
<u>57,563</u>	<u>3,905,256</u>	<u>34,563,660</u>
-	1,541,973	16,797,390
-	10,467	462,836
-	140,569	670,409
-	36,473	376,684
-	42,530	1,779,904
-	16,999	879,858
-	15,759	265,399
-	13,118	1,230,995
-	1,740,312	1,746,009
-	184,892	1,394,358
-	-	1,027,972
-	-	2,722,649
-	-	150,252
-	-	267,939
-	1,949	1,999
-	-	2,255,000
-	-	2,225,763
140,226	-	143,626
38,898,172	-	38,898,172
-	-	306,118
<u>39,038,398</u>	<u>3,745,041</u>	<u>73,603,332</u>
<u>(38,980,835)</u>	<u>160,215</u>	<u>(39,039,672)</u>
9,465,000	-	9,465,000
-	-	551
-	3,628	7,636
179,235	-	179,235
(4,008)	(3,628)	(7,636)
<u>9,640,227</u>	<u>-</u>	<u>9,644,786</u>
(29,340,608)	160,215	(29,394,886)
31,932,555	1,546,968	44,782,234
<u>\$ 2,591,947</u>	<u>\$ 1,707,183</u>	<u>\$ 15,387,348</u>

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-3

**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, 2013**

Total Net Changes in Fund Balances - Governmental Funds (Exhibit C-2) \$ (29,394,886)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Assets <i>increased</i>	\$ 36,806,523	
Depreciation Expense	<u>(1,532,571)</u>	35,273,952

The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is a increase (decrease) to net position. 18,980

Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year. 292,514

Issuance of bonds provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

Par Value	\$ (9,465,000)	
(Premium) Discount	<u>(179,235)</u>	(9,644,235)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 2,255,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The increase (decrease) in interest reported in the statement of activities consist of the following:

Accrued Interest on Current Interest Bonds Payable (increased) decreased	\$ (3,895)	
Amortization of Bond Premium and Discount	<u>74,623</u>	70,728

Change in Net Position for Governmental Activities (Exhibit B-1) \$ (1,127,947)

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-4

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes		Budgeted Amounts			Variance with Final Budget Positive (Negative)
		Original	Final	Actual	
REVENUES:					
5700	Local and Intermediate Sources	\$ 17,925,145	\$ 17,930,145	\$ 17,390,865	\$ (539,280)
5800	State Program Revenues	8,141,534	8,141,534	8,416,521	274,987
5900	Federal Program Revenues	250,000	250,000	196,372	(53,628)
5020	Total Revenues	26,316,679	26,321,679	26,003,758	(317,921)
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	15,337,847	15,288,881	15,255,417	33,464
0012	Instructional Resources and Media Services	422,263	461,772	452,369	9,403
0013	Curriculum and Staff Development	498,493	535,230	529,840	5,390
	Total Instruction & Instructional Related Services	16,258,603	16,285,883	16,237,626	48,257
Instructional and School Leadership:					
0021	Instructional Leadership	405,410	398,573	340,211	58,362
0023	School Leadership	1,829,888	1,835,298	1,737,374	97,924
	Total Instructional & School Leadership	2,235,298	2,233,871	2,077,585	156,286
Support Services - Student (Pupil):					
0031	Guidance, Counseling, and Evaluation Services	922,567	917,992	862,859	55,133
0033	Health Services	244,091	274,091	249,640	24,451
0034	Student Transportation	1,327,047	1,274,947	1,217,877	57,070
0035	Food Service	-	10,000	5,697	4,303
0036	Extracurricular Activities	1,130,407	1,207,638	1,209,466	(1,828)
	Total Support Services - Student (Pupil)	3,624,112	3,684,668	3,545,539	139,129
Administrative Support Services:					
0041	General Administration	1,159,995	1,169,445	1,027,972	141,473
	Total Administrative Support Services	1,159,995	1,169,445	1,027,972	141,473
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	3,003,478	3,013,015	2,722,649	290,366
0052	Security and Monitoring Services	195,000	185,610	150,252	35,358
0053	Data Processing Services	324,960	294,960	267,939	27,021
	Total Support Services - Nonstudent Based	3,523,438	3,493,585	3,140,840	352,745
Ancillary Services:					
0061	Community Services	1,600	1,650	50	1,600
	Total Ancillary Services	1,600	1,650	50	1,600
Intergovernmental Charges:					
0099	Other Intergovernmental Charges	280,000	315,000	306,118	8,882
	Total Intergovernmental Charges	280,000	315,000	306,118	8,882
6030	Total Expenditures	27,083,046	27,184,102	26,335,730	848,372
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(766,367)	(862,423)	(331,972)	530,451
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	-	-	551	551
7080	Total Other Financing Sources (Uses)	-	-	551	551
1200	Net Change in Fund Balance	(766,367)	(862,423)	(331,421)	531,002
0100	Fund Balance - Beginning	10,525,906	10,525,906	10,525,906	-
3000	Fund Balance - Ending	\$ 9,759,539	\$ 9,663,483	\$ 10,194,485	\$ 531,002

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
AUGUST 31, 2013

EXHIBIT E-1

<u>Data Control Codes</u>		865 Agency Fund
		<u>Student Activity</u>
ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 109,449
1000	Total Assets	<u>\$ 109,449</u>
LIABILITIES:		
2190	<i>Due to Student Groups</i>	\$ 109,449
2000	Total Liabilities	<u>\$ 109,449</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013

I. Summary of Significant Accounting Policies

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government (District). All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

B. Reporting Entity

The Kilgore Independent School District (District) is governed by a seven-member board of trustees (Board), which has governance responsibilities over all activities related to public, elementary and secondary, education within the District. Members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. The accompanying financial statements present the District.

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category—governmental and fiduciary—are presented. 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. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those accounted for in another fund.

The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The *capital projects fund* accounts for the acquisition and construction of the District's major capital facilities, other than those financed by proprietary funds.

Additionally, the District reports the following fund types:

The *agency fund* accounts for assets held by the District for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement or results of operations.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount due from agency is included in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds are eliminated in governmental activities.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 90 days of year end). All other revenue items, including property taxes, are considered to be measurable and available only when cash is received by the District.

The fiduciary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

F. Accounting Changes

Change in Accounting Principles – As the result of implementing GASB Statement Nos. 63 and 65, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of September 1, 2012 by \$626,533. The decrease results from no longer deferring and amortizing bond issuance costs.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand and, bank demand or time deposits with original maturities of three months or less from the date of acquisition.

2. Investments

Investments for the District are reported at fair value (generally based on quoted market prices) except for the position in investment pools. In accordance with state law, the pools operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pools qualify as a 2a7-like pool and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. The pools are subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, and furniture and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. The District's infrastructure includes parking lots and sidewalks associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the District chose to include all such items regardless of their acquisition date or amount. The District was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the District constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The buildings and improvements and furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings and Improvements	5-50
Furniture and Equipment	3-50

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District does not report any items as deferred outflows.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue - property taxes*, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

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6. 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 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.

7. 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.

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of trustees is the highest level of decision-making authority for the District that can, by board action or adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by board action or the resolution remains in place until a similar action is taken (the board action or adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board of trustees (Board) has by policy authorized the superintendent or his designee to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

H. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes attach as an enforceable lien on real property and are levied as of July 1. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of January 1 of each year.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

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3. *Compensated Absences*

The term leave includes local and state personal days and state sick leave days. Effective September 1, 2011, the District revised its policy on compensated absences that does not require benefits to be paid when employees separate from service with the District for local leave earned. Vested benefits remaining from the prior fiscal year will be forfeited at fiscal year end.

The District does not have a liability for unpaid vacation at year-end due to the District's policy does not allow a carryover of vacation days not taken at August 31.

4. *Use of Estimates*

The presentation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

II. Stewardship, Compliance, and Accountability

A. *Data Control Codes*

The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide data base for policy development and funding plans.

B. *Budgetary Information*

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, National School Breakfast and Lunch Program special revenue fund and debt service fund. All other governmental funds adopt project length budgets. All annual appropriations lapse at fiscal year-end. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. 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.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

The appropriated budget is prepared by fund, function, and campus/department. The District's campus/department heads may make transfers of appropriations within a department. Transfers of appropriations between campus/departments require the approval of the District's management. Transfers of appropriations between functions require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. The District made several supplemental budgetary appropriations throughout the year which were not significant.

C. *Encumbrances*

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

D. *Excess of Expenditures Over Appropriations*

For the year ended August 31, 2013, expenditures exceeded appropriations in the functions (the legal level of budgetary control) of the following funds:

<u>Fund</u>	<u>Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund	Extracurricular Activities	\$ 1,207,638	\$ 1,209,466	\$ (1,828)
Debt Service Fund	Debt Service	4,479,561	4,484,163	(4,602)

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013

III. Detailed Notes on All Funds

A. Deposits and Investments

Cash Deposits. The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities are approved by the TEA and shall be 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.

Investments. The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. State law and District policy limits credit risk by allowing investing in 1) Obligations of the United States or its agencies which are backed by the full faith and credit of the United States, obligations of the State of Texas or its agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm (NRIRF) not less than A or its equivalent; 2) Certificates of deposit issued by a broker or depository located in Texas which is insured by the FDIC; 3) Repurchase agreements secured by obligations of the United States or its agencies not to exceed 90 days to maturity from the date of purchase; 4) Bankers acceptances with a stated maturity of 270 days or fewer which are eligible for collateral for borrowing from a Federal Reserve Bank; 5) No-load money market mutual funds which shall be registered with the Securities and Exchange Commission which have an average weighted maturity of less than two years, investments comply with the Public Funds Investment Act and are continuously rated not less than AAA by at least one NRIRF. 6) A guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the Public Funds Investment Act; 7) Public funds investment pools which meets the requirements of the Public Funds Investment Act. State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations.

As of August 31, 2013, the District had the following governmental activities investments:

Investment Type	Standard & Poor's Rating	Fair Value	Percentage of Total Investments	Weighted Average Maturity (Years)
Texas CLASS	AAAm	\$ 3,385,455	23%	0.13
Texpool - LGIP	AAAm	495,790	3%	0.21
TexStar	AAAm	504	0%	0.14
Lone Star Investment Pool - Government Overnight Fund	AAAm	7,506	0%	0.27
Lone Star Investment Pool - Corporate Overnight Fund	AAAm	4,512,238	30%	0.14
LOGIC	AAAm	6,470,908	44%	0.16
Total Fair Value		\$ 14,872,401	100%	
Portfolio Weighted Average Maturity				0.15

Credit risk. For fiscal year 2013, the District invested in Texas Cooperative Liquid Assets Securities Trust (CLASS), Texpool, Lone Star Investment Pool, TexStar and Local Government Investment Cooperative (LOGIC). Texpool is duly chartered and administered by the State Comptroller's Office. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC formerly the Texas Association of School Boards Financial Services. LOGIC is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Southwest Asset Management, Inc. and JP Morgan Chase. TexStar is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Southwest Asset Management, Inc. and JP Morgan Chase. Texas CLASS is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by Cutwater Investor Services Corporate.

Interest rate risk. Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of any internally created pool to no more than 180 days and any individual investment to one year from purchase, unless approved by the Board of Trustees.

Concentration of credit risk. The District's investment policy states that no individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

KILGORE INDEPENDENT SCHOOL DISTRICT

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Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2013, District's bank balance of \$5,366,579 was not exposed to custodial credit risk because it was insured and collateralized with securities held by the District's agent and in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial risk due to the investments are insured or registered, or securities held by the District or its agent in the District's name.

B. Receivables

Receivables as of year-end for the District's individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Debt Service	Nonmajor Governmental Funds	Total
Receivables:				
Property Taxes	\$ 1,813,770	\$ 280,020	\$ -	\$ 2,093,790
Due From Other Governments	827,423	-	419,255	1,246,678
Other	18,160	3,255	79	21,494
Gross Receivables	2,659,353	283,275	419,334	3,361,962
Less: Allowance for Uncollectibles	(542,764)	(52,919)	-	(595,683)
Net Total Receivables	\$ 2,116,589	\$ 230,356	\$ 419,334	\$ 2,766,279

Tax revenues of the general and debt service fund are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period increased (decreased) revenues as follows:

Uncollectibles Related to General Fund Property Taxes	\$ (36,820)
Uncollectibles Related to Debt Service Property Taxes	(8,548)
Total Uncollectibles of the Current Fiscal Year	\$ (45,368)

Approximately \$1,717,000 of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

C. Interfund Receivables, Payables, and Transfers

Receivables/Payables

The composition of interfund receivable/payable balances as of August 31, 2013, is as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 374,963	\$ -
Debt Service Fund	-	7,477
Capital Projects Funds	-	31,774
Other Governmental Funds - Nonmajor	-	335,712
Total	\$ 374,963	\$ 374,963

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

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NOTES TO THE FINANCIAL STATEMENTS

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Transfers

Interfund transfers are defined as "flows of assets without equivalent flow of assets in return and without a requirement for repayment." Transfers are the use of funds collected in one fund and are transferred to finance various programs accounted for in other funds. The following is a summary of the District's interfund transfers for the year ended August 31, 2013.

Transfer Out	Transfer In	Amount
Capital Projects Funds	Debt Service Fund	\$ 4,008
Other Governmental Funds - Nonmajor	Other Governmental Funds - Nonmajor	3,628
Total		\$ 7,636

The District transferred \$4,008 from the Capital Projects Fund to the Debt Service Fund to transfer the premium for bonds issued per the closing memorandum. The District transferred \$3,628 from Summer Feeding Program to Food Service to reimburse food service expenditures.

D. Capital Assets

Capital asset activity for the year ended August 31, 2013 was as follows:

	Beginning Balance	Additions	Reductions and Transfers	Ending Balance
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 1,309,401	\$ -	\$ 1,878,425	\$ 3,187,826
Construction in Progress	16,312,113	36,135,557	(52,447,670)	-
Total Capital Assets, not being Depreciated	17,621,514	36,135,557	(50,569,245)	3,187,826
Capital Assets, being Depreciated:				
Buildings and Improvements	37,857,850	-	50,568,085	88,425,935
Furniture and Equipment	13,261,619	670,966	-	13,932,585
Total Capital Assets, being Depreciated	51,119,469	670,966	50,568,085	102,358,520
Less Accumulated Depreciation for:				
Buildings and Improvements	(18,961,242)	(768,205)	20,140	(19,709,307)
Furniture and Equipment	(7,941,262)	(764,366)	-	(8,705,628)
Total Accumulated Depreciation	(26,902,504)	(1,532,571)	20,140	(28,414,935)
Total Capital Assets, being Depreciated, net	24,216,965	(861,605)	50,588,225	73,943,585
Governmental Activities Capital Assets, net	\$ 41,838,479	\$ 35,273,952	\$ 18,980	\$ 77,131,411

Depreciation expense was charged to functions of the District as follows:

Governmental Activities:	
Instruction	\$ 732,886
Instructional Resources and Media Services	31,389
Curriculum Development and Instructional Staff Development	6,278
Instructional Leadership	11,771
School Leadership	61,208
Guidance, Counseling, and Evaluation Services	43,160
Health Services	12,556
Student Transportation	287,101
Food Service	103,142
Extracurricular Activities	82,978
General Administration	26,681
Plant Maintenance and Operations	120,761
Security and Monitoring Services	6,664
Data Processing Services	5,996
Total Depreciation Expense-Governmental Activities	\$ 1,532,571

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

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Construction Commitments

The District has active construction projects as of August 31, 2013. The projects include the construction and equipment of school facilities. At year end, the District's total commitments with contractors totals \$2,485,481. The commitment for construction and equipment of school facilities is being financed by bonds secured by tax revenues and local funds.

E. Long-term Liabilities

The District's long-term liabilities consist of bond indebtedness. The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund.

Changes in Long-term Liabilities

Long-term liability activity for the year ended August 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 50,650,000	\$ 9,465,000	\$ (2,255,000)	\$ 57,860,000	\$ 1,815,000
Less Deferred Amounts:					
For Issuance Premium (CIB's)	1,182,881	179,235	(74,851)	1,287,265	-
For Issuance Discount (CIB's)	(3,295)	-	228	(3,067)	-
Governmental Activity Long-term Liabilities	\$ 51,829,586	\$ 9,644,235	\$ (2,329,623)	\$ 59,144,198	\$ 1,815,000

General Obligation Bonds

The District issues general obligation bonds to provide funds for the construction and equipment of school facilities and to refund general obligation bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds are issued as 12-27 year current interest (CIB) with various amounts of principal maturing each year. The following is a summary of changes in the general obligation bonds for the fiscal year.

Series	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2003	2.5-3.5%	\$ 4,960,000	2018	\$ 1,980,000	\$ -	\$ (300,000)	\$ 1,680,000
2004	3.5-5.0%	3,405,000	2019	1,875,000	-	(230,000)	1,645,000
2006	3.5-5.5%	5,450,000	2018	3,265,000	-	(490,000)	2,775,000
2011	1.5-5.0%	40,605,000	2038	39,280,000	-	(150,000)	39,130,000
2012	3.50%	4,250,000	2027	4,250,000	-	-	4,250,000
2012	1.50-1.70%	9,465,000	2026	-	9,465,000	(1,085,000)	8,380,000
Total Bonds Payable				\$ 50,650,000	\$ 9,465,000	\$ (2,255,000)	\$ 57,860,000

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

Year Ending August 31	Principal Value	Interest	Total Requirements
2014	\$ 1,815,000	\$ 2,215,646	\$ 4,030,646
2015	1,865,000	2,164,383	4,029,383
2016	1,920,000	2,110,233	4,030,233
2017	1,980,000	2,048,392	4,028,392
2018	2,050,000	1,977,910	4,027,910
2019	2,115,000	1,916,563	4,031,563
2020	2,175,000	1,853,543	4,028,543
2021	2,240,000	1,790,118	4,030,118
2022	2,305,000	1,723,793	4,028,793
2023	2,375,000	1,654,355	4,029,355
2024	2,445,000	1,581,805	4,026,805
2025	2,515,000	1,512,585	4,027,585
2026	2,330,000	1,441,745	3,771,745
2027	1,940,000	1,292,125	3,232,125
2028	2,030,000	1,130,375	3,160,375
2029	2,125,000	1,037,125	3,162,125
2030	2,215,000	950,325	3,165,325
2031	2,305,000	859,925	3,164,925
2032	2,400,000	764,325	3,164,325
2033	2,500,000	663,263	3,163,263
2034	2,610,000	556,238	3,166,238
2035	2,720,000	442,975	3,162,975
2036	2,835,000	324,931	3,159,931
2037	2,960,000	199,938	3,159,938
2038	3,090,000	67,590	3,157,590
Totals	\$ 57,860,000	\$ 32,280,206.00	\$ 90,140,206

As of August 31, 2013, the District did not have any authorized but unissued bonds.

F. Fund Balance

Other committed fund balance includes the following commitments of funds:

Other Governmental Fund:

Food Service	\$ 1,413,915
Campus Activity	233,709
Gene & Nora Elder Scholarship	155
Total Other Committed Fund Balance	\$ 1,647,779

G. Revenues from Local and Intermediate Sources

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

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Totals
Property Taxes	\$ 16,913,855	\$ 4,438,821	\$ -	\$ -	\$ 21,352,676
Investment Income	27,108	10,992	36,320	2,282	76,702
Food Sales	-	-	-	573,139	573,139
Campus Activity - Various	-	-	-	114,698	114,698
Extracurricular Student Activities	105,816	-	-	180,824	286,640
Other	344,086	4,991	21,243	-	370,320
Total	\$ 17,390,865	\$ 4,454,804	\$ 57,563	\$ 870,943	\$ 22,774,175

KILGORE INDEPENDENT SCHOOL DISTRICT

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IV. Other Information

A. Risk Management

Property/Liability

The District is exposed to various risks of loss related to property/liability losses for which the District participates in the Texas Association of Public Schools Property and Liability Fund ("Fund"). The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for coverages, and develop a comprehensive loss control program. The District pays an annual premium to the Fund for its liability 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 may provide, through commercial companies, reinsurance contracts. 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.

Health Insurance

During the year ended August 31, 2013, employees of the District were covered by a health insurance plan. The District paid premiums of \$225 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The contract between the District and the licensed insurer is renewable annually and terms of coverage and premium costs are included in the contractual provisions.

Workers' Compensation

The District participates in the Deep East Texas Self Insurance Fund for workers' compensation. The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for workers' compensation coverage and develop a comprehensive loss control program. The District pays an annual premium to the Fund for its workers' compensation coverage and transfers the risk of loss to the Fund. The District's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and will provide, through commercial companies, reinsurance contracts. The Fund maintains stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2,000,000 per accident. In the event that the Fund was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the Fund. In addition, there were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

B. Litigation and Contingencies

The District is involved in legal disputes arising principally in the normal course of operations. In the opinion of the District's management, the potential losses, after insurance coverage, on all allegations, claims, and lawsuits will not have a material effect on the District's financial position, results of operations or liquidity.

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through August 31, 2013, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

C. Defined Benefit Pension Plan

Pension Plan for Employees Participating in Teacher Retirement System

Plan Description. The Kilgore Independent School District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapter 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by downloading the report from the TRS Internet

KILGORE INDEPENDENT SCHOOL DISTRICT

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website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year; (2) state statute 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.

Contributions. Contribution rates and contributions for fiscal years 2013-2011 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the reporting district is required to make all or a portion of the state's and/or member's contribution and on the portion of the employees' salaries that exceeded the statutory minimum.

Contribution Rates and Contribution Amounts

Year	Member		State		School District Statutory Minimum
	Rate	Amount	Rate	Amount	Amount
2013	6.4%	\$ 1,173,295	6.400%	\$ 979,211	\$ 104,039
2012	6.4%	\$ 1,180,017	6.000%	\$ 899,959	\$ 107,559
2011	6.4%	\$ 1,247,267	6.644%	\$ 1,247,261	\$ 125,202

For the current fiscal year and each of the past two years, the District's actual contributions were equal to 100 percent of the required contributions. The contributions made by the State are on behalf of the District and have been recorded in the governmental funds' financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

D. School District Retiree Health Plan

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

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2013

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2013-2011.

Contribution Rates

Year	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2013	0.65%	\$ 119,163	0.50%	\$ 85,679	0.55%	\$ 100,830
2012	0.65%	\$ 119,845	1.00%	\$ 169,441	0.55%	\$ 101,408
2011	0.65%	\$ 126,675	1.00%	\$ 194,885	0.55%	\$ 107,187

In addition, the State of Texas contributed \$68,957, \$85,834 and \$51,736 in 2013, 2012, and 2011, respectively, for on-behalf payments for Medicare Part D and Early Retiree Reinsurance Program.

For the current fiscal year and each of the past two years, the District's actual contributions were equal to 100 percent of the required contributions. The contributions made by the State are on behalf of the District and have been recorded in the governmental funds' financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

E. Nonmonetary Transactions

During 2013, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of \$33,358. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of \$33,358 in a special revenue fund as both state revenues and expenditures, which represents the amount of consideration given by the State of Texas.

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COMBINING FUNDS FINANCIAL STATEMENTS

KILGORE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2013

		211	224	225
Data Control Codes		ESEA, Title I, Part A - Improving Basic Programs	IDEA - Part B, Formula	IDEA - Part B, Preschool
	ASSETS:			
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -
1120	Current Investments	-	-	-
1240	Due from Other Governments	161,423	188,435	1,312
1290	Other Receivables (Net)	-	-	-
1300	Inventories	-	-	-
1000	Total Assets	<u>\$ 161,423</u>	<u>\$ 188,435</u>	<u>\$ 1,312</u>
	LIABILITIES:			
2160	Accrued Wages Payable	\$ 27,561	\$ 17,777	\$ -
2170	Due to Other Funds	133,862	170,658	1,312
2300	Unearned Revenue	-	-	-
2000	Total Liabilities	<u>161,423</u>	<u>188,435</u>	<u>1,312</u>
	FUND BALANCES:			
	Reserved Fund Balances:			
3410	Nonspendable - Inventories	-	-	-
3425	Nonspendable Endowment Principal	-	-	-
3545	Committed - Other	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 161,423</u>	<u>\$ 188,435</u>	<u>\$ 1,312</u>

240	242	244	255	263
National School Breakfast/Lunch Program	Summer Feeding Program	Career and Technical - Basic Grant	ESEA, Title II, Part A; Teacher and Principal Training and Recruiting	Title III, Part A, English Language Acquisition and Enhancement
\$ 1,436,588	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
35,321	-	1,857	15,671	15,059
79	-	-	-	-
55,830	-	-	-	-
<u>\$ 1,527,818</u>	<u>\$ -</u>	<u>\$ 1,857</u>	<u>\$ 15,671</u>	<u>\$ 15,059</u>
\$ 36,533	\$ -	\$ -	\$ 2,287	\$ 3,431
2,834	-	1,857	13,384	11,628
45,132	-	-	-	-
<u>84,499</u>	<u>-</u>	<u>1,857</u>	<u>15,671</u>	<u>15,059</u>
29,404	-	-	-	-
-	-	-	-	-
1,413,915	-	-	-	-
<u>1,443,319</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 1,527,818</u>	<u>\$ -</u>	<u>\$ 1,857</u>	<u>\$ 15,671</u>	<u>\$ 15,059</u>

KILGORE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2013

		272	289	385
Data				
Control				
Codes				
	ASSETS:			
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -
1120	Current Investments	-	-	-
1240	Due from Other Governments	-	-	-
1290	Other Receivables (Net)	-	-	-
1300	Inventories	-	-	-
1000	Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	LIABILITIES:			
2160	Accrued Wages Payable	\$ -	\$ -	\$ -
2170	Due to Other Funds	-	-	-
2300	Unearned Revenue	-	-	-
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
	FUND BALANCES:			
	Reserved Fund Balances:			
3410	Nonspendable - Inventories	-	-	-
3425	Nonspendable Endowment Principal	-	-	-
3545	Committed - Other	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

404	410	415	461	462	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
Student Success Initiatives	State Textbook Fund	Kindergarten & Prekindergarten Grants	Campus Activity Funds	Gene & Nora Elder Scholarship	
\$ -	\$ -	\$ -	\$ 233,709	\$ -	\$ 1,670,297
-	-	-	-	30,155	30,155
177	-	-	-	-	419,255
-	-	-	-	-	79
-	-	-	-	-	55,830
<u>\$ 177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 233,709</u>	<u>\$ 30,155</u>	<u>\$ 2,175,616</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 87,589
177	-	-	-	-	335,712
-	-	-	-	-	45,132
<u>177</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>468,433</u>
-	-	-	-	-	29,404
-	-	-	-	30,000	30,000
-	-	-	233,709	155	1,647,779
-	-	-	<u>233,709</u>	<u>30,155</u>	<u>1,707,183</u>
<u>\$ 177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 233,709</u>	<u>\$ 30,155</u>	<u>\$ 2,175,616</u>

KILGORE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

	211	224	225
Data Control Codes	ESEA, Title I, Part A - Improving Basic Programs	IDEA - Part B, Formula	IDEA - Part B, Preschool
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ -	\$ -	\$ -
5800 <i>State Program Revenues</i>	-	-	-
5900 <i>Federal Program Revenues</i>	547,422	543,143	4,258
5020 <i>Total Revenues</i>	<u>547,422</u>	<u>543,143</u>	<u>4,258</u>
EXPENDITURES:			
Current:			
0011 <i>Instruction</i>	467,993	503,480	3,563
0012 <i>Instructional Resources and Media Services</i>	-	-	-
0013 <i>Curriculum and Staff Development</i>	60,571	11,552	695
0021 <i>Instructional Leadership</i>	14,903	-	-
0023 <i>School Leadership</i>	-	-	-
0031 <i>Guidance, Counseling, and Evaluation Services</i>	3,924	13,075	-
0033 <i>Health Services</i>	-	-	-
0034 <i>Student Transportation</i>	-	13,118	-
0035 <i>Food Service</i>	-	-	-
0036 <i>Extracurricular Activities</i>	-	-	-
0061 <i>Community Services</i>	31	1,918	-
6030 <i>Total Expenditures</i>	<u>547,422</u>	<u>543,143</u>	<u>4,258</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	-	-	-
OTHER FINANCING SOURCES (USES):			
7915 <i>Transfers In</i>	-	-	-
8911 <i>Transfers Out</i>	-	-	-
7917 <i>Total Other Financing Sources (Uses)</i>	-	-	-
1200 <i>Net Change in Fund Balances</i>	-	-	-
0100 <i>Fund Balances - Beginning</i>	-	-	-
3000 <i>Fund Balances - Ending</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

240	242	244	255	263
National School Breakfast/Lunch Program	Summer Feeding Program	Career and Technical - Basic Grant	ESEA, Title II, Part A: Teacher and Principal Training and Recruiting	Title III, Part A, English Language Acquisition and Enhancement
\$ 574,400	\$ 419	\$ -	\$ -	\$ -
22,615	-	-	-	-
1,454,193	8,362	40,501	108,920	63,385
<u>2,051,208</u>	<u>8,781</u>	<u>40,501</u>	<u>108,920</u>	<u>63,385</u>
-	-	18,931	47,566	59,148
-	-	-	-	-
-	-	-	61,354	4,237
-	-	21,570	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
1,735,159	5,153	-	-	-
-	-	-	-	-
<u>1,735,159</u>	<u>5,153</u>	<u>40,501</u>	<u>108,920</u>	<u>63,385</u>
316,049	3,628	-	-	-
3,628	-	-	-	-
-	(3,628)	-	-	-
<u>3,628</u>	<u>(3,628)</u>	<u>-</u>	<u>-</u>	<u>-</u>
319,677	-	-	-	-
1,123,642	-	-	-	-
<u>\$ 1,443,319</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

KILGORE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

	272	289	385
Data Control Codes	Medicaid Administrative Claiming Program	Title VI, Part A, Summer School LEP	Visually Impaired
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ -	\$ -	\$ -
5800 <i>State Program Revenues</i>	-	-	1,650
5900 <i>Federal Program Revenues</i>	15,759	5,577	-
5020 <i>Total Revenues</i>	15,759	5,577	1,650
EXPENDITURES:			
Current:			
0011 <i>Instruction</i>	-	5,577	1,650
0012 <i>Instructional Resources and Media Services</i>	-	-	-
0013 <i>Curriculum and Staff Development</i>	-	-	-
0021 <i>Instructional Leadership</i>	-	-	-
0023 <i>School Leadership</i>	-	-	-
0031 <i>Guidance, Counseling, and Evaluation Services</i>	-	-	-
0033 <i>Health Services</i>	15,759	-	-
0034 <i>Student Transportation</i>	-	-	-
0035 <i>Food Service</i>	-	-	-
0036 <i>Extracurricular Activities</i>	-	-	-
0061 <i>Community Services</i>	-	-	-
6030 <i>Total Expenditures</i>	15,759	5,577	1,650
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	-	-	-
OTHER FINANCING SOURCES (USES):			
7915 <i>Transfers In</i>	-	-	-
8911 <i>Transfers Out</i>	-	-	-
7917 <i>Total Other Financing Sources (Uses)</i>	-	-	-
1200 <i>Net Change in Fund Balances</i>	-	-	-
0100 <i>Fund Balances - Beginning</i>	-	-	-
3000 <i>Fund Balances - Ending</i>	\$ -	\$ -	\$ -

404	410	415	461	462	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
Student Success Initiatives	State Textbook Fund	Kindergarten & Prekindergarten Grants	Campus Activity Funds	Gene & Nora Elder Scholarship	
\$ -	\$ -	\$ -	\$ 296,072	\$ 52	\$ 870,943
3,524	215,004	-	-	-	242,793
-	-	-	-	-	2,791,520
<u>3,524</u>	<u>215,004</u>	<u>-</u>	<u>296,072</u>	<u>52</u>	<u>3,905,256</u>
3,524	212,844	152,854	64,843	-	1,541,973
-	-	-	10,467	-	10,467
-	2,160	-	-	-	140,569
-	-	-	-	-	36,473
-	-	-	42,530	-	42,530
-	-	-	-	-	16,999
-	-	-	-	-	15,759
-	-	-	-	-	13,118
-	-	-	-	-	1,740,312
-	-	-	184,892	-	184,892
-	-	-	-	-	1,949
<u>3,524</u>	<u>215,004</u>	<u>152,854</u>	<u>302,732</u>	<u>-</u>	<u>3,745,041</u>
-	-	(152,854)	(6,660)	52	160,215
-	-	-	-	-	3,628
-	-	-	-	-	(3,628)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	(152,854)	(6,660)	52	160,215
-	-	152,854	240,369	30,103	1,546,968
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 233,709</u>	<u>\$ 30,155</u>	<u>\$ 1,707,183</u>

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OTHER SUPPLEMENTARY INFORMATION

KILGORE INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2013**

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2004 and Prior Years	\$	Various	\$	Various	\$	Various
2005		1.5000		0.1200		839,156,580
2006		1.5000		0.1120		921,886,126
2007		1.3700		0.0967		1,084,141,915
2008		1.0400		0.0931		1,260,683,523
2009		1.0400		0.0810		1,585,005,174
2010		1.0400		0.0692		1,679,917,890
2011		1.0400		0.0692		1,637,686,080
2012		1.0400		0.2692		1,655,149,175
2013 (School Year Under Audit)		1.0400		0.2692		1,660,756,722

1000 Totals

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

10 Beginning Balance 9/1/12	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/13
\$ 401,532	\$ -	\$ 5,230	\$ 408	\$ (40,003)	\$ 355,891
62,306	-	1,097	82	(2,744)	58,383
90,454	-	2,773	207	(5,034)	82,440
107,223	-	5,334	377	(2,547)	98,965
145,421	-	7,451	667	(1,377)	135,926
149,195	-	12,851	1,001	(1,684)	133,659
159,250	-	24,909	1,657	(1,231)	131,453
211,881	-	50,157	3,337	(16,290)	142,097
428,646	-	160,194	41,465	(20,239)	206,748
-	21,742,627	16,661,449	4,312,752	(20,198)	748,228
<u>\$ 1,755,908</u>	<u>\$ 21,742,627</u>	<u>\$ 16,931,445</u>	<u>\$ 4,361,953</u>	<u>\$ (111,347)</u>	<u>\$ 2,093,790</u>
		\$ -	\$ -		

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2014-2015 GENERAL AND SPECIAL REVENUE FUNDS FOR THE YEAR ENDED AUGUST 31, 2013

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION AND FUNCTION 99 - APPRAISAL DISTRICT COST

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ -	\$ -	\$ 339,919	\$ 515,905	\$ -	\$ 7	\$ 855,831
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)	-	-	-	700	-	-	700
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)	-	-	-	-	-	-	-
6211	Legal Services	-	-	9,878	-	-	-	9,878
6212	Audit Services	-	-	-	22,800	-	-	22,800
6213	Tax Appraisal and Collection	-	345,634	-	-	-	-	345,634
621X	Other Prof. Services	-	-	-	-	-	-	-
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	600	7,329	-	-	7,929
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	778	-	-	-	778
6290	Miscellaneous Contr.	1,279	-	153	8,836	-	-	10,268
6310	Operational Supplies, Materials	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	215	-	-	-	215
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies, Materials	-	-	15,310	12,688	-	5,839	33,837
6410	Travel, Subsistence, Stipends	5,833	-	3,273	8,640	-	-	17,746
6420	Ins. and Bonding Costs	-	-	-	130	-	-	130
6430	Election Costs	2,255	-	-	-	-	-	2,255
6490	Miscellaneous Operating	4,611	-	17,448	3,304	-	726	26,089
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-

Total \$ 13,978 \$ 345,634 \$ 387,574 \$ 580,332 \$ - \$ 6,572 \$ 1,334,090

Total Expenditures for General and Special Revenue Funds (9) \$ 30,080,771

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 329,726
Total Debt & Lease (6500)	(11)	\$ -
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 2,580,046
Food (Function 35, 6341 and 6499)	(13)	\$ 715,362
Stipends (6413)	(14)	\$ -
Column 4 (above) - Total Indirect Cost		\$ 580,332

Subtotal

4,205,466

Net Allowed Direct Cost

\$ 25,875,305

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 88,425,935
Historical Cost of Buildings over 50 years old	(16)	4,825,846
Amount of Federal Money in Building Cost (Net of #16)	(17)	-
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)	13,932,585
Historical Cost of Furniture & Equipment over 16 years old	(19)	2,484,140
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ 89,948

(8) Note A - \$0 in Function 53 expenditures and \$306,118 in Function 99 expenditures are included in this report on administrative costs.

KILGORE INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT J-3

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		
REVENUES:					
5700	Local and Intermediate Sources	\$ 545,801	\$ 545,801	\$ 574,400	\$ 28,599
5800	State Program Revenues	11,000	11,000	22,615	11,615
5900	Federal Program Revenues	1,339,236	1,339,236	1,454,193	114,957
5020	Total Revenues	1,896,037	1,896,037	2,051,208	155,171
EXPENDITURES:					
Current:					
Support Services - Student (Pupil):					
0035	Food Service	1,896,037	2,143,381	1,735,159	408,222
	Total Support Services - Student (Pupil)	1,896,037	2,143,381	1,735,159	408,222
6030	Total Expenditures	1,896,037	2,143,381	1,735,159	408,222
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	-	(247,344)	316,049	563,393
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	3,628	3,628
7080	Total Other Financing Sources (Uses)	-	-	3,628	3,628
1200	Net Change in Fund Balance	-	(247,344)	319,677	567,021
0100	Fund Balance - Beginning	1,123,642	1,123,642	1,123,642	-
3000	Fund Balance - Ending	\$ 1,123,642	\$ 876,298	\$ 1,443,319	\$ 567,021

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		
REVENUES:					
5700	Local and Intermediate Sources	\$ 4,330,811	\$ 4,330,811	\$ 4,454,804	\$ 123,993
5900	Federal Program Revenues	-	135,809	142,279	6,470
5020	Total Revenues	4,330,811	4,466,620	4,597,083	130,463
EXPENDITURES:					
Debt Service:					
0071	Principal on Long-term Debt	2,255,000	2,255,000	2,255,000	-
0072	Interest on Long-term Debt	2,075,811	2,224,561	2,225,763	(1,202)
0073	Issuance Costs and Fees	-	-	3,400	(3,400)
	Total Debt Service	4,330,811	4,479,561	4,484,163	(4,602)
6030	Total Expenditures	4,330,811	4,479,561	4,484,163	(4,602)
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	-	(12,941)	112,920	125,861
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	4,008	4,008
7080	Total Other Financing Sources (Uses)	-	-	4,008	4,008
1200	Net Change in Fund Balance	-	(12,941)	116,928	129,869
0100	Fund Balance - Beginning	776,805	776,805	776,805	-
3000	Fund Balance - Ending	\$ 776,805	\$ 763,864	\$ 893,733	\$ 129,869

OVERALL COMPLIANCE, INTERNAL CONTROL SECTION AND FEDERAL AWARDS

HLSK

Hereford, Lynch, Sellars & Kirkham

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

The Board of Trustees of
Kilgore Independent School District
301 N. Kilgore St.
Kilgore, TX 75662

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 (District), as of and for the year ended August 31, 2013, 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 18, 2013.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully,

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
November 18, 2013

HLSK

Hereford, Lynch, Sellars & Kirkham

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Board of Trustees of
Kilgore Independent School District
301 N. Kilgore St.
Kilgore, TX 75662

Report on Compliance for Each Major Federal Program

We have audited Kilgore Independent School District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Kilgore Independent School District's major federal programs for the year ended August 31, 2013. Kilgore Independent School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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 Kilgore Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, 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 each of its major federal programs for the year ended August 31, 2013.

Report on Internal Control Over Compliance

Management of 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 Kilgore Independent School District's internal control over compliance with the requirements that could have a direct and material effect on a 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 OMB Circular A-133, 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 Kilgore Independent School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully,

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
November 18, 2013

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KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2013

SECTION I – SUMMARY OF AUDITORS' RESULTS	
FINANCIAL STATEMENTS	
1. Type of auditors' report issued	Unmodified
2. Internal Control over Financial Reporting:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
3. Noncompliance material to Financial Statements noted?	No
FEDERAL AWARDS	
4. Internal control over major programs:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
5. Type of auditors' report issued on compliance with major programs	Unmodified
6. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133	No
7. Identification of Major Programs	Child Nutrition Cluster
8. Dollar Threshold used to distinguish Between Type A and Type B Federal Programs	\$300,000
9. Auditee Qualified as a Low-Risk Auditee?	No
SECTION II –FINANCIAL STATEMENT FINDINGS	
None reported	
SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS	
None reported	

KILGORE INDEPENDENT SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED AUGUST 31, 2013

PRIOR YEAR FINDINGS

2012-1 Collateralization of Bank Deposits

Criteria or Specific Requirement: In accordance with Local Government Code 2256, bank deposits must be guaranteed or insured by the Federal Deposit Insurance Corporation or collateralized with securities owned by the Depository Bank, which comply with state requirements.

Condition: The District's deposits were not adequately collateralized.

Context: The District's increase in tax deposits for a particular day resulted in bank deposits were not adequately insured/collateralized.

Effect: The District's deposits were unsecured in the amount of \$1,024,586 on January 11, 2012.

Cause: The District's tax deposits exceeded expectations.

Recommendation: Review District procedures and implement a process to insure that the District's deposits are adequately collateralized and insured.

Current Status: The District developed new practices to ensure compliance and the District was properly collateralized in the 2012-2013 year.

KILGORE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2013

CURRENT YEAR FINDINGS

None reported

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT K-1

(1) Federal Grantor/ Pass Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Total Federal Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Department of Education:			
<i>ESEA Title I, Part A - Improving Basic Programs</i>	84.010A	13610101092902	\$ 517,524
<i>ESEA Title I, Part A - Improving Basic Programs</i>	84.010A	14610101092902	29,898
Total Program 84.010A			547,422
Special Education Cluster (IDEA):			
<i>IDEA-B Formula</i>	84.027A	136600010929026600	525,366
<i>IDEA-B Formula</i>	84.027A	146600010929026600	17,777
<i>IDEA-B Preschool</i>	84.173A	136610010929026610	4,258
Total Special Education Cluster (IDEA)			547,401
<i>Career and Technical - Basic Grant</i>	84.048A	13420006092902	38,643
<i>Career and Technical - Basic Grant</i>	84.048A	14420006092902	1,858
Total Program 84.048A			40,501
<i>Title III, Part A English Language Acquisition and Language Enhancement</i>	84.365A	13671001092902	59,954
<i>Title III, Part A English Language Acquisition and Language Enhancement</i>	84.365A	14671001092902	3,431
Total Program 84.365A			63,385
<i>ESEA Title II, Part A - Teacher & Principal Training & Recruiting</i>	84.367A	13694501092902	106,121
<i>ESEA Title II, Part A - Teacher & Principal Training & Recruiting</i>	84.367A	14694501092902	2,799
Total Program 84.367A			108,920
<i>Summer School LEP</i>	84.369A	69551202	5,577
TOTAL U.S. DEPARTMENT OF EDUCATION			1,313,206
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through State Department of Health and Human Services:			
<i>Medicaid Administrative Claiming Program - MAC</i>	93.778	529-07-0157-00056	15,759
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster:			
Passed Through State Department of Agriculture - Non-Cash Assistance:			
<i>National School Lunch Program</i>	10.555	092007A	103,389
Passed Through State Department of Education - Cash Assistance:			
<i>School Breakfast Program</i>	10.553	71401301	361,727
<i>National School Lunch Program</i>	10.555	71301301	989,077
Passed Through State Department of Agriculture - Cash Assistance:			
<i>Summer Feeding Program</i>	10.559	00438	8,362
TOTAL U.S. DEPARTMENT OF AGRICULTURE - CHILD NUTRITION CLUSTER			1,462,555
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,791,520

The accompanying notes are an integral part of this schedule.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2013

Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Kilgore Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 and *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Presented below is a reconciliation of federal revenues:

Total Expenditures of Federal Awards per Exhibit K-1	\$ 2,791,520
Additional federal revenues reported in the General Fund and Debt Service Fund:	
SHARS	196,372
Interest Subsidy on Qualified School Construction Bonds	142,279
Total Federal Revenues per Exhibit C-2	\$ <u>3,130,171</u>

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KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT L-1

**SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2013**

<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 default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - 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?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ -