

**KILGORE
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2017

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Kilgore Independent School District
Annual Financial Report
For The Year Ended August 31, 2017

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Introductory Section

CERTIFICATE OF BOARD

Kilgore Independent School District
Name of School District

Gregg
County

092-902
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2017, at a meeting of the Board of Trustees of such school district on the 18th day of December, 2017.



Signature of Board Secretary



Signature of Board President

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

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Financial Section

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

CERTIFIED PUBLIC ACCOUNTANTS

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Kilgore, Texas 75662

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kilgore Independent School District ("the District") as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kilgore Independent School District as of August 31, 2017, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2017 on our consideration of Kilgore Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kilgore Independent School District's internal control over financial reporting and compliance.


BROWN, BRONSTAD, HABENICHT & ROSSON, PC

Kilgore, TX
December 4, 2017

Kilgore Independent School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Kilgore Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2017. Please read it in conjunction with the independent auditors' report on page 6, and the District's Basic Financial Statements which begin on page 16.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 17 and 18). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 19) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers, and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements (starting on page 27) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 16. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all of the District's assets and liabilities at the end of the year while the Statement of Activities includes all of the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting, which is the basis used by private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, we combine the District into one kind of activity:

- Governmental activities—The District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 19 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as federal grants from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds – governmental and fiduciary – use different accounting approaches:

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

- Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Kilgore Independent School District's own programs. The District includes the Student Activity Funds on the Fiduciary financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 26. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the District's governmental activities increased from \$34,656,990 to \$36,953,084. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$12,499,865 at August 31, 2017.

Table I
Kilgore Independent School District
Net Position

	Governmental Activities 08-31-2017	Governmental Activities 08-31-2016
Current and other assets	21,931,964	20,311,704
Capital assets	71,173,403	71,932,195
Total assets	93,105,367	92,243,899
Deferred outflow related to TRS	2,395,289	2,836,935
Current Liabilities	3,689,944	3,700,072
Long-term liabilities	54,496,693	56,308,670
Total liabilities	58,186,637	60,008,742
Deferred inflow related to TRS	360,935	415,102
Net Assets:		
Invested in capital assets, net of related debt	20,872,545	21,451,864
Restricted	3,580,674	2,184,996
Unrestricted	12,499,865	11,020,130
Total net position	36,953,084	34,656,990

Table II
Kilgore Independent School District
Changes in Net Position

	Governmental Activities 8-31-2017	Governmental Activities 8-31-2016
Revenues:		
Program Revenues:		
Charges for Services	812,216	923,643
Operating grants and contributions	5,337,586	3,129,250
General Revenues:		
Maintenance and debt service taxes	20,089,157	21,198,369
State aid – formula grants	13,862,674	14,526,253
Investment Earnings	169,695	87,341
Loss on sale of capital assets	-0-	(1,986,530)
Miscellaneous	518,220	456,388
Total Revenue	40,789,548	38,334,714
Expenses:		
Instruction, curriculum and media services	21,564,033	21,402,155
Instructional and school leadership	2,553,252	2,631,351
Student support services	2,854,966	2,742,147
Child nutrition	2,364,153	2,165,656
Co-curricular activities	1,633,726	1,659,480
General administration	1,289,518	1,304,411
Plant maintenance, security & data processing	3,906,567	3,830,558
Community Services	5,409	6,245
Debt services	2,009,693	2,090,550
Other intergovernmental charges	312,137	313,954
Total Expenses	38,493,454	38,146,507
Increase in net position before transfers and special items	2,296,094	188,207
Net position, beginning	34,656,990	34,468,783
Net position, ending	36,953,084	34,656,990

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 19) reported a combined fund balance of \$17,849,511, which is an increase of \$1,641,133. Included in this year's total change in fund balance is an increase of \$1,907,101 in the District's General Fund.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had \$71,173,403, net of depreciation, invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

Debt

At year-end, the District had \$49,680,000 in general obligation bonds payable. More detailed information about the District's long-term liabilities is presented in Note F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Kilgore Independent School District Board of Trustees and District Administrators considered the following factors when setting the budget and tax rates for 2017-2018.

- The District's taxable value for 2017 decreased \$17,514,184, or 1.084% from 2016 values. The District's taxable values have declined in four of the past five years, 2015 being the exception. In 2015, the taxable value increased due to the Board of Trustees action to remove the District's Optional Homestead Exemption which raised taxable values on homesteads by roughly 20%. The majority of the decline in these years has been a result of declining commercial and industrial personal property in the oil field service industry. East Texas, specifically Kilgore, has been a hub for oil and gas service companies for many years.
- The District's Board of Trustees at a special called meeting on June 29, 2015, rescinded the Kilgore ISD optional homestead exemption. The decision to remove the exemption was made in an effort to maintain local control and "options for funding" prior to the Senate Bill 1 passed by the 84th Texas State Legislature taking effect. The District is currently being sued by three local taxpayers along with Texas Attorney General Intervention in relation to this action. There has been only minimal movement on this suit since its filing. Most recently, the Court of Appeals, Sixth Appellate District of Texas at Texarkana, on October 10, 2017, reversed a prior court's ruling and removed Board of Trustee Members and the Superintendent of Schools who were listed individually in the original filing from the suit.
- In an effort to be as conservative as possible the District is setting aside estimated revenues generated as a result of the exemption removal in fund balance. At August 31, 2017, the estimated total of this set aside was \$2,916,256 (\$2,315,709 General Fund and \$600,547 Debt Service) with an additional \$1,408,717 (\$1,134,942 General Fund and \$273,775 Debt Service) estimated to be added to this total in the 2017-2018 fiscal year.
- Federal, State and Local revenue combined for general fund are expected to increase slightly from the 2016 final amended budget, \$76,916 or .25%. This increase is a result of components of the State Funding Formula, as the current year decline in values is less than prior years causing an increase in state funding.
- The 2017 general operating expenditure budget increased insignificantly from 2016 levels, an increase of \$179,539 or .59%. The District was able to provide small raises for all employees through this increase and minor changes in other District operations. The general fund budget does reflect a projected net profit of \$1,134,942 which is a result of setting aside certain raised revenue for homestead issues mentioned prior.

- At this time the board and administration are reviewing current and long term capital needs. It is expected that the 2017 budget will be amended to resolve some of these stated needs, using fund balance determined to be expendable.
- The 2017-2018 budget adopted for Debt Service reflects a deficit of \$619,000. This deficit is part of the District's long term plan to keep the debt service rate constant and using accumulated fund balance to pay down callable debt, saving as much interest cost as possible. This board approved an order on October 23, 2017, providing for redemption of \$1,000,000 outstanding Kilgore Independent School District Unlimited School Building Bonds, Series 2011. The advance refunding will save the District \$875,000 of future interest payments on same bonds.
- The 2017-2018 general fund budget was based on anticipated average daily attendance being down slightly from 2016-2017 levels, but higher than 2015-2016 levels. The 2016-2017 school year showed a significant spike in enrollment during the first semester, at one time being almost one-hundred students greater than the same time the year prior, and an almost equal decline in the second semester. It can only be assumed that these changes are occurring due to anomalies related to the current state of the state and local economies resulting from oil and gas prices.
- Due to the recent decreases in local taxable value and the increases to enrollment to levels resulting in values below \$319,500 per ADA, Kilgore Independent School District for the first time since the 2009-2010 school year will not have a Chapter 41 designation. The change has no financial impact on the District. Even though Kilgore ISD has had the Chapter 41 designation, it has never reached the level of wealth requiring it to pay recapture.
- Unemployment rates for both Gregg and Rusk Counties have improved in the past twelve months, each declining over 1.5%, but each continues to hover above the state and national averages. Gregg and Rusk County rates for August 2017, 5.2% and 5.1% respectively, compare to the state rate of 4.2% and national average of 4.4%.
- The overall Kilgore economy is showing signs of improvement after a slow down as a result of the slump in oil and gas prices. Sales tax revenues for the City of Kilgore as of September 2017 have shown increases over the same month the prior year for seven straight months. These increases come after a period in which 23 of 24 months showed decreases as compared to the same month from the prior year dating back to February 2014.

The District's maintenance and operations tax rate has remained unchanged since 2007-2008, eleven years, at \$1.04 per \$100 valuation. This rate is the maximum allowed by state law without taxpayer approval. The District's debt service rate has been consistent for seven years at \$0.2692 dating back to 2011-2012. Avenues for increases to the Districts revenue stream remain limited; 1) increase in enrollment and average daily attendance, 2) legislative change, 3) increase in local property values and 4) an increase in the maintenance and operations tax rate, which would require voter approval.

These factors were taken into account when adopting the budget for 2017-2018. It is due to these factors, especially the many uncertainties related to the economy and Texas public education funding that we continue to remain conservative in our budgeting strategies and strive for efficiency in every aspect of our operations.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at Kilgore Independent School District, 301 N. Kilgore Street, Kilgore, Texas 75662.

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Basic Financial Statements

KILGORE INDEPENDENT SCHOOL DISTRICT**STATEMENT OF NET POSITION**

AUGUST 31, 2017

		1
Data Control Codes		Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 5,202,250
1120	Current Investments	12,031,390
1225	Property Taxes Receivable (Net)	2,235,105
1240	Due from Other Governments	2,316,179
1290	Other Receivables (Net)	42,698
1300	Inventories	73,678
Capital Assets:		
1510	Land	3,132,484
1520	Buildings and Improvements, Net	64,274,500
1530	Furniture and Equipment, Net	3,766,419
1800	Restricted Assets	30,664
1000	Total Assets	<u>93,105,367</u>
DEFERRED OUTFLOWS OF RESOURCES:		
1705	Deferred Outflow Related to Pensions	<u>2,395,289</u>
1700	Total Deferred Outflows of Resources	<u>2,395,289</u>
LIABILITIES:		
2110	Accounts Payable	169,832
2140	Interest Payable	87,596
2165	Accrued Liabilities	1,590,784
2300	Unearned Revenue	86,732
Noncurrent Liabilities:		
2501	Due Within One Year	1,755,000
2502	Due in More Than One Year	48,888,014
2540	Net Pension Liability	5,608,679
2000	Total Liabilities	<u>58,186,637</u>
DEFERRED INFLOWS OF RESOURCES:		
2605	Deferred Inflow Related to Pensions	<u>360,935</u>
2600	Total Deferred Inflows of Resources	<u>360,935</u>
NET POSITION:		
3200	Net Investment in Capital Assets	20,872,545
Restricted For:		
3820	State and Federal Programs	650,248
3850	Debt Service	2,588,270
3860	Capital Projects	342,156
3900	Unrestricted	12,499,865
3000	Total Net Position	<u>\$ 36,953,084</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Functions/Programs	1 Expenses	3 Charges for Services	4 Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 20,149,242	\$ 295,049	\$ 2,875,129	\$ (16,979,064)
12	Instructional Resources and Media Services	508,126	--	24,304	(483,822)
13	Curriculum and Staff Development	906,665	--	143,002	(763,663)
21	Instructional Leadership	338,172	--	24,692	(313,480)
23	School Leadership	2,215,080	--	110,145	(2,104,935)
31	Guidance, Counseling, & Evaluation Services	1,238,785	--	153,799	(1,084,986)
32	Social Work Services	20,198	--	20,130	(68)
33	Health Services	301,538	--	15,489	(286,049)
34	Student Transportation	1,294,445	--	43,183	(1,251,262)
35	Food Service	2,364,153	430,736	1,768,772	(164,645)
36	Cocurricular/Extracurricular Activities	1,633,726	86,431	37,105	(1,510,190)
41	General Administration	1,289,518	--	58,603	(1,230,915)
51	Facilities Maintenance and Operations	3,227,675	--	49,007	(3,178,668)
52	Security and Monitoring Services	287,050	--	1,061	(285,989)
53	Data Processing Services	391,842	--	11,486	(380,356)
61	Community Services	5,409	--	1,679	(3,730)
72	Interest on Long-term Debt	2,006,318	--	--	(2,006,318)
73	Bond Issuance Costs and Fees	3,375	--	--	(3,375)
99	Other Intergovernmental Charges	312,137	--	--	(312,137)
TG	Total Governmental Activities	<u>38,493,454</u>	<u>812,216</u>	<u>5,337,586</u>	<u>(32,343,652)</u>
TP	Total Primary Government	<u>\$ 38,493,454</u>	<u>\$ 812,216</u>	<u>\$ 5,337,586</u>	<u>(32,343,652)</u>
General Revenues:					
MT	Property Taxes, Levied for General Purposes				15,916,720
DT	Property Taxes, Levied for Debt Service				4,172,437
IE	Investment Earnings				169,695
GC	Grants and Contributions Not Restricted to Specific Programs				13,862,674
MI	Miscellaneous				518,220
TR	Total General Revenues				<u>34,639,746</u>
CN	Change in Net Position				2,296,094
NB	Net Position - Beginning				34,656,990
NE	Net Position - Ending				<u>\$ 36,953,084</u>

The accompanying notes are an integral part of this statement.

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

AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:				
1110 <i>Cash and Cash Equivalents</i>	\$ 2,088,178	\$ 2,273,918	\$ 840,154	\$ 5,202,250
1120 <i>Current Investments</i>	11,606,233	--	425,157	12,031,390
1225 <i>Taxes Receivable, Net</i>	1,901,609	333,496	--	2,235,105
1240 <i>Due from Other Governments</i>	2,061,115	--	255,064	2,316,179
1260 <i>Due from Other Funds</i>	161,161	--	--	161,161
1290 <i>Other Receivables</i>	39,605	2,923	170	42,698
1300 <i>Inventories</i>	--	--	73,678	73,678
1800 <i>Restricted Assets</i>	--	--	30,664	30,664
1000 Total Assets	<u>17,857,901</u>	<u>2,610,337</u>	<u>1,624,887</u>	<u>22,093,125</u>
LIABILITIES:				
Current Liabilities:				
2110 <i>Accounts Payable</i>	\$ 165,742	\$ --	\$ 4,090	\$ 169,832
2160 <i>Accrued Wages Payable</i>	1,405,621	--	185,163	1,590,784
2170 <i>Due to Other Funds</i>	--	22,067	139,094	161,161
2300 <i>Unearned Revenue</i>	1,901,609	333,496	86,732	2,321,837
2000 Total Liabilities	<u>3,472,972</u>	<u>355,563</u>	<u>415,079</u>	<u>4,243,614</u>
FUND BALANCES:				
Nonspendable Fund Balances:				
3410 <i>Inventories</i>	--	--	73,678	73,678
3425 <i>Endowment Principal</i>	--	--	30,000	30,000
Restricted Fund Balances:				
3450 <i>Federal/State Funds Grant Restrictions</i>	--	--	650,216	650,216
3470 <i>Capital Acquisitions & Contractual Obligations</i>	--	--	342,157	342,157
3480 <i>Retirement of Long-Term Debt</i>	--	2,254,774	--	2,254,774
Committed Fund Balances:				
3510 <i>Construction</i>	3,000,000	--	--	3,000,000
3530 <i>Capital Expenditures for Equipment</i>	2,000,000	--	--	2,000,000
3545 <i>Other Committed Fund Balance</i>	--	--	113,757	113,757
Assigned Fund Balances:				
3560 <i>Claims and Judgments</i>	2,315,709	--	--	2,315,709
3600 <i>Unassigned</i>	7,069,220	--	--	7,069,220
3000 Total Fund Balances	<u>14,384,929</u>	<u>2,254,774</u>	<u>1,209,808</u>	<u>17,849,511</u>
4000 Total Liabilities and Fund Balances	<u>\$ 17,857,901</u>	<u>\$ 2,610,337</u>	<u>\$ 1,624,887</u>	<u>\$ 22,093,125</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 AUGUST 31, 2017*

Total fund balances - governmental funds balance sheet	\$ 17,849,511
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	71,173,403
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	2,235,105
Payables for bond principal which are not due in the current period are not reported in the funds.	(50,643,014)
Payables for bond interest which are not due in the current period are not reported in the funds.	(87,596)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	<u>(3,574,325)</u>
Net position of governmental activities - Statement of Net Position	\$ <u>36,953,084</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ 16,503,952	\$ 4,211,658	\$ 746,527	\$ 21,462,137
5800 <i>State Program Revenues</i>	13,887,652	81,259	410,670	14,379,581
5900 <i>Federal Program Revenues</i>	843,948	138,486	3,554,415	4,536,849
5020 Total Revenues	<u>31,235,552</u>	<u>4,431,403</u>	<u>4,711,612</u>	<u>40,378,567</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	16,519,016	--	2,018,822	18,537,838
0012 <i>Instructional Resources and Media Services</i>	451,948	--	16,513	468,461
0013 <i>Curriculum and Staff Development</i>	746,963	--	108,732	855,695
0021 <i>Instructional Leadership</i>	307,352	--	9,464	316,816
0023 <i>School Leadership</i>	1,998,230	--	55,766	2,053,996
0031 <i>Guidance, Counseling, & Evaluation Services</i>	1,029,392	--	104,874	1,134,266
0032 <i>Social Work Services</i>	--	--	20,130	20,130
0033 <i>Health Services</i>	271,126	--	--	271,126
0034 <i>Student Transportation</i>	1,152,509	--	--	1,152,509
0035 <i>Food Service</i>	66,573	--	2,110,258	2,176,831
0036 <i>Cocurricular/Extracurricular Activities</i>	1,281,889	--	173,502	1,455,391
0041 <i>General Administration</i>	1,217,668	--	--	1,217,668
0051 <i>Facilities Maintenance and Operations</i>	3,374,232	--	7,500	3,381,732
0052 <i>Security and Monitoring Services</i>	267,613	--	--	267,613
0053 <i>Data Processing Services</i>	328,065	--	--	328,065
0061 <i>Community Services</i>	3,738	--	1,638	5,376
0071 <i>Principal on Long-term Debt</i>	--	1,700,000	--	1,700,000
0072 <i>Interest on Long-term Debt</i>	--	2,010,527	--	2,010,527
0073 <i>Bond Issuance Costs and Fees</i>	--	3,375	--	3,375
0081 <i>Capital Outlay</i>	--	--	1,067,882	1,067,882
0099 <i>Other Intergovernmental Charges</i>	312,137	--	--	312,137
6030 Total Expenditures	<u>29,328,451</u>	<u>3,713,902</u>	<u>5,695,081</u>	<u>38,737,434</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>1,907,101</u>	<u>717,501</u>	<u>(983,469)</u>	<u>1,641,133</u>
1200 Net Change in Fund Balances	<u>1,907,101</u>	<u>717,501</u>	<u>(983,469)</u>	<u>1,641,133</u>
0100 Fund Balances - Beginning	<u>12,477,828</u>	<u>1,537,273</u>	<u>2,193,277</u>	<u>16,208,378</u>
3000 Fund Balances - Ending	<u>\$ 14,384,929</u>	<u>\$ 2,254,774</u>	<u>\$ 1,209,808</u>	<u>\$ 17,849,511</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2017*

Net change in fund balances - total governmental funds	\$ 1,641,133
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,656,012
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,414,804)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	40,046
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	1,700,000
(Increase) decrease in accrued interest from beginning of period to end of period.	4,209
Bond premiums are reported in the funds but not in the SOA.	87,106
Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred resource outflows.	<u>(417,608)</u>
Change in net position of governmental activities - Statement of Activities	\$ <u><u>2,296,094</u></u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT*STATEMENT OF FIDUCIARY NET POSITION**FIDUCIARY FUNDS**AUGUST 31, 2017*Data
Control
CodesAgency
FundStudent
Activity**ASSETS:**1110 *Cash and Cash Equivalents*
1000 Total Assets\$ 118,027
118,027**LIABILITIES:**

Current Liabilities:

2190 *Due to Student Groups*
2000 Total Liabilities118,027
118,027**NET POSITION:**

3000 Total Net Position

\$ --

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

The District reports the following major governmental funds:

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

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

In addition, the District reports the following fund types:

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

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

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

b. Measurement Focus, Basis of Accounting

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

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

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

3. Financial Statement Amounts

a. Property Taxes

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

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

b. Inventories and Prepaid Items

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

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies.

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

c. Capital Assets

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

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

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

d. Deferred Outflows and Inflows of Resources

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

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

e. Receivable and Payable Balances

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

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

f. Interfund Activity

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

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

g. Use of Estimates

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

h. Data Control Codes

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

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

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

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

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

j. Net Position Flow Assumption

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

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

k. Fund Balance Flow Assumptions

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

4. Pensions

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

5. New Accounting Standards Adopted

In fiscal year 2017, the District adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- Statement No. 80, *Blending Requirements for Certain Component Units*
- Statement No. 82, *Pension Issues - An Amendment of GASB No. 67, No. 68 and No. 73*

- a. Statement No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The scope of this Statement includes OPEB plans, defined benefit and defined contribution that are administered through trusts that meet the following criteria:

- 1) Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- 2) OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- 3) OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

The District does not administer their OPEB plan through a trust that meets the criteria noted above. As a result, the adoption of GASB Statement No. 74 did not result in a change to the financial statements or note disclosures.

- b. GASB Statement No. 80 clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

The District did not have any component units which met the definition noted above. As a result, the adoption of GASB Statement No. 80 did not result in a change to the financial statements or note disclosures.

- c. GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The financial statements and note disclosures have been updated for the affects of the adoption of GASB Statement No. 82.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

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

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

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

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

C. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2017, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,316,539 and the bank balance was \$5,560,244. The District's cash deposits at August 31, 2017 and during the year ended August 31, 2017, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

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

Exhibit C-1 - Cash and Cash Equivalents	\$ 5,202,250
Exhibit E-1 - Cash and Cash Equivalents	118,027
	<hr/> 5,320,277
Less Petty Cash	(3,738)
Total Investments	<hr/> <u>\$ 5,316,539</u>

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

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

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

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

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

Assets at Fair Value as of August 31, 2017				
	Level 1	Level 2	Level 3	Total
Lone Star Investment Pool	\$ --	\$ 6,112,147	\$ --	\$ 6,112,147
Logic First Southwest	--	425,156	--	425,156
Texas CLASS	--	5,023,539	--	5,023,539
TexStar	--	510	--	510
Texpool	--	500,702	--	500,702
Total	\$ --	\$ 12,062,054	\$ --	\$ 12,062,054

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

Exhibit C-1 - Current Investments	\$ 12,031,390
Exhibit C-1 - Restricted Assets	30,664
Total Investments	\$ 12,062,054

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

At August 31, 2017, investments were diversified in government investment pools with credit ratings of AAA, AAA-m or equivalent, thereby reducing the probability of loss and to comply with the District's investment policy.

b. Custodial Credit Risk

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

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

c. Concentration of Credit Risk

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

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d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

Public Funds Investment Pools

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

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

LOGIC

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

TexSTAR

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

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

Lone Star

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

TexPool

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

Texas CLASS

The District invests in Texas CLASS, which is a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The pool is governed by a board of trustees, elected annually by its participants. The parties to the Trust Agreement are Texas local government entities that choose to participate in the Trust (the "Participants"), Public Trust Advisors LLC (PTA) as Program Administrator and Wells Fargo Bank Texas, N.A. as Custodian. Texas CLASS is rated at a AAAM or equivalent rating from at least one nationally recognized rating agency and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Texas CLASS seeks to maintain a net asset value of \$1.00 per unit and is designed to be used for investment of funds which may be needed at any time.

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D. Capital Assets

Capital asset activity for the year ended August 31, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,132,484	\$ --	\$ --	\$ 3,132,484
Construction in progress	1,621,467	--	1,621,467	--
Total capital assets not being depreciated	4,753,951	--	1,621,467	3,132,484
<i>Capital assets being depreciated:</i>				
Buildings and improvements	82,218,427	2,680,542	--	84,898,969
Equipment	9,433,663	416,678	6,200	9,844,141
Vehicles	4,029,747	180,259	125,552	4,084,454
Total capital assets being depreciated	95,681,837	3,277,479	131,752	98,827,564
Less accumulated depreciation for:				
Buildings and improvements	(18,891,932)	(1,732,537)	--	(20,624,469)
Equipment	(6,311,971)	(471,075)	(6,200)	(6,776,846)
Vehicles	(3,299,690)	(211,192)	(125,552)	(3,385,330)
Total accumulated depreciation	(28,503,593)	(2,414,804)	(131,752)	(30,786,645)
Total capital assets being depreciated, net	67,178,244	862,675	--	68,040,919
Governmental activities capital assets, net	\$ 71,932,195	\$ 862,675	\$ 1,621,467	\$ 71,173,403

Depreciation was charged to functions as follows:

Instruction	\$ 1,187,446
Instructional Resources and Media Services	31,468
Curriculum and Staff Development	33,435
Instructional Leadership	14,423
School Leadership	111,135
Guidance, Counseling, & Evaluation Services	78,146
Health Services	24,912
Student Transportation	287,740
Food Services	189,352
Extracurricular Activities	169,394
General Administration	48,513
Plant Maintenance and Operations	168,469
Security and Monitoring Services	10,365
Data Processing Services	60,006
	<u>\$ 2,414,804</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2017, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Capital Project Fund	\$ 83,000	Short-term loans
General Fund	Special Revenue Funds	56,094	Short-term loans
General Fund	Debt Service Fund	22,067	Short-term loans
	Total	<u>\$ 161,161</u>	

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

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F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2017, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General Obligation Bonds	\$ 51,380,000	\$ --	\$ 1,700,000	\$ 49,680,000	\$ 1,755,000
Bond Issue Premium	1,052,503	--	87,334	965,169	--
Bond Issue Discount	(2,383)	--	(228)	(2,155)	--
Net Pension Liability *	5,578,550	501,706	471,577	5,608,679	--
Total governmental activities	<u>\$ 58,008,670</u>	<u>\$ 501,706</u>	<u>\$ 2,258,683</u>	<u>\$ 56,251,693</u>	<u>\$ 1,755,000</u>

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

* Other long-term liabilities

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

Liability	Activity Type	Fund
Net Pension Liability *	Governmental	General

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2017, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 1,755,000	\$ 1,951,805	\$ 3,706,805
2019	1,810,000	1,903,143	3,713,143
2020	2,175,000	1,853,543	4,028,543
2021	2,240,000	1,790,116	4,030,116
2022	2,305,000	1,723,792	4,028,792
2023-2027	11,605,000	7,482,615	19,087,615
2028-2032	11,075,000	4,742,075	15,817,075
2033-2037	13,625,000	2,187,344	15,812,344
2038	3,090,000	67,594	3,157,594
Totals	<u>\$ 49,680,000</u>	<u>\$ 23,702,027</u>	<u>\$ 73,382,027</u>

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2017, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

KILGORE INDEPENDENT SCHOOL DISTRICT
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H. Pension Plan

1. Plan Description

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

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

2. Pension Plan Fiduciary Net Position

Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <https://www.trs.texas.gov>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature as noted in the Plan description in (1.) above.

4. Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

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Contribution Rates		
	2016	2017
Member	7.2%	7.7%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2017 Employer Contributions	\$ 489,665	
District's 2017 Member Contributions	\$ 1,310,545	
NECE 2016 On-Behalf Contributions to District	\$ 1,136,848	

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

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

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

5. Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial evaluation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8%
Long-term expected Investment Rate of Return	8%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

6. Discount Rate

The discount rate used to measure the total pension liability was 8%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

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Teacher Retirement System of Texas Asset Allocation and Long-Term Expected Real Rate of Return As of August 31, 2016			
Asset Class	Target Allocation	Long-term Expected Geometric Real Rate of Return	Expected Contribution to Long-term Portfolio Returns *
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

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

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 8,680,346	\$ 5,608,679	\$ 3,003,285

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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8. Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2017, the District reported a liability of \$5,608,679 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 5,608,679
State's proportionate share that is associated with District	<u>13,494,212</u>
Total	<u>\$ 19,102,891</u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 through August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.0148423%, which was an increase (decrease) of -.0009392% from its proportion measured as of August 31, 2015.

Changes Since the Prior Actuarial Valuation - There were no changes to the actuarial assumptions of other inputs that affected measurement of the total pension liability since the prior measurement period:

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

For the year ended August 31, 2017, the District recognized pension expense of \$1,400,377 and revenue of \$1,400,377 for support provided by the State.

At August 31, 2017, the District reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 87,943	\$ 167,472
Changes in actuarial assumptions	170,942	155,465
Difference between projected and actual investment earnings	474,931	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	1,171,808	37,998
Contributions paid to TRS subsequent to the measurement date	<u>489,665</u>	<u>--</u>
Total	<u>\$ 2,395,289</u>	<u>\$ 360,935</u>

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

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

Year Ended August 31,	Pension Expense Amount
2018	\$ 276,430
2019	\$ 276,430
2020	\$ 579,364
2021	\$ 253,153
2022	\$ 158,008
Thereafter	\$ 1,304

I. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal years 2017, 2016 and 2015. The active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2017, 2016 and 2015. For the years ended August 31, 2017, 2016, and 2015, the State's contributions to TRS-Care were \$187,534, \$189,489, and \$183,746, respectively, the active member contributions were \$133,102, \$131,582, and \$128,001, respectively, and the District's contributions were \$112,625, \$111,399, and \$108,309, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2017, 2016, and 2015, the subsidy payments received by TRS-Care on behalf of the District were \$60,857, \$59,474, and \$57,967, respectively.

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J. Employee Health Care Coverage

During the year ended August 31, 2017, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$241 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

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

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

K. Commitments and Contingencies

1. Contingencies

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

2. Litigation

The District is involved in a lawsuit whereby taxpayers are seeking to recover the additional local option homestead exemption which the District's Board of Trustees rescinded in 2015. The District intends to vigorously defend the litigation. Although the District believes it was correct in its decision to rescind the local homestead option, they have decided to assign \$2,315,709 of fund balance in the general fund, taking a conservative approach in planning for the District's future.

L. Worker's Compensation Fund

The District participates in the Deep East Texas Self Insurance Fund for workers' compensation. The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for workers' compensation coverage and develop a comprehensive loss control program. The District pays an annual premium to the Fund for its 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.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

M. Unemployment Compensation Insurance

During the year ended August 31, 2017, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund).

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

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2017, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

N. Auto, Liability and Other Property Insurance

During the year ended August 31, 2017, the District participated in the following TASB Risk Management Fund (the Fund) programs:

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

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

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2017, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

O. Due from Other Governments

The District participated in a variety of federal and state programs from which it received grants to partially or fully finance certain activities. The District also receives entitlements from the State through the School Foundation and Per Capita Programs. In addition, the District receives a refund of taxes paid on gasoline or diesel fuel. Amounts due from federal and state governments as of August 31, 2017 are summarized below:

	General Fund	Special Revenue Funds	Total
Federal Revenue	\$ --	\$ 228,693	\$ 228,693
State Revenue	1,438,734	25,528	1,464,262
Other	622,381	843	623,224
Totals	<u>\$ 2,061,115</u>	<u>\$ 255,064</u>	<u>\$ 2,316,179</u>

P. Taxes Receivable

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

At August 31, 2017, the components of delinquent taxes receivable are as follows:

	General Fund	Debt Service	Total
Delinquent taxes	\$ 2,676,921	\$ 413,295	\$ 3,090,216
Allowance	(775,312)	(79,799)	(855,111)
Totals	<u>\$ 1,901,609</u>	<u>\$ 333,496</u>	<u>\$ 2,235,105</u>

Q. Other Receivables

Other receivables as of August 31, 2017, consisted primarily of taxes collected by the tax office, but not yet deposited to the District's bank, a grant from a local foundation and miscellaneous other receivables:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Ad Valorem Taxes	\$ 9,487	\$ --	\$ 2,923	\$ 12,410
Other	30,118	170	--	30,288
Total	<u>\$ 39,605</u>	<u>\$ 170</u>	<u>\$ 2,923</u>	<u>\$ 42,698</u>

KILGORE INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED AUGUST 31, 2017****R. Revenue from Local and Intermediate Sources**

During the year ending August 31, 2017, revenues from local and intermediate sources consisted of the following:

	General Fund	Debt Service Fund	Other	Total
Property Taxes	\$ 15,856,205	\$ 4,192,907	\$ --	\$ 20,049,112
Investment Earnings	144,887	17,710	7,098	169,695
Co-curricular Activities	86,431	--	28,961	115,392
Food Service	--	--	430,736	430,736
Gifts and Bequests	55,168	--	7,470	62,638
Other Revenue	361,261	1,041	272,262	634,564
Totals	<u>\$ 16,503,952</u>	<u>\$ 4,211,658</u>	<u>\$ 746,527</u>	<u>\$ 21,462,137</u>

S. Other Committed and Assigned Fund Balance

Other committed fund balance includes the following commitments of funds:

Campus Activity Funds	\$ 113,093
Gene and Nora Elder Scholarship	664
Total Other Committed Fund Balance	<u>\$ 113,757</u>

Other assigned fund balance includes \$2,315,709 for the potential payback of property taxes in relation to rescinding the local homestead option.

Required Supplementary Information

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

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 16,412,023	\$ 16,472,171	\$ 16,503,952	\$ 31,781
5800	State Program Revenues	13,024,153	13,241,501	13,887,652	646,151
5900	Federal Program Revenues	740,000	740,000	843,948	103,948
5020	Total Revenues	30,176,176	30,453,672	31,235,552	781,880
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	16,819,921	16,679,233	16,519,016	160,217
0012	Instructional Resources and Media Services	446,111	452,535	451,948	587
0013	Curriculum and Staff Development	805,724	814,643	746,963	67,680
	Total Instruction & Instr. Related Services	18,071,756	17,946,411	17,717,927	228,484
Instructional and School Leadership:					
0021	Instructional Leadership	370,216	371,783	307,352	64,431
0023	School Leadership	1,957,026	2,004,418	1,998,230	6,188
	Total Instructional & School Leadership	2,327,242	2,376,201	2,305,582	70,619
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	1,068,573	1,071,813	1,029,392	42,421
0033	Health Services	288,479	288,679	271,126	17,553
0034	Student (Pupil) Transportation	1,394,050	1,394,050	1,152,509	241,541
0035	Food Services	4,000	73,200	66,573	6,627
0036	Cocurricular/Extracurricular Activities	1,222,034	1,281,973	1,281,889	84
	Total Support Services - Student (Pupil)	3,977,136	4,109,715	3,801,489	308,226
Administrative Support Services:					
0041	General Administration	1,402,244	1,382,544	1,217,668	164,876
	Total Administrative Support Services	1,402,244	1,382,544	1,217,668	164,876
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	3,434,451	3,571,215	3,374,232	196,983
0052	Security and Monitoring Services	272,711	271,861	267,613	4,248
0053	Data Processing Services	367,036	367,036	328,065	38,971
	Total Support Services - Nonstudent Based	4,074,198	4,210,112	3,969,910	240,202
Ancillary Services:					
0061	Community Services	6,600	6,766	3,738	3,028
	Total Ancillary Services	6,600	6,766	3,738	3,028
0099	Other Intergovernmental Charges	317,000	319,300	312,137	7,163
	Total Intergovernmental Charges	317,000	319,300	312,137	7,163
6030	Total Expenditures	30,176,176	30,351,049	29,328,451	1,022,598
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	102,623	1,907,101	1,804,478
1200	Net Change in Fund Balance	--	102,623	1,907,101	1,804,478
0100	Fund Balance - Beginning	12,477,828	12,477,828	12,477,828	--
3000	Fund Balance - Ending	\$ 12,477,828	\$ 12,580,451	\$ 14,384,929	\$ 1,804,478

KILGORE INDEPENDENT SCHOOL DISTRICT**EXHIBIT G-2**

*SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED AUGUST 31, 2017*

	Fiscal Year		
	2016	2015	2014
District's proportion of the net pension liability (asset)	0.0148423%	0.0157815%	0.0096033%
District's proportionate share of the net pension liability (asset)	\$ 5,608,679	\$ 5,578,550	\$ 2,565,175
State's proportionate share of the net pension liability (asset) associated with the District	13,494,212	12,956,186	11,379,214
Total	<u>\$ 19,102,891</u>	<u>\$ 18,534,736</u>	<u>\$ 13,944,389</u>
District's covered-employee payroll	\$ 20,243,405	\$ 19,695,497	\$ 19,266,252
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	27.71%	28.32%	13.31%
Plan fiduciary net position as a percentage of the total pension liability	78.00%	78.43%	83.25%

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

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT G-3

	Fiscal Year		
	2017	2016	2015
Contractually required contribution	\$ 489,665	\$ 467,467	\$ 476,561
Contributions in relation to the contractually required contribution	(489,665)	(467,467)	(476,561)
Contribution deficiency (excess)	\$ --	\$ --	\$ --
District's covered-employee payroll	\$ 20,477,271	\$ 20,243,405	\$ 19,695,497
Contributions as a percentage of covered-employee payroll	2.39%	2.31%	2.42%

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

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED AUGUST 31, 2017

Budget

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

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

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

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

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

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

Defined Benefit Pension Plan

Changes of benefit terms

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

Changes of assumptions

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

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Other Supplementary Information

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

KILGORE INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2017**

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
	\$	Various	\$	Various	\$	Various
2008 and Prior Years						
2009		1.0400		.0810		1,585,005,174
2010		1.0400		.0692		1,679,917,890
2011		1.0400		.0692		1,637,686,080
2012		1.0400		.2692		1,655,149,175
2013		1.0400		.2692		1,660,756,722
2014		1.0400		.2692		1,642,326,612
2015		1.0400		.2692		1,625,663,916
2016		1.0400		.2692		1,621,378,017
2017 (School Year Under Audit)		1.0400		.2692		1,525,689,929

1000 Totals

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

10 Beginning Balance 9/1/16	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/17
\$ 476,572	\$ --	\$ 10,252	\$ 714	\$ (31,696)	\$ 433,910
102,854	--	2,255	175	(91)	100,333
91,059	--	4,527	302	(90)	86,140
89,070	--	5,337	355	(89)	83,289
102,863	--	8,245	2,175	(106)	92,337
443,876	--	18,657	4,842	2,963	423,340
452,910	--	30,467	8,178	3,697	417,962
499,756	--	63,929	16,720	4,558	423,665
690,480	--	132,684	35,021	(29,491)	493,284
--	19,974,333	15,345,466	4,067,567	(25,344)	535,956
<u>\$ 2,949,440</u>	<u>\$ 19,974,333</u>	<u>\$ 15,621,819</u>	<u>\$ 4,136,049</u>	<u>\$ (75,689)</u>	<u>\$ 3,090,216</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

KILGORE INDEPENDENT SCHOOL DISTRICT**NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM****BUDGETARY COMPARISON SCHEDULE****FOR THE YEAR ENDED AUGUST 31, 2017****EXHIBIT J-2**

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
	REVENUES:				
5700	<i>Local and Intermediate Sources</i>	\$ 485,100	\$ 514,100	\$ 431,612	\$ (82,488)
5800	<i>State Program Revenues</i>	15,000	15,000	10,707	(4,293)
5900	<i>Federal Program Revenues</i>	1,552,000	1,603,000	1,744,110	141,110
5020	Total Revenues	2,052,100	2,132,100	2,186,429	54,329
	EXPENDITURES:				
	Current:				
	Support Services - Student (Pupil):				
0035	<i>Food Services</i>	2,026,100	2,282,100	2,110,258	171,842
	Total Support Services - Student (Pupil)	2,026,100	2,282,100	2,110,258	171,842
	Support Services - Nonstudent Based:				
0051	<i>Plant Maintenance and Operations</i>	26,000	--	--	--
	Total Support Services - Nonstudent Based	26,000	--	--	--
6030	Total Expenditures	2,052,100	2,282,100	2,110,258	171,842
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	(150,000)	76,171	226,171
1200	Net Change in Fund Balance	--	(150,000)	76,171	226,171
0100	Fund Balance - Beginning	647,723	647,723	647,723	--
3000	Fund Balance - Ending	\$ 647,723	\$ 497,723	\$ 723,894	\$ 226,171

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 3,895,636	\$ 3,895,636	\$ 4,211,658	\$ 316,022
5800	State Program Revenues	96,449	96,449	81,259	(15,190)
5900	Federal Program Revenues	138,635	138,635	138,486	(149)
5020	Total Revenues	4,130,720	4,130,720	4,431,403	300,683
EXPENDITURES:					
Debt Service:					
0071	Principal on Long-Term Debt	1,700,000	1,700,000	1,700,000	--
0072	Interest on Long-Term Debt	2,010,527	2,010,527	2,010,527	--
0073	Bond Issuance Costs and Fees	5,000	5,000	3,375	1,625
	Total Debt Service	3,715,527	3,715,527	3,713,902	1,625
6030	Total Expenditures	3,715,527	3,715,527	3,713,902	1,625
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	415,193	415,193	717,501	302,308
1200	Net Change in Fund Balance	415,193	415,193	717,501	302,308
0100	Fund Balance - Beginning	1,537,273	1,537,273	1,537,273	--
3000	Fund Balance - Ending	\$ 1,952,466	\$ 1,952,466	\$ 2,254,774	\$ 302,308

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

CERTIFIED PUBLIC ACCOUNTANTS

PO BOX 1790

KILGORE, TEXAS 75663-1790

SHAREHOLDER:

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1116 N. Kilgore St.

Kilgore, Texas 75662

Independent Auditors' Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards

Board of Trustees

Kilgore Independent School District

301 N Kilgore St

Kilgore, Texas 75662

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kilgore Independent School District, as of and for the year ended August 31, 2017, 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 December 4, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Kilgore Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kilgore Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Kilgore Independent School District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kilgore Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2017-01.

Kilgore Independent School District's Response to Findings

Kilgore Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Kilgore Independent School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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


BROWN, BRONSTAD, HABENICHT & ROSSON, PC

Kilgore, TX
December 4, 2017

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

CERTIFIED PUBLIC ACCOUNTANTS

PO BOX 1790

KILGORE, TEXAS 75663-1790

SHAREHOLDER:

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PROFESSIONAL STAFF:

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1116 N. Kilgore St.

Kilgore, Texas 75662

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

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

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited the Kilgore Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Kilgore Independent School District's major federal program for the year ended August 31, 2017. Kilgore Independent School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Kilgore Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program.

Report on Internal Control Over Compliance

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

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

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

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


BROWN, BRONSTAD, HABENICHT & ROSSON, PC

Kilgore, TX
December 4, 2017

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2017

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

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

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

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

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027/84.173	Special Education Cluster (IDEA B)

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

Auditee qualified as low-risk auditee? X Yes No

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2017

B. Financial Statement Findings

Finding 2017-01

Criteria and Condition:

The District is required to spend 100% of its current FSP high school allotment.

Cause:

The District did not spend the required 100% of its current year high school allotment.

Effect:

The District is not in compliance with spending requirements for its current year high school allotment.

Recommendation:

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

C. Federal Award Findings and Questioned Costs

NONE

KILGORE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2017

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<u>Finding 2016-01</u> The District did not spend 58% of it's current year FSP allotment for career and technology on direct costs related to career and technology educational services.	Resolved	N/A

KILGORE INDEPENDENT SCHOOL DISTRICT

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED AUGUST 31, 2017

Finding 2017-01

The District did not spend the required 100% of its current FSP high school allotment.

Corrective Action

The District will closely monitor its spending to ensure it meets the minimum spending requirements related to FSP high school allotment.

Contact

Revard, Pfeffer, Chief Financial Officer

Implementation Timeline

Immediately

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT K-1

(1)	(2)	(2A)		(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
CHILD NUTRITION CLUSTER:				
<u>U. S. Department of Agriculture</u>				
Passed Through State Department of Education:				
School Breakfast Program	10.553	092-902	\$ --	\$ 392,700
National School Lunch Program	10.555	092-902		1,207,922
National School Lunch Program (Non-cash)	10.555	092-902	--	143,490
Total CFDA Number 10.555			--	1,351,412
Total Passed Through State Department of Education			--	1,744,112
Total U. S. Department of Agriculture			--	1,744,112
Total Child Nutrition Cluster			--	1,744,112
SPECIAL EDUCATION (IDEA) CLUSTER:				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
<i>IDEA-B Formula</i>	84.027	1766000109290	--	721,918
<i>IDEA-B Formula</i>	84.027	1866000109290	--	82,781
Total CFDA Number 84.027			--	804,699
<i>IDEA-B Preschool</i>	84.173	1766100109290	--	3,181
Total Passed Through State Department of Education			--	807,880
Total U. S. Department of Education			--	807,880
Total Special Education (IDEA) Cluster			--	807,880
OTHER PROGRAMS:				
<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	1761010109290	--	682,008
<i>ESEA Title I Part A - Improving Basic Programs</i>	84.010a	1861010109290	--	55,904
Total CFDA Number 84.010a			--	737,912
<i>Career and Technical - Basic Grant</i>	84.048	1742000609290	--	47,300
<i>Title III Part A English Language Acq and Language Enh</i>	84.365	1767100109290	--	62,005
<i>Title III Part A English Language Acq and Language Enh</i>	84.365	1867100109290	--	3,947
Total CFDA Number 84.365			--	65,952
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367a	1769450109290	--	141,754
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367a	1869450109290	--	4,845
Total CFDA Number 84.367a			--	146,599
<i>Summer School LEP</i>	84.369A	695516	--	4,660
Total Passed Through State Department of Education			--	1,002,423
Total U. S. Department of Education			--	1,002,423
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ --	\$ 3,554,415

The accompanying notes are an integral part of this schedule.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2017

Basis of Presentation

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

Total Expenditures of Federal Awards per Exhibit K-1	\$	3,554,415
School Health and Related Services (SHARS) reported in the general fund		843,948
Interest Subsidy on Qualified School Construction Bonds		138,486
Total Federal Revenues	\$	<u>4,536,849</u>

Summary of Significant Accounting Policies

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

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

KILGORE INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2017**

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ --
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 5,608,679
SF13	Pension Expense (object 6147) at fiscal year-end.	\$

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