

**KENNEDALE INDEPENDENT SCHOOL
DISTRICT**

**ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED**

AUGUST 31, 2014

KENNEDALE INDEPENDENT SCHOOL DISTRICT

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Year Ended August 31, 2014**

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CERTIFICATE OF THE BOARD

Kennedale Independent School District
Name of School District

Tarrant
County

220-914
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, 2014, at a meeting of the board of trustees of such school district on the ____ day of _____, 2014.

Signature of Board Secretary

Signature of Board President

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

KIRK, RICHARDSON & POOLE P. C.

Members of the American Institute of Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Kennedale Independent School District
120 W. Kennedale Parkway
Kennedale, Texas 76060

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 Kennedale Independent School District (the "District") as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6-11 and 41 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 District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1, J4 and J-5.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Audit Standards*, we have also issued our report dated December 8, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reports and compliance with 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 the District's internal control over financial reporting and compliance.

Kirk, Richardson & Poole, P.C.

Kirk, Richardson & Poole P.C.
Fort Worth, Texas
December 8, 2014

KENNEDALE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014
UNAUDITED

In this section of the Annual Financial and Compliance Report, we, the managers of Kennedale Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2014. Please read it in conjunction with the independent auditor's report and the District's basic financial statements.

FINANCIAL HIGHLIGHTS

During the year a new state of the art scoreboard was installed at the Kennedale High School Football Stadium. Now patrons can not only view on field play, but also watch the band performance "up close." Construction began on the completion of the 2nd floor at Kennedale High School. The elevator and stair access has been installed. Work will continue in the 2014-15 school year with the goal of completion for the fall of 2015. Security cameras were added to James A. Arthur Intermediate School, James F. Delaney Elementary School and R. F. Patterson Elementary School. In addition new P.A. systems were added to all campuses as well as Chromebooks for Kennedale Junior High School and James A. Arthur Elementary School and smartboards for all teachers at the James F. Delaney and R. F. Patterson Elementary Schools. Finally, 300 computers were purchased for the students of the Career and Technology Department at Kennedale High School.

The District was fortunate to secure an \$873,000.00 Texas 21st Century Community Grant to help students in before and after school programs to enhance their learning experience. The program provides food, fun and educational experience to foster academic support and ensure future success. In other areas District campuses were evaluated exemplary in all areas of student and community engagement, James F. Delaney Elementary School was one of fifty campuses nation-wide to win an award for "Imagination Learning" and Kennedale Junior High School received six of seven highest ratings based on the State Accountability Standards. Finally the generosity of the Kennedale ISD Foundation, which donated almost \$30,000.00 for use in the classroom, was instrumental in helping our district campuses achieve these awards.

The District's governmental activities net position increased by \$1,239,896 as a result of this year's operations.

Total cost of all of the District's programs increased significantly during the year due to campus renovations and addition of equipment for classroom use and campus safety. We had a small increase in our refined average daily attendance which resulted in an increase in state funding. Property values remained steady and loss of tax revenue was not realized.

The General Fund ended the year with an unassigned fund balance of \$4,122,764, an increase of \$455,104 from last year. The increase was due mainly to increases in gas and oil revenue and legislative restoration of funds taken from the previous legislative cycle.

The resources available for appropriations were \$521,629 less than budgeted for the General Fund, mainly due to receiving less local and intermediate revenues than anticipated. Actual expenditures were less than the budgeted amounts in all areas. The most significant of these were in Instruction and Facilities Maintenance and Operations. Actual expenditures were \$306,019 and \$251,985 respectively, less than the final amended budget amounts.

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. These provide information about the

KENNEDALE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014
UNAUDITED

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 report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The fiduciary statements provide financial information about activities for which the District acts solely as trustee or agent for the benefit of those outside of the District.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by the Texas Education Agency. The section labeled "Texas Education Agency Required Schedules" and "Federal Awards Section" contains data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The statement of net position includes all the District's assets deferred outflows of resources, and liabilities at the end of the year while the statement of activities includes all the revenues and expenses generated by the District's operations during the year. These apply the same basis of accounting which is the basis used by most 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 students with disabilities or from disadvantaged backgrounds, and revenues provided by the taxpayers or by Texas Education Agency in equalization funding processes (general revenues). All 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 position and changes in them. The District's net position (the difference between assets, deferred outflows of revenues, and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position 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 non-financial 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, the District reports the following activities:

KENNEDALE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014
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Governmental activities – Most of the District's basic services are reported here, including 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 provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities.) The District governmental funds are accounted for as follows:

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in the separate statements of fiduciary net position. 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 1) and the changes in net position (Table 2) of the District's governmental activities.

Net position of the District's governmental activities increased from \$16,271,437 to \$17,511,333. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$2,139,847, a decrease of \$4,037,718 from the prior year.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014
UNAUDITED

Table 1
Kennedale Independent School District
Net Position

	Governmental Activities	
	2014	2013
ASSETS		
Current and other assets	\$ 9,714,524	\$ 9,655,082
Capital assets	57,168,553	58,023,266
Total assets	<u>66,883,077</u>	<u>67,678,348</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges for refunding	<u>1,719,618</u>	<u>1,866,352</u>
LIABILITIES		
Long-term liabilities	49,363,676	51,157,456
Other liabilities	1,727,686	2,115,807
Total liabilities	<u>51,091,362</u>	<u>53,273,263</u>
NET POSITION		
Net investment in capital assets	12,179,219	7,921,729
Restricted	3,192,267	2,175,143
Unrestricted	2,139,847	6,174,565
Total net position	<u>\$17,511,333</u>	<u>\$16,271,437</u>

KENNEDALE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014
UNAUDITED

Table 2
Kennedale Independent School District
Statement of Activities

	Governmental Activities	
	2014	2013
REVENUES		
Program revenues:		
Charges for services	\$ 1,147,954	\$ 929,953
Operating grants and contributions	3,621,459	3,175,908
General revenues:		
Maintenance and operations taxes	11,585,065	11,342,634
Debt service taxes	3,188,236	3,315,850
State aid – formula grants	11,887,947	10,692,783
Grants and contributions not restricted	147,257	187,529
Other	259,845	274,345
Special item – gas lease proceeds	1,006,436	841,326
Extraordinary item – net fire recovery/(costs)	(5,645)	28,480
Total revenues	<u>32,838,554</u>	<u>30,788,808</u>
EXPENSES		
Instruction and instructional-related services	18,355,747	17,069,268
Instructional and school leadership	2,343,155	2,161,944
Support services – student (pupil)	4,512,347	4,334,113
Administrative support service	1,121,400	1,044,271
Support services – non-student based	3,466,565	3,156,897
Ancillary services	15,270	7,776
Debt service	1,632,826	1,899,312
Capital outlay	0	0
Payments to other governments	151,348	143,288
Total expenses	<u>31,598,658</u>	<u>29,816,869</u>
Increase/(decrease) In net position	1,239,896	971,939
Net position beginning	16,271,437	15,745,776
Prior period adjustment	0	(446,278)
Net position at August 31	<u>\$17,511,333</u>	<u>\$16,271,437</u>

The District's total revenues were \$2,049,746 (6.7%) more than last year. Most of this increase was from receiving more state aid – formula grants and special Item – gas lease proceeds.

The cost of all governmental activities this year was \$31,598,658, an increase of \$1,781,789 over last year, generally in all areas. As shown in the statement of activities, the amount that our taxpayers financed for these activities through District taxes was \$14,773,301. Other costs were paid by those who directly benefited from the programs (\$1,147,954) or by other governments and organizations that subsidized certain programs with grants and contributions (\$3,621,459) or by state aid – formula grants funding of (\$11,887,947), or by other sources of revenues (\$1,407,893).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$7,419,854, which is more than last year's total of \$6,978,854.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014
UNAUDITED

Over the course of the year, the Board of Trustees amended the District's budget to account for changes in grant appropriations. No amendments were needed to prevent budget overruns.

The District's actual General Fund balance of \$5,213,830 differs from the General Fund's budgetary fund balance of \$3,673,540. This is principally due to a combination of actual expenditures being less than expected by \$1,058,879 and net special and extraordinary items of \$1,000,791 not been included in the final amended budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2014, the District had \$57,168,553 net of accumulated depreciation, invested in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment. This represents a net decrease of \$854,713 from last year. This decrease is mainly due to depreciation.

Debt

At year-end, the District had \$49,363,676 in bonds, capital leases, accreted interest, and unamortized premiums on issuance of bonds versus \$49,291,104 last year. More detailed information about the District's long-term liabilities is presented in Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected officials and appointed officials considered many factors when setting the fiscal year 2015 budget and tax rates. Slow population growth was one important factor that had to be considered. Maintaining teachers' salaries to be comparable with area districts was another consideration. To compensate for the law passed by the special session of the Legislature in 2006 that capped Maintenance & Operation (M&O) tax rate at \$1.04, the District held an election in 2008 that has allowed KISD to adopt a tax rate of \$1.17. Because of the success of this election, the district is able to adopt the \$1.17 tax rate for the 2014-15 school year. This will enable the district to continue funding for all programs. The debt service tax rate was increased by \$0.02 as a result of increase in bond payment liabilities.

Amounts available for appropriation in the General Fund are \$26,737,046, a decrease of 2 percent over the final 2014 budget of \$27,349,690. The reduction is a result of no large capital projects in the budget. No program cuts were made because of increased state funding due to restoration of monies cut by the prior legislature. The District will use its revenues to finance programs currently offered. Budgeted expenditures are expected to rise slightly from 2014 when capital costs are removed. The increase is due to normal operating increases such as utilities.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The 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 information, contact the Superintendent's Office, at Kennedale Independent School District, 120 West Kennedale Pkwy., Kennedale, Texas 76060.

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BASIC FINANCIAL STATEMENTS

KENNEDALE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2014

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 8,446,410
1220 Property Taxes Receivable (Delinquent)	685,517
1230 Allowance for Uncollectible Taxes	(13,710)
1240 Due from Other Governments	549,913
1290 Other Receivables, net	32,917
1300 Inventories	13,477
Capital Assets:	
1510 Land	5,870,283
1520 Buildings, Net	48,992,634
1530 Furniture and Equipment, Net	1,784,678
1550 Leased Property Under Capital Leases, Net	211,557
1580 Construction in Progress	309,401
1000 Total Assets	66,883,077
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	1,719,618
1700 Total Deferred Outflows of Resources	1,719,618
LIABILITIES	
2110 Accounts Payable	174,099
2140 Interest Payable	104,823
2160 Accrued Wages Payable	1,097,063
2180 Due to Other Governments	338,224
2300 Unearned Revenue	13,477
Noncurrent Liabilities	
2501 Due Within One Year	1,753,989
2502 Due in More Than One Year	47,609,687
2000 Total Liabilities	51,091,362
NET POSITION	
3200 Net Investment in Capital Assets	12,179,219
3820 Restricted for Federal and State Programs	403,352
3850 Restricted for Debt Service	1,529,734
3860 Restricted for Capital Projects	1,091,066
3870 Restricted for Campus Activities	168,115
3900 Unrestricted	2,139,847
3000 Total Net Position	\$ 17,511,333

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

KENNEDALE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT B-1

Data	Program Revenues			Net (Expense)
Control	1	3	4	Revenue and
Codes	Expenses	Charges for	Operating	Changes in Net
		Services	Grants and	Position
			Contributions	6
				Primary Gov.
				Governmental
				Activities

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 17,863,340	\$ 316,954	\$ 1,961,294	\$ (15,585,092)
12 Instructional Resources and Media Services	256,944	-	15,417	(241,527)
13 Curriculum and Staff Development	235,463	-	155,750	(79,713)
21 Instructional Leadership	619,311	-	80,342	(538,969)
23 School Leadership	1,723,844	-	104,630	(1,619,214)
31 Guidance, Counseling and Evaluation Services	836,812	-	218,903	(617,909)
33 Health Services	367,032	-	24,751	(342,281)
34 Student (Pupil) Transportation	822,005	-	-	(822,005)
35 Food Services	1,212,403	466,534	717,483	(28,386)
36 Extracurricular Activities	1,274,095	271,722	32,090	(970,283)
41 General Administration	1,121,400	-	62,910	(1,058,490)
51 Facilities Maintenance and Operations	3,005,764	92,744	157,471	(2,755,549)
52 Security and Monitoring Services	88,243	-	-	(88,243)
53 Data Processing Services	372,558	-	16,175	(356,383)
61 Community Services	15,270	-	14,243	(1,027)
72 Debt Service - Interest on Long Term Debt	1,630,335	-	-	(1,630,335)
73 Debt Service - Bond Issuance Cost and Fees	2,491	-	-	(2,491)
93 Payments related to Shared Services Arrangements	60,000	-	60,000	-
99 Other Intergovernmental Charges	91,348	-	-	(91,348)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 31,598,658	\$ 1,147,954	\$ 3,621,459	(26,829,245)

Data	General Revenues:		
Control	Taxes:		
Codes			
MT	Property Taxes, Levied for General Purposes		11,585,065
DT	Property Taxes, Levied for Debt Service		3,188,236
SF	State Aid - Formula Grants		11,887,947
GC	Grants and Contributions not Restricted		147,257
IE	Investment Earnings		3,919
MI	Miscellaneous Local and Intermediate Revenue		255,926
SI	Special Item - Mineral Interests		1,006,436
E1	Extraordinary Item - Fire Recovery		34,386
E2	Extraordinary Item - Fire Related Costs		(40,031)
TR	Total General Revenues and Special Items & Extraordinary		28,069,141
CN	Change in Net Position		1,239,896
NB	Net Position - Beginning		16,271,437
NE	Net Position - Ending		\$ 17,511,333

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

KENNEDALE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2014

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 6,381,977	\$ 1,634,557	\$ 429,876	\$ 8,446,410
1220 Property Taxes - Delinquent	547,196	138,321	-	685,517
1230 Allowance for Uncollectible Taxes (Credit)	(10,944)	(2,766)	-	(13,710)
1240 Receivables from Other Governments	340,962	-	208,951	549,913
1290 Other Receivables	32,917	-	-	32,917
1300 Inventories	-	-	13,477	13,477
1000 Total Assets	<u>\$ 7,292,108</u>	<u>\$ 1,770,112</u>	<u>\$ 652,304</u>	<u>\$ 9,714,524</u>
LIABILITIES				
2110 Accounts Payable	\$ 132,568	\$ -	\$ 41,531	\$ 174,099
2160 Accrued Wages Payable	1,071,234	-	25,829	1,097,063
2180 Due to Other Governments	338,224	-	-	338,224
2300 Unearned Revenues	-	-	13,477	13,477
2000 Total Liabilities	<u>1,542,026</u>	<u>-</u>	<u>80,837</u>	<u>1,622,863</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	536,252	135,555	-	671,807
2600 Total Deferred Inflows of Resources	<u>536,252</u>	<u>135,555</u>	<u>-</u>	<u>671,807</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	403,352	403,352
3480 Retirement of Long-Term Debt	-	1,634,557	-	1,634,557
Committed Fund Balance:				
3510 Construction	791,066	-	-	791,066
Assigned Fund Balance:				
3550 Construction	300,000	-	-	300,000
3590 Other Assigned Fund Balance	-	-	168,115	168,115
3600 Unassigned Fund Balance	4,122,764	-	-	4,122,764
3000 Total Fund Balances	<u>5,213,830</u>	<u>1,634,557</u>	<u>571,467</u>	<u>7,419,854</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 7,292,108</u>	<u>\$ 1,770,112</u>	<u>\$ 652,304</u>	<u>\$ 9,714,524</u>

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

KENNEDALE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2014

Total Fund Balances - Governmental Funds	\$	7,419,854
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$78,283,27 and the accumulated depreciation was \$20,260,031. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		8,601,941
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2014 capital outlays and debt principal payments is to increase net position.		3,066,915
3 The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(2,249,184)
4 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		671,807
19 Net Position of Governmental Activities	\$	17,511,333

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

KENNEDALE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT C-3

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 12,174,695	\$ 3,220,217	\$ 796,784	\$ 16,191,696
5800 State Program Revenues	13,310,015	142,796	267,052	13,719,863
5900 Federal Program Revenues	-	-	1,936,400	1,936,400
5020 Total Revenues	<u>25,484,710</u>	<u>3,363,013</u>	<u>3,000,236</u>	<u>31,847,959</u>
EXPENDITURES:				
Current:				
0011 Instruction	15,282,545	-	1,075,323	16,357,868
0012 Instructional Resources and Media Services	244,698	-	6,715	251,413
0013 Curriculum and Instructional Staff Development	95,158	-	140,167	235,325
0021 Instructional Leadership	577,956	-	40,251	618,207
0023 School Leadership	1,587,869	-	61,425	1,649,294
0031 Guidance, Counseling and Evaluation Services	651,013	-	174,461	825,474
0033 Health Services	355,970	-	-	355,970
0034 Student (Pupil) Transportation	921,805	-	-	921,805
0035 Food Services	11,955	-	1,170,085	1,182,040
0036 Extracurricular Activities	1,243,413	-	153,701	1,397,114
0041 General Administration	1,118,016	-	-	1,118,016
0051 Facilities Maintenance and Operations	3,470,458	-	95,235	3,565,693
0052 Security and Monitoring Services	88,243	-	-	88,243
0053 Data Processing Services	372,558	-	-	372,558
0061 Community Services	-	-	14,243	14,243
Debt Service:				
0071 Principal on Long Term Debt	177,806	1,565,000	-	1,742,806
0072 Interest on Long Term Debt	-	1,767,878	-	1,767,878
0073 Bond Issuance Cost and Fees	-	2,491	-	2,491
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	60,000	60,000
0099 Other Intergovernmental Charges	91,348	-	-	91,348
6030 Total Expenditures	<u>26,290,811</u>	<u>3,335,369</u>	<u>2,991,606</u>	<u>32,617,786</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(806,101)</u>	<u>27,644</u>	<u>8,630</u>	<u>(769,827)</u>
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	2,249	-	-	2,249
7913 Capital Leases	207,905	-	-	207,905
7080 Total Other Financing Sources (Uses)	<u>210,154</u>	<u>-</u>	<u>-</u>	<u>210,154</u>
SPECIAL AND EXTRAORDINARY ITEMS:				
7918 Special Item - Mineral Interest	1,006,436	-	-	1,006,436
7919 Extraordinary Item - Fire Recovery	34,386	-	-	34,386
8913 Extraordinary Item - Fire Related Costs	(40,031)	-	-	(40,031)
1200 Net Change in Fund Balances	404,844	27,644	8,630	441,118
0100 Fund Balance - September 1 (Beginning)	<u>4,808,986</u>	<u>1,606,913</u>	<u>562,837</u>	<u>6,978,736</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 5,213,830</u>	<u>\$ 1,634,557</u>	<u>\$ 571,467</u>	<u>\$ 7,419,854</u>

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

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2014

Total Net Change in Fund Balances - Governmental Funds	\$	441,118
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2014 capital outlays and debt principal payments is to increase net position.		3,066,915
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(2,249,184)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(18,953)
Change in Net Position of Governmental Activities	<u>\$</u>	<u>1,239,896</u>

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

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 AUGUST 31, 2014

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 74,384
Total Assets	<u>\$ 74,384</u>
LIABILITIES	
Due to Student Groups	\$ 74,384
Total Liabilities	<u>\$ 74,384</u>

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kennedale Independent School District is a public educational agency under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (“GASB”) and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of the *Financial Accountability System Resource Guide*, issued by the Texas Education Agency (“TEA”), and the requirements of contracts and grants of agencies from which it receives funds.

A. Reporting Entity

The Board of Trustees (“Board”), a seven-member group, has governance responsibilities over all the activities related to public elementary and secondary education within the jurisdiction of the District. Because members of the board are elected by the public, they have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and they have primary accountability for fiscal matters. The District is not included in any other governmental “reporting entity” as defined by GASB Statement No. 61, “*The Financial Reporting Entity: Omnibus; and amendment of GASB Statements No. 14 and No. 34.*” The District is not financially accountable for any other organizations; therefore, no component units are included within the reporting entity. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, state foundation funds, grants and other intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District does not have business-type activities.

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

The fund financial statements provide reports on financial condition and results of operations for three fund categories – governmental, proprietary, and fiduciary. Since resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide financial statements. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as other funds.

Major Governmental Funds

General Fund – The General Fund is the District’s primary operating fund. It is used to account for all financial transactions except those required to be accounted for in another fund. Major revenue sources include local property taxes and state funding under the Foundation School Program. Expenditures include all costs associated with the daily operations of the schools except for costs incurred by programs accounted for in the Special Revenue Funds and Debt Service Fund. The General Fund is a budgeted fund, and any fund balances are considered resources available for current operations.

Debt Service Fund – The Debt Service Fund, which is a budgeted fund, accounts for the resources accumulated and payments made on long-term general obligation debt of governmental funds. Revenues include collections on general property taxes, state funding under the Instructional Facilities and Existing Debt Allotments, and earnings of interest on bonded debt. The fund balance represents amounts that will be used for retirement of bonds and payments of interest in the future.

Other Non-major Governmental Funds

Special Revenue Funds - These funds are used to account for federal, state and locally financed programs where unused balances are generally returned to the grantor at the close of specified project periods. Proceeds of specific revenues resources are restricted or committed to expenditures for specified purposes, other than debt service or capital projects, are accounted for in a special revenue fund. Project accounting is employed to maintain integrity for the various sources of funds.

Fiduciary Funds – Agency Funds – The Agency Fund, which is an unbudgeted fund, is custodial in nature and accounts for activities of student groups and other types of activities requiring clearing accounts. The fund has no equity. Assets are equal to liabilities, and do not include revenues and expenditures for general operations of the District. This accounting reflects the District’s agency relationship with student activity organizations. Fiduciary funds use the accrual basis of accounting to recognize assets and liabilities.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual are principally certain inter-governmental revenues, property taxes and investment income. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service

expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Funds received from federal, state and other grants designated for payment of specific District expenditures are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

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.

Management's Use of Estimates

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

The amount of state foundation revenue a district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as into the next fiscal year. It is at least reasonably possible that the foundation revenue for fiscal 2014 will ultimately change from the amount calculated as of August 31, 2014 because of the factors that TEA uses in its calculations.

D. Assets, Liabilities, and Net Position or Fund Balances

1. Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. Investments for the District are reported at fair value.

2. Receivables and payables

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 governmental-wide statement of net position.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2014

Exhibit F-1

3. Property taxes

Property taxes are levied by October 1 based upon property valuations as of January 1. 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.

Tax collections are prorated between the General Fund and Debt Service Fund based on the tax rate adopted by the Board. The District is permitted under the Texas Education Code to levy taxes up to \$1.17 per \$100 of assessed valuation for general governmental services other than debt services on general obligation bonds. The tax rate which may be levied to service general obligation bonds is limited to \$0.50, except under certain conditions. For the current fiscal year, the Board of Trustees set tax rates applicable to general governmental services and to debt services of \$1.17 per \$100 valuation and \$0.322068 per \$100 valuation, respectively, based on a net assessed valuation of \$978,382,397.

Delinquent property taxes receivables are prorated between the General and Debt Service Funds based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables is based on historical experience in collecting property taxes. Management periodically reviews outstanding property taxes and establishes an allowance adequate to reflect the anticipated net collectible balance. The District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Delinquent taxes receivables and the related allowance for uncollectible taxes in the governmental fund financial statements as of August 31, 2014 are as follows:

	<u>Gross Delinquent Taxes Receivable</u>	<u>Allowance for Uncollectible Taxes</u>	<u>Net Delinquent Taxes Receivables</u>
General Fund	\$547,196	(\$10,944)	\$536,252
Debt Service Fund	138,321	(2,766)	135,555
Totals	<u>\$685,517</u>	<u>(\$13,710)</u>	<u>\$671,807</u>

4. Inventories and prepaid items

The District records purchases of supplies and materials as expenditures when purchased. This method is used to avoid administrative costs that are considered excessive to any benefit gained and where expenditures tend to be equalized over a period of years.

5. Interfund transactions and receivables and payables

Interfund receivables and payables arise from interfund transactions in the normal course of operations and are recorded in all affected funds in the period in which transactions are executed. All legally authorized transfers are appropriately treated as transfers and are included in the results of operations.

6. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in the accounting system in order to reserve a portion of the applicable appropriation, is employed in the governmental fund types on the governmental fund financial statements. Encumbrances are liquidated at year end.

7. Capital assets

Capital assets, which include land, buildings and improvements, furniture and equipment, and construction in progress are reported in the governmental column in the government-wide financial statements. The cost of the infrastructure (e.g., roads, bridges, sidewalks, and similar items) was initially capitalized with the building cost and is being depreciated over the same useful life as the building. The District defines capital assets with an initial, individual cost which equals or exceeds \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Land and construction in progress are not depreciable.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings and improvements and furniture and equipment of the District are depreciated using the straight-line method over the following estimated lives:

Asset Classification	Useful Life
Land	Not depreciated
Construction in progress	Not depreciated
Buildings and improvements	15-39
Furniture and equipment	10

8. Compensated absences

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to accumulate but does not vest. Therefore, a liability for unused sick leave has not been recorded in either the government-wide financial statements or the governmental fund financial statements.

9. Long-term obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the appropriate effective interest rate and straight-line methods.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2014

Exhibit F-1

Premiums and discounts received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Unearned revenues

Unearned revenues at year end represents revenues received by the District but not yet earned and are not available for use by the District to liquidate current year liabilities. A summary of unearned revenues by fund follows:

Special Revenue Funds	
National Breakfast & Lunch Program	
Commodity inventory	<u>\$13,477</u>

11. Deferred outflows/inflow of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. During the current year, the District had \$1,719,618 in deferred charges for refunding.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds reports \$536,252 and \$135,555 as unavailable revenues from property taxes within the General Fund and Debt Service Fund respectively. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

12. Net position and fund balances

Net position on the statement of net position include the following:

Net investment in capital assets – the component of net position that reports capital assets less both the accumulated depreciation and the outstanding balance of debt and is directly attributable to the acquisition, construction, or improvement of these capital assets.

Restricted for federal and state programs – the component of net position that reports the difference between assets and liabilities related to federal and state programs that consist of assets with constraints placed on their use by granting agencies.

Restricted for debt service – the component of net position that reports the difference between assets and liabilities adjusted on a government-wide basis that consists of assets with constraints placed on their use by the bond covenants.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2014

Exhibit F-1

Restricted for campus activities – funds that have been committed solely for the use by various campuses within the District.

Unrestricted net position - the difference between the assets and liabilities that are not reported in net position net investment in capital assets or restricted net position.

Net position flow assumption – Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restrict bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

In the fund financial statements, government funds report fund balances as either a non-spendable fund balance or a spendable fund balance.

Non-spendable fund balance – Non-spendable fund balance is that portion of fund balance that is not spendable. The District does not have a non-spendable fund balance.

Spendable fund balance – Spendable fund balance includes restricted, committed, assigned, and unassigned components. These components can be described as follows:

Restricted fund balance – the component of the spendable fund balance constrained to a specific purpose by a provider, such as creditor, grantor, contributor, or law or regulation of other governments. Restricted fund balance includes funds for federal/state grants, and debt service restrictions.

Committed fund balance – the component of spendable fund balance constrained to a specific purpose by the Board. A Board resolution is required to establish, modify, or rescind a fund balance commitment. Only the action that constitutes the most binding constraint of the Board can be considered a commitment for fund balance classification purposes. The District does not have committed fund balances.

Assigned fund balance – the component of the spendable fund balance that is spendable or available for appropriation but has been tentatively earmarked for some specific purpose by the Board of Trustees or by an official or body to which the Board of Trustees delegates. 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 conveys that the intended use of those amounts is a specific purpose that is narrower than the general purposes of the District itself.

Unassigned fund balance – the component of the spendable fund balance which may be spent for any legal purpose. This portion of the total fund balance in the general fund is available to finance operating expenditures.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2014

Exhibit F-1

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.

The District does not have a minimum fund balance policy.

Disclosure of Fund Balances Reported on Balance Sheet – Governmental Funds
 For Fiscal Year Ending August 31, 2014

	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
Restricted Fund Balance				
Nat’l School Break. & Lunch Program	\$ 0	\$ 0	\$403,352	\$ 403,352
Retirement of long-term debt	0	1,634,557	0	1,634,557
Committed Fund Balance				
Construction	791,066	0	0	791,066
Assigned Fund Balance				
Construction	300,000	0	0	300,000
Campus Activity Funds	0	0	168,115	168,115
Unassigned	4,122,764	0	0	4,122,764
Total Fund Balance	<u>\$5,213,830</u>	<u>\$1,634,557</u>	<u>\$571,467</u>	<u>\$7,419,854</u>

13. Data control codes

The data control codes refer to the account code structure prescribed by the TEA. The TEA requires school districts to display these codes in the financial statements filed with the TEA in order to insure accuracy in building a statewide data base for policy development and funding plans.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS.

Exhibit C-2 “Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position” provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. Also, the property taxes receivable which is included as unavailable revenue in the fund financial statements are adjusted based on when the tax levy was made and adjusted for uncollectible amounts.

Exhibit C-4 “Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities” provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported

on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net position. The debt payments on retirement of debt are recorded as expenditures for fund basis financial statements but are a reduction of debt in the government-wide financial statements. The capital asset additions are expenditures in the fund basis financial statements but capitalized in the government-wide financial statements. The fund-basis financial statements do not include depreciation expense. The depreciation expense is a deduction to reconcile to the government-wide statement of activities. New debt issues are treated as sources of revenue for fund-basis financial statements, but for the government-wide statements, those amounts are recorded as a liability. Property taxes are adjusted for the accrual basis and the unavailable revenues are adjusted based on prior year levies and current year uncollectable amounts.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgets and Budgetary Information

The District is legally required to adopt budgets for the General Fund, Debt Service Fund and the Child Nutrition Program. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The general fund budget report appears in Exhibit G-1 and the other two reports are in Exhibit J-4 and J-5.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. The superintendent or his designee prepares a budget covering all estimated revenues and proposed expenditures of the District for the next succeeding fiscal year. The budget is prepared by fund type and function.
2. Ten days after public notice of the meeting has been given, a public hearing is held, allowing the public to comment on the proposed budget.
3. A public meeting of the Board of Trustees is called for the purpose of adopting the budget. The State Board of Education requires that the budget be prepared no later than August 20th of each year.
4. Budget data must be received by the Texas Education Agency on or before December 15 each year. The legal level of budgetary control is at the function level within each generic fund type. Budget amounts are as originally adopted, or as amended by the Board. Once a budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of the Board of Trustees. Changes can be made to the budget at any detail within the function level without an amendment approved by the Board. During the year, several budget amendments were made with Board approval. The most significant amendments were for carryover funding; mid-year adjustment of local and state revenues and appropriations and operating costs; and year-end adjustments to revise estimates of revenues and expenditures based on the latest information on student attendance, interest earnings, and operating costs. All budget appropriations lapse at year-end.

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Exhibit F-1

	Original Budget	Increase (Decrease)	Amended Budget
	<u>Appropriations</u>	<u>(Decrease)</u>	<u>Appropriations</u>
General Fund – Exhibit G-1	\$25,435,075	\$1,914,615	\$27,349,690
Child Nutrition Program – Exhibit J-4	1,228,815	130,050	1,358,865
Debt Service Fund – Exhibit J-5	3,332,878	4,900	3,337,778

The General Fund’s most significant budget amendments were in the areas of instruction, extracurricular activities, and facilities maintenance and operations for increased operating costs. The Child Nutrition Program was also amended for maintenance projects and increased operating costs.

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

August 31, 2014	
<u>Fund Balance</u>	
Child Nutrition Program	\$403,352
Non-appropriated Budgeted Funds	<u>168,115</u>
All Special Revenue Funds	<u>\$571,467</u>

B. Excess of Expenditures over Appropriations

There were no excess of expenditures over appropriations during the year.

C. Deficit Fund Equity

There were no deficit fund equities for the year ended August 31, 2014.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The District’s funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank places approved pledged securities for safekeeping and trust with the District’s agent bank 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 Cooperation (“FDIC”) insurance.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of returns, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. The District maintains an investment policy which authorizes the District to invest in obligations of

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Exhibit F-1

U.S. Treasury and U.S. agencies, municipal securities and repurchase agreements and the State Treasurer’s investment pool or similar public investment pools. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policy.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy.

At August 31, 2014, the carrying value of the District’s deposits was \$2,974,653 and the bank balance was \$2,444,281. The District’s cash deposits at August 31, 2014, and during the year then ended, were entirely covered by FDIC insurance or by pledged collateral held by the District’s agent bank in the District’s name. The District also had \$205 in petty cash and \$5,471,552 in investments that are included in cash and cash equivalents.

Petty cash	\$ 205
Cash in bank	2,974,653
Investments considered as cash equivalents	5,471,552
Total cash and cash equivalents	<u>\$8,446,410</u>

Investments Considered as Cash Equivalents:

The District’s investments at August 31, 2014, are shown below:

<u>Investments</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Percentage of Investments</u>	<u>Weighted Average Maturity (Days)</u>
LoneStar	\$4,470,380	\$4,470,380	81.7%	On demand
TexStar	608,596	608,596	11.1%	On demand
TexPool	392,576	392,576	7.2%	On demand
Totals	<u>\$5,471,552</u>	<u>\$5,471,552</u>	<u>100.0%</u>	On demand

The District’s temporary investments consist of balances held by Lone Star Investment Pool (“LoneStar”), TexStar, and Texas Local Government Investment Pool (“TexPool”) as detailed above. These investment pools are public funds investment pools created to provide a safe environment for the placement of local government funds in authorized short-term, fully-collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by U. S. Government agency securities and placed through a primary government securities dealer. These pools operate in a manner consistent with the Security and Exchange Commission’s Rule 2a7 of the Investment Act of 1940.

Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The collateral shall always be held by and independent third party with whom the District has a current custodial agreement. The District is not exposed custodial credit risk for its deposits as all were covered by depository insurance or securities pledged to the District and held by a third-party custodian.

Custodial Credit Risk – Investments: For an investment this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District’s

investment in LoneStar, TexPool and TexStar, are not exposed to custodial risk. External investment pools are not subject to custodial risk because investments are not evidenced by securities that exist in physical or book entry form. State law limits investments in public funds investment pools to those rated no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service. As of August 31, 2014, the District's investments in LoneStar are rated AAA and TexPool and TexStar are rated AAAM.

Credit Risk – This is the risk that a security issuer may default on an interest or principal payment. State law limits investment in local government pools to those that are rated AAA or equivalent by at least one Nationally Recognized Statistical Rating Organization (NRSRO). The District controls and monitors this risk by purchasing quality rated instruments that have been evaluated by agencies such as Standard and Poor's (S&P) or Moody's Investors Service, or by investing in public fund investment pools rated no lower than AAA or AAAM.

Interest-rate Risk – This type of risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. The District's investment policy does not allow the purchase of investments that would expose the District to interest-rate risk.

Concentration of Credit Risk – This type of risk is defined as positions of 5 percent or more in securities of a single issuer. The District is not exposed to concentration of credit risk because the investment portfolio mainly consists of external investment pools.

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.

The fair value of investments in external investment pools is the same as the value of the pool shares. The District reports investment at amortized cost. GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, state that investments should be reported at fair value, but provides an exception which applies to all investments of the District. Investments with a remaining maturity at time of purchase of one year or less and investments in an external pool that operates as a "2a7-like" pool may be reported at amortized cost. The external investment pools are not registered with the SEC, but are under the regulatory oversight of the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

B. Receivables and Payables

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 August 31, 2014.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
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Exhibit F-1

C. Due from Other Governments

Receivables due from other governments, as of August 31, 2014, are as follows:

General Fund	<u>Due From State</u> \$340,962
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D. Interfund Receivables and Payables

The District does not have interfund receivables and payables as of August 31, 2014.

E. Other Financing Sources (Uses)

The District had the following financing sources and uses during the year:

General Fund Other Financing Sources (Uses)	
Sale of real or personal property	\$ 2,249
Proceeds received related to a capital lease	207,905

F. Operating Leases

The District leases office equipment under noncancelable operating leases. Total costs for such leases were \$107,987 for the year. The future minimum lease payments for active operating leases are summarized below:

<u>Year Ending August 31</u>	<u>Amount</u>
2015	\$ 95,179
2016	14,000
2017	2,207
2018	0
Total	<u>\$111,386</u>

G. Capital Assets

Capital asset activity for the year ended August 31, 2014 is as follows:

	<u>Beginning Balance</u>	<u>Increases/ Adjustments</u>	<u>Decreases/ Adjustments</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 5,870,283	\$ 0	\$ 0	\$ 5,870,283
Construction in progress	0	309,401	0	309,401
Total Capital Assets, not being depreciated	<u>5,870,283</u>	<u>309,401</u>	<u>0</u>	<u>6,179,684</u>
Capital assets, being depreciated:				
Buildings and improvements	68,766,614	27,222	0	68,793,836
Furniture and equipment	3,646,400	1,082,190	112,170	4,616,420
Total capital assets, being depreciated	<u>72,413,014</u>	<u>1,109,412</u>	<u>112,170</u>	<u>73,410,256</u>
Less accumulated depreciation for:				
Buildings and improvements	18,004,621	1,796,581	0	19,801,202
Furniture and equipment	2,255,410	452,603	87,828	2,620,185
Total accumulated depreciation	<u>20,260,031</u>	<u>2,249,184</u>	<u>87,828</u>	<u>22,421,387</u>
Governmental activities capital assets, net	<u>\$58,023,266</u>	<u>\$(830,371)</u>	<u>\$ 24,342</u>	<u>\$57,168,553</u>

KENNEDALE INDEPENDENT SCHOOL DISTRICT
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Exhibit F-1

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

Governmental activities:	
11 – Instruction	\$1,505,472
12 – Instruction resources & media services	5,531
13 – Curriculum & instructional staff development	138
21 – Instructional leadership	1,104
23 – School leadership	74,550
31 – Guidance, counseling & evaluation services	11,338
33 – Health services	11,062
34 – Student transportation	82,296
35 – Food services	103,974
36 – Extracurricular activities	328,943
41 – General administration	3,384
51 – Plant maintenance & operations	120,365
61 – Community services	1,027
Total Depreciation Expense	<u>\$2,249,184</u>

H. Long-Term Debt

Long-term debt of the District is comprised of bonds payable, accreted interest, premium on bonds and capital leases payable. Debt service requirements for general obligation bonds are payable from fund balance and future revenues of the Debt Service Fund which consists principally of property taxes collected by the District, state funding, and interest earnings. Capital leases are payable from fund balance and future revenues of the General Fund.

The following is a summary of changes in long-term debt for government activities for the year ended August 31, 2014.

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Bonds payable	\$44,931,050	\$ 0	\$1,565,000	\$43,366,050	\$1,581,600
Accreted interest	2,674,036	85,689	105,000	2,654,724	0
Premium on bonds	3,235,036	0	239,567	2,995,469	0
Capital leases payable	317,334	207,905	177,806	347,433	172,389
Total	<u>\$51,157,456</u>	<u>\$293,594</u>	<u>\$2,087,373</u>	<u>\$49,363,676</u>	<u>\$1,753,989</u>

Capital Leases

During the year, the District entered to a lease/purchase agreement to purchase laptops and peripheral devices for teachers. These devices were considered as capital expenditures but were not capitalized as individual costs was less than the minimum capitalization amount threshold. In prior years, the District acquired a networking system under a lease/purchase agreement as authorized by Texas Local Government Code Sec. 271. Capital lease indebtedness of the District is reflected in the statement of net position. Current requirements for principal and interest for capital leases are accounted for in the General Fund in the fund financial statements.

Issue/ Maturity Date	Interest Rates Payable	Amounts Original Issue	Beginning Balance	Issued	Retired	Ending Balance	Amounts Due Within One Year
2012/2016	0.0%	\$528,891	\$317,334	\$ 0	\$105,778	\$211,556	\$105,778
2014/2016	4.0%	207,907	0	207,905	72,028	135,877	66,611
Total			<u>\$317,334</u>	<u>\$207,905</u>	<u>\$177,806</u>	<u>\$347,433</u>	<u>\$172,389</u>

The District paid \$0 in interest expense during the year.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Exhibit F-1

The following is a summary of the District's future annual debt service requirements to maturity for the maintenance tax note.

Year Ended August 31	Principal	Interest	Total Requirements
2015	\$172,389	\$5,417	\$177,806
2016	175,044	2,761	177,805
2017	0	0	0
Totals	<u>\$347,433</u>	<u>\$8,178</u>	<u>\$355,611</u>

Bonds Payable

Bonded indebtedness of the District is reflected in the statement of net position. Current requirements for principal and interest expenditures are accounted for in the debt service fund within the fund financial statements.

A summary of changes in general obligation bonds for the year ended August 31, 2014, are as follows:

Issue/ Maturity Date	Interest Rates Payable	Amounts Original Issue	Beginning Balance	Issued	Retired	Ending Balance	Amounts Due Within One Year
Series 1999 ULTR Bonds/2033	4.2%/						
	5.25%	\$2,780,000	\$ 910,000	\$0	\$ 80,000	\$ 830,000	\$ 0
Series 2004 ULTSB Bonds/2029	2.0%/						
	5.0%	25,000,000	490,000	0	490,000	0	0
Series 2005 ULTSB&R Bonds/2030	3.0%/						
	5.0%	25,645,000	12,450,000	0	825,000	11,625,000	900,000
Series 2006 ULTR Bonds/2029	3.7%/						
	4.5%	8,974,988	8,260,025	0	100,000	8,160,025	105,000
Series 2011 ULTR Bonds/2026	3.0%/						
	4.0%	8,879,996	8,716,028	0	0	8,716,028	46,603
Series 2012 ULTR Bonds/2021	2.0%/						
	3.0%	5,429,997	5,359,997	0	40,000	5,319,997	499,997
Series 2013 ULTR Bonds/2030	0.35%/						
	3.5%	8,849,999	8,745,000	0	30,000	8,715,000	30,000
Totals			<u>\$44,931,050</u>	<u>\$0</u>	<u>\$1,565,000</u>	<u>\$43,366,050</u>	<u>\$1,581,600</u>

The following is a summary of the District's future annual debt service requirements to maturity for general obligation bonds.

Year Ended August 31	Principal	Interest	Total Requirements
2015	\$ 1,581,600	\$ 2,002,122	\$ 3,583,722
2016	1,815,465	1,806,083	3,621,548
2017	1,963,960	1,761,538	3,725,498
2018	2,350,000	1,415,323	3,765,323
2019	2,480,000	1,320,998	3,800,998
2020-2024	13,780,000	6,056,022	19,836,022
2025-2029	14,895,025	6,710,575	21,605,600
2030-2034	4,500,000	87,375	4,587,375
Totals	<u>\$43,366,050</u>	<u>\$21,160,036</u>	<u>\$64,526,086</u>

Interest and fees paid on general obligation bonds during the year was \$1,770,369.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Exhibit F-1

There are a number of limitations and restrictions contained in the various general obligation bond indentures. The District is in compliance with all significant limitations and restrictions as of August 31, 2014.

In the current and in prior years, the District issued refunding bonds for the purpose of restructuring debt cash flow requirements. Proceeds from the refunding bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. The old bonds are considered defeased, and accordingly, the trust account assets and liabilities are not included in the District's financial statements. On August 31, 2014, \$40,275,000 of bonds considered defeased are still outstanding.

I. Revenue from Local and Intermediate Sources

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

	General Fund	Debt Service Fund	Other Funds	Fund Totals
Property taxes	\$11,598,297	\$3,193,864	\$ 0	\$14,792,161
Food sales	0	0	466,534	466,534
Investment income	2,943	976	400	4,319
Penalties, interest & other tax related income	110,786	24,359	0	135,145
Extracurricular activities	56,765	0	20,586	77,351
Other	405,904	1,018	309,264	716,186
Total	<u>\$12,174,695</u>	<u>\$3,220,217</u>	<u>\$796,784</u>	<u>\$16,191,696</u>

J. State Aid Revenue

The District receives state revenues from TEA based upon application of formula allocations, on behalf allocations, and other state miscellaneous programs. The components of state program revenues as shown in the governmental fund financial statements are as follows:

Revenues	General Fund	Debt Service Fund	Other Funds	Totals
Per Capita Apportionment	\$ 783,814	\$ 0	\$ 0	\$ 783,814
Foundation School Program Act Entitlements	11,104,133	0	0	11,104,133
State Program Revenues	4,461	142,796	267,052	414,309
TRS On-behalf Payments	1,368,115	0	0	1,368,115
TRS Medicare Part-D	49,492	0	0	49,492
Totals	<u>\$13,310,015</u>	<u>\$142,796</u>	<u>\$267,052</u>	<u>\$13,719,863</u>

K. Employee Benefits

The following is a summary of the various insurance, reimbursement and retirement programs provided for the benefit of District employees and their dependents.

1. Employees Retirement Plan

Plan Description – The District contributes to the Teacher Retirement System of Texas (“TRS”), a cost-sharing, multiple-employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805 respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by downloading the report from the TRS internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

Funding Policy – Contribution requirements are not actuarially determined but are established and amended pursuant to the following policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member’s annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during the current year; (2) state statute prohibit benefit improvements, if as a result of a particular action, the time to amortize TRS’s 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.

Contribution rates and contributions for fiscal years 2014-2012 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the reporting district is required to make all or a portion of the state’s and/or member’s contribution and on the portion of the employees’ salaries that exceeded the statutory minimum.

Contribution Rates and Contribution Amounts					
Year	Member		State		Statutory Minimum
	Rate	Amount	Rate	Amount	Amount
2014	6.4%	\$1,169,292	6.8%	\$1,242,372	\$292,062
2013	6.4%	1,122,022	6.4%	1,122,022	256,822
2012	6.4%	1,148,249	6.0%	1,076,483	224,494

2. Retiree Health Plan

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-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 to 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 under the TRS Publication heading, by calling the TRS

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Exhibit F-1

Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

Funding Policy – Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively.

Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2014-2012.

Contribution Rates and Contribution Amounts						
Year	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2014	.65%	\$118,756	1.0%	\$182,702	.55%	\$100,486
2013	.65%	175,313	0.5%	87,657	.55%	96,422
2012	.65%	109,329	1.0%	168,200	.55%	92,510

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. These on-behalf payments must be recognized as equal revenues and expenditures/expenses by each reporting entity. For the fiscal years ended August 31, 2014, August 31, 2013, and August 31, 2012, the contributions made on behalf of the District were \$49,492, \$67,055, and \$37,530, respectively.

3. Health Care Coverage.

During the year ended August 31, 2014 employees of the District were covered by the Teacher Retirement System-Active Care, a statewide health coverage program for public education employees. The District paid premiums of \$241.24 on behalf of the employees to the Plan; and, employees, at their option, could authorize payroll withholdings to pay premiums for dependents.

4. Workers' Compensation Plan

The District is exposed to various risks of loss related injuries to employees. Beginning with the current school year, the District entered into an interlocal agreement with the Texas Public Workers' Compensation Program ("Program") to provide workers' compensation coverage to the District's employees. The District's contributions to the Program are based on the District's various payroll classifications and the Texas Department of Insurance workers' compensation rates as modified by the District's experience rating factor.

L. Commitments and Contingencies

State and Federal Grants

The District receives monies under various state and federal grant project awards. These grants are subject to audit by the individual grantors and any disallowed costs arising from these audits would have to be refunded by the District. Management believes that the District has substantially complied with the terms and provisions of these grants, and any refunds, which might arise from these audits, would not be material.

Litigation

The District is not a party in any litigation.

M. Risk Management

The District purchases 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.

N. Subsequent Events

On October 16, 2014 the Board of Trustees approved the issuance of Series 2014 Refunding Bonds to refund a portion of the District's outstanding bond obligations. The proposed refunding bonds are projected to result in an actual savings of \$1,606,000 and a present value savings of \$1,295,000.

REQUIRED SUPPLEMENTARY INFORMATION

KENNEDALE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 12,593,071	\$ 12,654,571	\$ 12,174,695	\$ (479,876)
5800 State Program Revenues	12,842,004	13,351,768	13,310,015	(41,753)
5020 Total Revenues	25,435,075	26,006,339	25,484,710	(521,629)
EXPENDITURES:				
Current:				
0011 Instruction	14,997,988	15,588,564	15,282,545	306,019
0012 Instructional Resources and Media Services	254,766	255,966	244,698	11,268
0013 Curriculum and Instructional Staff Development	84,961	101,361	95,158	6,203
0021 Instructional Leadership	584,923	614,976	577,956	37,020
0023 School Leadership	1,630,089	1,621,389	1,587,869	33,520
0031 Guidance, Counseling and Evaluation Services	626,355	682,850	651,013	31,837
0033 Health Services	364,720	367,720	355,970	11,750
0034 Student (Pupil) Transportation	1,154,650	1,144,150	921,805	222,345
0035 Food Services	20,300	20,300	11,955	8,345
0036 Extracurricular Activities	845,329	1,300,941	1,243,413	57,528
0041 General Administration	1,112,189	1,140,559	1,118,016	22,543
0051 Facilities Maintenance and Operations	3,047,162	3,722,443	3,470,458	251,985
0052 Security and Monitoring Services	111,995	111,995	88,243	23,752
0053 Data Processing Services	392,944	397,744	372,558	25,186
0061 Community Services	325	325	-	325
Debt Service:				
0071 Principal on Long Term Debt	105,779	177,807	177,806	1
Intergovernmental:				
0095 Payments to Juvenile Justice Alternative Ed. Prg.	5,000	5,000	-	5,000
0099 Other Intergovernmental Charges	95,600	95,600	91,348	4,252
6030 Total Expenditures	25,435,075	27,349,690	26,290,811	1,058,879
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(1,343,351)	(806,101)	537,250
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	-	-	2,249	2,249
7913 Capital Leases	-	207,905	207,905	-
7080 Total Other Financing Sources (Uses)	-	207,905	210,154	2,249
SPECIAL AND EXTRAORDINARY ITEMS:				
7918 Special Item - Mineral Interest	-	-	1,006,436	1,006,436
7919 Extraordinary Item - Fire Recovery	-	-	34,386	34,386
8913 Extraordinary Item - Fire Related Costs	-	-	(40,031)	(40,031)
1200 Net Change in Fund Balances	-	(1,135,446)	404,844	1,540,290
0100 Fund Balance - September 1 (Beginning)	4,808,986	4,808,986	4,808,986	-
3000 Fund Balance - August 31 (Ending)	\$ 4,808,986	\$ 3,673,540	\$ 5,213,830	\$ 1,540,290

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COMBINING SCHEDULES

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2014

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary	
ASSETS					
1110	Cash and Cash Equivalents	\$ (24,919)	\$ (35,579)	\$ (1,364)	\$ -
1240	Receivables from Other Governments	24,919	35,579	1,364	-
1300	Inventories	-	-	-	-
1000	Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued Wages Payable	-	-	-	-
2300	Unearned Revenues	-	-	-	-
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
Assigned Fund Balance:					
3590	Other Assigned Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	265 Title IV, B Community Learning	289 Other Federal Special Revenue Funds	385 Visually Impaired SSVI	392 Non-Ed. Community Based Support
\$ 453,411	\$ -	\$ (5,467)	\$ (638)	\$ (116,073)	\$ (1,100)	\$ -	\$ (4,941)
17,301	-	5,467	638	116,073	1,100	-	4,941
13,477	-	-	-	-	-	-	-
<u>\$ 484,189</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 41,531	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25,829	-	-	-	-	-	-	-
13,477	-	-	-	-	-	-	-
<u>80,837</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
403,352	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>403,352</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 484,189</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2014

Data Control Codes	397 Advanced Placement Incentives	410 State Textbook Fund	461 Campus Activity Funds	Total Nonmajor Governmental Funds	
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ (1,569)	\$ 168,115	\$ 429,876
1240	Receivables from Other Governments	-	1,569	-	208,951
1300	Inventories	-	-	-	13,477
1000	Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 168,115</u>	<u>\$ 652,304</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ 41,531
2160	Accrued Wages Payable	-	-	-	25,829
2300	Unearned Revenues	-	-	-	13,477
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,837</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	403,352
Assigned Fund Balance:					
3590	Other Assigned Fund Balance	-	-	168,115	168,115
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>168,115</u>	<u>571,467</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 168,115</u>	<u>\$ 652,304</u>

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KENNEDALE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	411,888	484,151	5,414	16,320
5020 Total Revenues	<u>411,888</u>	<u>484,151</u>	<u>5,414</u>	<u>16,320</u>
EXPENDITURES:				
Current:				
0011 Instruction	272,788	244,212	5,414	16,320
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	137,673	-	-	-
0021 Instructional Leadership	229	8,108	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	171,818	-	-
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	13	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
0061 Community Services	1,198	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	60,000	-	-
6030 Total Expenditures	<u>411,888</u>	<u>484,151</u>	<u>5,414</u>	<u>16,320</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	265 Title IV, B Community Learning	289 Other Federal Special Revenue Funds	385 Visually Impaired SSVI	392 Non-Ed. Community Based Support
\$ 469,111	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7,234	-	-	-	-	-	1,900	9,767
784,003	27,897	48,935	16,334	140,358	1,100	-	-
<u>1,260,348</u>	<u>27,897</u>	<u>48,935</u>	<u>16,334</u>	<u>140,358</u>	<u>1,100</u>	<u>1,900</u>	<u>9,767</u>
-	27,897	36,485	13,691	112,788	1,100	1,900	-
-	-	-	-	-	-	-	-
-	-	2,494	-	-	-	-	-
-	-	7,622	-	24,292	-	-	-
-	-	2,334	-	-	-	-	-
-	-	-	2,643	-	-	-	-
1,163,685	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
74,171	-	-	-	-	-	-	-
-	-	-	-	3,278	-	-	9,767
-	-	-	-	-	-	-	-
<u>1,237,856</u>	<u>27,897</u>	<u>48,935</u>	<u>16,334</u>	<u>140,358</u>	<u>1,100</u>	<u>1,900</u>	<u>9,767</u>
22,492	-	-	-	-	-	-	-
<u>380,860</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ <u>403,352</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	397 Advanced Placement Incentives	410 State Textbook Fund	461 Campus Activity Funds	Total Nonmajor Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 327,673	\$ 796,784
5800 State Program Revenues	1,325	246,826	-	267,052
5900 Federal Program Revenues	-	-	-	1,936,400
5020 Total Revenues	<u>1,325</u>	<u>246,826</u>	<u>327,673</u>	<u>3,000,236</u>
EXPENDITURES:				
Current:				
0011 Instruction	1,325	246,826	94,577	1,075,323
0012 Instructional Resources and Media Services	-	-	6,715	6,715
0013 Curriculum and Instructional Staff Development	-	-	-	140,167
0021 Instructional Leadership	-	-	-	40,251
0023 School Leadership	-	-	59,091	61,425
0031 Guidance, Counseling and Evaluation Services	-	-	-	174,461
0035 Food Services	-	-	6,400	1,170,085
0036 Extracurricular Activities	-	-	153,688	153,701
0051 Facilities Maintenance and Operations	-	-	21,064	95,235
0061 Community Services	-	-	-	14,243
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	-	60,000
6030 Total Expenditures	<u>1,325</u>	<u>246,826</u>	<u>341,535</u>	<u>2,991,606</u>
1200 Net Change in Fund Balance	-	-	(13,862)	8,630
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>181,977</u>	<u>562,837</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 168,115</u>	<u>\$ 571,467</u>

REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2014

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2005 and prior years	Various	Various	\$ Various
2006	1.500000	0.304252	788,698,959
2007	1.370050	0.350312	832,263,082
2008	1.040000	0.318610	910,902,098
2009	1.170000	0.318610	956,962,650
2010	1.170000	0.318610	935,493,783
2011	1.170000	0.374821	931,311,783
2012	1.170000	0.342068	979,003,419
2013	1.170000	0.342068	974,035,229
2014 (School year under audit)	1.170000	0.322068	978,382,397
1000 TOTALS			

(10) Beginning Balance 9/1/2013	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2014
\$ 237,189	\$ -	\$ 6,586	\$ 1,336	\$ (171)	\$ 229,096
21,423	-	1,134	230	(48)	20,011
21,359	-	3,039	777	(191)	17,352
25,856	-	2,429	744	-	22,683
25,857	-	(6,174)	(1,681)	(11,804)	21,908
38,595	-	(6,577)	(1,791)	(13,149)	33,814
44,118	-	16,585	5,313	2,295	24,515
74,281	-	26,934	7,874	2,615	42,088
216,180	-	64,790	18,942	(44,615)	87,833
-	14,598,131	11,489,130	3,162,634	239,850	186,217
<u>\$ 704,858</u>	<u>\$ 14,598,131</u>	<u>\$ 11,597,876</u>	<u>\$ 3,194,378</u>	<u>\$ 174,782</u>	<u>\$ 685,517</u>

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 561,815	\$ 606,615	\$ 469,111	\$ (137,504)
5800 State Program Revenues	8,000	8,000	7,234	(766)
5900 Federal Program Revenues	659,000	744,250	784,003	39,753
5020 Total Revenues	1,228,815	1,358,865	1,260,348	(98,517)
EXPENDITURES:				
0035 Food Services	1,192,765	1,265,940	1,163,685	102,255
0051 Facilities Maintenance and Operations	36,050	92,925	74,171	18,754
6030 Total Expenditures	1,228,815	1,358,865	1,237,856	121,009
1200 Net Change in Fund Balances	-	-	22,492	22,492
0100 Fund Balance - September 1 (Beginning)	380,860	380,860	380,860	-
3000 Fund Balance - August 31 (Ending)	\$ 380,860	\$ 380,860	\$ 403,352	\$ 22,492

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 3,086,989	\$ 3,086,989	\$ 3,220,217	\$ 133,228
5800	State Program Revenues	250,789	250,789	142,796	(107,993)
5020	Total Revenues	3,337,778	3,337,778	3,363,013	25,235
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	1,565,000	1,565,000	1,565,000	-
0072	Interest on Long Term Debt	1,767,878	1,767,878	1,767,878	-
0073	Bond Issuance Cost and Fees	-	4,900	2,491	2,409
6030	Total Expenditures	3,332,878	3,337,778	3,335,369	2,409
1200	Net Change in Fund Balances	4,900	-	27,644	27,644
0100	Fund Balance - September 1 (Beginning)	1,606,913	1,606,913	1,606,913	-
3000	Fund Balance - August 31 (Ending)	\$ 1,611,813	\$ 1,606,913	\$ 1,634,557	\$ 27,644

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**REPORT ON INTERNAL CONTROLS, COMPLIANCE,
AND FEDERAL AWARDS**

KIRK, RICHARDSON & POOLE, P. C.

Members of the American Institute of Certified Public Accountants

Tom Kirk, CPA	Don Richardson, CPA	Cindy Poole, CPA
7559 John T. White Road	P. O. Box 8342	Fort Worth, Texas 76124-0342
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INDEPENDENT AUDITOR'S 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
Kennedale Independent School District
120 W. Kennedale Parkway
Kennedale, Texas 76060

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 Kennedale Independent School District (the "District") as of and for the year ended August 31, 2014, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated December 8, 2014.

Internal Control over Financial Reports

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

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

Our consideration of the 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 over financial reporting that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing 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 Audit Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kirk, Richardson & Poole, P.C.

Kirk, Richardson & Poole, P. C.
Fort Worth, Texas
December 8, 2014

KIRK, RICHARDSON & POOLE, P. C

Members of the American Institute of Certified Public Accountants

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

Board of Trustees
Kennedale Independent School District
120 Kennedale Parkway
Kennedale, Texas 76060

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited the Kennedale Independent School District (the "District") compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2014. The District's major federal programs are 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

Report on Internal Control over Compliance

Management of the 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 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 our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Kirk, Richardson & Poole, P.C.

Kirk, Richardson & Poole, P.C.
Fort Worth, Texas
December 8, 2014

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness?	No
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 Section 510(a) of OMB Circular A-133?	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027	IDEA – Part B, Formula
84.027	IDEA – Part B, High Cost Risk Pool
84.173	IDEA – Part B, Preschool

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.

Auditee qualified as low risk auditee?: Yes

Section II – Financial Statement Findings

None.

Section III – Federal Award Findings and Questioned Costs

None.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2014

PRIOR YEAR'S FINDING/NONCOMPLIANCE:

N/A

KENNEDALE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2014

Contact Person: Sue Martin, Business Manager

CORRECTIVE ACTION PLAN: None required.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2014

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	14610101220914	\$ 411,888
*IDEA - Part B, Formula	84.027	14660001220914	484,151
*IDEA - Part B, High Cost Risk Pool	84.027	14660006220914	16,320
Total CFDA Number 84.027			500,471
*IDEA - Part B, Preschool	84.173	14661001220914	5,414
Total Special Education Cluster (IDEA)			505,885
Career and Technical - Basic Grant	84.048	14420006220914	27,897
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287	14695021711005	140,358
Title III, Part A - English Language Acquisition	84.365A	14671001220914	16,334
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	14694501220914	48,935
Summer School LEP	84.369		1,100
Total Passed Through State Department of Education			\$ 1,152,397
TOTAL DEPARTMENT OF EDUCATION			\$ 1,152,397
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553		\$ 140,055
*National School Lunch Program - Cash Assistance	10.555		557,848
*National School Lunch Prog. - Non-Cash Assistance	10.555		86,100
Total CFDA Number 10.555			643,948
Total Child Nutrition Cluster			784,003
Total Passed Through the State Department of Agriculture			\$ 784,003
TOTAL DEPARTMENT OF AGRICULTURE			\$ 784,003
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,936,400

*Clustered Programs

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES TO FEDERAL AWARDS
AUGUST 31, 2014

Note 1 – Basis of Presentation

The District accounts for all awards under federal programs in the General and Certain Special Revenue Funds in accordance with the Texas Education Agency’s *Financial Accountability System Resource Guide*. These programs are accounted for using a current financial resources measurement focus.

The modified accrual basis of accounting is used for the General and Special Revenue funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant revenues are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly, when such amounts are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

Note 2 – Period of Availability

Federal awards may specify a time period during which the District may use the Federal funds. Where a funding period is specified, the District may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charged for obligations of a subsequent funding period. Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the District during the same or future period.

The District shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation). The Federal agency may extend this deadline upon request. Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Supplement 2014.

Note 3 – Reconciliation of Basic Financial Statements

The following is a reconciliation of expenditures of federal awards program per the Schedule of Expenditures of Federal Awards and expenditures reported in the financial statements as follows:

Total federal sources per financial statements for Governmental Funds	<u>\$1,936,400</u>
Total federal expenditures on Schedule of Expenditures of Federal Awards	<u>\$1,936,400</u>

SCHOOLS FIRST QUESTIONNAIRE

KENNEDALE INDEPENDENT SCHOOL DISTRICT

Fiscal Year 2014

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	\$2,654,724