

**KENNEDALE INDEPENDENT SCHOOL
DISTRICT**

**ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED**

AUGUST 31, 2013

KENNEDALE INDEPENDENT SCHOOL DISTRICT

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Year Ended August 31, 2013**

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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, 2013, at a meeting of the board of trustees of such school district on the _____ day of _____, 2013.

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

Tom Kirk, CPA	Don Richardson, CPA	Cindy Poole, CPA
7559 John T. White Road	P O. Box 8342	Fort Worth, Texas 76124
(817) 451-7406		Fax (817) 451-7597

INDEPENDENT AUDITOR'S REPORT

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

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2013, 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 7-13 and 50 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 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 through J-5. Except for Exhibit J-3 (Cash Flow and the Optimum Fund Balance Calculation Schedule) which is marked UNAUDITED and on which we express no opinion, these schedules have been subjected to the

auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Audit Standards*, we have also issued our report dated October 9, 2013 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
October 9, 2013

KENNEDALE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2013
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, 2013. Please read it in conjunction with the independent auditor's report on page 4 and the District's Basic Financial Statements that begin on page 16.

FINANCIAL HIGHLIGHTS

During the year turf was replaced on the football, baseball and softball fields at Kennedale High School and security system upgrades were completed at all campuses except the Jr. High School. This will be completed as soon as the materials are delivered. Another upgrade was made to the James Arthur cafeteria. The kitchen area was increased to enable quicker cook and serve time for the students. A new walk-in freezer was added to increase storage space.

Enhancements to technology continue to highlight day to day endeavors at KISD. Wi-Fi and "Bring your own Device" added in 2012 continue to make classroom learning more in touch with real world issues. It has allowed for the purchase of on line resources such as Lynda.com which lets students do independent study to prepare for industry certification for future careers. While Wi-Fi is still used mainly at the High School, limited use at the Jr. High and at James Arthur has been made available. It continues to be a goal that Wi-Fi and BYOD will be fully implemented soon at all campuses. A new KISD website – more open and user friendly – has increased communication with parents. And finally, once again the Kennedale Foundation has had another successful year donating over \$43,000.00 to teachers to purchase materials for classroom use. Most of these funds were used for technology purchases including software and projectors.

The District's governmental activities net position increased by \$971,939 less a prior period adjustment of \$446,278 to restate prior year debt service issuance cost as a result of GASB 65 for a net increase of \$525,661 as a result of this year's operations.

During the year, the District had expenses that were \$1,515,162 more than the \$29,961,801 generated in tax and other revenues for governmental programs. This compares to last year when revenues exceeded expenditures by \$53,399.

Total cost of all of the District's programs increased significantly during the year due to renovation of the athletic fields; however, enrollment increased slightly from the previous year which resulted in more state revenue. Property values remained steady and loss of tax revenue was not realized.

The General Fund ended the year with an unassigned fund balance of \$3,667,660, a decrease of \$391,491 from last year. The decrease was due mainly to increases in payroll costs and use of prior year fund balance for district improvements.

The resources available for appropriations were \$435,198 less than budgeted for the General Fund, mainly due to board approved increases for district projects. Actual expenditures were less than the budgeted amounts in all areas. The most significant of these were in Instruction and

KENNEDALE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2013
UNAUDITED

Facilities Maintenance and Operations. Actual expenditures were \$162,234 and \$407,585 respectively, less than the final amended budget amounts. Savings on the budget was created by improvement costs being less than anticipated.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net position and the Statement of Activities (on pages 16 and 17). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 18) 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 (starting on page 26) 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 begins on page 16. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net position includes all the District's assets 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.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2013
UNAUDITED

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 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:

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 begin on page 18 and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as 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 has only governmental funds that 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.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2013
UNAUDITED

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 on page 25. 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 \$15,745,776 to \$16,271,437. 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 \$6,174,565 an increase of \$1,104,420 over the prior year.

Table 1
Kennedale Independent School District
Net Position

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Current and other assets:	\$ 9,655,082	\$10,165,523
Capital assets	<u>58,023,266</u>	<u>58,137,125</u>
Total assets	<u>67,678,348</u>	<u>68,302,648</u>
Deferred Outflows of Resources	<u>1,866,352</u>	<u>0</u>
Long-term liabilities:	51,157,456	50,881,335
Other liabilities	<u>2,115,807</u>	<u>1,675,537</u>
Total liabilities	<u>53,273,263</u>	<u>52,556,872</u>
Net position:		
Net Investment in Capital Assets	7,921,729	8,738,293
Restricted	2,175,143	1,937,338
Unrestricted	6,174,565	5,070,145
Total net position	<u>\$16,271,437</u>	<u>\$15,745,776</u>

KENNEDALE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2013
UNAUDITED

Table 2
Kennedale Independent School District
Statement of Activities

	Governmental Activities	
	2013	2012
Revenues:		
Program revenues:		
Charges for services	\$ 929,953	\$ 1,040,746
Operating grants and contributions	3,175,908	3,667,380
General revenues:		
Maintenance and operations taxes	11,342,634	11,456,729
Debt service taxes	3,315,850	3,350,790
State aid – formula grants	10,692,783	9,996,852
Grants and Contributions not Restricted	187,529	392,532
Other	274,345	161,296
Special Item – Gas Lease Proceeds	841,326	293,058
Extraordinary Item – Net Recovery From Fire	28,480	0
Total revenues	<u>30,788,808</u>	<u>30,359,383</u>
Expenses:		
Instruction and Instructional-Related Services	17,069,268	16,770,820
Instructional and School Leadership	2,161,944	2,127,241
Support Services – Student (Pupil)	4,334,113	3,996,584
Administrative Support Service	1,044,271	929,677
Support Services – Non-student Based	3,156,897	2,932,238
Ancillary Services	7,776	2,650
Debt Service	1,899,312	2,117,824
Capital Outlay	0	0
Payments to Other Governments	143,288	120,855
Total Expenses	<u>29,816,869</u>	<u>28,997,889</u>
Increase/(Decrease) In Net position	971,939	1,361,494
Net position Beginning	15,745,776	14,384,282
Prior Period Adjustment	(446,278)	0
Net position at August 31	<u>\$16,271,437</u>	<u>\$15,745,776</u>

The District's total revenues were \$429,425 (1.4%) more than last year. Most of this increase was from receiving more State Aid – formula grants and Special Item – Gas Lease Proceeds offset by decreases in other areas.

The cost of all governmental activities this year was \$29,816,869, an increase of \$818,980 over last year, generally in all areas. As shown in the Statement of Activities on page 17, the amount that our taxpayers financed for these activities through District taxes was \$14,658,484. Other costs were paid by those who directly benefited from the programs (\$929,953) or by other governments and organizations that subsidized certain programs with grants and contributions (\$3,175,908) or by State Aid – Formula Grants funding of (\$10,692,783), or by other sources of revenues (\$1,331,680).

KENNEDALE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2013
UNAUDITED

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 18 reported a combined fund balance of \$6,978,736, which is less than last year's total of \$7,448,262.

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 General Fund balance reported on pages 18 and 22 differs from the General Fund's budgetary fund balance of \$3,375,310. This is principally due to a combination of budget revenues being less than expected, expenditures being less than expected, offset by Special and Extraordinary Items.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2013, the District had \$58,023,266 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 \$113,859 from last year. This decrease is mainly due to depreciation.

Debt

At year-end, the District had \$49,291,104 in bonds, capital leases, accreted interest, and unamortized premiums on issuance of bonds versus \$50,881,335 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 2014 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 13-14 school year. This will enable the district to continue funding for all programs. The debt service tax rate was decreased by 2 cents as a result of bond refinancing that lowered payments.

**KENNEDALE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2013
UNAUDITED**

Amounts available for appropriation in the General Fund are \$58,023,266, a decrease of 2 percent over the final 2013 budget of \$26,075,679. 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 2013 when capital costs are removed. The increase is due to additional personnel added for growth at the elementary level.

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, 100 West Kennedale Pkwy., Kennedale, Texas 76060.

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BASIC FINANCIAL STATEMENTS

KENNEDALE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2013

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 8,575,816
1220 Property Taxes Receivable (Delinquent)	704,858
1230 Allowance for Uncollectible Taxes	(14,098)
1240 Due from Other Governments	386,106
1290 Other Receivables, net	2,400
Capital Assets:	
1510 Land	5,870,283
1520 Buildings, Net	50,761,994
1530 Furniture and Equipment, Net	1,073,654
1550 Leased Property Under Capital Leases, Net	317,335
1000 Total Assets	67,678,348
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	1,866,352
1700 Total Outflows of Resources	1,866,352
LIABILITIES	
2110 Accounts Payable	406,783
2140 Interest Payable	130,221
2160 Accrued Wages Payable	1,034,031
2300 Unearned Revenue	544,772
Noncurrent Liabilities	
2501 Due Within One Year	1,670,778
2502 Due in More Than One Year	49,486,678
2000 Total Liabilities	53,273,263
NET POSITION	
3200 Net Investment in Capital Assets	7,921,729
3820 Restricted for Federal and State Programs	380,860
3850 Restricted for Debt Service	1,612,306
3870 Restricted for Campus Activities	181,977
3900 Unrestricted	6,174,565
3000 Total Net Position	\$ 16,271,437

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, 2013

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 16,720,336	\$ 81,477	\$ 1,797,856	\$ (14,841,003)
12 Instructional Resources and Media Services	257,842	-	15,352	(242,490)
13 Curriculum and Staff Development	91,090	-	20,041	(71,049)
21 Instructional Leadership	568,944	-	49,168	(519,776)
23 School Leadership	1,593,000	-	90,119	(1,502,881)
31 Guidance, Counseling and Evaluation Services	769,529	-	212,768	(556,761)
33 Health Services	330,190	-	20,558	(309,632)
34 Student (Pupil) Transportation	845,766	-	-	(845,766)
35 Food Services	1,151,469	463,574	485,484	(202,411)
36 Extracurricular Activities	1,237,159	311,217	28,987	(896,955)
41 General Administration	1,044,271	-	54,272	(989,999)
51 Facilities Maintenance and Operations	2,742,016	73,685	327,761	(2,340,570)
52 Security and Monitoring Services	92,056	-	-	(92,056)
53 Data Processing Services	322,825	-	14,293	(308,532)
61 Community Services	7,776	-	6,749	(1,027)
72 Debt Service - Interest on Long Term Debt	1,721,428	-	-	(1,721,428)
73 Debt Service - Bond Issuance Cost and Fees	177,884	-	-	(177,884)
93 Payments related to Shared Services Arrangements	52,500	-	52,500	-
99 Other Intergovernmental Charges	90,788	-	-	(90,788)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 29,816,869	\$ 929,953	\$ 3,175,908	(25,711,008)
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			11,342,634
DT	Property Taxes, Levied for Debt Service			3,315,850
SF	State Aid - Formula Grants			10,692,783
GC	Grants and Contributions not Restricted			187,529
IE	Investment Earnings			8,908
MI	Miscellaneous Local and Intermediate Revenue			265,437
SI	Special Item - Mineral Rights			841,326
E1	Extraordinary Item - Recovery from Fire			37,415
E2	Extraordinary Item - Costs Related to Fire			(8,935)
TR	Total General Revenues and Special Items & Extraordinary			26,682,947
CN	Change in Net Position			971,939
NB	Net Position - Beginning			15,745,776
PA	Prior Period Adjustment			(446,278)
NE	Net Position--Ending			<u>\$ 16,271,437</u>

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

KENNEDALE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2013

Data Control Codes	10 General Fund	National Breakfast and Lunch Program	50 Debt Service Fund
ASSETS			
1110 Cash and Cash Equivalents	\$ 6,161,636	\$ 668,493	\$ 1,606,913
1220 Property Taxes - Delinquent	582,579	-	122,279
1230 Allowance for Uncollectible Taxes (Credit)	(11,652)	-	(2,446)
1240 Receivables from Other Governments	325,919	16,984	-
1290 Other Receivables	2,400	-	-
1000 Total Assets	<u>\$ 7,060,882</u>	<u>\$ 685,477</u>	<u>\$ 1,726,746</u>
LIABILITIES			
2110 Accounts Payable	\$ 128,868	\$ 277,915	\$ -
2160 Accrued Wages Payable	1,007,329	26,702	-
2300 Unearned Revenues	544,772	-	-
2000 Total Liabilities	<u>1,680,969</u>	<u>304,617</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	570,927	-	119,833
2600 Total Inflows of Resources	<u>570,927</u>	<u>-</u>	<u>119,833</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	380,860	-
3480 Retirement of Long-Term Debt	-	-	1,606,913
Committed Fund Balance:			
3545 Other Committed Fund Balance	-	-	-
Assigned Fund Balance:			
3550 Construction	1,141,326	-	-
3600 Unassigned Fund Balance	3,667,660	-	-
3000 Total Fund Balances	<u>4,808,986</u>	<u>380,860</u>	<u>1,606,913</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 7,060,882</u>	<u>\$ 685,477</u>	<u>\$ 1,726,746</u>

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

Other Funds	Total Governmental Funds
\$ 138,774	\$ 8,575,816
-	704,858
-	(14,098)
43,203	386,106
-	2,400
\$ 181,977	\$ 9,655,082
\$ -	\$ 406,783
-	1,034,031
-	544,772
-	1,985,586
-	690,760
-	690,760
-	380,860
-	1,606,913
181,977	181,977
-	1,141,326
-	3,667,660
181,977	6,978,736
\$ 181,977	\$ 9,655,082

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

Total Fund Balances - Governmental Funds	\$	6,978,736
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 \$76,267,890 and the accumulated depreciation was \$18,130,765. 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 (decrease) net position.		7,120,176
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 2013 capital outlays and debt principal payments is to increase (decrease) net position.		3,690,477
3 The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(2,151,767)
4 Property taxes receivable are reported as unearned revenue in the fund financial statements.		690,760
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(56,945)
19 Net Position of Governmental Activities	<u>\$</u>	<u>16,271,437</u>

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, 2013

Data Control Codes	10 General Fund	National Breakfast and Lunch Program	50 Debt Service Fund
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 11,715,801	\$ 463,637	\$ 3,353,154
5800 State Program Revenues	11,924,680	7,240	187,529
5900 Federal Program Revenues	-	733,854	-
5020 Total Revenues	<u>23,640,481</u>	<u>1,204,731</u>	<u>3,540,683</u>
EXPENDITURES:			
Current:			
0011 Instruction	14,266,842	-	-
0012 Instructional Resources and Media Services	238,343	-	-
0013 Curriculum and Instructional Staff Development	75,317	-	-
0021 Instructional Leadership	553,111	-	-
0023 School Leadership	1,461,450	-	-
0031 Guidance, Counseling and Evaluation Services	581,986	-	-
0033 Health Services	319,128	-	-
0034 Student (Pupil) Transportation	776,180	-	-
0035 Food Services	11,635	1,037,721	-
0036 Extracurricular Activities	778,627	-	-
0041 General Administration	1,037,204	-	-
0051 Facilities Maintenance and Operations	4,431,048	255,896	-
0052 Security and Monitoring Services	92,056	-	-
0053 Data Processing Services	322,825	-	-
0061 Community Services	-	-	-
Debt Service:			
0071 Principal on Long Term Debt	40,071	-	1,549,999
0072 Interest on Long Term Debt	-	-	1,842,812
0073 Bond Issuance Cost and Fees	-	-	177,884
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	-
0099 Other Intergovernmental Charges	90,788	-	-
6030 Total Expenditures	<u>25,076,611</u>	<u>1,293,617</u>	<u>3,570,695</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,436,130)</u>	<u>(88,886)</u>	<u>(30,012)</u>
OTHER FINANCING SOURCES (USES):			
7901 Refunding Bonds Issued	-	-	8,849,999
7916 Premium or Discount on Issuance of Bonds	-	-	979,934
8940 Payment to Bond Refunding Escrow Agent (Use)	-	-	(9,654,103)
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>175,830</u>
SPECIAL AND EXTRAORDINARY ITEMS:			
7918 Special Item - Mineral Rights	841,326	-	-
7919 Extraordinary Item - Recovery from Fire	37,415	-	-
8913 Extraordinary Item - Costs Related to Fire	(8,935)	-	-
1200 Net Change in Fund Balances	<u>(566,324)</u>	<u>(88,886)</u>	<u>145,818</u>
0100 Fund Balance - September 1 (Beginning)	<u>5,375,310</u>	<u>469,746</u>	<u>1,461,095</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 4,808,986</u>	<u>\$ 380,860</u>	<u>\$ 1,606,913</u>

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

Other Funds	Total Governmental Funds
\$ 373,400	\$ 15,905,992
149,683	12,269,132
1,052,823	1,786,677
<u>1,575,906</u>	<u>29,961,801</u>
948,022	15,214,864
13,968	252,311
15,635	90,952
14,729	567,840
57,000	1,518,450
176,205	758,191
-	319,128
-	776,180
5,500	1,054,856
181,325	959,952
-	1,037,204
4,407	4,691,351
-	92,056
-	322,825
6,749	6,749
60,000	1,650,070
-	1,842,812
-	177,884
52,500	52,500
-	90,788
<u>1,536,040</u>	<u>31,476,963</u>
<u>39,866</u>	<u>(1,515,162)</u>
-	8,849,999
-	979,934
-	(9,654,103)
-	<u>175,830</u>
-	841,326
-	37,415
-	(8,935)
<u>39,866</u>	<u>(469,526)</u>
<u>142,111</u>	<u>7,448,262</u>
<u>\$ 181,977</u>	<u>\$ 6,978,736</u>

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, 2013

Total Net Change in Fund Balances - Governmental Funds	\$	(469,526)
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 2013 capital outlays and debt principal payments is to increase (decrease) net position.		3,690,477
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.		(2,151,767)
Property taxes receivable are recognized as unearned revenue in the fund financial statements.		(40,300)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(56,945)
Change in Net Position of Governmental Activities	<u>\$</u>	<u>971,939</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, 2013

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 87,863
Total Assets	<u>\$ 87,863</u>
LIABILITIES	
Due to Student Groups	\$ 87,863
Total Liabilities	<u>\$ 87,863</u>

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

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Kennedale Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The District follows the generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified by the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of the Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. Reporting entity

Kennedale Independent School District is a public educational agency under the applicable laws and regulations of the State of Texas. The District is governed by a seven member Board of Trustees (the "Board") elected by the registered voters of the District. The Board has governance responsibilities over the all activities related to public, elementary and secondary, education within the District. Because members of the board are elected by the public; have authority to make decisions, appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. The accompanying financial statements present the District's financial statements and there are no component units, entities for which the District is considered to be financially accountable, included within the District's financial statements.

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 of the District's non-fiduciary activities with most of the interfund activities removed from these statements. Governmental activities normally are supported by taxes, State foundation funds, grants and other intergovernmental revenues. Business-type activities, which are reported separately, rely to a significant extent, on fees and charges for support.

The Statement of Activities demonstrates how direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Depreciation expense and workers' compensation have been allocated to all applicable functions in order to present the expenses of the District more accurately on the Statement of Activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2013

2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in among program revenues are reported instead as general revenue.

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

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary (the District does not have Proprietary Funds), and fiduciary. Since resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide 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.

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

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and private purpose trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property tax revenues recorded in the General Fund and Debt Service Fund are recognized under the “susceptible to accrual” concept. The District generally considers property taxes as available if they are collected within 60 days after year-end. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2013

Foundation School Program revenues are recognized as revenue when measurable and available within 60 days of year-end.

Grant revenues are recognized to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors may require the District to refund all or part of the unused amounts.

Agency funds are reported using the accrual basis of accounting.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Fund Accounting

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts to reflect results of activities.

Major governmental funds:

- The General Fund is the District's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.
- The National Breakfast and Lunch Fund is a special revenue fund that is used to account for specific local, state and federal financial assistance and expenditures for this program.
- The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the District.

Additionally, the District reports the following fund types:

Governmental Funds:

- The special revenue funds are used to account for resources restricted to, or designated for, specific purposes by the District or a grantor. Federal and State financial assistance is generally accounted for in a special revenue fund. Generally unused balances are returned to the grantor at the close of specified project periods. With respect of the campus activity fund, funds are rolled forward from year to year for use in the program.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2013

- The District does not have a capital projects fund.

Proprietary Funds:

The District does not any proprietary funds.

Fiduciary Funds:

Fiduciary funds are used to account form assets held by the District in a trustee capacity or as an agent for individuals, private organizations and/or other funds.

- The private-purpose trust fund is used to account for all trust agreements under which the principal and income benefit a specific school or group of students. The District does not have private-purpose trust funds.
- The agency fund is used to account for receipts and disbursements of monies from student activity and other organizations. The student activity and other granting organizations exist with the explicit approval of and are subject to revocation by the District's Board. The fund has no equity, assets are equal to liabilities, and do not include revenues and expenditures of for general operations of the District.

E. Other Accounting Policies - Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and demand deposits. Current investments include investment pools and short-term investments with original maturities of one year or less from the date of acquisition.

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges collateral, which complies with state law. The collateral is approved by the Texas Education Agency and shall be in an amount sufficient to protect the District funds on a day-to-day basis during the period of the contract. The pledge of collateral is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Cooperation ("FDIC") insurance.

State statues authorize the District to invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, or investment pools.

Investments for the District are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2013

2. Receivables and Payables

All property tax receivables are shown net of an allowance for uncollectible. The property tax receivable allowance is 2 percent of outstanding property taxes at August 31, 2013. Revenues from property taxes are recognized when levied to the extent they are available. The District considers property taxes as available when collected. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements.

Property values are determined by the county central appraisal district as of January 1 of each year. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

3. Inventories

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.

4. 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.

5. Interfund Receivables, Payables and Transfers

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. Capital Assets

Capital assets, which include land, buildings and improvements, and furniture and equipment, 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,

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2013

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, furniture and equipment, and capital lease assets 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

7. 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.

8. 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 straight-line method. Bonds payable are reported net of applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other resources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2013

9. Fund Equity

In accordance with Governmental Accounting Standards Board 54, Fund Balance reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable fund balance

- Non-spendable fund balance - includes amounts that are not in spendable form (such as inventory) or are required to be maintained intact because of legal or contractual constraints.

Spendable fund balance

- Restricted fund balance – includes amounts that are constraint for specific purposes externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law though constitutional provisions or enabling legislation.
- Committed fund balance – includes amounts that are constrained for specific purposes by the District through formal actions of the Board. Committed amounts cannot be used for any other purpose unless the District’s Board takes action to remove or change the constraint.
- Assigned fund balance – includes amounts that are intended to be used for specific purpose. Intent can be expressed by the Board or by an official or body to which the Board delegates the authority.
- Unassigned fund balance – includes amounts that are available for any purpose. Positive amounts are reported only in the general fund.

In general, the District considers restricted amounts to have been spent first when an expenditure is incurred for purposes for which restricted and unrestricted (i.e., committed, assigned, or unassigned) fund balances are available, followed by committed and then assigned fund balances. Unassigned amounts are used only after the other resources have been used.

The Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Superintendent or a designee through adoption or amendment of the budget as intended for specific purposes (such as the purchase of fixed assets, construction, debt service, or for other purposes).

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 AUGUST 31, 2013

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, 2013

	General Fund	National Breakfast & Lunch Program	Debt Service Fund	Other Funds	Total Governmental Funds
Restricted for:					
National Breakfast & Lunch Program	\$ 0	\$380,860	\$ 0	\$ 0	\$ 380,860
Retirement of Long-Term Debt	0	0	1,606,913	0	1,606,913
Committed to:					
Campus Activity Funds	0	0	0	181,977	181,977
Assigned to:					
Construction	1,141,326	0	0	0	1,141,326
Unassigned:	3,667,660	0	0	0	3,667,660
Total Fund Balance:	<u>\$4,808,986</u>	<u>\$380,860</u>	<u>\$1,606,913</u>	<u>\$181,977</u>	<u>\$6,978,736</u>

10. Use of Estimates

The presentation of financial statements, in conformity with generally accepted accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of State Foundation Revenue a school 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 midway into the next fiscal year. It is at least reasonably possible that the foundation revenue for fiscal 2013 will ultimately change from the amount calculated as of August 31, 2013 because of the factors that the Texas Education Agency (the “Agency”) uses in its calculations.

11. Data Control Codes

In accordance with the Agency’s *Financial Accountability System Resource Guide* the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. The Agency requires school districts to display these codes in the financial statements filed with the Agency 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

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2013

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 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. Budgetary Information

The Board of Trustees adopted an “appropriated budget” for the General Fund, Debt Service Fund and the National School Breakfast and Lunch Program (which is included in the Special Revenue Fund). 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:

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 AUGUST 31, 2013

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten day's public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

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

	Original Budget Appropriations	Increase (Decrease)	Amended Budget Appropriations
General Fund	\$23,993,301	\$2,082,378	\$26,075,679
Food Service Special Revenue Fund	1,230,330	250,000	1,480,330
Debt Service Fund	3,400,389	175,830	3,576,219

The General Fund's most significant budget amendment was to add \$1,988,878 to Facilities Maintenance and Operations for various maintenance projects throughout the District. The Food Service Special Revenue Fund was also amended for maintenance projects. Debt Service Fund was amended for bond issuance cost and revised principal and interest payments associated with the issuance of new bonds.

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

August 31, 2013 Fund Balance	
Appropriated Budgeted Funds – Food Service Special Revenue Fund	\$380,860
Non-appropriated Budgeted Funds	181,977
All Special Revenue Funds	<u>\$562,837</u>

B. Excess of Expenditures over Appropriations

For the period ended August 31, 2013, there were no expenditures over appropriations within the General Fund, Debt Service Fund, or Food Service Special Revenue Fund.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
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C. Deficit Fund Equity

There were no deficit fund equities for the year ended August 31, 2013.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Statutes of the State of Texas and Board policies authorize the District to invest in obligations of the U.S. Government or its agencies, repurchase agreements, commercial paper, public investment pools, mutual funds and money market accounts. All cash balances and investments are held separately in each of its funds. The District's funds are required to be deposited and invested under the terms of a depository contract. The Depository bank deposits for safekeeping and trust with the District's agent bank approved securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits

At August 31, 2013, the carrying amount of the District's deposits (cash, certificates of deposits, and interest-bearing saving accounts included in temporary investments) was \$3,022,179 and the bank balance was \$2,556,079. The \$2,556,079 bank balance was covered by FDIC insurance or was collateralized by securities held by the District's agent bank in the District's name.

• Investments Considered as Cash Equivalents:

The State 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. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposits, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. 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 policies.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
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The District's investments at August 31, 2013, are shown below:

<u>Investment/Credit Ratings</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Percentage of Investments</u>	<u>Weighted Average Maturity (Days)</u>
LoneStar – AAAM	\$4,552,815	\$4,552,815	82.0%	On demand
TexStar - AAAM	608,380	608,380	11.0%	On demand
TexPool - AAAM	392,442	392,442	7.0%	On demand
Totals	<u>\$5,553,637</u>	<u>\$5,553,637</u>	<u>100.0%</u>	

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.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy does address the following risks:

- a. 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 District's policy regarding types of deposits allowed and collateral requirements is all deposits are covered by FDIC insurance and pledged collateral in their entirety. The District has no custodial credit risk for its deposits.
- b. Custodial Credit Risk – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investments exposed to Custodial Credit Risk.
- c. Interest-rate Risk – Interest-rate risk occurs when potential purchases of debt securities do not agree to pay face value for those securities if interest rates rise. The District does not have any investments considered as Interest-rate Risk.
- d. Other Credit Risk Exposure – The District may invest in a securities lending program if the value of securities loaned is not less than 100 percent collateralized, including accrued income, and the loan allows for termination at

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any time; the loan is secured; the terms of the loan require that the securities being held as collateral be pledged to the investing entity; and, the loan is placed through a primary government securities dealer or a financial institution doing business in this state. The District does not have any investments in a securities lending program.

- e. Concentration Risk – The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer. The District is not exposed to concentration risk.
- f. Foreign Currency Risk – The District does not engage in any deposits or investments transactions involving foreign currency.

Defaults and Recovery of Prior-period Losses

The District had no defaults and recovery of prior-period losses.

B. Property Taxes

The appraisal of property within the District is the responsibility of the County Appraisal District (“Appraisal District”). Property taxes are levied on October 1 and are due and payable at that time. The Board establishes the District’s property taxes annually. The authorized tax rates for property taxes assessed on January 1, 2013, were \$1.170000 and \$0.342068 per \$100 for the General Fund and Debt Service Fund, respectively, for a total of \$1.512068 per \$100 valuation.

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

Delinquent taxes receivables and the related allowance for uncollectible taxes in the governmental fund financial statements as of August 31, 2013 are as follows:

	Gross Delinquent Taxes Receivable	Allowance for Uncollectible Taxes	Net Delinquent Taxes Receivables
General Fund	\$582,579	\$11,652	\$570,927
Debt Service Fund	122,279	2,446	119,833
Totals	<u>\$704,858</u>	<u>\$14,098</u>	<u>\$690,760</u>

Current tax collections for the levy year ended August 31, 2013 were 98.5% of the year-end adjusted tax levy.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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C. 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, 2013.

D. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs and various grant programs. Amounts due from federal and state governments as of August 31, 2013 are summarized below. All federal grants shown below are passed through TEA and are reported on the combined financial statements as Due from Other Governments.

Fund	Due From Other Governments
General Operating Fund	\$325,919
National Breakfast & Lunch Program	16,984
Other Special Revenue Funds	43,203
Total	\$386,106

E. Interfund Receivables and Payables

Interfund receivables and payables generally arise from interfund loans between different funds with balances being repaid generally within one year.

There were no Interfund Receivables/Payables at August 31, 2013.

F. Interfund Transfers

There were no Interfund Transfers during the year.

G. Other Financing Sources (Uses)

The District had the following Financing Sources (Uses) associated with the issuance of \$8,849,999 in Unlimited Tax Refunding Bonds, Series 2013 during the year:

Refunding Bonds Issued	\$8,849,999
Premium or Discount on Issuance of Bonds	979,934
Payment to Bond Refunding Escrow Agent	(9,654,103)

KENNEDALE INDEPENDENT SCHOOL DISTRICT
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H. Capital Asset Activity

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

	Beginning Balance	Increases/ Adjustments	Decreases/ Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 5,870,283	\$ 0	\$ 0	\$ 5,870,283
Construction in Progress	0	0	0	0
Total Capital Assets, not being depreciated	5,870,283	0	0	5,870,283
Capital assets, being depreciated:				
Buildings and improvements	66,790,939	1,975,675	0	68,766,614
Furniture and equipment	3,606,668	64,732	25,000	3,646,400
Total capital assets, being depreciated	70,397,607	2,040,407	25,000	72,413,014
Less accumulated depreciation for:				
Buildings and improvements	16,209,855	1,794,766	0	18,004,621
Furniture and equipment	1,920,910	357,001	22,501	2,255,410
Total accumulated depreciation	18,130,765	2,151,767	22,501	20,260,031
Total capital assets, being depreciated, net	52,266,842	(111,360)	2,499	52,152,983
Governmental capital assets	\$58,137,125	\$(111,360)	\$2,499	\$58,023,266

Major additions including installing turf at the High School athletic facilities valued at \$1,734,155 and renovating kitchen facilities valued at \$241,520 at one of the elementary schools.

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

Governmental activities:	
11 – Instruction	\$1,505,472
12 – Instructional 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	69,586
35 – Food Services	96,613
36 – Extracurricular Activities	284,402
41 – General Administration	7,067
51 – Plant Maintenance & Operations	83,877
61 – Community Services	1,027
Total Depreciation Expense	\$2,151,767

I. Capital Leases

In prior years, the District acquired a networking system under a lease/purchase agreement as authorized by Texas Local Government Code Sec. 271. The cost of this lease was capitalized in the year of acquisition. Local Maintenance tax levies are used to retire capital lease obligations payable from the General Fund. State funds are used to

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
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retire capital lease obligations payable from the Special Revenue Funds. The outstanding debt liability is accounted for in the government-wide financial statements. The District paid \$40,071 in principal from the General Fund and \$60,000 from Special Revenue Fund 410 – State Textbook Fund for a total principal payment of \$100,071. The District received a credit of \$5,707 from the vendor during the year. No interest was paid in the current year.

Issue/Maturity Dates	Interest Rate	Original Amount	Beginning Balance	Issued	Retired	Ending Balance
2012/2016	0.0%	\$528,891	\$423,112	\$0	\$105,778	\$317,334

Debt service requirement for capital leases follows:

Year Ended August 31	Principal	Interest	Total Requirements
2014	\$105,778	\$ 0	\$105,778
2015	105,778	0	105,778
2016	105,778	0	105,778
Totals	\$317,334	\$ 0	\$317,334

J. Bonds Payable

During the current year the District issued \$8,849,999 in Unlimited Tax Refunding Bonds, Series 2013, with an average interest rate of 3.2%, to advance refund \$8,850,000 in Unlimited Tax School Building and Refunding Bonds, Series 2005, with an average interest rate of 4.7%, and to pay the costs associated with sale of the Bonds. The net proceeds of \$9,654,104, after paying underwriter's discount and cost of issuance of \$175,829 were used to purchase U.S government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the Unlimited Tax School Building and Refunding Bonds, Series 2005. As a result, the Unlimited Tax School Building and Refunding Bonds, Series 2005 are considered defeased and the liability for those bonds has been removed from the Statement of Net Position. The District in effect reduced its aggregate debt service payments by \$1,771,702 over 18 years and obtained an economic gain (the difference between the present values of the old and new debt service payments) of \$1,427,439.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
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The following is a description of the District's bonds outstanding as of August 31, 2013:

Issue/ Maturity Date	Interest Rates Payable	Amounts Original Issue	Beginning Balance	Issued	Retired	Ending Balance	Amounts Due Within One Year
1999 Refunding/ 2027	4.20% to 5.25%	\$ 2,780,000	\$ 995,000	\$ 0	\$ 85,000	\$ 910,000	\$ 80,000
2004 School Bldg./2029	2.00% to 5.00%	25,000,000	1,005,000	0	515,000	490,000	490,000
2005 School Bldg. & Refunding/ 2030	3.00% to 5.00%	25,645,000	22,050,000	0	9,600,000	12,450,000	825,000
2006 Unlimited Tax Refunding/ 2029	3.70% to 4.50%	8,974,988	8,355,025	0	95,000	8,260,025	100,000
2011 Unlimited Tax Refunding/ 2026	3.0% to 4.0%	8,879,996	8,716,028	0	0	8,716,028	0
2012 Unlimited Tax Refunding/ 2021	2.0% to 3.0%	5,429,997	5,359,997	0	0	5,359,997	40,000
2013 UTRB/2030	0.35% to 3.5%	8,849,999	0	8,849,999	104,999	8,745,000	30,000
Sub-total		<u>\$85,559,980</u>	<u>\$46,481,050</u>	<u>\$8,849,999</u>	<u>\$10,399,999</u>	<u>\$44,931,050</u>	<u>\$1,565,000</u>
Accreted Interest			<u>\$2,691,485</u>	<u>\$112,552</u>	<u>\$130,001</u>	<u>\$2,674,036</u>	
Unamortized Premium On Issuance of Bonds			<u>\$2,494,670</u>	<u>\$979,933</u>	<u>\$239,567</u>	<u>\$3,235,036</u>	
Deferred Charge on Refunding			<u>\$(1,208,982)</u>	<u>\$(804,103)</u>	<u>\$146,733</u>	<u>\$(1,866,352)</u>	

Interest and fees paid on general obligation bonds during the year was \$2,020,696.

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
2014	\$ 1,565,000	\$ 1,767,878	\$ 3,332,878
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
2019/2023	13,425,000	6,129,757	19,554,757
2024/2028	13,505,025	7,696,967	21,201,992
2029/2033	8,725,000	348,246	9,073,246
Totals	<u>\$44,931,050</u>	<u>\$22,927,914</u>	<u>\$67,858,964</u>

KENNEDALE INDEPENDENT SCHOOL DISTRICT
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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 at August 31, 2013.

Defeasance of Debt

In prior years, the District also defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On August 31, 2013, \$41,135,000 of all bonds outstanding is considered defeased.

K. Changes in Long-Term Liabilities

The following changes occurred in long-term liabilities during the year:

	Beginning Balance	Increase	Decrease	Ending Balance	Amounts Due In One Year
Governmental Activities					
Gen. Obligation Bonds	\$46,481,050	\$8,849,999	\$10,399,999	\$44,931,050	\$1,565,000
Accreted Interest	2,691,485	112,552	130,001	2,674,036	0
Unamortized Premium on Issuance of Bonds	2,494,670	979,933	239,567	3,235,036	0
Deferred Charges on Refunding	(1,208,982)	(804,103)	(146,733)	(1,866,352)	0
Capital Leases	423,112	0	105,778	317,334	105,778
Total	<u>\$50,881,335</u>	<u>\$9,138,381</u>	<u>\$10,728,612</u>	<u>\$49,291,104</u>	<u>\$1,670,778</u>

L. Operating Leases

The following is a schedule of the District's future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year as of August 31, 2013.

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$103,573
2015	88,559
2016	7,380
Total	<u>\$199,512</u>

Rental expense for the year ended August 31, 2013 was \$173,667.

M. Unearned Revenues/Deferred Inflows of Resources

Unearned revenues are resources that have been received, but not yet earned. Deferred inflows of Resources at year end represents assets that are not available for use by the District to liquidate current year liabilities. A summary of unearned revenues and deferred inflows of resources by fund follows:

KENNEDALE INDEPENDENT SCHOOL DISTRICT
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	General Fund	Debt Service Fund	Total
Unearned Revenues:			
Prepaid State Revenues	\$544,772	\$0	\$544,772
Deferred Inflows of Resources:			
Property Taxes	\$570,927	\$119,833	\$690,760

Property tax revenues are earned but are not available as of year-end; therefore, they are recognized as revenues in the government-wide financial statements and as deferred inflows in the fund level financial statements.

N. Revenue from Local and Intermediate Sources

During the current year, local, intermediate and out-of-state revenues consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Fund Totals
Property Taxes	\$11,373,568	\$ 0	\$3,324,747	\$14,698,315
Food Sales	0	457,515	0	457,515
Investment Income	7,122	411	1,786	9,319
Penalties, interest & other tax related income	100,010	0	24,574	124,584
Extracurricular Student activities	61,282	22,708	0	83,990
Other	173,819	356,403	2,047	532,269
Total	\$11,715,801	\$837,037	\$3,353,154	\$15,905,992

O. 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:

	General Fund	Special Revenue Fund	Debt Service Fund	Fund Totals
Per Capital Apportionment	\$1,382,367	\$ 0	\$0	\$1,382,367
Foundation School Prog.	9,310,416	0	0	9,310,416
TRS On-Behalf	1,231,897	0	0	1,231,897
State Program Revenues	0	156,923	187,529	344,452
Total	\$11,924,680	\$156,923	\$187,529	\$12,269,132

P. 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,

KENNEDALE INDEPENDENT SCHOOL DISTRICT
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and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfers 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 supplemental information for the defined benefit plan. That report may be obtained by writing to the TRS Communication Department, 1000 Red River, Austin, Texas 78701, by calling the TRS Communication Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended pursuant to the following state funding policy: each biennium pursuant to the following state funding policy: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member’s annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) a state statute prohibits benefit improvements, if as 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.

The State sets contribution rates for the state and its members. The State contribution rate for the 2012-2013 school year was 6.4% and a member contribution rate of 6.4%. In certain instances the reporting district is required to make all or a portion of the state’s 6.4% contribution.

State contributions to TRS made on behalf of the District employees are reflected in the District’s financial statements as both revenue and expenditures. The District paid additional state contributions on a portion of their employees’ salaries that exceeded the statutory minimum. Contributions made by the State and District to TRS for the years ended August 31, 2013, 2012, and 2011 are as follows:

<u>For the Year Ended August 31</u>	<u>State TRS Contributions Made on Behalf of the District</u>	<u>District Required Contributions to TRS</u>
2011	\$1,118,211	\$251,220
2012	1,076,483	224,494
2013	1,122,022	256,822

Q. 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

KENNEDALE INDEPENDENT SCHOOL DISTRICT
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Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplemental information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us, by writing to the Communication Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78711 or by calling 1-800-223-8778.

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. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2013, 2012, and 2011. 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. For employees funded by federal programs, the federal programs are required to contribute 1.0%.

For the Year Ended August 31	State TRS-Care Contributions Made on Behalf of the District	District Required Contributions to TRS-Care	Employee Contributions to TRS-Care
2011	\$174,720	\$96,097	Not available
2012	168,200	92,510	109,329
2013	175,313	96,422	175,313

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

R. Retiree Medicare Part D Coverage

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2013, 2012, and 2011, these on-behalf payments, in the amounts of \$67,055, \$37,530, and \$46,465, were recognized by the District as revenues and expenditures, respectively. These payments are recorded as equal revenues and expenditures in the District's governmental funds financial statements.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
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S. Health Care Coverage

During the year ended August 31, 2013 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.

T. Risk Management

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

U. Litigation, Commitments and Contingencies

Litigation – The District is not a party in any legal action.

Grant Programs - The District participates in numerous state and Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2013 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

V. Worker's 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.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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W. Special and Extraordinary Items

Special Items:

Mineral Rights	<u>\$841,326</u>
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Extraordinary Items:

Recovery From Fire	\$37,415
Costs Related to Fire Loss	<u>(8,935)</u>
Net Extraordinary Items	<u>\$28,480</u>

X. Prior Period Adjustment

The District elected to early implement Governmental Accounting Standards Board Statement No. 65. This statement established accounting and reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. As a result of this early implementation, the District has a prior period adjustment of \$446,278 to reclassify Capitalized Bond and Other Debt Issuance Costs previously reported as an Asset on the Statement of Net Position. This prior period adjustment does not affect the governmental fund financial statements.

Y. Subsequent events

No subsequent events have occurred between August 31, 2013 and the date of the audit report that are required to be reported.

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, 2013

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	\$ 12,336,071	\$ 12,396,071	\$ 11,715,801	\$ (680,270)
5800 State Program Revenues	11,657,230	11,679,608	11,924,680	245,072
5020 Total Revenues	23,993,301	24,075,679	23,640,481	(435,198)
EXPENDITURES:				
Current:				
0011 Instruction	14,407,678	14,429,076	14,266,842	162,234
0012 Instructional Resources and Media Services	245,925	248,025	238,343	9,682
0013 Curriculum and Instructional Staff Development	83,244	84,744	75,317	9,427
0021 Instructional Leadership	568,562	575,862	553,111	22,751
0023 School Leadership	1,587,344	1,537,744	1,461,450	76,294
0031 Guidance, Counseling and Evaluation Services	589,384	609,284	581,986	27,298
0033 Health Services	332,552	329,402	319,128	10,274
0034 Student (Pupil) Transportation	995,550	897,550	776,180	121,370
0035 Food Services	21,421	17,271	11,635	5,636
0036 Extracurricular Activities	697,205	823,734	778,627	45,107
0041 General Administration	953,418	1,059,418	1,037,204	22,214
0051 Facilities Maintenance and Operations	2,849,755	4,838,633	4,431,048	407,585
0052 Security and Monitoring Services	107,995	107,995	92,056	15,939
0053 Data Processing Services	346,564	366,564	322,825	43,739
0061 Community Services	325	325	-	325
Debt Service:				
0071 Principal on Long Term Debt	105,779	49,452	40,071	9,381
Intergovernmental:				
0095 Payments to Juvenile Justice Alternative Ed. Prg.	5,000	5,000	-	5,000
0099 Other Intergovernmental Charges	95,600	95,600	90,788	4,812
6030 Total Expenditures	23,993,301	26,075,679	25,076,611	999,068
SPECIAL AND EXTRAORDINARY ITEMS:				
7918 Special Item - Mineral Rights	-	-	841,326	841,326
7919 Extraordinary Item - Recovery from Fire	-	-	37,415	37,415
8913 Extraordinary Item - Costs Related to Fire	-	-	(8,935)	(8,935)
1200 Net Change in Fund Balances	-	(2,000,000)	(566,324)	1,433,676
0100 Fund Balance - September 1 (Beginning)	5,375,310	5,375,310	5,375,310	-
3000 Fund Balance - August 31 (Ending)	\$ 5,375,310	\$ 3,375,310	\$ 4,808,986	\$ 1,433,676

COMBINING SCHEDULES

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2013

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
ASSETS			
1110 Cash and Cash Equivalents	\$ -	\$ (37,814)	\$ -
1240 Receivables from Other Governments	-	37,814	-
1000 Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUNDBALANCES			
Committed Fund Balance:			
3545 Other Committed Fund Balance	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	289 Summer School LEP	385 Visually Impaired SSVI	392 Non-Ed. Community Based Support	404 Student Success Initiative	410 State Textbook Fund
\$ -	\$ (100)	\$ -	\$ (1,114)	\$ -	\$ (3,002)	\$ (1,173)	\$ -
-	100	-	1,114	-	3,002	1,173	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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KENNEDALE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2013

Data Control Codes	461 Campus Activity Funds	Total Nonmajor Governmental Funds
ASSETS		
1110 Cash and Cash Equivalents	\$ 181,977	\$ 138,774
1240 Receivables from Other Governments	-	43,203
1000 Total Assets	<u>\$ 181,977</u>	<u>\$ 181,977</u>
FUNDBALANCES		
Committed Fund Balance:		
3545 Other Committed Fund Balance	181,977	181,977
3000 Total Fund Balances	<u>181,977</u>	<u>181,977</u>
4000 Total Liabilities and Fund Balances	<u>\$ 181,977</u>	<u>\$ 181,977</u>

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
REVENUES:			
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-
5900 Federal Program Revenues	421,042	512,299	4,909
5020 Total Revenues	<u>421,042</u>	<u>512,299</u>	<u>4,909</u>
EXPENDITURES:			
Current:			
0011 Instruction	418,557	276,320	4,909
0012 Instructional Resources and Media Services	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	-
0021 Instructional Leadership	1,334	7,619	-
0023 School Leadership	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	175,860	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	-	-	-
0051 Facilities Maintenance and Operations	-	-	-
0061 Community Services	1,151	-	-
Debt Service:			
0071 Principal on Long Term Debt	-	-	-
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	-	52,500	-
6030 Total Expenditures	<u>421,042</u>	<u>512,299</u>	<u>4,909</u>
1200 Net Change in Fund Balance	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	289 Summer School LEP	385 Visually Impaired SSVI	392 Non-Ed. Community Based Support	404 Student Success Initiative	410 State Textbook Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	1,634	5,598	11,764	130,687
<u>35,218</u>	<u>60,793</u>	<u>17,407</u>	<u>1,155</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>35,218</u>	<u>60,793</u>	<u>17,407</u>	<u>1,155</u>	<u>1,634</u>	<u>5,598</u>	<u>11,764</u>	<u>130,687</u>
35,218	36,579	17,062	1,155	1,634	-	11,764	69,100
-	-	-	-	-	-	-	1,587
-	15,635	-	-	-	-	-	-
-	5,776	-	-	-	-	-	-
-	2,803	-	-	-	-	-	-
-	-	345	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	5,598	-	-
-	-	-	-	-	-	-	60,000
-	-	-	-	-	-	-	-
<u>35,218</u>	<u>60,793</u>	<u>17,407</u>	<u>1,155</u>	<u>1,634</u>	<u>5,598</u>	<u>11,764</u>	<u>130,687</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</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, 2013

Data Control Codes	461 Campus Activity Funds	Total Nonmajor Governmental Funds
REVENUES:		
5700 Total Local and Intermediate Sources	\$ 373,400	\$ 373,400
5800 State Program Revenues	-	149,683
5900 Federal Program Revenues	-	1,052,823
5020 Total Revenues	<u>373,400</u>	<u>1,575,906</u>
EXPENDITURES:		
Current:		
0011 Instruction	75,724	948,022
0012 Instructional Resources and Media Services	12,381	13,968
0013 Curriculum and Instructional Staff Development	-	15,635
0021 Instructional Leadership	-	14,729
0023 School Leadership	54,197	57,000
0031 Guidance, Counseling and Evaluation Services	-	176,205
0035 Food Services	5,500	5,500
0036 Extracurricular Activities	181,325	181,325
0051 Facilities Maintenance and Operations	4,407	4,407
0061 Community Services	-	6,749
Debt Service:		
0071 Principal on Long Term Debt	-	60,000
Intergovernmental:		
0093 Payments to Fiscal Agent/Member Districts of SSA	-	52,500
6030 Total Expenditures	<u>333,534</u>	<u>1,536,040</u>
1200 Net Change in Fund Balance	39,866	39,866
0100 Fund Balance - September 1 (Beginning)	<u>142,111</u>	<u>142,111</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 181,977</u>	<u>\$ 181,977</u>

REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2013

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2004 and prior years	Various	Various	\$ 711,835,586
2005	1.500000	0.304252	736,614,524
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 (School year under audit)	1.170000	0.342068	974,035,229
1000 TOTALS			

(10) Beginning Balance 9/1/2012	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2013
\$ 216,848	\$ -	\$ 1,425	\$ 109	\$ (583)	\$ 214,731
22,930	-	392	80	-	22,458
22,460	-	862	175	-	21,423
23,454	-	1,668	427	-	21,359
28,356	-	1,467	449	(584)	25,856
44,081	-	13,362	3,639	(1,223)	25,857
65,727	-	19,860	5,408	(1,864)	38,595
103,940	-	17,386	5,570	(36,866)	44,118
218,184	-	84,032	24,568	(35,303)	74,281
-	14,728,075	11,233,588	3,284,317	6,010	216,180
<u>\$ 745,980</u>	<u>\$ 14,728,075</u>	<u>\$ 11,374,042</u>	<u>\$ 3,324,742</u>	<u>\$ (70,413)</u>	<u>\$ 704,858</u>

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2014-2015
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2013

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

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLL COSTS	\$ -	\$ 2,400	\$ 482,305	\$ 330,476	\$ -	\$ -	\$ 815,181
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	17,106	-	-	17,106
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	45,653	-	-	-	45,653
6212	Audit Services	-	-	-	15,580	-	-	15,580
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	108,496	-	-	-	-	108,496
6214	Lobbying	-	-	-	-	-	-	-
621X	Other Professional Services	-	-	13,900	-	-	-	13,900
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	4,569	7,945	-	-	12,514
6240	Contr. Maint. and Repair	-	-	-	-	1,704	-	1,704
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	9,179	-	-	-	9,179
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	-	-	10,177	7,744	-	-	17,921
6410	Travel, Subsistence, Stipends	4,701	-	12,238	-	-	-	16,939
6420	Ins. and Bonding Costs	-	-	10,912	-	-	-	10,912
6430	Election Costs	10,207	-	-	-	-	-	10,207
6490	Miscellaneous Operating	-	200	40,445	-	-	-	40,645
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 14,908	\$ 111,096	\$ 629,378	\$ 378,851	\$ 1,704	\$ -	\$ 1,135,937

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 27,906,268

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10) \$ 2,168,914
Total Debt & Lease(6500)	(11) 100,071
Plant Maintenance (Function 51, 6100-6400)	(12) 2,552,100
Food (Function 35, 6341 and 6499)	(13) 471,345
Stipends (6413)	(14) -
Column 4 (above) - Total Indirect Cost	378,851

SubTotal: 5,671,282

Net Allowed Direct Cost \$ 22,234,986

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15) \$ 68,766,614
Historical Cost of Building over 50 years old	(16) \$ -
Amount of Federal Money in Building Cost (Net of #16)	(17) \$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18) \$ 3,117,509
Historical Cost of Furniture & Equipment over 16 years old	(19) \$ 209,789
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20) \$ -

(8) NOTE A: \$7,945 in Function 53 expenditures are included in this report on administrative costs.
 \$90,788 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
FOR THE YEAR ENDED AUGUST 31, 2013

In accordance with Texas Education Agency guidelines, the District has elected not to present this schedule for the current year.

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, 2013

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	\$ 593,300	\$ 493,330	\$ 463,637	\$ (29,693)
5800 State Program Revenues	8,000	8,000	7,240	(760)
5900 Federal Program Revenues	629,000	729,000	733,854	4,854
5020 Total Revenues	<u>1,230,300</u>	<u>1,230,330</u>	<u>1,204,731</u>	<u>(25,599)</u>
EXPENDITURES:				
0035 Food Services	1,192,640	1,192,640	1,037,721	154,919
0051 Facilities Maintenance and Operations	37,690	287,690	255,896	31,794
6030 Total Expenditures	<u>1,230,330</u>	<u>1,480,330</u>	<u>1,293,617</u>	<u>186,713</u>
1200 Net Change in Fund Balances	(30)	(250,000)	(88,886)	161,114
0100 Fund Balance - September 1 (Beginning)	<u>469,746</u>	<u>469,746</u>	<u>469,746</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 469,716</u>	<u>\$ 219,746</u>	<u>\$ 380,860</u>	<u>\$ 161,114</u>

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, 2013

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	\$ 3,261,332	\$ 3,261,332	\$ 3,353,154	\$ 91,822
5800 State Program Revenues	139,057	139,057	187,529	48,472
5020 Total Revenues	3,400,389	3,400,389	3,540,683	140,294
EXPENDITURES:				
Debt Service:				
0071 Principal on Long Term Debt	1,445,000	1,549,999	1,549,999	-
0072 Interest on Long Term Debt	1,951,189	1,846,190	1,842,812	3,378
0073 Bond Issuance Cost and Fees	4,200	180,030	177,884	2,146
6030 Total Expenditures	3,400,389	3,576,219	3,570,695	5,524
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(175,830)	(30,012)	145,818
OTHER FINANCING SOURCES (USES):				
7901 Refunding Bonds Issued	-	-	8,849,999	8,849,999
7911 Capital Related Debt Issued (Regular Bonds)	-	8,849,999	-	(8,849,999)
7916 Premium or Discount on Issuance of Bonds	-	979,934	979,934	-
8940 Payment to Bond Refunding Escrow Agent (Use)	-	-	(9,654,103)	(9,654,103)
8949 Other (Uses)	-	(9,654,103)	-	9,654,103
7080 Total Other Financing Sources (Uses)	-	175,830	175,830	-
1200 Net Change in Fund Balances	-	-	145,818	145,818
0100 Fund Balance - September 1 (Beginning)	1,461,095	1,461,095	1,461,095	-
3000 Fund Balance - August 31 (Ending)	\$ 1,461,095	\$ 1,461,095	\$ 1,606,913	\$ 145,818

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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
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(817) 451-7406		Fax (817) 451-7597

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, 2013, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated October 9, 2013.

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
October 9, 2013

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 AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Trustees
Kennedale Independent School District
120 W. 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, 2013. 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 each of 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, 2013.

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, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and 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.

Kirk, Richardson & Poole, P.C.

Kirk, Richardson & Poole, P.C.
Fort Worth, Texas
October 9, 2013

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

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
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:	Unqualified
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
10.553	School Breakfast Program
10.555	National School Lunch Program – Cash Assistance
10.555	National School Lunch Program – Non-Cash Assistance

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

N/A - None

Section III – Federal Award Findings and Questioned Costs

N/A – None.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2013

PRIOR YEAR'S FINDING/NONCOMPLIANCE:

N/A

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

Contact Person: Sue Martin, Business Manager

CORRECTIVE ACTION PLAN: None required.

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

(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	13610101220914	\$ 421,042
*IDEA - Part B, Formula	84.027	136600012209146600	512,299
*IDEA - Part B, Preschool	84.173	136610012209146610	4,909
Total Special Education Cluster (IDEA)			517,208
Career and Technical - Basic Grant	84.048	13420006220914	35,218
Title III, Part A - English Language Acquisition	84.365A	13671001220914	17,407
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	13420006220914	60,793
Summer School LEP	84.369	69551202	1,155
Total Passed Through State Department of Education			\$ 1,052,823
TOTAL DEPARTMENT OF EDUCATION			\$ 1,052,823
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401301	\$ 129,555
*National School Lunch Program - Cash Assistance	10.555	71301301	531,849
*National School Lunch Prog. - Non-Cash Assistance	10.555		72,450
Total CFDA Number 10.555			604,299
Total Child Nutrition Cluster			733,854
Total Passed Through the State Department of Agriculture			\$ 733,854
TOTAL DEPARTMENT OF AGRICULTURE			\$ 733,854
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,786,677

*Clustered Programs

**KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2013**

1. For all federal programs, the District uses the fund types specified in Texas Education Agency's "Financial Accountability System Resource Guide." Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance is generally accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type.

With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. 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 fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and 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 funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred expenditures until earned.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions of Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement – Provisional 6/97.
4. The District participates in numerous Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2013, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying financial statements for such contingencies.

SCHOOLS FIRST QUESTIONNAIRE

EXHIBIT L
Fiscal Year 2013KENNEDALE INDEPENDENT SCHOOL DISTRICT

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.	2674036