KILGORE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

AUGUST 31, 2014

KILGORE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT
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CERTIFICATE OF BOARD

KILGORE INDEPENDENT SCHOOL DISTRICT	GREGG	092-902
Name of School	County	Co.-Dist Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and

[X] APPROVED --- [ ] DISAPPROVED
(Check One)

for the year ended August 31, 2014 at a meeting of the Board of Trustees of such school district on the 17th day of November, 2014.

SIGNATURE OF BOARD SECRETARY **SIGNATURE OF BOARD PRESIDENT**

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

FINANCIAL SECTION

HLSK

Hereford, Lynch, Sellars & Kirkham

Certified Public Accountants • A Professional Corporation

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kilgore Independent School District (District), as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 Kilgore Independent School District's basic financial statements. The combining fund financial statements and supplementary information, including the schedule of required responses to selected school first indicators, 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 funds financial statements and supplementary information, including the schedule of required responses to selected school first indicators, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and supplementary information, including the schedule of required responses to selected school first indicators, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2014, on our consideration of the Kilgore Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kilgore Independent School District's internal control over financial reporting and compliance.

Respectfully,

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

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

Conroe, Texas
October 23, 2014

Management's Discussion and Analysis

As management of the Kilgore Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2014.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $36,042,797 *(net position).* Of this amount, $12,483,306 *(unrestricted net position)* may be used to meet the District's ongoing obligations to students and creditors.
- The District's total net position increased $1,268,963 from current operations.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $15,784,205, an increase of $396,857.
- At the end of the current fiscal year, unassigned fund balance for the general fund was $5,755,035, or 21 percent of total general fund expenditures.
- The District's total bonded debt decreased by $1,893,026 during the current fiscal year.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by $36,042,797 at the close of the most recent fiscal year.

KILGORE INDEPENDENT SCHOOL DISTRICT'S NET POSITION

	Governmental Activities					
	2014		2013		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and Other Assets	$ 18,338,905	19	$ 21,631,386	22	$ (3,292,481)	(15)
Capital Assets	75,876,451	81	77,131,411	78	(1,254,960)	(2)
Total Assets	**94,215,356**	**100**	**98,762,797**	**100**	**(4,547,441)**	
Long-Term Liabilities Outstanding	57,251,172	98	59,144,198	92	(1,893,026)	(3)
Other Liabilities	921,387	2	4,844,765	8	(3,923,378)	(81)
Total Liabilities	**58,172,559**	**100**	**63,988,963**	**100**	**(5,816,404)**	
Net Position:						
Net Investment in Capital Assets	20,484,533	57	20,579,160	59	(94,627)	-
Restricted	3,074,958	8	1,022,000	3	2,052,958	201
Unrestricted	12,483,306	35	13,172,674	38	(689,368)	(5)
Total Net Position	**$ 36,042,797**	**100**	**$ 34,773,834**	**100**	**$ 1,268,963**	

The largest portion of the District's net position (57 percent) reflects its investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net position

($3,074,958 or 8 percent of net position) are restricted for debt service and grant related expenditures. The remaining balance of *unrestricted net position* ($12,483,306) may be used to meet the District's ongoing obligations to students and creditors.

Governmental activities. Governmental activities increased the District's net position by $1,268,963 from current operations. Key elements of this change are as follows:

KILGORE INDEPENDENT SCHOOL DISTRICT'S CHANGES IN NET POSITION

	Governmental Activities					
	2014		2013		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program Revenues:						
Charges for Services	$ 1,182,969	3	$ 1,036,977	3	$ 145,992	14
Operating Grants and Contributions	5,216,166	14	4,432,351	13	783,815	18
General Revenues:						
Property Taxes, Levied for General Purpose	17,091,136	46	17,118,124	49	(26,988)	-
Property Taxes, Levied for Debt Service	4,467,080	12	4,527,066	13	(59,986)	(1)
Grants and Contributions Not Restricted to Specific Programs	9,327,557	25	7,645,342	22	1,682,215	22
Investment Earnings	26,022	-	76,702	-	(50,680)	(66)
Miscellaneous	80,863	-	39,143	-	41,720	107
Total Revenues	**37,391,793**	**100**	**34,875,705**	**100**	**2,516,088**	
Expenses:						
Instruction	18,700,454	54	17,518,709	48	1,181,745	7
Instructional Resources and Media Services	495,261	1	497,662	1	(2,401)	-
Curriculum and Staff Development	1,139,042	3	673,250	2	465,792	69
Instructional Leadership	435,001	1	388,455	1	46,546	12
School Leadership	1,911,604	5	1,841,112	5	70,492	4
Guidance, Counseling, and Evaluation Services	884,778	2	923,018	3	(38,240)	(4)
Health Services	304,384	1	277,955	1	26,429	10
Student Transportation	1,180,816	3	1,354,924	4	(174,108)	(13)
Food Service	1,888,502	5	1,849,151	5	39,351	2
Extracurricular Activities	1,623,549	4	1,477,336	4	146,213	10
General Administration	1,187,145	3	1,054,653	3	132,492	13
Plant Maintenance and Operations	3,283,906	9	2,700,807	8	583,099	22
Security and Monitoring Services	185,570	1	144,532	-	41,038	28
Data Processing Services	360,635	1	273,935	1	86,700	32
Community Services	9,771	-	1,999	-	7,772	389
Interest on Long-term Debt	2,150,154	6	2,298,661	6	(148,507)	(6)
Facilities Repair and Maintenance	75,842	-	2,421,375	7	(2,345,533)	(97)
Other Intergovernmental Charges	306,416	1	306,118	1	298	-
Total Expenses	**36,122,830**	**100**	**36,003,652**	**100**	**119,178**	
Change in Net Position	1,268,963		(1,127,947)		2,396,910	
Net Position - Beginning	34,773,834		36,528,314		(1,754,480)	
Prior Period Adjustment - Implement GASB 65 for Bond Issuance Costs	-		(626,533)		626,533	
Net Position - Beginning, as restated	34,773,834		35,901,781		(1,127,947)	
Net Position - Ending	**$ 36,042,797**		**$ 34,773,834**		**$ 1,268,963**	

Revenues are generated primarily from two sources. Grants and contributions (program and general revenues totaling $14,543,723) represent 39 percent of total revenues and property taxes ($21,558,216) represent 58 percent of total revenues. The remaining 3 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

The primary functional expense of the District is instruction ($18,700,454), which represents 54 percent of total expenses. The remaining functional categories of expenses are individually 10 percent or less than total expenses.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $15,784,205, an increase of $396,857.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was $5,755,035 while total fund balance reached $10,755,035. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 21 percent of total general fund expenditures, while total fund balance represents 39 percent of that same amount.

The fund balance of the District's general fund increased by $560,550 during the current fiscal year. The increase was primarily due to an increase in state revenue.

The debt service fund has a total fund balance of $1,406,662, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was $512,929 and was due to a reduction in debt requirements.

The capital projects fund has a total fund balance of $1,859,254. The decrease in fund balance is due to capital expenditures for remaining renovations to new campuses.

General Fund Budgetary Highlights

The District amends the budget as needed throughout the year. There were no significant differences between the original budget and the final amended budget of the general fund.

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

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental type activities as of August 31, 2014, amounts to $75,876,451 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was 2 percent.

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

- $907,254 Remaining renovations on primary, elementary, and intermediate school
- $261,643 School Buses

KILGORE INDEPENDENT SCHOOL DISTRICT'S CAPITAL ASSETS

(net of depreciation)

	Governmental Activities					
	2014		2013		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land	$ 3,187,826	4	$ 3,187,826	4	$ -	-
Buildings and Improvements	67,770,282	89	68,716,628	89	(946,346)	(1)
Furniture and Equipment	4,918,343	7	5,226,957	7	(308,614)	(6)
Totals	**$ 75,876,451**	**100**	**$ 77,131,411**	**100**	**$ (1,254,960)**	

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

Long-term liabilities. At the end of the current fiscal year, the District had total long-term liabilities outstanding of $57,251,172 for debt backed by the full faith and credit of the District.

KILGORE INDEPENDENT SCHOOL DISTRICT'S LONG-TERM LIABILITIES OUTSTANDING

	Governmental Activities					
	2014		2013		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General Obligation Bonds (Net)	$ 57,251,172	100	$ 59,144,198	100	$ (1,893,026)	(3)
Totals	**$ 57,251,172**	**100**	**$ 59,144,198**	**100**	**$ (1,893,026)**	

The District's bonded debt decreased by $1,893,026 during the current fiscal year. The key factors were the scheduled debt payments.

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

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

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

Economic Factors and Next Year's Budgets and Rates

The District's elected and appointed officials considered the following factors when setting the fiscal year 2015 budget and tax rates:

- The District's appraised value for the 2015 year decreased slightly, $20,168,101 or 1.19% over 2014 values. This is the third decrease in the past five years. Each of these decreases is minimal, but they show the significant slow down in the local economy compared to the gains achieved in the five years prior to these. Values as a whole are still significantly higher than they were ten years ago.
- Federal, State and Local revenue combined for general fund expenditures for 2015 are currently projected to increase slightly from 2014 levels by $824,125, or 2.9%. This increase is driven by an expected growth in student population, producing additional revenue from the State funding formula. The funding formula for 2015 is changing only slightly from 2014. Changes made to the State funding formula during the 2014 legislative session have removed the target revenue system, a system driven by "revenue per student" system made up of both local and state sources as the driving factor for our revenue. The current State revenue formula takes us back to the system driven by wealth per penny prior to the 2009 legislative session and HB 1. This funding formula is currently being challenged in court, but true changes to it are not expected until sometime in the next state legislative biennium.
- Actual general operating fund spending per student is expected to increase from the 2014 budget due to the increased student population and the resulting revenue increase mentioned prior.
- Kilgore Independent School District used the greatest portion of the increased funding to reward District employees with raises. Teachers, who make up greater than fifty percent of all employees, were given steps that were increased by $1,200 over the same step the prior year. The majority of all other employees were given three percent of midpoint raises based on the program developed by the Texas Association of School Boards.
- The Kilgore Independent School District Board of Trustees, administrators and its entire staff remain focused heavily on making low impact cost reductions, trying to remain fiscally conservative in the face of an unknown financial funding formula.
- The 2013-2014 school year saw the opening of two new campuses. Kilgore Middle School, grades six through eight, replaced Maude Laird Middle School. Kilgore Primary School replaced Kilgore Heights Elementary, grades Pre-Kindergarten and Kindergarten and also picked up the first grade students from Chandler Elementary. Currently both Maude Laird Middle School and Kilgore Heights Elementary still exist and are owned by the District. The District has hired architects who are currently conducting a long-term facility needs assessment to help determine the future use of these two campuses.
- The District's average daily attendance is expected to increase again in the 2015 school year. The trend seen over the past few years is expected to continue, as classes with smaller enrollments will be graduating in the next few years with continued larger numbers replacing them at the lower grades. Kilgore Independent School District's average daily attendance has increased each of the past four years with an increase of eighty-three from the 2013-2014 school year.

- Kilgore Independent School District is designated as a Chapter 41 District, although no recapture will be paid at our current wealth per student. Barring any changes to current state law or extraordinarily large increases to our local property values, no recapture is foreseen in the next few years.

These indicators were taken into account when adopting the general fund budget for 2015. The maintenance and operations tax rate remained unchanged at $1.04, the maximum rate allowable by state law without taxpayer approval. There are only two ways in which Kilgore Independent School District can generate additional revenue: 1) additional students in average daily attendance and 2) receive voter approval for a tax rate above $1.04.

The overall Kilgore economy is hard to gauge at this time. The Kilgore economy, even with many attempts to diversify, remains highly reliant upon the oil and gas industry. Sales tax revenues generated by the City of Kilgore have remained level over the 2014 fiscal year, seeing minor increases and decreases each month. Unemployment rates for August 2014 in Gregg and Rusk Counties, 4.8% and 4.9% respectfully, are slightly below the state rate of 5.3%. As a result of the many uncertainties related to public education funding in Texas and our ever changing local economy, we continue to remain conservative in our budgeting strategies and strive for efficiency in every aspect of our operations.

All of these factors were considered in preparing the District's budget for the 2015 fiscal year.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT A-1

STATEMENT OF NET POSITION
AUGUST 31, 2014

Data Control Codes		1 Governmental Activities
	ASSETS:	
1110	*Cash and Cash Equivalents*	$ 4,138,646
1120	*Current Investments*	11,580,404
1225	*Property Taxes Receivable (Net)*	1,729,921
1240	*Due from Other Governments*	778,791
1290	*Other Receivables (Net)*	24,545
1300	*Inventories*	86,598
	Capital Assets:	
1510	*Land*	3,187,826
1520	*Buildings and Improvements (Net)*	67,770,282
1530	*Furniture and Equipment (Net)*	4,918,343
1000	Total Assets	94,215,356
	LIABILITIES:	
2110	*Accounts Payable*	38,093
2140	*Interest Payable*	96,608
2165	*Accrued Liabilities*	737,079
2300	*Unearned Revenue*	49,607
	Noncurrent Liabilities:	
2501	*Due Within One Year*	1,865,000
2502	*Due in More Than One Year*	55,386,172
2000	Total Liabilities	58,172,559
	NET POSITION:	
3200	*Net Investment in Capital Assets*	20,484,533
3450	*Restricted for Grant Funds*	1,472,098
3850	*Restricted for Debt Service*	1,602,860
3900	*Unrestricted*	12,483,306
3000	Total Net Position	$ 36,042,797

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT B-1

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues: Charges for Services	4 Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
	Governmental Activities:				
0011	*Instruction*	$ 18,700,454	$ 98,009	$ 2,843,505	$ (15,758,940)
0012	*Instructional Resources and Media Services*	495,261	13,117	22,994	(459,150)
0013	*Curriculum and Staff Development*	1,139,042	1,328	142,039	(995,675)
0021	*Instructional Leadership*	435,001	-	41,502	(393,499)
0023	*School Leadership*	1,911,604	59,680	91,307	(1,760,617)
0031	*Guidance, Counseling, and Evaluation Services*	884,778	-	76,657	(808,121)
0033	*Health Services*	304,384	-	34,496	(269,888)
0034	*Student Transportation*	1,180,816	-	127,584	(1,053,232)
0035	*Food Service*	1,888,502	559,221	1,520,266	190,985
0036	*Extracurriculur Activities*	1,623,549	402,111	36,466	(1,184,972)
0041	*General Administration*	1,187,145	-	52,714	(1,134,431)
0051	*Plant Maintenance and Operations*	3,283,906	49,503	58,808	(3,175,595)
0052	*Security and Monitoring Services*	185,570	-	-	(185,570)
0053	*Data Processing Services*	360,635	-	10,567	(350,068)
0061	*Community Services*	9,771	-	8,511	(1,260)
0072	*Interest on Long-term Debt*	2,150,154	-	-	(2,150,154)
0073	*Issuance Costs and Fees*	-	-	148,750	148,750
0081	*Facilities Repair and Maintenance*	75,842	-	-	(75,842)
0099	*Other Intergovernmental Charges*	306,416	-	-	(306,416)
TG	Total Governmental Activities	36,122,830	1,182,969	5,216,166	(29,723,695)
TP	Total Primary Government	$ 36,122,830	$ 1,182,969	$ 5,216,166	(29,723,695)
	General Revenues:				
MT	*Property Taxes, Levied for General Purposes*				17,091,136
DT	*Property Taxes, Levied for Debt Services*				4,467,080
GC	*Grants and Contributions Not Restricted to Specific Programs*				9,327,557
IE	*Investment Earnings*				26,022
MI	*Miscellaneous*				80,863
TR	Total General Revenues				30,992,658
CN	Change in Net Position				1,268,963
NB	Net Position - Beginning				34,773,834
NE	Net Position - Ending				$ 36,042,797

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2014

Data Control Codes		199 General Fund	599 Debt Service Fund
	ASSETS:		
1110	*Cash and Cash Equivalents*	$ 810,394	$ 1,418,838
1120	*Current Investments*	9,887,397	-
1225	*Property Taxes Receivable (Net)*	1,437,115	292,806
1240	*Due from Other Governments*	615,027	-
1260	*Due from Other Funds*	119,333	-
1290	*Other Receivables (Net)*	21,192	3,123
1300	*Inventories*	-	-
1000	Total Assets	$ 12,890,458	$ 1,714,767
	LIABILITIES:		
2110	*Accounts Payable*	$ 35,933	$ -
2160	*Accrued Wages Payable*	662,375	-
2170	*Due to Other Funds*	-	15,299
2300	*Unearned Revenue*	-	-
2000	Total Liabilities	698,308	15,299
	DEFERRED INFLOWS OF RESOURCES:		
2600	*Unavailable Revenue - Property Taxes*	1,437,115	292,806
	Total Deferred Inflows of Resources	1,437,115	292,806
	FUND BALANCES:		
3410	*Nonspendable - Inventories*	-	-
3425	*Nonspendable Endowment Principal*	-	-
3450	*Restricted - Grant Funds*	-	-
3470	*Restricted - Capital Acquisitions and Contractual Obligations*	-	-
3480	*Restricted - Debt Service*	-	1,406,662
3510	*Committed - Construction*	3,000,000	-
3530	*Committed - Capital Expenditures for Equipment*	2,000,000	-
3545	*Committed - Other*	-	-
3600	*Unassigned*	5,755,035	-
3000	Total Fund Balances	10,755,035	1,406,662
4000	Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 12,890,458	$ 1,714,767

The accompanying notes are an integral part of this statement.

616 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
$ 196,431	$ 1,712,983	$ 4,138,646
1,662,823	30,184	11,580,404
-	-	1,729,921
-	163,764	778,791
-	-	119,333
-	230	24,545
-	86,598	86,598
$ 1,859,254	$ 1,993,759	$ 18,458,238
$ -	$ 2,160	$ 38,093
-	74,704	737,079
-	104,034	119,333
-	49,607	49,607
-	230,505	944,112
-	-	1,729,921
-	-	1,729,921
-	57,448	57,448
-	30,000	30,000
-	1,472,098	1,472,098
1,859,254	-	1,859,254
-	-	1,406,662
-	-	3,000,000
-	-	2,000,000
-	203,708	203,708
-	-	5,755,035
1,859,254	1,763,254	15,784,205
$ 1,859,254	$ 1,993,759	$ 18,458,238

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KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-1R

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2014

Total Fund Balances - Governmental Funds (Exhibit C-1)		$ 15,784,205
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental Capital Assets Costs	$ 106,727,535	
Accumulated Depreciation of Governmental Capital Assets	(30,851,084)	75,876,451
Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.		1,729,921
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to bonds payable consisted of:		
Bonds Payable, at Original Par	$ (56,045,000)	
Premium on Bonds Payable	(1,209,011)	
Discount on Bonds Payable	2,839	
Accrued Interest on the Bonds	(96,608)	(57,347,780)
Total Net Position - Governmental Activities (Exhibit A-1)		$ 36,042,797

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		199 General Fund	599 Debt Service Fund
	REVENUES:		
5700	*Local and Intermediate Sources*	$ 17,597,561	$ 4,409,585
5800	*State Program Revenues*	10,291,757	-
5900	*Federal Program Revenues*	218,799	148,750
5020	Total Revenues	28,108,117	4,558,335
	EXPENDITURES:		
	Current:		
0011	*Instruction*	15,468,875	-
0012	*Instructional Resources and Media Services*	431,339	-
0013	*Curriculum and Staff Development*	980,291	-
0021	*Instructional Leadership*	381,389	-
0023	*School Leadership*	1,732,633	-
0031	*Guidance, Counseling, and Evaluation Services*	751,685	-
0033	*Health Services*	265,036	-
0034	*Student Transportation*	1,169,909	-
0035	*Food Service*	19,256	-
0036	*Extracurricular Activities*	1,240,788	-
0041	*General Administration*	1,132,072	-
0051	*Plant Maintenance and Operations*	3,242,983	-
0052	*Security and Monitoring Services*	176,635	-
0053	*Data Processing Services*	290,027	-
0061	*Community Services*	1,260	-
	Debt Service:		
0071	*Principal on Long-term Debt*	-	1,815,000
0072	*Interest on Long-term Debt*	-	2,226,356
0073	*Issuance Costs and Fees*	-	4,050
	Capital Outlay:		
0081	*Facilities Acquisition and Construction*	-	-
	Intergovernmental:		
0099	*Other Intergovernmental Charges*	306,416	-
6030	Total Expenditures	27,590,594	4,045,406
1100	Excess (Deficiency) of Revenues Over (Under)		
1100	Expenditures	517,523	512,929
	OTHER FINANCING SOURCES (USES):		
7912	*Sale of Real and Personal Property*	43,027	-
7915	*Transfers In*	-	-
8911	*Transfers Out*	-	-
7080	Total Other Financing Sources (Uses)	43,027	-
1200	Net Change in Fund Balances	560,550	512,929
0100	Fund Balances - Beginning	10,194,485	893,733
3000	Fund Balances - Ending	$ 10,755,035	$ 1,406,662

The accompanying notes are an integral part of this statement.

616 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
$ 3,059	$ 861,840	$ 22,872,045
-	559,056	10,850,813
-	3,026,545	3,394,094
3,059	4,447,441	37,116,952
-	1,830,772	17,299,647
-	14,454	445,793
-	107,251	1,087,542
-	26,075	407,464
-	65,765	1,798,398
-	41,304	792,989
-	17,931	282,967
-	87,405	1,257,314
-	1,735,261	1,754,517
-	194,118	1,434,906
-	-	1,132,072
-	15,179	3,258,162
-	-	176,635
-	-	290,027
-	8,511	9,771
-	-	1,815,000
-	-	2,226,356
-	-	4,050
983,096	-	983,096
-	-	306,416
983,096	4,144,026	36,763,122
(980,037)	303,415	353,830
-	-	43,027
247,344	7,465	254,809
-	(254,809)	(254,809)
247,344	(247,344)	43,027
(732,693)	56,071	396,857
2,591,947	1,707,183	15,387,348
$ 1,859,254	$ 1,763,254	$ 15,784,205

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-3

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

Total Net Changes in Fund Balances - Governmental Funds (Exhibit C-2)		$ 396,857
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital Assets *increased*	$ 1,391,173	
Depreciation Expense	(2,563,967)	(1,172,794)
The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is a increase (decrease) to net position.		(82,166)
Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year.		231,814
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		1,815,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The increase (decrease) in interest reported in the statement of activities consist of the following:		
Accrued Interest on Current Interest Bonds Payable (increased) decreased	$ 2,226	
Amortization of Bond Premium	78,254	
Amortization of Bond Discount	(228)	80,252
Change in Net Position - Governmental Activities (Exhibit B-1)		$ 1,268,963

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-4

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
	REVENUES:				
5700	*Local and Intermediate Sources*	$ 17,212,558	$ 17,449,426	$ 17,597,561	$ 148,135
5800	*State Program Revenues*	10,559,588	10,582,234	10,291,757	(290,477)
5900	*Federal Program Revenues*	220,000	220,000	218,799	(1,201)
5020	Total Revenues	27,992,146	28,251,660	28,108,117	(143,543)
	EXPENDITURES:				
	Current:				
	Instruction & Instructional Related Services:				
0011	*Instruction*	15,662,079	15,690,568	15,468,875	221,693
0012	*Instructional Resources and Media Services*	454,819	451,699	431,339	20,360
0013	*Curriculum and Staff Development*	1,052,559	1,043,477	980,291	63,186
	Total Instruction & Instructional Related Services	17,169,457	17,185,744	16,880,505	305,239
	Instructional and School Leadership:				
0021	*Instructional Leadership*	445,286	437,365	381,389	55,976
0023	*School Leadership*	1,666,208	1,733,398	1,732,633	765
	Total Instructional & School Leadership	2,111,494	2,170,763	2,114,022	56,741
	Support Services - Student (Pupil):				
0031	*Guidance, Counseling, and Evaluation Services*	803,105	805,159	751,685	53,474
0033	*Health Services*	279,288	285,288	265,036	20,252
0034	*Student Transportation*	1,230,251	1,230,251	1,169,909	60,342
0035	*Food Service*	-	30,000	19,256	10,744
0036	*Extracurricular Activities*	1,198,231	1,250,801	1,240,788	10,013
	Total Support Services - Student (Pupil)	3,510,875	3,601,499	3,446,674	154,825
	Administrative Support Services:				
0041	*General Administration*	1,160,608	1,170,478	1,132,072	38,406
	Total Administrative Support Services	1,160,608	1,170,478	1,132,072	38,406
	Support Services - Nonstudent Based:				
0051	*Plant Maintenance and Operations*	3,325,001	3,545,135	3,242,983	302,152
0052	*Security and Monitoring Services*	200,000	202,420	176,635	25,785
0053	*Data Processing Services*	304,111	304,111	290,027	14,084
	Total Support Services - Nonstudent Based	3,829,112	4,051,666	3,709,645	342,021
	Ancillary Services:				
0061	*Community Services*	600	3,360	1,260	2,100
	Total Ancillary Services	600	3,360	1,260	2,100
	Intergovernmental Charges:				
0099	*Other Intergovernmental Charges*	310,000	316,030	306,416	9,614
	Total Intergovernmental Charges	310,000	316,030	306,416	9,614
6030	Total Expenditures	28,092,146	28,499,540	27,590,594	908,946
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(100,000)	(247,880)	517,523	765,403
	OTHER FINANCING SOURCES (USES):				
7912	*Sale of Real and Personal Property*	100,000	100,000	43,027	(56,973)
7956	*Insurance Recovery*	-	33,969	-	(33,969)
7080	Total Other Financing Sources (Uses)	100,000	133,969	43,027	(90,942)
1200	Net Change in Fund Balance	-	(113,911)	560,550	674,461
0100	Fund Balance - Beginning	10,194,485	10,194,485	10,194,485	-
3000	Fund Balance - Ending	$ 10,194,485	$ 10,080,574	$ 10,755,035	$ 674,461

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT E-1

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
AUGUST 31, 2014

Data Control Codes		865 Agency Fund Student Activity
	ASSETS:	
1110	*Cash and Cash Equivalents*	$ 97,097
1000	Total Assets	$ 97,097
	LIABILITIES:	
2190	*Due to Student Groups*	$ 97,097
2000	Total Liabilities	$ 97,097

The accompanying notes are an integral part of this statement.

I. Summary of Significant Accounting Policies

A. Description of Government-wide Financial Statements

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

B. Reporting Entity

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

C. Basis of Presentation – Government-wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

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

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

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

Additionally, the District reports the following fund types:

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

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

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

E. Measurement Focus and Basis of Accounting

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

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

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

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

The agency fund has no measurement focus but utilizes the *accrual basis* of accounting for reporting its assets and liabilities.

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

1. Cash and Cash Equivalents

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

2. Investments

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

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

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

Capital Asset Classes	Lives
Buildings and Improvements	5-50
Furniture and Equipment	3-50

5. Deferred Outflows/Inflows of Resources

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

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

6. Net Position Flow Assumption

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

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

7. Fund Balance Flow Assumptions

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

8. Fund Balance Policies

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

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

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

Property taxes 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. Compensated Absences

The District does not have a liability for unused state and local leave at year-end due to the District's policy does not allow such a benefit when an employee separates from service with the District.

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

4. Use of Estimates

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

5. Data Control Codes

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

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

B. Encumbrances

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

C. Excess of Expenditures Over Appropriations

For the year ended August 31, 2014, expenditures exceeded appropriations in the functions (the legal level of budgetary control) of the following funds:

Fund	Function	Final Budget	Actual	Variance
Debt Service Fund	Debt Service	$ 3,906,896	$ 4,045,406	$ (138,510)

III. Detailed Notes on All Funds

A. Deposits and Investments

Cash Deposits. The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities are approved by the TEA and shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

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

guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the Public Funds Investment Act; 7) Public funds investment pools which meets the requirements of the Public Funds Investment Act; 8) Commercial paper is an authorized investment if it has a stated maturity of 270 days or fewer from the date of its issuance; and is rated not less than A-1 or P-1 or an equivalent rating by at least: two nationally recognized credit ratings agencies; or one nationally recognized agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or an state.

As of August 31, 2014, the District had the following governmental activities investments:

Investment Type	Standard & Poor's Rating	Fair Value	Percentage of Total Investments	Weighted Average Maturity (Years)
Texas CLASS	AAAm	$ 3,693,856	32%	0.18
Texpool - LGIP	AAAm	495,960	4%	0.22
TexStar	AAAm	505	0%	0.14
Lone Star Investment Pool - Government Overnight Fund	AAAm	7,509	0%	0.30
Lone Star Investment Pool - Corporate Overnight Fund	AAAm	5,719,751	50%	0.13
LOGIC	AAAm	1,662,823	14%	0.15
Total Fair Value		**$ 11,580,404**	**100%**	
Portfolio Weighted Average Maturity				**0.16**

Credit risk. For fiscal year 2014, the District invested in Texas Cooperative Liquid Assets Securities Trust (CLASS), Texpool, Lone Star Investment Pool, TexStar and Local Government Investment Cooperative (LOGIC). Texpool is duly chartered and administered by the State Comptroller's Office. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC formerly the Texas Association of School Boards Financial Services. LOGIC is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Southwest Asset Management, Inc. and JP Morgan Chase. TexStar is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Southwest Asset Management, Inc. and JP Morgan Chase. Texas CLASS is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by Cutwater Investor Services Corporate.

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

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

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2014, District's bank balance of $5,001,274 was not exposed to custodial credit risk because it was insured and collateralized with securities held by the District's agent and in the District's name.

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

B. Receivables

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

	General	Debt Service	Nonmajor Governmental Funds	Total
Receivables:				
Property Taxes	$ 2,019,033	$ 354,115	$ -	$ 2,373,148
Due From Other Governments	615,027	-	163,764	778,791
Other	21,192	3,123	230	24,545
Gross Receivables	2,655,252	357,238	163,994	3,176,484
Less: Allowance for Uncollectibles	(581,918)	(61,309)	-	(643,227)
Net Total Receivables	**$ 2,073,334**	**$ 295,929**	**$ 163,994**	**$ 2,533,257**

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

Uncollectibles Related to General Fund Property Taxes	$ (39,154)
Uncollectibles Related to Debt Service Property Taxes	(8,390)
Total Uncollectibles of the Current Fiscal Year	**$ (47,544)**

Approximately 81% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

C. Interfund Receivables, Payables, and Transfers

Receivables/Payables

The composition of interfund receivable/payable balances as of August 31, 2014, is as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	$ 119,333	$ -
Debt Service Fund	-	15,299
Other Governmental Funds - Nonmajor	-	104,034
Total	**$ 119,333**	**$ 119,333**

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

Transfers

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” Transfers are the use of funds collected in one fund and are transferred to finance various programs accounted for in other funds. The following is a summary of the District’s interfund transfers for the year ended August 31, 2014.

Transfer Out	Transfer In	Amount
Other Governmental Funds - Nonmajor	Capital Projects Funds	$ 247,344
Other Governmental Funds - Nonmajor	Other Governmental Funds - Nonmajor	7,465
Total		**$ 254,809**

The District transferred $247,344 from Food Service to the Capital Projects Fund to transfer the cost of Food Service construction expenditures approved by TDA for the new middle school and high school. The District transferred $7,465 from Summer Feeding Program to Food Service to reimburse food service expenditures.

D. Capital Assets

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

	Beginning Balance	Additions	Reductions and Transfers	Ending Balance
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	$ 3,187,826	$ -	$ -	$ 3,187,826
Construction in Progress	-	-	-	-
Total Capital Assets, not being Depreciated	**3,187,826**	**-**	**-**	**3,187,826**
Capital Assets, being Depreciated:				
Buildings and Improvements	88,425,935	937,254	(99,932)	89,263,257
Furniture and Equipment	13,932,585	453,919	(110,052)	14,276,452
Total Capital Assets, being Depreciated	**102,358,520**	**1,391,173**	**(209,984)**	**103,539,709**
Less Accumulated Depreciation for:				
Buildings and Improvements	(19,709,307)	(1,801,434)	17,766	(21,492,975)
Furniture and Equipment	(8,705,628)	(762,533)	110,052	(9,358,109)
Total Accumulated Depreciation	**(28,414,935)**	**(2,563,967)**	**127,818**	**(30,851,084)**
Total Capital Assets, being Depreciated, net	**73,943,585**	**(1,172,794)**	**(82,166)**	**72,688,625**
Governmental Activities Capital Assets, net	**$ 77,131,411**	**$ (1,172,794)**	**$ (82,166)**	**$ 75,876,451**

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

	Governmental Activities:	
11	Instruction	$ 1,334,336
12	Instructional Resources and Media Services	48,954
13	Curriculum Development and Instructional Staff Development	52,014
21	Instructional Leadership	27,537
23	School Leadership	113,206
31	Guidance, Counseling, and Evaluation Services	91,789
33	Health Services	21,417
34	Student Transportation	185,145
35	Food Service	183,712
36	Extracurricular Activities	188,643
41	General Administration	55,073
51	Plant Maintenance and Operations	182,598
52	Security and Monitoring Services	8,935
53	Data Processing Services	70,608
	Total Depreciation Expense-Governmental Activities	**$ 2,563,967**

Construction Commitments

As of August 31, 2014, the District has no open construction commitments.

E. Long-term Liabilities

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

Changes in Long-term Liabilities

Long-term liability activity for the year ended August 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General Obligation Bonds	$ 57,860,000	$ -	$ (1,815,000)	$ 56,045,000	$ 1,865,000
Less Deferred Amounts:					
For Issuance Premium (CIB's)	1,287,265	-	(78,254)	1,209,011	-
For Issuance Discount (CIB's)	(3,067)	-	228	(2,839)	-
Total Bonds Payable, net	**$ 59,144,198**	**$ -**	**$ (1,893,026)**	**$ 57,251,172**	**$ 1,865,000**

General Obligation Bonds

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

Series	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2003 REF	2.5-3.5%	$ 4,960,000	2018	$ 1,680,000	$ -	$ (315,000)	$ 1,365,000
2004 REF	3.5-5.0%	3,405,000	2019	1,645,000	-	(245,000)	1,400,000
2006 REF	3.5-5.5%	5,450,000	2018	2,775,000	-	(505,000)	2,270,000
2011 BLDG	1.5-5.0%	40,605,000	2038	39,130,000	-	(140,000)	38,990,000
2012 QSCB	3.50%	4,250,000	2027	4,250,000	-	-	4,250,000
2012 BLDG	1.50-1.70%	9,465,000	2026	8,380,000	-	(610,000)	7,770,000
Total Bonds Payable				**$ 57,860,000**	**$ -**	**$ (1,815,000)**	**$ 56,045,000**

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

Year Ending August 31	Principal Value	Interest	Total Requirements
2015	$ 1,865,000	$ 2,164,383	$ 4,029,383
2016	1,920,000	2,110,233	4,030,233
2017	1,980,000	2,048,392	4,028,392
2018	2,050,000	1,977,910	4,027,910
2019	2,115,000	1,916,563	4,031,563
2020	2,175,000	1,853,543	4,028,543
2021	2,240,000	1,790,118	4,030,118
2022	2,305,000	1,723,793	4,028,793
2023	2,375,000	1,654,355	4,029,355
2024	2,445,000	1,581,805	4,026,805
2025	2,515,000	1,512,585	4,027,585
2026	2,330,000	1,441,745	3,771,745
2027	1,940,000	1,292,125	3,232,125
2028	2,030,000	1,130,375	3,160,375
2029	2,125,000	1,037,125	3,162,125
2030	2,215,000	950,325	3,165,325
2031	2,305,000	859,925	3,164,925
2032	2,400,000	764,325	3,164,325
2033	2,500,000	663,263	3,163,263
2034	2,610,000	556,238	3,166,238
2035	2,720,000	442,975	3,162,975
2036	2,835,000	324,931	3,159,931
2037	2,960,000	199,938	3,159,938
2038	3,090,000	67,590	3,157,590
Totals	**$ 56,045,000**	**$ 30,064,560**	**$ 86,109,560**

As of August 31, 2014, the District did not have any authorized but unissued bonds.

F. Fund Balance

Other committed fund balance includes the following commitments of funds:

Other Governmental Fund:	
Campus Activity	$ 203,524
Gene & Nora Elder Scholarship	184
Total Other Committed Fund Balance	**$ 203,708**

G. Revenues from Local and Intermediate Sources

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

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Totals
Property Taxes	$ 16,925,027	$ 4,401,375	$ -	$ -	$ 21,326,402
Investment Income	17,725	3,344	3,059	1,894	26,022
Food Sales	-	-	-	559,221	559,221
Campus Activity - Various	-	-	-	295,791	295,791
Extracurricular Activities	225,954	-	-	-	225,954
Other	428,855	4,866	-	4,934	438,655
Total	**$ 17,597,561**	**$ 4,409,585**	**$ 3,059**	**$ 861,840**	**$ 22,872,045**

IV. Other Information

A. Risk Management

Property/Liability

The District is exposed to various risks of loss related to property/liability losses for which the District participates in the Texas Association of School Boards Risk Management Fund ("Fund"). The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for coverages, and develop a comprehensive loss control program. The District pays an annual premium to the Fund for its liability coverage and transfers the risk of loss to the Fund. The District's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and may provide, through commercial companies, reinsurance contracts. In the event that the Fund was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the Fund. In addition, there were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Health Insurance

During the year ended August 31, 2014, employees of the District were covered by a health insurance plan. The District paid premiums of $150 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The contract between the District and the licensed insurer is renewable annually and terms of coverage and premium costs are included in the contractual provisions.

Workers' Compensation

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

B. Contingencies

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through August 31, 2014, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

C. Defined Benefit Pension Plan

Pension Plan for Employees Participating in Teacher Retirement System

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year; (2) state statute prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

Contribution Rates and Contribution Amounts

	Member		State		School District Statutory Minimum
Year	Rate	Amount	Rate	Amount	Amount
2014	6.4%	$ 1,232,850	6.800%	$ 1,067,141	$ 142,036
2013	6.4%	$ 1,173,295	6.400%	$ 979,211	$ 104,039
2012	6.4%	$ 1,180,017	6.000%	$ 899,959	$ 107,559

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

D. School District Retiree Health Plan

Plan Description. The Kilgore Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The Teacher Retirement System of Texas issues a publicly

available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2014-2012.

Contribution Rates

	Active Member		State		School District	
Year	Rate	Amount	Rate	Amount	Rate	Amount
2014	0.65%	$ 125,211	1.00%	$ 180,190	0.55%	$ 105,948
2013	0.65%	$ 119,163	0.50%	$ 85,679	0.55%	$ 100,830
2012	0.65%	$ 119,845	1.00%	$ 169,441	0.55%	$ 101,408

In addition, the State of Texas contributed $51,781, $68,957 and $85,834 in 2014, 2013, and 2012, respectively, for on-behalf payments for Medicare Part D and Early Retiree Reinsurance Program.

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

E. Nonmonetary Transactions

During 2014, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of $498,523. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of $498,523 in a special revenue fund as both state revenues and expenditures, which represents the amount of consideration given by the State of Texas.

COMBINING FUNDS FINANCIAL STATEMENTS

KILGORE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
AUGUST 31, 2014

Data Control Codes		211 ESEA, Title I, Part A - Improving Basic Programs	224 IDEA - Part B, Formula
	ASSETS:		
1110	*Cash and Cash Equivalents*	$ -	$ -
1120	*Current Investments*	-	-
1240	*Due from Other Governments*	64,458	50,297
1290	*Other Receivables (Net)*	-	-
1300	*Inventories*	-	-
1000	Total Assets	$ 64,458	$ 50,297
	LIABILITIES:		
2110	*Accounts Payable*	$ -	$ -
2160	*Accrued Wages Payable*	22,686	16,498
2170	*Due to Other Funds*	41,772	33,799
2300	*Unearned Revenue*	-	-
2000	Total Liabilities	64,458	50,297
	FUND BALANCES:		
3410	*Nonspendable - Inventories*	-	-
3425	*Nonspendable Endowment Principal*	-	-
3450	*Restricted - Grant Funds*	-	-
3545	*Committed - Other*	-	-
3000	Total Fund Balances	-	-
4000	Total Liabilities and Fund Balances	$ 64,458	$ 50,297

225	240	242	244	255
IDEA - Part B, Preschool	National School Breakfast/Lunch Program	Summer Feeding Program	Career and Technical - Basic Grant	ESEA, Title II, Part A, Teacher and Principal Training and Recruiting
$ -	$ 1,509,459	$ -	$ -	$ -
-	-	-	-	-
-	33,455	-	1,927	6,715
-	230	-	-	-
-	86,598	-	-	-
$ -	$ 1,629,742	$ -	$ 1,927	$ 6,715
$ -	$ 2,160	$ -	$ -	$ -
-	30,459	-	-	2,215
-	17,970	-	1,927	4,500
-	49,607	-	-	-
-	100,196	-	1,927	6,715
-	57,448	-	-	-
-	-	-	-	-
-	1,472,098	-	-	-
-	-	-	-	-
-	1,529,546	-	-	-
$ -	$ 1,629,742	$ -	$ 1,927	$ 6,715

KILGORE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
AUGUST 31, 2014

Data Control Codes		263 Title III, Part A, English Language Acquisition and Enhancement	272 Medicaid Administrative Claiming Program
	ASSETS:		
1110	*Cash and Cash Equivalents*	$ -	$ -
1120	*Current Investments*	-	-
1240	*Due from Other Governments*	6,912	-
1290	*Other Receivables (Net)*	-	-
1300	*Inventories*	-	-
1000	Total Assets	$ 6,912	$ -
	LIABILITIES:		
2110	*Accounts Payable*	$ -	$ -
2160	*Accrued Wages Payable*	2,846	-
2170	*Due to Other Funds*	4,066	-
2300	*Unearned Revenue*	-	-
2000	Total Liabilities	6,912	-
	FUND BALANCES:		
3410	*Nonspendable - Inventories*	-	-
3425	*Nonspendable Endowment Principal*	-	-
3450	*Restricted - Grant Funds*	-	-
3545	*Committed - Other*	-	-
3000	Total Fund Balances	-	-
4000	Total Liabilities and Fund Balances	$ 6,912	$ -

289	385	410	461	462	
Title VI, Part A, Summer School LEP	Visually Impaired	State Textbook Fund	Campus Activity Funds	Gene & Nora Elder Scholarship	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
$ -	$ -	$ -	$ 203,524	$ -	$ 1,712,983
-	-	-	-	30,184	30,184
-	-	-	-	-	163,764
-	-	-	-	-	230
-	-	-	-	-	86,598
$ -	$ -	$ -	$ 203,524	$ 30,184	$ 1,993,759
$ -	$ -	$ -	$ -	$ -	$ 2,160
-	-	-	-	-	74,704
-	-	-	-	-	104,034
-	-	-	-	-	49,607
-	-	-	-	-	230,505
-	-	-	-	-	57,448
-	-	-	-	30,000	30,000
-	-	-	-	-	1,472,098
-	-	-	203,524	184	203,708
-	-	-	203,524	30,184	1,763,254
$ -	$ -	$ -	$ 203,524	$ 30,184	$ 1,993,759

KILGORE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		211 ESEA, Title I, Part A - Improving Basic Programs	224 IDEA - Part B, Formula
	REVENUES:		
5700	*Local and Intermediate Sources*	$ -	$ -
5800	*State Program Revenues*	-	-
5900	*Federal Program Revenues*	737,931	550,554
5020	Total Revenues	737,931	550,554
	EXPENDITURES:		
	Current:		
0011	*Instruction*	669,586	446,897
0012	*Instructional Resources and Media Services*	-	-
0013	*Curriculum and Staff Development*	24,805	1,604
0021	*Instructional Leadership*	6,603	2,410
0023	*School Leadership*	-	-
0031	*Guidance, Counseling, and Evaluation Services*	32,547	8,757
0033	*Health Services*	-	-
0034	*Student Transportation*	-	87,405
0035	*Food Service*	-	-
0036	*Extracurricular Activities*	-	-
0051	*Plant Maintenance and Operations*	-	-
0061	*Community Services*	4,390	3,481
6030	Total Expenditures	737,931	550,554
1100	Excess (Deficiency) of Revenues Over (Under)		
1100	Expenditures	-	-
	OTHER FINANCING SOURCES (USES):		
7915	*Transfers In*	-	-
8911	*Transfers Out*	-	-
7917	Total Other Financing Sources (Uses)	-	-
1200	Net Change in Fund Balances	-	-
0100	Fund Balances - Beginning	-	-
3000	Fund Balances - Ending	$ -	$ -

225	240	242	244	255
IDEA - Part B, Preschool	National School Breakfast/Lunch Program	Summer Feeding Program	Career and Technical - Basic Grant	ESEA, Title II, Part A, Teacher and Principal Training and Recruiting
$ -	$ 565,663	$ 95	$ -	$ -
-	10,758	-	-	-
6,871	1,489,848	17,647	31,650	122,413
6,871	2,066,269	17,742	31,650	122,413
6,871	-	-	14,588	43,548
-	-	-	-	-
-	-	-	-	78,865
-	-	-	17,062	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	1,724,984	10,277	-	-
-	-	-	-	-
-	15,179	-	-	-
-	-	-	-	-
6,871	1,740,163	10,277	31,650	122,413
-	326,106	7,465	-	-
-	7,465	-	-	-
-	(247,344)	(7,465)	-	-
-	(239,879)	(7,465)	-	-
-	86,227	-	-	-
-	1,443,319	-	-	-
$ -	$ 1,529,546	$ -	$ -	$ -

KILGORE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		263 Title III, Part A, English Language Acquisition and Enhancement	272 Medicaid Administrative Claiming Program
	REVENUES:		
5700	*Local and Intermediate Sources*	$ -	$ -
5800	*State Program Revenues*	-	-
5900	*Federal Program Revenues*	48,361	17,931
5020	Total Revenues	48,361	17,931
	EXPENDITURES:		
	Current:		
0011	*Instruction*	47,207	-
0012	*Instructional Resources and Media Services*	-	-
0013	*Curriculum and Staff Development*	514	-
0021	*Instructional Leadership*	-	-
0023	*School Leadership*	-	-
0031	*Guidance, Counseling, and Evaluation Services*	-	-
0033	*Health Services*	-	17,931
0034	*Student Transportation*	-	-
0035	*Food Service*	-	-
0036	*Extracurricular Activities*	-	-
0051	*Plant Maintenance and Operations*	-	-
0061	*Community Services*	640	-
6030	Total Expenditures	48,361	17,931
1100	Excess (Deficiency) of Revenues Over (Under)		
1100	Expenditures	-	-
	OTHER FINANCING SOURCES (USES):		
7915	*Transfers In*	-	-
8911	*Transfers Out*	-	-
7917	Total Other Financing Sources (Uses)	-	-
1200	Net Change in Fund Balances	-	-
0100	Fund Balances - Beginning	-	-
3000	Fund Balances - Ending	$ -	$ -

289	385	410	461	462	
Title VI, Part A, Summer School LEP	Visually Impaired	State Textbook Fund	Campus Activity Funds	Gene & Nora Elder Scholarship	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
$ -	$ -	$ -	$ 296,053	$ 29	$ 861,840
-	1,050	547,248	-	-	559,056
3,339	-	-	-	-	3,026,545
3,339	1,050	547,248	296,053	29	4,447,441
3,339	1,050	547,248	50,438	-	1,830,772
-	-	-	14,454	-	14,454
-	-	-	1,463	-	107,251
-	-	-	-	-	26,075
-	-	-	65,765	-	65,765
-	-	-	-	-	41,304
-	-	-	-	-	17,931
-	-	-	-	-	87,405
-	-	-	-	-	1,735,261
-	-	-	194,118	-	194,118
-	-	-	-	-	15,179
-	-	-	-	-	8,511
3,339	1,050	547,248	326,238	-	4,144,026
-	-	-	(30,185)	29	303,415
-	-	-	-	-	7,465
-	-	-	-	-	(254,809)
-	-	-	-	-	(247,344)
-	-	-	(30,185)	29	56,071
-	-	-	233,709	30,155	1,707,183
$ -	$ -	$ -	$ 203,524	$ 30,184	$ 1,763,254

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SUPPLEMENTARY INFORMATION

KILGORE INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2014

Year Ended August 31	1 Tax Rates Maintenance	2 Tax Rates Debt Service	3 Assessed/Appraised Value For School Tax Purposes
2005 and Prior Years	$ Various	$ Various	$ Various
2006	1.5000	0.1120	921,886,126
2007	1.3700	0.0967	1,084,141,915
2008	1.0400	0.0931	1,260,683,523
2009	1.0400	0.0810	1,585,005,174
2010	1.0400	0.0692	1,679,917,890
2011	1.0400	0.0692	1,637,686,080
2012	1.0400	0.2692	1,655,149,175
2013	1.0400	0.2692	1,660,756,722
2014 (School Year Under Audit)	1.0400	0.2692	1,642,326,612
1000 Totals			
9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code			

EXHIBIT J-1

10 Beginning Balance 9/1/13	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/14
$ 414,274	$ -	$ 6,519	$ 522	$ (54,564)	$ 352,669
82,440	-	2,417	180	(1,725)	78,118
98,965	-	3,899	275	(1,519)	93,272
135,926	-	7,254	650	(3,043)	124,979
133,659	-	12,179	949	(3,125)	117,406
131,453	-	15,443	1,028	(2,667)	112,315
142,097	-	20,326	1,353	(1,640)	118,778
206,748	-	49,251	12,746	9,777	154,528
748,228	-	(308)	(80)	(199,717)	548,899
-	21,501,340	16,483,206	4,266,615	(79,335)	672,184
$ 2,093,790	$ 21,501,340	$ 16,600,186	$ 4,284,238	$ (337,558)	$ 2,373,148
		$ -	$ -		

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
	REVENUES:				
5700	*Local and Intermediate Sources*	$ 552,849	$ 552,849	$ 565,663	$ 12,814
5800	*State Program Revenues*	11,000	11,000	10,758	(242)
5900	*Federal Program Revenues*	1,453,400	1,453,400	1,489,848	36,448
5020	Total Revenues	2,017,249	2,017,249	2,066,269	49,020
	EXPENDITURES:				
	Current:				
	Support Services - Student (Pupil):				
0035	*Food Service*	2,017,249	1,992,249	1,724,984	267,265
	Total Support Services - Student (Pupil)	2,017,249	1,992,249	1,724,984	267,265
	Support Services - Nonstudent Based:				
0051	*Plant Maintenance and Operations*	-	25,000	15,179	9,821
	Total Support Services - Nonstudent Based	-	25,000	15,179	9,821
6030	Total Expenditures	2,017,249	2,017,249	1,740,163	277,086
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	-	-	326,106	326,106
	OTHER FINANCING SOURCES (USES):				
7915	*Transfers In*	-	-	7,465	7,465
8911	*Transfers Out*	-	(247,344)	(247,344)	-
7080	Total Other Financing Sources (Uses)	-	(247,344)	(239,879)	7,465
1200	Net Change in Fund Balance	-	(247,344)	86,227	333,571
0100	Fund Balance - Beginning	1,443,319	1,443,319	1,443,319	-
3000	Fund Balance - Ending	$ 1,443,319	$ 1,195,975	$ 1,529,546	$ 333,571

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
	REVENUES:				
5700	*Local and Intermediate Sources*	$ 4,297,896	$ 4,297,896	$ 4,409,585	$ 111,689
5900	*Federal Program Revenues*	-	-	148,750	148,750
5020	Total Revenues	4,297,896	4,297,896	4,558,335	260,439
	EXPENDITURES:				
	Debt Service:				
0071	*Principal on Long-term Debt*	1,815,000	1,815,000	1,815,000	-
0072	*Interest on Long-term Debt*	2,091,896	2,091,896	2,226,356	(134,460)
0073	*Issuance Costs and Fees*	-	-	4,050	(4,050)
	Total Debt Service	3,906,896	3,906,896	4,045,406	(138,510)
6030	Total Expenditures	3,906,896	3,906,896	4,045,406	(138,510)
1200	Net Change in Fund Balance	391,000	391,000	512,929	121,929
0100	Fund Balance - Beginning	893,733	893,733	893,733	-
3000	Fund Balance - Ending	$ 1,284,733	$ 1,284,733	$ 1,406,662	$ 121,929

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OVERALL COMPLIANCE, INTERNAL CONTROL SECTION AND FEDERAL AWARDS

HLSK

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kilgore Independent School District (District), as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 23, 2014.

Internal Control Over Financial Reporting

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 opinions 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully,

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

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

Conroe, Texas
October 23, 2014

HLSK

Hereford, Lynch, Sellars & Kirkham

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

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

Report on Compliance for Each Major Federal Program

We have audited Kilgore Independent School District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Respectfully,

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

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

Conroe, Texas
October 23, 2014

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KILGORE INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2014

SECTION I – SUMMARY OF AUDITORS' RESULTS	
FINANCIAL STATEMENTS	
1. Type of auditors' report issued	Unmodified
2. Internal Control over Financial Reporting:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
3. Noncompliance material to Financial Statements noted?	No
FEDERAL AWARDS	
4. Internal control over major programs:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
5. Type of auditors' report issued on compliance with major programs	Unmodified
6. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133	No
7. Identification of Major Programs	Title I, Part A 84.010A Special Education Cluster
8. Dollar Threshold used to distinguish Between Type A and Type B Federal Programs	$300,000
9. Auditee Qualified as a Low-Risk Auditee?	Yes

SECTION II –FINANCIAL STATEMENT FINDINGS
None reported
SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
None reported

KILGORE INDEPENDENT SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2014

PRIOR YEAR FINDINGS
None reported

KILGORE INDEPENDENT SCHOOL DISTRICT

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2014

CURRENT YEAR FINDINGS
None reported

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT K-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2014

(1) Federal Grantor/ Pass Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
ESEA Title I, Part A - Improving Basic Programs	84.010A	14610101092902	$ 711,398
ESEA Title I, Part A - Improving Basic Programs	84.010A	15610101092902	26,533
Total CFDA Number 84.010A			**737,931**
Special Education Cluster (IDEA):			
IDEA-B Formula	84.027A	146600010929026600	534,056
IDEA-B Formula	84.027A	156600010929026600	16,498
IDEA-B Preschool	84.173A	146610010929026610	6,871
Total Special Education Cluster (IDEA)			**557,425**
Career and Technical - Basic Grant	84.048A	14420006092902	29,723
Career and Technical - Basic Grant	84.048A	15420006092902	1,927
Total CFDA Number 84.048A			**31,650**
Title III, Part A English Language Acquisition and Language Enhancement	84.365A	14671001092902	45,515
Title III, Part A English Language Acquisition and Language Enhancement	84.365A	15671001092902	2,846
Total CFDA Number 84.365A			**48,361**
ESEA Title II, Part A - Teacher & Principal Training & Recruiting	84.367A	14694501092902	119,762
ESEA Title II, Part A - Teacher & Principal Training & Recruiting	84.367A	15694501092902	2,651
Total CFDA Number 84.367A			**122,413**
Summer School LEP	84.369A	69551302	3,339
TOTAL U.S. DEPARTMENT OF EDUCATION			**1,501,119**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through State Department of Health and Human Services:			
Medicaid Administrative Claiming Program - MAC	93.778	529-07-0157-00056	17,931
U.S. DEPARTMENT OF AGRICULTURE			
Child Nutrition Cluster:			
Passed Through State Department of Education:			
Non-Cash Assistance (Commodities):			
National School Lunch Program	10.555	00438	117,832
Cash Assistance:			
School Breakfast Program	10.553	71401401	360,649
National School Lunch Program	10.555	71301401	1,011,367
Passed Through State Department of Agriculture:			
Summer Feeding Program	10.559	00438	17,647
TOTAL U.S. DEPARTMENT OF AGRICULTURE - CHILD NUTRITION CLUSTER			**1,507,495**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 3,026,545**

The accompanying notes are an integral part of this schedule.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2014

Basis of Presentation:

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

Total Expenditures of Federal Awards per Exhibit K-1	**$**	**3,026,545**
Additional federal revenues reported in the General Fund and Debt Service Fund:		
School Health and Realted Services (SHARS)		218,799
Interest Subsidy on Qualified School Construction Bonds		148,750
Total Federal Revenues per Exhibit C-2	**$**	**3,394,094**

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KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT L-1

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2014

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	$ -