

**KERRVILLE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
AUGUST 31, 2014**

KERRVILLE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2014

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CERTIFICATE OF BOARD

Kerrville Independent School District
Name of School District

Kerr
County

133903
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) X approved disapproved for the year ended August 31, 2014 at a meeting of the Board of Trustees of such school district on the January 19, 2015.

Signature of Board Secretary

Signature of Board President

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

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PRESSLER, THOMPSON AND COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

ONE SCHREINER CENTER
819 WATER STREET, SUITE 320
KERRVILLE, TEXAS 78028

Jerry N. Oliver, C.P.A.
Timothy R. Porter, C.P.A.
Brenda G. Beaty, C.P.A.
Gary B. Selgrath, C.P.A.

Telephone (830) 257-7241
Fax (830) 896-4041
Website: www.ptcocpa.com

Independent Auditor's Report

To the Board of Trustees
Kerrville Independent School District
Kerrville, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, the business-type activities, each major fund, and the aggregate remaining fund information of Kerrville Independent School District as of August 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison Schedule - General Fund, 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 the District's basic financial statements. The Combining Schedules and the TEA Required Schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis, as required by 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 Schedule of Expenditures of Federal Awards, the Combining Schedules, and the TEA Required Schedules 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, this information is 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 January 12, 2015, on our consideration of the 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 the District's internal control over financial reporting and compliance.

Pressler, Thompson and Company

Pressler, Thompson and Company
January 12, 2015

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Management's Discussion and Analysis
KERRVILLE INDEPENDENT SCHOOL DISTRICT

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

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$1,346,434 as a result of this year's operations.
- During the year, the District had tax and other revenues for governmental programs of \$45,397,409 and operating expenses of \$44,050,975. This is a decrease of \$54,970 in revenues and a decrease of \$925,731 in expenses compared to last year.
- The General Fund ended the year with a fund balance of \$4,697,645 which is a decrease of \$1,315,064.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (Exhibits A-1 and B-1). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (Exhibits C-1 and C-3) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

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

The combining statements for non-major funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations is contained in Exhibit A-1 and B-1. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities the District reports its governmental activities. The basic services included here are instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements (Exhibit C-1 and C-3) provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds—governmental and proprietary—use different accounting approaches.

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

· **Proprietary funds**—The District reports the activities for which it charges users (other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The Transportation Fund, an internal service fund, is the District's only proprietary fund.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position in Exhibit E-1. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the District's governmental activities increased from \$41,227,566 to \$42,574,000. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$5,332,312 at August 31, 2014.

Table I
Kerrville Independent School District
Net Position

	Governmental Activities	
	2014	2013
Current and other assets	\$ 9,011,824	\$ 16,913,902
Capital assets	60,828,998	54,114,568
Total assets	<u>69,840,822</u>	<u>71,028,470</u>
Long-term liabilities	25,286,724	27,674,973
Other liabilities	1,980,098	2,125,931
Total liabilities	<u>27,266,822</u>	<u>29,800,904</u>
Net Position		
Invested in capital assets, net of related debt	35,501,479	26,439,595
Restricted	1,740,209	7,261,979
Unrestricted	<u>5,332,312</u>	<u>7,525,992</u>
Total net position	<u>\$ 42,574,000</u>	<u>\$ 41,227,566</u>

Table II
Kerrville Independent School District
CHANGES IN NET POSITION

	Governmental Activities	
	2014	2013
Revenues:		
Program Revenues:		
Charges for services	\$ 1,276,893	\$ 1,122,372
Operating grants and contributions	7,657,803	8,229,962
General Revenues:		
Maintenance and operations taxes	23,569,461	23,544,888
Debt service taxes	3,200,140	3,182,226
Grants, contributions not restricted to specific functions	10,073,868	9,451,170
Investment earnings	8,981	85,747
Miscellaneous	(389,737)	(163,986)
Total Revenue	<u>45,397,409</u>	<u>45,452,379</u>
Expenses:		
Instruction, curriculum and media services	25,077,600	25,683,231
Instructional/school leadership	3,062,731	3,043,916
Guidance, social work, health, transportation	3,539,828	3,551,737
Food Service	2,507,893	2,064,976
Co-curricular activities	1,527,144	1,582,473
General administration	1,375,328	1,700,076
Plant maintenance and security	4,437,454	4,230,322
Data Processing	626,181	823,166
Community services	430,767	559,366
Debt service	1,014,909	1,737,443
Capital outlay	105,244	-
Other intergovernmental charges	345,896	-
Total Expenses	<u>44,050,975</u>	<u>44,976,706</u>
Increase in Net Position	1,346,434	475,673
Net Position - beginning of year	<u>41,227,566</u>	<u>40,751,893</u>
Net Position - end of year	<u>\$ 42,574,000</u>	<u>\$ 41,227,566</u>

The cost of all governmental activities this year was \$44,050,975 compared to \$44,976,706 last year. However, as shown in the Statement of Activities on Exhibit B-1, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$26,769,601 because some of the costs were paid by those who directly benefited from the programs of \$1,276,893 or by other governments and organizations that subsidized certain programs with grants and contributions of \$7,657,803.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$6,437,854 which is \$7,836,834 less than last year's total of \$14,274,688. Included in this year's total change in fund balance is a decrease of \$1,315,064 in the District's General Fund, a decrease of \$155,878 in the Debt Service Fund, and an increase of \$17,264 in the Child Nutrition Fund. The Capital Projects Fund had a decrease of \$6,383,156 due to the timing of the bond revenue that was received in the prior year and the expenditures paid during the 2013-14 audited year.

During the year the Board of Trustees revised the District's budget periodically as needed. The total amendments increased appropriations \$2,198,834, as follows.

- \$500,000 Press Box
- \$1,300,000 Stadium and Fieldhouse Renovation
- \$93,000 Instructional Material Allotment
- \$305,834 Stipends

During the year fund balance was used for capital projects. This created a significant variation between the adopted budget and the final budget. The principal amendments of \$1,800,000 were to allocate funds to the capital projects accounts. Of the \$1,800,000, \$500,000 was moved to the General Fund function 81 (facilities acquisition and construction), and \$1,300,000 was moved to the capital projects fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2014 school year, the District had \$95,868,773 invested in a broad range of capital assets including facilities and equipment for instruction, transportation, athletics, administration and maintenance. This amount represents a net increase of \$8,311,780 over the previous year.

Debt

The District's long-term liabilities are presented in Notes F and G to the financial statements (Section III, Detailed Notes on All Funds).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2015 budget and tax rates. The major factors are the changes in student population, state funding and local economic concerns including tax base changes and employee compensation needs. These indicators were taken into account when adopting the General Fund budget for 2015 which included a tax rate of \$1.18 per \$100 valuation, the same rate adopted for the fiscal year 2014. Amounts available for appropriation and expenditures in the 2015 General Fund budget are estimated to be \$35,585,000.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Kerrville Independent School District, 1009 Barnett Street, Kerrville, Texas.

BASIC FINANCIAL STATEMENTS

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

Data Control Codes		Primary Government
		Governmental Activities
ASSETS		
1110	Cash and Cash Equivalents	\$ 2,455,831
1120	Current Investments	3,182,189
1210	Property Taxes - Current	492,316
1220	Property Taxes Receivable (Delinquent)	994,178
1230	Allowance for Uncollectible Taxes	(597,003)
1240	Due from Other Governments	2,063,225
1290	Other Receivables, net	235,971
1300	Inventories	104,447
1410	Prepayments	80,670
Capital Assets:		
1510	Land	2,344,403
1520	Buildings, Net	57,879,017
1530	Furniture and Equipment, Net	605,578
1000	Total Assets	69,840,822
LIABILITIES		
2110	Accounts Payable	587,729
2120	Short Term Debt Payable	10,000
2140	Interest Payable	40,795
2160	Accrued Wages Payable	909,231
2180	Due to Other Governments	2,203
2190	Due to Student Groups	348,410
2300	Unearned Revenue	81,730
Noncurrent Liabilities		
2501	Due Within One Year	2,465,000
2502	Due in More Than One Year	22,821,724
2000	Total Liabilities	27,266,822
NET POSITION		
3200	Net Investment in Capital Assets	35,501,479
3820	Restricted for Federal and State Programs	20,006
3850	Restricted for Debt Service	1,126,700
3860	Restricted for Capital Projects	593,503
3900	Unrestricted	5,332,312
3000	Total Net Position	\$ 42,574,000

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 24,376,799	\$ 58,028	\$ 3,665,305	\$ (20,653,466)
12 Instructional Resources and Media Services	421,877	-	39,119	(382,758)
13 Curriculum and Staff Development	278,924	-	60,085	(218,839)
21 Instructional Leadership	626,026	-	40,591	(585,435)
23 School Leadership	2,436,705	-	188,180	(2,248,525)
31 Guidance, Counseling and Evaluation Services	1,682,664	-	645,561	(1,037,103)
32 Social Work Services	73,417	-	41,173	(32,244)
33 Health Services	440,440	-	72,906	(367,534)
34 Student (Pupil) Transportation	1,343,307	-	48,258	(1,295,049)
35 Food Services	2,507,893	608,508	2,422,411	523,026
36 Extracurricular Activities	1,527,144	145,898	193,695	(1,187,551)
41 General Administration	1,375,328	130,127	55,727	(1,189,474)
51 Facilities Maintenance and Operations	4,286,169	119,800	123,662	(4,042,707)
52 Security and Monitoring Services	151,285	-	3,041	(148,244)
53 Data Processing Services	626,181	-	20,970	(605,211)
61 Community Services	430,767	204,115	37,119	(189,533)
72 Debt Service - Interest on Long Term Debt	1,032,327	10,417	-	(1,021,910)
73 Debt Service - Bond Issuance Cost and Fees	(17,418)	-	-	17,418
81 Capital Outlay	105,244	-	-	(105,244)
99 Other Intergovernmental Charges	345,896	-	-	(345,896)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 44,050,975	\$ 1,276,893	\$ 7,657,803	(35,116,279)

Data Control Codes	General Revenues:	
Taxes:		
MT	Property Taxes, Levied for General Purposes	23,569,461
DT	Property Taxes, Levied for Debt Service	3,200,140
GC	Grants and Contributions not Restricted	10,073,868
IE	Investment Earnings	8,981
MI	Miscellaneous Local and Intermediate Revenue	(389,737)
TR	Total General Revenues	36,462,713
CN	Change in Net Position	1,346,434
NB	Net Position - Beginning	41,227,566
NE	Net Position - Ending	\$ 42,574,000

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 2,070,309	\$ 10,442	\$ -
1120 Investments - Current	1,196,809	1,064,535	920,845
1210 Property Taxes - Current	433,906	58,410	-
1220 Property Taxes - Delinquent	857,707	136,471	-
1230 Allowance for Uncollectible Taxes (Credit)	(510,053)	(86,950)	-
1240 Receivables from Other Governments	1,876,837	-	-
1260 Due from Other Funds	769,080	51,724	-
1290 Other Receivables	-	-	96,394
1300 Inventories	44,115	-	-
1410 Prepayments	80,670	-	-
1000 Total Assets	<u>\$ 6,819,380</u>	<u>\$ 1,234,632</u>	<u>\$ 1,017,239</u>
LIABILITIES			
2110 Accounts Payable	\$ 390,667	\$ -	\$ 93,884
2120 Short Term Debt Payable - Current	10,000	-	-
2160 Accrued Wages Payable	807,189	-	-
2170 Due to Other Funds	51,724	-	329,852
2180 Due to Other Governments	2,203	-	-
2190 Due to Student Groups	-	-	-
2300 Unearned Revenues	859,952	107,932	-
2000 Total Liabilities	<u>2,121,735</u>	<u>107,932</u>	<u>423,736</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3410 Inventories	44,115	-	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	593,503
3480 Retirement of Long-Term Debt	-	1,126,700	-
Committed Fund Balance:			
3545 Other Committed Fund Balance	747,818	-	-
3600 Unassigned Fund Balance	3,905,712	-	-
3000 Total Fund Balances	<u>4,697,645</u>	<u>1,126,700</u>	<u>593,503</u>
4000 Total Liabilities and Fund Balances	<u>\$ 6,819,380</u>	<u>\$ 1,234,632</u>	<u>\$ 1,017,239</u>

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

		Total	
Other		Governmental	
Funds		Funds	
\$	375,080	\$	2,455,831
	-		3,182,189
	-		492,316
	-		994,178
	-		(597,003)
	186,388		2,063,225
	-		820,804
	139,577		235,971
	60,332		104,447
	-		80,670
<u>\$</u>	<u>761,377</u>	<u>\$</u>	<u>9,832,628</u>
\$	79,329	\$	563,880
	-		10,000
	102,042		909,231
	208,253		589,829
	-		2,203
	348,410		348,410
	3,337		971,221
<u>\$</u>	<u>741,371</u>	<u>\$</u>	<u>3,394,774</u>
	-		44,115
	20,006		20,006
	-		593,503
	-		1,126,700
	-		747,818
	-		3,905,712
<u>\$</u>	<u>20,006</u>	<u>\$</u>	<u>6,437,854</u>
<u>\$</u>	<u>761,377</u>	<u>\$</u>	<u>9,832,628</u>

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

Total Fund Balances - Governmental Funds	\$ 6,437,854
1 The District uses internal service funds to charge the costs of certain activities to appropriate functions in other funds. The District's only internal service fund is the transportation fund. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	378,661
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$84,551,621 and the accumulated depreciation was \$31,128,407. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The long term debt was \$29,800,904 at the beginning of the year. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	23,622,310
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2014 capital outlays of \$8,619,406 and debt principal payments of \$2,370,000 is to increase net position.	10,989,406
4 The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(1,623,633)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	2,769,402
19 Net Position of Governmental Activities	\$ 42,574,000

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 24,727,743	\$ 3,251,942	\$ 2,075
5800 State Program Revenues	11,385,342	-	-
5900 Federal Program Revenues	454,008	-	-
5020 Total Revenues	36,567,093	3,251,942	2,075
EXPENDITURES:			
Current:			
0011 Instruction	20,740,366	-	-
0012 Instructional Resources and Media Services	342,640	-	-
0013 Curriculum and Instructional Staff Development	217,783	-	-
0021 Instructional Leadership	609,786	-	-
0023 School Leadership	2,331,855	-	-
0031 Guidance, Counseling and Evaluation Services	1,082,733	-	-
0032 Social Work Services	33,088	-	-
0033 Health Services	390,353	-	-
0034 Student (Pupil) Transportation	1,428,261	-	-
0035 Food Services	20,290	-	-
0036 Extracurricular Activities	1,328,500	-	-
0041 General Administration	1,362,042	-	-
0051 Facilities Maintenance and Operations	4,245,784	-	-
0052 Security and Monitoring Services	148,244	-	-
0053 Data Processing Services	563,785	-	-
0061 Community Services	359,332	-	-
Debt Service:			
0071 Principal on Long Term Debt	-	2,370,000	-
0072 Interest on Long Term Debt	-	1,036,989	-
0073 Bond Issuance Cost and Fees	-	831	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	1,031,419	-	7,685,231
Intergovernmental:			
0099 Other Intergovernmental Charges	345,896	-	-
6030 Total Expenditures	36,582,157	3,407,820	7,685,231
1100 Excess (Deficiency) of Revenues Over (Under)	(15,064)	(155,878)	(7,683,156)
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	131,840	-	1,300,000
8911 Transfers Out (Use)	(1,431,840)	-	-
7080 Total Other Financing Sources (Uses)	(1,300,000)	-	1,300,000
1200 Net Change in Fund Balances	(1,315,064)	(155,878)	(6,383,156)
0100 Fund Balance - September 1 (Beginning)	6,012,709	1,282,578	6,976,659
3000 Fund Balance - August 31 (Ending)	\$ 4,697,645	\$ 1,126,700	\$ 593,503

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

Other Funds	Total Governmental Funds
\$ 1,071,831	\$ 29,053,591
28,990	11,414,332
4,791,500	5,245,508
5,892,321	45,713,431
2,478,918	23,219,284
18,885	361,525
54,710	272,493
16,240	626,026
74,579	2,406,434
585,931	1,668,664
40,329	73,417
50,087	440,440
-	1,428,261
2,392,446	2,412,736
140,202	1,468,702
-	1,362,042
-	4,245,784
3,041	151,285
-	563,785
19,689	379,021
-	2,370,000
-	1,036,989
-	831
-	8,716,650
-	345,896
5,875,057	53,550,265
17,264	(7,836,834)
-	1,431,840
-	(1,431,840)
-	-
17,264	(7,836,834)
2,742	14,274,688
\$ 20,006	\$ 6,437,854

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

Total Net Change in Fund Balances - Governmental Funds	\$ (7,836,834)
The District uses internal service funds to charge the costs of certain activities to appropriate functions in other funds. The District's only internal service fund is the transportation fund. The net income (loss) of internal service fund is reported with governmental activities. The net effect of this consolidation is to increase net position.	110,606
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2014 capital outlays (\$8,619,406) and debt principal payments (\$2,370,000) is to increase net position.	10,989,406
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(1,623,633)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to (decrease) net position.	(293,111)
Change in Net Position of Governmental Activities	\$ 1,346,434

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

KERRVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2014

	Governmental Activities -
	Internal Service Fund
ASSETS	
Noncurrent Assets:	
Capital Assets:	
Buildings and Improvements	\$ 223,746
Depreciation on Buildings	(72,336)
Furniture and Equipment	2,847,474
Depreciation on Furniture and Equipment	(2,365,399)
Total Noncurrent Assets	<u>633,485</u>
Total Assets	<u>633,485</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	23,849
Due to Other Funds	<u>230,975</u>
Total Liabilities	<u>254,824</u>
NET POSITION	
Net Investment in Capital Assets	268,055
Unrestricted Net Position	<u>110,606</u>
Total Net Position	<u><u>\$ 378,661</u></u>

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

KERRVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 1,810,458
State Program Revenues	63,008
Total Operating Revenues	<u>1,873,466</u>
OPERATING EXPENSES:	
Payroll Costs	1,158,294
Professional and Contracted Services	50,010
Supplies and Materials	366,318
Other Operating Costs	40,102
Depreciation Expense	148,136
Total Operating Expenses	<u>1,762,860</u>
Operating Income	110,606
Total Net Position - September 1 (Beginning)	<u>268,055</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 378,661</u></u>

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

KERRVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 1,810,458
Cash Payments to Employees for Services	(1,095,286)
Cash Payments for Other Operating Expenses	(434,635)
Net Cash Provided by Operating Activities	<u>280,537</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Increase(decrease) in Short-term Loans	<u>(190,270)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	<u>(90,267)</u>
Net Increase in Cash and Cash Equivalents	-
Cash and Cash Equivalents at Beginning of Year	<u>-</u>
Cash and Cash Equivalents at End of Year	<u>\$ -</u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	\$ 110,606
Operating Income:	
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	148,136
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	<u>21,795</u>
Net Cash Provided by Operating Activities	<u>\$ 280,537</u>

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

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

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 234,218
Total Assets	<u>\$ 234,218</u>
LIABILITIES	
Accounts Payable	\$ 6,175
Due to Other Governments	91
Due to Student Groups	227,952
Total Liabilities	<u>\$ 234,218</u>

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

KERRVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kerrville Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units in conjunction with Texas Education Agency's **Financial Accountability System Resource Guide** (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

This report includes the financial statements of the funds required to account for those activities, organizations, and functions which are related to the District and which are controlled by or dependent upon the District's governing body, the Board of Trustees (the "Board"). The Board, a seven member group, has the exclusive power and duty to govern and oversee the management of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or the State Board of Education are reserved for the Board.

The District receives funding from local, state, and federal government sources and must comply with the applicable requirements of these funding entities. However, the District is not included in any other governmental "reporting entity", as defined by GASB section 2100, Codification of *Governmental Accounting and Financial Reporting Standards*, since Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. There are no component units included within the reporting entity. The District is a governmental entity exempt from federal income taxation under Internal Revenue Code Section 115.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Kerrville Independent School District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as 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.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The District considers local revenues "available" when they are collected. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. FUND ACCOUNTING

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for the purpose of carrying on specific activities in accordance with laws, regulations, or other appropriate requirements.

Governmental Fund Types

The District reports the following major governmental funds:

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

Debt Service Fund – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in the debt service fund. This is a budgeted fund.

Capital Projects Fund – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Additionally, the District reports the following nonmajor governmental funds:

Special Revenue Funds – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance are accounted for in a special revenue fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods. The Child Nutrition Program is the only special revenue fund that is required to be budgeted.

Permanent Funds – The District accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs. The District has no permanent funds.

Proprietary Fund Types

Internal Service Fund – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. Internal service funds inherently create redundancy because their expenses are recorded a second time in the funds that are billed for the services they provide. Therefore, on the government-wide financial statements, the operations of the internal service funds are consolidated and interfund transactions are eliminated. The District's internal service fund is the Transportation Fund.

Enterprise Funds – The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The District has no enterprise funds.

Fiduciary Fund Types

Private Purpose Trust Funds – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District has no private purpose trust funds.

Pension (and Other Employee Benefit) Trust Funds – These funds are used to account for local pension and other employee benefit funds that are provided by the District in lieu of or in addition to the Teacher Retirement System of Texas. The District has no pension trust funds.

Investment Trust Funds – The District holds assets in trust for other entities participating in an investment program managed by the District in these types of funds. The District has no investment trust funds.

Agency Funds – The District accounts for resources held for others in a custodial capacity in agency funds. The District's only agency fund is the Student Activity Fund.

E. FUND EQUITY

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

Governmental Fund Balances - Generally, governmental fund balances represent the difference between the current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources. Governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those resources can be spent. Fund balances are classified as follows:

Nonspendable – Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash) or (b) legally or contractually required to be maintained intact.

Restricted – Fund balances are restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Committed – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by the District's Board of Trustees. Approval of a resolution after a formal vote is required to establish a commitment of fund balance. Similarly, the Board of Trustees may only modify or rescind the commitment by formal vote and adoption of a subsequent resolution. Commitments of fund balance represent tentative plans that are subject to change.

Assigned – Fund balances are reported as assigned when amounts are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Trustees has not delegated this authority to an individual; therefore, the Board of Trustees retains the right to assign fund balances.

Unassigned – Unassigned fund balances represent fund balances that have not been restricted, committed, or assigned.

When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the District's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the District's policy to use fund balance in the following order: (1) unassigned, (2) assigned, and (3) committed.

Net Position - Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of cost of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net investment in capital assets amount also is adjusted by any bond issuance deferral amounts. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted.

F. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and revenue when received. When requisitioned, inventory expenditures are charged, and revenue is recognized for an equal amount.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

4. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District.
5. Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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 one or more years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Infrastructure	50
Vehicles	5
Office Equipment	5
Computer Equipment	5

6. Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.

7. Risk Management

Workers' Compensation Fund

During the year ended August 31, 2014, Kerrville Independent School District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2013, the Fund carries a discounted reserve of \$57,050,754 for future development on reported claims and claims that have been incurred but not yet reported. For the year-ended August 31, 2014, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2013, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

Unemployment Compensation Pool

During the year ended August 31, 2014 Kerrville Independent School District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation Pool. For the year ended August 31, 2014, the Fund anticipated Kerrville Independent School District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2013, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

Auto, Liability and Property Programs

During the year ended August 31, 2014, Kerrville Independent School District participated in the TASB Risk Management Fund's (the Fund) Liability Program with coverage in:

- Auto Liability
- Auto Physical Damage
- General Liability
- Legal Liability
- Property

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

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2014, the Fund anticipated Kerrville Independent School District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2013, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

8. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
9. 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 insure accuracy in building a statewide data base for policy development and funding plans.
10. Use of Estimates – The preparation of financial statements in conformity with GAAP requires the District to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year-end and revenues and expenses/expenditures during the reporting period. Actual results could differ from those amounts.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibit J4 and J5.

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

1. Prior to August 20 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. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits – State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk – The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in any foreign investments.

Interest Rate Risk – To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires any internally created pool fund group to have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the District shall not exceed one year from the time of purchase without specific authorization of the Board of Trustees.

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

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

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. Kerrville Independent School District is in substantial compliance with the requirements of the Act and with local policies.

As of August 31, 2014, Kerrville Independent School District had the following investments (dollar amounts are in thousands).

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
TexPool	\$ 509,327	\$ 509,327			
Lone Star Investment Pool	2,672,863	2,672,863			
Total	<u>\$ 3,182,190</u>	<u>\$ 3,182,190</u>			

TexPool

Texas Local Government Investment Pool ("TexPool") is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poor's.

Although TexPool is not registered with the SEC as an investment company, the District believes it operates as a Rule 2a7-like pool, as described in GASB Statement No. 59. The net asset value per share is calculated on a basis other than fair value, such as the "amortized cost" method that provides a net asset value per share that approximates fair value. As such, the District uses amortized cost to report its investment.

Lone Star

The Lone Star Investment Pool ("Lone Star") is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791, of the Texas Government Code, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is managed by an 11-member board of trustees and, pursuant to the investment agreement, the board of trustees is authorized and directed to adopt and maintain bylaws consistent with the bylaws of the Texas School Cash Management Program. Pursuant to Section 2256.016(g) of the Public Funds Investment Act, Lone Star has established and advisory board. The purpose of the advisory board is to gather and exchange information from participants and nonparticipants relating to Lone Star's operations. The Board has entered into an agreement with the Texas Association of School Boards ("TASB"), a Texas nonprofit corporation, pursuant to which TASB serves as administrator of Lone Star's operations. Standard & Poor's rates money market funds and has rated Lone Star as AAA-.

Although Lone Star is not registered with the SEC as an investment company, the District believes it operates as a Rule 2a7-like pool, as described in GASB Statement No. 59. The net asset value per share is calculated on a basis other than fair value, such as the "amortized cost" method that provides a net asset value per share that approximates fair value. As such, the District uses amortized cost to report its investment. The District has investments in Lone Star's Government Overnight Fund. As of August 31, 2014, the Government Overnight Fund had a Standard & Poor's rating of AAAM.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND BALANCES AND TRANSFERS

During the fiscal year ended August 31, 2014, interfund transfers were used to finance construction projects and capital improvements. Specifically, \$1,300,000 was transferred from the general fund to the capital projects fund for stadium and fieldhouse improvements.

Activity between funds that is representative of non-interest bearing borrowing arrangements outstanding at the end of the fiscal year is reported as "due to/from other funds", and is normally settled in the subsequent fiscal year.

Interfund balances at August 31, 2014, consisted of the following amounts:

Due to General Fund from:

Special Revenue Funds	\$ 208,253
Capital Projects Fund	329,852
Internal Service Fund	230,975
Total Due to General Fund From Other Funds	\$ 769,080

Due to Debt Service fund:

General Fund	\$ 51,724
Total Due to Debt Service Fund	\$ 51,724

E. CAPITAL ASSET ACTIVITY

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

	Beginning Balance	Primary Government		Ending Balance
		Additions	Retirements	
Governmental Activities:				
Land	\$ 2,344,403	\$ -	\$ -	\$ 2,344,403
Buildings and Improvements	78,011,146	861,1406		86,622,552
Furniture and Equipment	3,972,598	8000	150000	3,830,598
Construction In Progress	223,474	-	223474	-
Total at Historic Cost	84,551,621	8,619,406	373,474	92,797,553
Less Accumulated Depreciation for:				
Buildings and Improvements	(27,370,485)	(1,524,460)		(28,894,945)
Furniture and Equipment	(3,757,922)	(99,173)	150,000	(3,707,095)
Total Accumulated Depreciation	(31,128,407)	(1,623,633)	150,000	(32,602,040)
Governmental Activities Capital Assets, Net	\$ 53,423,214	\$ 6,995,773	\$ 523,474	\$ 60,195,513
Business-type Activities:				
Buildings and Improvements	\$ 223,746	\$ -	\$ -	\$ 223,746
Furniture and Equipment	2,781,626	90,267	24,419	2,847,474
Total at Historic Cost	3,005,372	90,267	24,419	3,071,220
Less Accumulated Depreciation				
Buildings and Improvements	(67,861)	(4,475)		(72,336)
Furniture and Equipment	(2,246,157)	(143,661)	24,419	(2,365,399)
Total Accumulated Depreciation	(2,314,018)	(148,136)	24,419	(2,437,735)
Business-type Activities Capital Assets, Net	\$ 691,354	\$ (57,869)	\$ -	\$ 633,485

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 1,162,447
Instructional Resources and Media Services	60,352
Curriculum Development and Instructional Staff Development	6,431
School Leadership	30,271
Guidance, Counseling and Evaluation Services	14,000
Food Services	95,157
Cocurricular/Extracurricular Activities	79,162
General Administration	13,286
Plant Maintenance and Operations	40,385
Data Processing Services	70,396
Community Services	51,746
In addition, depreciation on capital assets held by the District's Internal Service Fund is charged to the various functions based on their usage of the assets	<u>148,136</u>

Total Depreciation Expense	<u><u>\$ 1,771,769</u></u>
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F. BONDS AND LONG-TERM NOTES PAYABLE

Bonded indebtedness of the District is reflected in the governmental activities. Current requirements for principal and interest expenditures are accounted for in the debt service fund.

A summary of changes in general long-term debt for the year ended August 31, 2014 is as follows:

Description	Interest Rate Payable	Amounts Original Issued	Interest Current Year	Payable Amounts Outstanding 9/1/13	Issued	Retired	Outstanding 8/31/14
Unlimited Tax Refunding Bonds Series 2004	2% to 5.0%	\$ 28,405,050	\$ 359,500	\$ 7,190,000	\$ -	\$ 2,290,000	\$ 4,900,000
Unlimited Tax Refunding Bonds Series 2013	2% to 3.50%	14,325,000	453,426	14,150,000		25,000	14,125,000
Unlimited Tax Sch. Bldg. Bonds Series 2013	2% to 4.0%	5,970,000	224,064	5,970,000		55,000	5,915,000
Total			<u>\$ 1,036,990</u>	<u>\$ 27,310,000</u>	<u>\$ -</u>	<u>\$ 2,370,000</u>	<u>\$ 24,940,000</u>
Accrued Interest							<u>40,795</u>
Total Debt and Accrued Interest							<u><u>\$ 24,980,795</u></u>

There are a number of limitations and restrictions contained in the various bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2014.

G. DEBT SERVICE REQUIREMENTS - BONDS

Presented below is a summary of debt service requirements for bonds to maturity:

Year Ended <u>August 31</u>	General Obligations		
	Principal	Interest	Total Requirements
2015	\$ 2,465,000	\$ 930,632	\$ 3,395,632
2016	2,575,000	809,482	3,384,482
2017	2,690,000	682,532	3,372,532
2018	2,760,000	602,232	3,362,232
2019	2,845,000	519,832	3,364,832
2020-2024	7,155,000	1,391,656	8,546,656
2025-2029	2,285,000	711,130	2,996,130
2030-2034	2,165,000	323,224	2,488,224
	<u>\$24,940,000</u>	<u>\$ 5,970,720</u>	<u>\$30,910,720</u>

Included in the long-term debt on Exhibit A-1 is \$346,724 of unamortized bond premium on bonds issued during the current fiscal year. This amount is not part of the actual payments detailed above.

H. COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2014, as follows:

Year Ending <u>August 31</u>	
2015	\$ 162,658
2016	87,149
2017	444
2018	296
Total Minimum Rentals	<u>\$ 250,547</u>
Rental Expenditures in Fiscal Year 2014	<u>\$ 169,654</u>

I. DEFINED BENEFIT PENSION PLAN

Plan Description. Kerrville 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, Chapters 803 and 805, respectively. 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 writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. State law provides for fiscal years 2012, 2013 and 2014 a state contribution rate of 6.8% and a member contribution rate of 6.4%. In certain instances the reporting district (I.S.D., college, university, or state agency) is required to make all or a portion of the state's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State contributions to TRS made on behalf of Kerrville Independent School District's employees for the years ended August 31, 2012, 2013 and 2014 were \$1,284,401, \$1,394,355, and \$1,739,412, respectively. Kerrville Independent School District paid additional state contributions for the years ended August 31, 2012, 2013, and 2014 in the amount of \$242,543, \$177,133, and \$204,730, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

J. UNEARNED REVENUE

Unearned revenue at year end consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Net Tax Revenue	\$ 797,965	\$ -	\$ 107,932	\$ 905,897
Athletic Receipts	24,787	-	-	24,787
Tuition	37,200	-	-	37,200
Other	-	3,337	-	3,337
Total Unearned Revenue	<u>\$ 859,952</u>	<u>\$ 3,337</u>	<u>\$ 107,932</u>	<u>\$ 971,221</u>

K. DUE FROM STATE AGENCIES

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2014, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies except for Head Start which is received directly from the Department of Health and Human Services.

<u>Fund</u>	State Entitlements	Federal Grants	Total
General	\$ 1,876,837	\$ -	\$ 1,876,837
Special Revenue	-	186,388	186,388
Total	<u>\$ 1,876,837</u>	<u>\$ 186,388</u>	<u>\$ 2,063,225</u>

L. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$23,873,633	\$ -	\$3,211,990	\$ -	\$27,085,623
Penalties, Interest and Other					
Tax-related Income	301,421	-	38,710	-	340,131
Investment Income	5,664	-	1,242	2,075	8,981
Food Sales	-	730,237	-	-	730,237
Tuitions	262,143	-	-	-	262,143
Co-curricular Student Activities	145,800	341,594	-	-	487,394
Other	139,082	-	-	-	139,082
	<u>\$24,727,743</u>	<u>\$1,071,831</u>	<u>\$3,251,942</u>	<u>\$ 2,075</u>	<u>\$29,053,591</u>

M. RETIREE HEALTH PLAN

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

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 the fiscal years 2014-2012. Under the Medicare Part D program TRS Care receives retiree drug subsidy payments from the federal government. For the years ended August 31, 2014, 2013 and 2012, TRS Care received \$71,546, \$71,615 and \$74,799, respectively.

Year	Contribution Rates and Contribution Amounts					
	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2014	0.65%	\$ 176,659	1.00%	\$ 243,418	0.55%	\$ 149,465
2013	0.65%	\$ 179,426	0.50%	\$ 123,412	0.55%	\$ 151,821
2012	0.65%	\$ 185,649	1.00%	\$ 254,659	0.55%	\$ 156,923

N. RELATED ORGANIZATIONS

The Kerrville Public School Foundation (the "Foundation"), a not-for-profit entity which was organized to provide scholarship funds, is a "related organization" of the District as defined by *Governmental Accounting Standards Board Statement No. 14*. The Foundation is not a "component unit" and therefore its assets and liabilities and the results of its operations are not included in this report.

O. COMMITTED FUND BALANCE

Details of the general fund committed fund balance as of August 31, 2014, are as follows:

Future Turf Replacement	\$ 80,000
Future Track Resurfacing	60,000
Future Band Uniforms	70,000
IDEA B Residential Set Aside	215,000
Instructional Materials Allotment (IMA) Funds	<u>322,818</u>
Total Committed Funds	<u>\$ 747,818</u>

P. SUBSEQUENT EVENTS

Subsequent events were evaluated through January 12, 2015, the date the report was available for distribution.

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REQUIRED SUPPLEMENTARY INFORMATION

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 24,737,000	\$ 24,957,000	\$ 24,727,743	\$ (229,257)
5800 State Program Revenues	10,609,000	11,246,434	11,385,342	138,908
5900 Federal Program Revenues	560,000	560,000	454,008	(105,992)
5020 Total Revenues	35,906,000	36,763,434	36,567,093	(196,341)
EXPENDITURES:				
Current:				
0011 Instruction	20,928,551	21,017,030	20,740,366	276,664
0012 Instructional Resources and Media Services	367,709	377,453	342,640	34,813
0013 Curriculum and Instructional Staff Development	256,645	269,688	217,783	51,905
0021 Instructional Leadership	688,047	670,632	609,786	60,846
0023 School Leadership	2,312,764	2,363,966	2,331,855	32,111
0031 Guidance, Counseling and Evaluation Services	1,018,720	1,107,177	1,082,733	24,444
0032 Social Work Services	28,444	39,481	33,088	6,393
0033 Health Services	391,905	402,808	390,353	12,455
0034 Student (Pupil) Transportation	1,410,200	1,432,512	1,428,261	4,251
0035 Food Services	-	20,290	20,290	-
0036 Extracurricular Activities	1,345,299	1,412,141	1,328,500	83,641
0041 General Administration	1,446,749	1,464,468	1,362,042	102,426
0051 Facilities Maintenance and Operations	4,473,084	4,469,842	4,245,784	224,058
0052 Security and Monitoring Services	188,955	185,228	148,244	36,984
0053 Data Processing Services	571,928	643,767	563,785	79,982
0061 Community Services	-	378,237	359,332	18,905
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	1,060,548	1,031,419	29,129
Intergovernmental:				
0099 Other Intergovernmental Charges	347,000	347,000	345,896	1,104
6030 Total Expenditures	35,776,000	37,662,268	36,582,157	1,080,111
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	130,000	(898,834)	(15,064)	883,770
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	130,000	131,840	1,840
8911 Transfers Out (Use)	(130,000)	(1,430,000)	(1,431,840)	(1,840)
7080 Total Other Financing Sources (Uses)	(130,000)	(1,300,000)	(1,300,000)	-
1200 Net Change in Fund Balances	-	(2,198,834)	(1,315,064)	883,770
0100 Fund Balance - September 1 (Beginning)	6,012,709	6,012,709	6,012,709	-
3000 Fund Balance - August 31 (Ending)	\$ 6,012,709	\$ 3,813,875	\$ 4,697,645	\$ 883,770

COMBINING STATEMENTS

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

Data Control Codes		205	211	224	225
			ESEA I, A	IDEA - Part B	IDEA - Part B
		Head Start	Improving Basic Program	Formula	Preschool
ASSETS					
1110	Cash and Cash Equivalents	\$ 15,725	\$ -	\$ -	\$ -
1240	Receivables from Other Governments	9,927	65,843	40,882	1,413
1290	Other Receivables	-	-	-	-
1300	Inventories	-	-	-	-
1000	Total Assets	<u>\$ 25,652</u>	<u>\$ 65,843</u>	<u>\$ 40,882</u>	<u>\$ 1,413</u>
LIABILITIES					
2110	Accounts Payable	\$ 5,245	\$ 251	\$ 1,653	\$ -
2160	Accrued Wages Payable	20,407	46,092	28,456	1,382
2170	Due to Other Funds	-	19,500	10,773	31
2190	Due to Student Groups	-	-	-	-
2300	Unearned Revenues	-	-	-	-
2000	Total Liabilities	<u>25,652</u>	<u>65,843</u>	<u>40,882</u>	<u>1,413</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 25,652</u>	<u>\$ 65,843</u>	<u>\$ 40,882</u>	<u>\$ 1,413</u>

240 National Breakfast and Lunch Program	242 Summer Feeding Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	270 ESEA VI, Pt B Rural & Low Income	288 Air Force ROTC	289 Other Federal Special Revenue Funds
\$ -	\$ -	\$ 80	\$ -	\$ -	\$ -	\$ -	\$ -
38,959	-	13,472	6,941	92	-	5,744	3,061
139,577	-	-	-	-	-	-	-
60,332	-	-	-	-	-	-	-
<u>\$ 238,868</u>	<u>\$ -</u>	<u>\$ 13,552</u>	<u>\$ 6,941</u>	<u>\$ 92</u>	<u>\$ -</u>	<u>\$ 5,744</u>	<u>\$ 3,061</u>
\$ 60,621	\$ -	\$ 4,019	\$ -	\$ 12	\$ -	\$ -	\$ -
-	-	-	5,705	-	-	-	-
158,241	-	9,533	1,236	80	-	5,744	3,061
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>218,862</u>	<u>-</u>	<u>13,552</u>	<u>6,941</u>	<u>92</u>	<u>-</u>	<u>5,744</u>	<u>3,061</u>
20,006	-	-	-	-	-	-	-
<u>20,006</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 238,868</u>	<u>\$ -</u>	<u>\$ 13,552</u>	<u>\$ 6,941</u>	<u>\$ 92</u>	<u>\$ -</u>	<u>\$ 5,744</u>	<u>\$ 3,061</u>

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

Data Control Codes		385 Visually Impaired SSVI	397 Advanced Placement Incentives	429 Other State Special Revenue Funds	461 Campus Activity Funds
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ 355,938
1240	Receivables from Other Governments	54	-	-	-
1290	Other Receivables	-	-	-	-
1300	Inventories	-	-	-	-
1000	Total Assets	<u>\$ 54</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 355,938</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ 7,528
2160	Accrued Wages Payable	-	-	-	-
2170	Due to Other Funds	54	-	-	-
2190	Due to Student Groups	-	-	-	348,410
2300	Unearned Revenues	-	-	-	-
2000	Total Liabilities	<u>54</u>	<u>-</u>	<u>-</u>	<u>355,938</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 54</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 355,938</u>

480 HEB Excellance Award	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ 3,337	\$ 375,080
-	-	186,388
-	-	139,577
-	-	60,332
<u>\$ -</u>	<u>\$ 3,337</u>	<u>\$ 761,377</u>
\$ -	\$ -	\$ 79,329
-	-	102,042
-	-	208,253
-	-	348,410
-	3,337	3,337
<u>-</u>	<u>3,337</u>	<u>741,371</u>
-	-	20,006
<u>-</u>	<u>-</u>	<u>20,006</u>
<u>\$ -</u>	<u>\$ 3,337</u>	<u>\$ 761,377</u>

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

Data Control Codes		205	211	224	225
			ESEA I, A	IDEA - Part B	IDEA - Part B
		Head Start	Improving Basic Program	Formula	Preschool
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800	State Program Revenues	-	-	-	-
5900	Federal Program Revenues	642,335	1,136,632	922,420	24,528
5020	Total Revenues	642,335	1,136,632	922,420	24,528
EXPENDITURES:					
Current:					
0011	Instruction	445,598	834,213	624,600	24,339
0012	Instructional Resources and Media Services	-	-	-	-
0013	Curriculum and Instructional Staff Development	396	11,272	16,359	189
0021	Instructional Leadership	6,514	7,923	-	-
0023	School Leadership	74,084	-	-	-
0031	Guidance, Counseling and Evaluation Services	27,086	269,586	281,461	-
0032	Social Work Services	40,329	-	-	-
0033	Health Services	48,328	-	-	-
0035	Food Services	-	-	-	-
0036	Extracurricular Activities	-	-	-	-
0052	Security and Monitoring Services	-	-	-	-
0061	Community Services	-	13,638	-	-
6030	Total Expenditures	642,335	1,136,632	922,420	24,528
1200	Net Change in Fund Balance	-	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

240 National Breakfast and Lunch Program	242 Summer Feeding Program	244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	270 ESEA VI, Pt B Rural & Low Income	288 Air Force ROTC	289 Other Federal Special Revenue Funds
\$ 730,238	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
23,695	-	-	-	-	-	-	-
1,648,114	7,663	50,497	200,273	22,004	64,333	69,301	3,400
2,402,047	7,663	50,497	200,273	22,004	64,333	69,301	3,400
-	-	33,855	191,675	16,431	60,293	69,301	3,400
-	-	-	-	-	-	-	-
-	-	15,234	2,095	5,491	999	-	-
-	-	1,408	395	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	139	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
2,384,783	7,663	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	3,041	-	-
-	-	-	5,969	82	-	-	-
2,384,783	7,663	50,497	200,273	22,004	64,333	69,301	3,400
17,264	-	-	-	-	-	-	-
2,742	-	-	-	-	-	-	-
\$ 20,006	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

Data Control Codes		385 Visually Impaired SSVI	397 Advanced Placement Incentives	429 Other State Special Revenue Funds	461 Campus Activity Funds
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 336,965
5800	State Program Revenues	2,566	2,675	54	-
5900	Federal Program Revenues	-	-	-	-
5020	Total Revenues	<u>2,566</u>	<u>2,675</u>	<u>54</u>	<u>336,965</u>
EXPENDITURES:					
Current:					
0011	Instruction	2,566	-	54	168,460
0012	Instructional Resources and Media Services	-	-	-	18,885
0013	Curriculum and Instructional Staff Development	-	2,675	-	-
0021	Instructional Leadership	-	-	-	-
0023	School Leadership	-	-	-	-
0031	Guidance, Counseling and Evaluation Services	-	-	-	7,659
0032	Social Work Services	-	-	-	-
0033	Health Services	-	-	-	1,759
0035	Food Services	-	-	-	-
0036	Extracurricular Activities	-	-	-	140,202
0052	Security and Monitoring Services	-	-	-	-
0061	Community Services	-	-	-	-
6030	Total Expenditures	<u>2,566</u>	<u>2,675</u>	<u>54</u>	<u>336,965</u>
1200	Net Change in Fund Balance	-	-	-	-
0100	Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

480 HEB Excellence Award	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
\$ 4,528	\$ 100	\$ 1,071,831
-	-	28,990
-	-	4,791,500
<u>4,528</u>	<u>100</u>	<u>5,892,321</u>
4,033	100	2,478,918
-	-	18,885
-	-	54,710
-	-	16,240
495	-	74,579
-	-	585,931
-	-	40,329
-	-	50,087
-	-	2,392,446
-	-	140,202
-	-	3,041
-	-	19,689
<u>4,528</u>	<u>100</u>	<u>5,875,057</u>
-	-	17,264
-	-	2,742
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,006</u>

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T.E.A. REQUIRED SCHEDULES

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

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2005 and prior years	Various	Various	\$ Various
2006	1.480000	0.203000	1,634,035,569
2007	1.490000	0.180000	1,768,820,617
2008	1.320000	0.180000	1,927,945,402
2009	0.990000	0.160000	2,103,529,871
2010	1.030000	0.150000	2,165,339,180
2011	1.030000	0.150000	2,206,310,416
2012	1.040000	0.140000	2,258,294,298
2013	1.040000	0.140000	2,281,057,100
2014 (School year under audit)	1.040000	0.140000	2,450,340,827
1000 TOTALS			

(10) Beginning Balance 9/1/2013	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2014
\$ 220,939	\$ -	\$ 5,201	\$ 901	\$ -	\$ 214,837
38,403	-	3,138	379	-	34,886
50,989	-	2,944	402	-	47,643
45,450	-	3,770	609	(115)	40,956
73,122	-	12,480	1,817	(118)	58,707
88,031	-	10,638	1,549	177	76,021
130,365	-	30,394	4,426	(1,147)	94,398
277,563	-	117,848	15,864	(4,219)	139,632
676,634	-	298,521	40,130	(50,885)	287,098
-	27,103,760	23,387,356	3,145,913	(78,175)	492,316
<u>\$ 1,601,496</u>	<u>\$ 27,103,760</u>	<u>\$ 23,872,290</u>	<u>\$ 3,211,990</u>	<u>\$ (134,482)</u>	<u>\$ 1,486,494</u>

KERRVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2015-2016
GENERAL AND SPECIAL REVENUE FUNDS
AUGUST 31, 2014

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ 92,707	\$ 292,421	\$ 689,780	\$ -	\$ -	\$ 1,074,908
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	34,694	-	-	-	-	-	34,694
6212	Audit Services	-	-	-	32,250	-	-	32,250
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	345,896	-	-	-	-	345,896
6214	Lobbying	-	-	-	-	-	-	-
621X	Other Professional Services	1,151	-	-	8,448	-	-	9,599
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	11,922	-	-	11,922
6240	Contr. Maint. and Repair	-	-	-	-	76,999	-	76,999
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	1,530	7,085	8,591	-	-	17,206
6290	Miscellaneous Contr.	-	-	-	36,538	-	-	36,538
6320	Textbooks and Reading	-	185	474	365	-	-	1,024
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	-	17,657	5,485	26,769	-	-	49,911
6410	Travel, Subsistence, Stipends	6,662	4,761	4,710	17,608	-	-	33,741
6420	Ins. and Bonding Costs	-	-	-	-	-	-	-
6430	Election Costs	75	-	-	-	-	-	75
6490	Miscellaneous Operating	16,472	873	20,031	11,845	-	-	49,221
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 59,054	\$ 463,609	\$ 330,206	\$ 844,116	\$ 76,999	\$ -	\$ 1,773,984

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 42,457,213

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10) \$ 1,227,203
Total Debt & Lease(6500)	(11) -
Plant Maintenance (Function 51, 6100-6400)	(12) 4,145,652
Food (Function 35, 6341 and 6499)	(13) 881,476
Stipends (6413)	(14) -
Column 4 (above) - Total Indirect Cost	844,116

SubTotal:

7,098,447

Net Allowed Direct Cost

\$ 35,358,766

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15) \$ 86,846,298
Historical Cost of Building over 50 years old	(16) \$ 3,419,820
Amount of Federal Money in Building Cost (Net of #16)	(17) \$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18) \$ 6,498,591
Historical Cost of Furniture & Equipment over 16 years old	(19) \$ 2,048,841
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20) \$ -

(8) NOTE A: \$66,047 in Function 53 expenditures are included in this report on administrative costs.

\$345,896 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 660,000	\$ 770,000	\$ 730,238	\$ (39,762)
5800	State Program Revenues	15,000	15,000	23,695	8,695
5900	Federal Program Revenues	1,500,000	1,620,000	1,648,114	28,114
5020	Total Revenues	2,175,000	2,405,000	2,402,047	(2,953)
EXPENDITURES:					
Current:					
0035	Food Services	2,175,000	2,405,000	2,384,783	20,217
6030	Total Expenditures	2,175,000	2,405,000	2,384,783	20,217
1200	Net Change in Fund Balances	-	-	17,264	17,264
0100	Fund Balance - September 1 (Beginning)	2,742	2,742	2,742	-
3000	Fund Balance - August 31 (Ending)	\$ 2,742	\$ 2,742	\$ 20,006	\$ 17,264

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 3,132,926	\$ 3,417,926	\$ 3,251,942	\$ (165,984)
5020	Total Revenues	3,132,926	3,417,926	3,251,942	(165,984)
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	3,132,926	2,370,000	2,370,000	-
0072	Interest on Long Term Debt	-	1,036,990	1,036,989	1
0073	Bond Issuance Cost and Fees	-	10,936	831	10,105
6030	Total Expenditures	3,132,926	3,417,926	3,407,820	10,106
1200	Net Change in Fund Balances	-	-	(155,878)	(155,878)
0100	Fund Balance - September 1 (Beginning)	1,282,578	1,282,578	1,282,578	-
3000	Fund Balance - August 31 (Ending)	\$ 1,282,578	\$ 1,282,578	\$ 1,126,700	\$ (155,878)

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

PRESSLER, THOMPSON AND COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

ONE SCHREINER CENTER
819 WATER STREET, SUITE 320
KERRVILLE, TEXAS 78028

Jerry N. Oliver, C.P.A.
Timothy R. Porter, C.P.A.
Brenda G. Beaty, C.P.A.
Gary B. Selgrath, C.P.A.

Telephone (830) 257-7241
Fax (830) 896-4041
Website: www.ptccpa.com

**Independent Auditor's Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

To the Board of Trustees
Kerrville Independent School District
Kerrville, Texas

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, the business-type activities, each major fund, and the aggregate remaining fund information of Kerrville Independent School 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 January 12, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Kerrville Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Pressler, Thompson and Company
January 12, 2015

PRESSLER, THOMPSON AND COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

ONE SCHREINER CENTER
819 WATER STREET, SUITE 320
KERRVILLE, TEXAS 78028

Jerry N. Oliver, C.P.A.
Timothy R. Porter, C.P.A.
Brenda G. Beaty, C.P.A.
Gary B. Selgrath, C.P.A.

Telephone (830) 257-7241
Fax (830) 896-4041
Website: www.ptcpcpa.com

**Independent Auditor's Report on Compliance For Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on the Schedule of
Expenditures of Federal Awards Required by OMB Circular A-133**

To the Board of Trustees
Kerrville Independent School District
Kerrville, Texas

Report on Compliance for Each Major Federal Program

We have audited Kerrville Independent School District's 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 Kerrville Independent School District's major federal programs for the year ended August 31, 2014. Kerrville Independent School 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 Kerrville Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kerrville Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Kerrville 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 Kerrville Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Kerrville Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Kerrville Independent School District's internal control over compliance.

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

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

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

Pressler, Thompson and Company

Pressler, Thompson and Company
January 12, 2015

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

I. Summary of the Auditor's Results:

1. The type of report issued on the financial statements of the Kerrville Independent School District was an Unmodified opinion.
2. There were no significant deficiencies in internal control.
3. There were not any noncompliance issues that were material to the financial statements.
4. There were no significant deficiencies in internal control over any major program.
5. The type of report the auditor issued on compliance for major programs. Unmodified opinion.
6. A statement as to whether the audit disclosed any audit findings which the auditor is required to report under Section ____ .510(a). NONE REPORTED.
7. An identification of major programs: ESEA, Title I, Part A- Improving Basic Programs (84.010A), ESEA, Title I, Part D, Subpart 2 - Delinquent Programs (84.010D), Title VI, Part B - Rural and Low Income Program (84.358B), and Air Force Junior ROTC (12.000).
8. The dollar threshold used to distinguish between Type A and Type B programs. \$300,000.
9. The auditee qualified as a low-risk auditee.

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

No matters were reported

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above.

No matters were reported

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

THERE WERE NO REPORTABLE FINDINGS IN THE PRIOR YEAR

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

THERE WERE NO REPORTABLE FINDINGS IN THE CURRENT YEAR

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

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF DEFENSE			
<u>Direct Programs</u>			
Air Force Junior ROTC	12.000	TX1D2063	\$ 69,301
Total Direct Programs			\$ 69,301
TOTAL U.S. DEPARTMENT OF DEFENSE			\$ 69,301
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	14-610101133903	\$ 1,053,981
ESEA, Title I, Part A - Improving Basic Programs	84.010A	15-610101133903	54,365
Total CFDA Number 84.010A			1,108,346
Title I, Part D, Subpart 2 - Delinquent Programs	84.010D	14-610101133903	47,311
Title I, Part D, Subpart 2 - Delinquent Programs	84.010D	15-610101133903	3,244
Total CFDA Number 84.010D			50,555
*IDEA - Part B, Formula	84.027	14-6600011339036600	911,380
*IDEA - Part B, Formula	84.027	15-6600011339036600	29,096
Total CFDA Number 84.027			940,476
*IDEA - Part B, Preschool	84.173	14-6610011339036610	23,594
*IDEA - Part B, Preschool	84.173	15-6600011339036610	1,413
Total CFDA Number 84.173			25,007
Total Special Education Cluster (IDEA)			965,483
Career and Technical - Basic Grant	84.048	14-420006133903	37,966
Career and Technical - Basic Grant	84.048	15-420006133903	13,472
Total CFDA Number 84.048			51,438
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	14-696001133903	65,584
Title III, Part A - English Language Acquisition	84.365A	14-671001133903	22,340
Title III, Part A - English Language Acquisition	84.365A	15-671001133903	92
Total CFDA Number 84.365A			22,432
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	14-694501133903	198,352
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	15-694501133903	5,834
Total CFDA Number 84.367A			204,186
Summer School Program LEP	84.369A	69551402	3,400
Total Passed Through State Department of Education			\$ 2,471,424
TOTAL DEPARTMENT OF EDUCATION			\$ 2,471,424
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778		\$ 36,767
Total Passed Through Texas Dept of Human Services			\$ 36,767
<u>Passed Through State Department of Education</u>			
Head Start	93.600	06CH0448	\$ 642,335
Total Passed Through State Department of Education			\$ 642,335
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			\$ 679,102

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

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553		\$ 332,250
*National School Lunch Program - Cash Assistance	10.555		1,181,656
*National School Lunch Prog. - Non-Cash Assistance	10.555		134,208
Total CFDA Number 10.555			<u>1,315,864</u>
*Summer Feeding Program - Cash Assistance	10.559		7,663
Total Child Nutrition Cluster			<u>1,655,777</u>
Total Passed Through the State Department of Agriculture			<u>\$ 1,655,777</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>\$ 1,655,777</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 4,875,604</u></u>

*Clustered Programs

KERRVILLE INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2014

1. General

For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.

2. Basis of Accounting

The accounting and financial reporting treatment applied to Special Revenue Funds is the current financial resources measurement focus. All Federal grant funds were accounted for in Special Revenue Funds, which are Governmental Fund types. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (i.e., both measurable and available) and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned as soon as all eligibility requirements imposed by the provider are met and expenditures have been incurred under the provisions of the grant, and, accordingly, when such funds are received in advance, they are recorded as unearned revenues until earned.

3. General Fund Reimbursements - Indirect Costs and Medicaid Administrative Claiming

The Schedule of Expenditures of Federal Awards (SEFA) includes indirect costs from certain Federal programs that are claimed for reimbursement using an indirect cost rate. The General Fund receives the reimbursement from the respective Federal program; therefore, this income is accounted for in the General Fund. The total indirect costs included on the SEFA for the fiscal year ended August 31, 2014, are \$47,337. The SEFA also includes Medicaid Administrative Claiming Program- MAC costs of \$36,767 which are reimbursed to and accounted for in the General Fund.

By reducing the Total Expenditures of Federal Awards on the SEFA (\$4,875,604) for indirect costs and MAC costs, the resultant amount equals the Federal Program Revenues on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds (\$4,791,500).

4. Non-cash Federal Awards

The District received non-cash awards in the form of food commodities distributed by the USDA under the National School Lunch Program (CFDA 10.555) totaling \$134,208 for the year ended August 31, 2014.

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SCHOOLS FIRST QUESTIONNAIRE

Kerrville Independent School District

Fiscal Year 2014

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