

KERRVILLE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED AUGUST 31, 2016

KERRVILLE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016

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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 approved _____ disapproved _____ for the year ended August 31, 2016, at a meeting of the Board of Trustees of such school district on the 12th day of December, 2016.

Signature of Board Secretary

Signature of Board President

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Kerrville Independent School District

Report on Financial Statements

We have audited the accompanying financial statements of the governmental 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, 2016, 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, each major fund and the aggregate remaining fund information of the District as of August 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability, and schedule of District contributions on pages 4 through 11 and pages 42 through 45 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 nonmajor fund financial statements and the Texas Education Agency (TEA) required schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards, the combining nonmajor fund financial statements 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 December 1, 2016, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Daniel Kinard & Co., PC

Certified Public Accountants

Abilene, Texas
December 1, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Kerrville Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the year ended August 31, 2016. Please read it in conjunction with the District's basic financial statements, which follow this section.

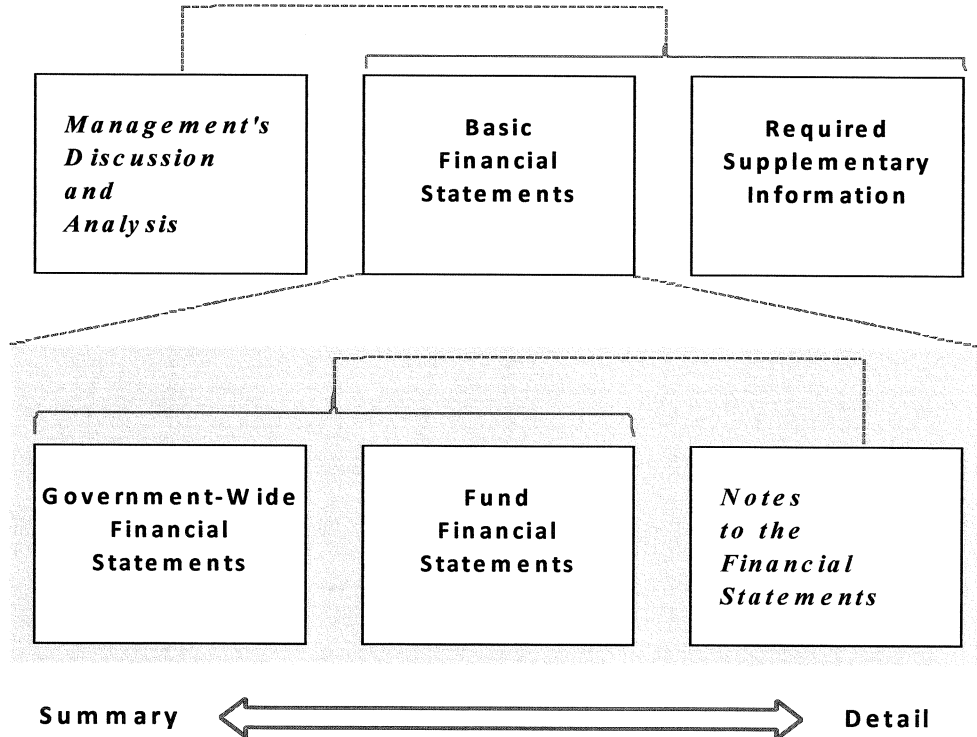
FINANCIAL HIGHLIGHTS

- At August 31, 2016, the District's assets and deferred outflows of resources exceeded its liabilities by \$43,821,027. Of this amount \$4,445,501 (unrestricted net position) may be used to meet the District's ongoing obligations.
- As of the close of the current fiscal year, the District's governmental funds (general, debt service, and special revenue funds) reported combined ending fund balances of \$9,143,644. Of this total amount, 75.19% or \$6,875,430 is available for spending at the District's discretion (unassigned fund balance).
- The general fund as of August 31, 2016 reflects an ending fund balance of \$7,897,594, an increase of \$913,533 to last year. This balance is 21.41% of the total general fund expenditures.
- The District paid bond principal and interest during the fiscal year in the amount of \$3,385,766.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1, Required Components of the District's Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS – continued

The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates as a reimbursement allocation for transportation services.
 - *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2 Major Features of the District's Government-wide and Fund Financial Statements

Type of Statements	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District's government (except fiduciary funds) and the District's component units	The activities of the District that are not proprietary or fiduciary	Activities the District operates similar to private businesses: food service	Instances in which the District is the trustee or agent for someone else's resources
Required Financial Statements	Statement of net position Statement of activities	Balance Sheet Statement of revenues, expenditures, & changes in fund balances	Statement of net position Statement of revenues, expenses, & changes in fund net position Statement of cash flows	Statement of fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets, although they can
Type of inflow / outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net position* and how it has changed. Net position—the difference between the District's assets and deferred outflows of resources and liabilities—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's *net position* is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District are divided into two categories:

Governmental activities - Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes, fees, state, and federal grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants. The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants. The District has three kinds of funds:

Governmental funds—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

Proprietary funds—The District reports the activities for which it charges users in proprietary funds using the same accounting method employed in the Statement of Net Position and the Statement of Activities. In fact, the District's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements, but containing more detail and additional information, such as cash flows.

Fiduciary funds—The District is the trustee, or *fiduciary*, for money raised by student activities programs. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide 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.

OVERVIEW OF THE FINANCIAL STATEMENTS – continued**Financial Analysis of the District as a Whole**

The District's combined net position was \$43,821,027 at August 31, 2016.

Table A-1**Kerrville Independent School District's Net Position**

	Governmental Activities	
	2016	2015
Assets:		
Current and Other Assets	\$ 12,688,462	\$ 11,011,259
Capital Assets	59,178,512	60,421,420
Total Assets	<u>\$ 71,866,974</u>	<u>\$ 71,432,679</u>
Deferred Outflows of Resources:		
Deferred Outflows - Pension	\$ 4,808,901	\$ 1,110,379
Total Outflows of Resources	<u>\$ 4,808,901</u>	<u>\$ 1,110,379</u>
Liabilities:		
Current Liabilities	\$ 1,975,491	\$ 1,948,767
Long-term Liabilities	30,194,323	27,952,329
Total Liabilities	<u>\$ 32,169,814</u>	<u>\$ 29,901,096</u>
Deferred Inflows of Resources:		
Deferred Inflows - Pension	\$ 685,034	\$ 1,289,513
Total Inflows of Resources	<u>\$ 685,034</u>	<u>\$ 1,289,513</u>
Net Position:		
Net Investment in capital assets	\$ 38,190,432	\$ 36,684,521
Restricted for Debt Service	1,149,650	1,078,440
Restricted for Other Purposes	35,444	21,724
Unrestricted Net Position	4,445,501	3,567,764
Total Net Position	<u>\$ 43,821,027</u>	<u>\$ 41,352,449</u>

Of the District's restricted net position, \$1,149,650 represents proceeds for debt retirement and \$35,444 for other purposes. The unrestricted net position represents resources available to fund the programs of the District next year.

Changes in Net Position

The District's total revenues were \$49,328,105, an increase of 7.88% to last year. Of this total, 57.15% comes from local property taxes. (See Table A-2) Of the remainder, 37.05% comes from state aid and federal grants, while 5.81% relates to charges for services, investment earnings, and miscellaneous.

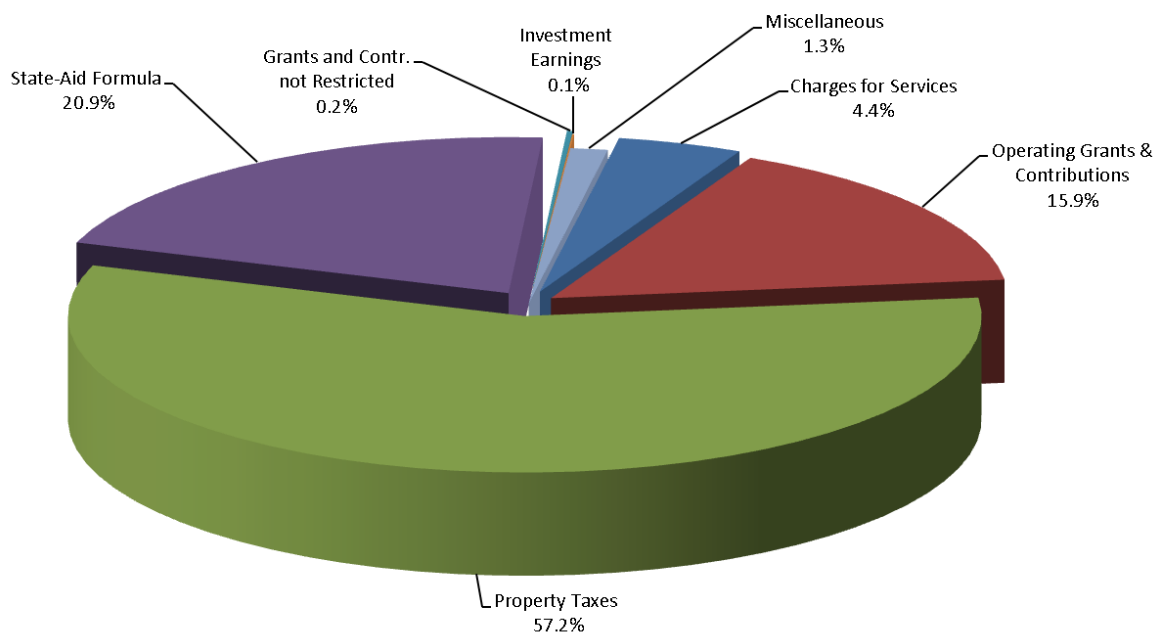
The total cost of all programs and services was \$46,897,061, an increase of 5.86%.

Table A-2

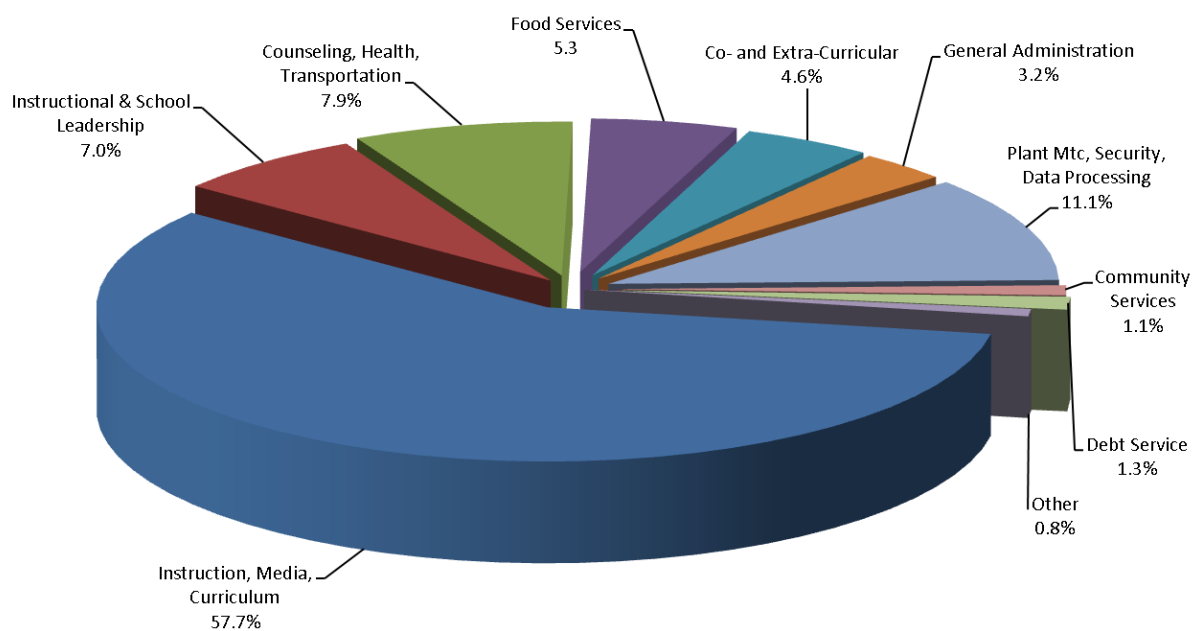
Change in Kerrville Independent School District's Net Position

	Governmental Activities	
	2016	2015
Program Revenues:		
Charges for Services	\$ 2,182,281	\$ 2,365,315
Operating Grants & Contributions	8,136,319	6,981,629
Capital grants	31,873	432,750
General Revenues:		
Property Taxes	28,189,339	28,269,265
State-Aid Formula	10,007,701	10,799,704
Grants and Contributions not Restricted	97,917	83,657
Investment Earnings	32,040	7,740
Net Insurance Recovery	647,771	
Miscellaneous	2,864	2,520
Total Revenues	<u>\$ 49,328,105</u>	<u>\$ 48,942,580</u>
Expenses:		
Instruction	\$ 26,429,670	\$ 25,117,182
Instructional Resources & Media	440,774	407,043
Curriculum and Staff Development	207,422	225,174
Instructional Leadership	622,556	718,805
School Leadership	2,648,478	2,458,767
Guidance and Counseling	1,753,710	1,550,683
Social Work Services	70,793	63,692
Health Services	479,019	436,020
Student Transportation	1,469,175	1,265,918
Food Services	2,473,328	2,387,974
Cocurricular / Extracurricular	2,167,374	1,841,091
General Administration	1,507,597	1,476,393
Facilities Maintenance & Operations	4,404,012	4,037,856
Security & Monitoring Services	157,303	159,482
Data Processing Services	645,933	613,841
Community Services	425,811	427,962
Debt Service	631,382	754,116
Capital Outlay		
Facilities Acquisition and Construction		
Other Governmental Charges	362,724	357,037
Total Expenses	<u>\$ 46,897,061</u>	<u>\$ 44,299,036</u>
Increase (Decrease) in Net Position	\$ 2,431,044	\$ 4,643,544
Net Position - Beginning	41,352,449	42,574,000
Prior period adjustment	37,534	(5,865,095)
Net Position - Ending (Aug 31)	<u>\$ 43,821,027</u>	<u>\$ 41,352,449</u>

Government-Wide Revenues for Fiscal Year 2016



Government-Wide Expenses for Fiscal Year 2016



OVERVIEW OF THE FINANCIAL STATEMENTS – continued

Table A-3 below presents the cost of selected District functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

The cost of all governmental activities this year was \$46,897,061. However, the amount that our taxpayers paid for these activities through local property taxes was \$28,189,339 while state aid totaled \$10,326,368. Some of the cost was paid by those who directly benefited from the programs at \$2,182,281, or by grants and contributions at \$7,849,525.

Table A-3

Kerrville Independent School District's Net Cost of Selected District Functions

	Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2016	2015	% Change	2016	2015	% Change
Instruction	\$ 26,429,670	\$ 25,117,182	5.23 %	\$ 21,013,382	\$ 20,165,842	4.20
School Leadership	2,648,478	2,458,767	7.72	2,375,771	2,270,317	4.64
Cocurricular / Extracurricular	2,167,374	1,841,091	17.72	1,475,174	730,379	101.97
General Administration	1,507,597	1,476,393	2.11	1,409,606	1,414,288	(0.33)
Facilities Maintenance & Operations	4,404,012	4,037,856	9.07	4,173,283	3,899,669	7.02
Debt Service	631,382	754,116	(16.28)	520,512	754,116	(30.98)

Financial Analysis of the District's Funds

Revenues from governmental fund types totaled \$47,451,906. The decrease in these funds come from State resources as Kerrville's enrollment decreased during the fiscal year.

The general fund reported an ending fund balance of \$7,897,594 which reflects an increase of \$913,533 versus last year. The unassigned general fund balance was \$6,875,430, an increase of \$984,450 from the prior year.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget to reflect activities in the District. With these adjustments, actual expenditures were \$1,599,535 below the final budgeted amount. The positive variance was an overall saving of approximately 4% in the budget. Resources available were \$66,002 under the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had invested \$59,178,512 in a broad range of capital assets, including land, construction in progress, furniture and equipment, buildings, and vehicles. (See Table A-4).

Table A-4

Kerrville Independent School District's Capital Assets

	Governmental Activities	
	2016	2015
Land	\$ 2,344,403	\$ 2,344,403
Buildings and Improvements	88,405,936	87,743,710
Furniture and Equipment	6,238,151	7,074,044
Total at Historical Cost	96,988,490	97,162,157
Less Accumulated Depreciation	(37,809,978)	(36,586,865)
Net Capital Assets	\$ 59,178,512	\$ 60,575,292

Long-Term Debt

At the end of 2016, the District had \$30,194,323 in debt outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the basic financial statements.

Table A-5

**Kerrville Independent School District's
Long-Term Debt**

	Governmental Activities	
	2016	2015
Bonds Payable		
General Obligation Bonds	\$ 19,900,000	\$ 22,475,000
Unamortized Bond Premium	1,088,080	1,261,899
Net Pension Liability	9,206,243	4,215,430
Total Debt Payable	<u>\$ 30,194,323</u>	<u>\$ 27,952,329</u>

ECONOMIC FACTORS AND 2016-2017 BUDGETS & RATES

Kerrville ISD adopted a balanced budget for 2016-17. The District decreased budgeted tax revenues by \$685,000 and increased budgeted state revenue by \$1,385,000 for an overall increase in budgeted revenue of \$700,000. The decrease in tax revenue was due the passage of Proposition 1 in October 2015 increasing the homestead exemption from \$15,000 to \$25,000. The effect of this legislation was to decrease property tax revenue and increase state revenue by an equal amount. Increased appropriations were mainly for salary increases.

The property tax rate for Maintenance and Operations (M&O) will remain at \$1.04 per \$100 of taxable value, same as for 2015-16. The Interest and Sinking (I&S) tax rate for paying the District's annual principal and interest payments on its bond debt will also remain the same at \$0.14 per \$100 value in order to pay for approved bonds.

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 demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Department of Business Services at Kerrville ISD, 1009 Barnett Street, Kerrville, Texas 78028.

GOVERNMENT WIDE FINANCIAL STATEMENTS

KERRVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2016

Data Control Codes	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 4,933,900
1120 Investments - Current	3,629,625
1210 Property Taxes Receivable (Current)	428,573
1220 Property Taxes Receivable (Delinquent)	1,063,315
1230 Allowance for Uncollectible Taxes	(552,304)
1240 Due from Other Governments	2,345,835
1290 Other Receivables	659,216
1300 Inventories at Cost	73,816
1410 Prepayments	95,938
1490 Other Current Assets	10,548
Capital Assets:	
1510 Land	2,344,403
1520 Buildings, Net	55,787,918
1530 Furniture and Equipment, Net	<u>1,046,191</u>
1000 Total Assets	<u>71,866,974</u>
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflows - Pension	<u>4,808,901</u>
1700 Total Deferred Outflows of Resources	<u>4,808,901</u>
LIABILITIES	
2110 Accounts Payable	293,267
2140 Interest Payable	29,919
2160 Accrued Wages Payable	1,230,188
2180 Due to Other Governments	10,226
2190 Due to Student Groups	311,287
2300 Unearned Revenues	100,604
Noncurrent Liabilities:	
2501 Due Within One Year	2,690,000
2502 Due in More Than One Year	17,210,000
2516 Premium on Issuance of Bonds	1,088,080
2540 Net Pension Liability	<u>9,206,243</u>
2000 Total Liabilities	<u>32,169,814</u>
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflows - Pension	<u>685,034</u>
2600 Total Deferred Inflows of Resources	<u>685,034</u>
NET POSITION	
3200 Net Investment in Capital Assets	38,190,432
3820 Restricted for Federal and State Programs	35,444
3850 Restricted for Debt Service	1,149,650
3900 Unrestricted Net Position	<u>4,445,501</u>
3000 Total Net Position	<u>\$ 43,821,027</u>

The accompanying notes are an integral part of this statement.

KERRVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

		Program Revenues		
		1	3	4
Data				Operating
Control			Charges for	Grants and
Codes	Functions/Programs	Expenses	Services	Contributions
GOVERNMENTAL ACTIVITIES:				
11	Instruction	\$ 26,429,670	\$ 960,887	\$ 4,455,401
12	Instructional Resources and Media Services	440,774	-	30,971
13	Curriculum and Instructional Staff Development	207,422	-	70,794
21	Instructional Leadership	622,556	-	60,926
23	School Leadership	2,648,478	-	272,707
31	Guidance, Counseling, and Evaluation Services	1,753,710	-	621,005
32	Social Work Services	70,793	-	49,314
33	Health Services	479,019	-	73,840
34	Student Transportation	1,469,175	-	95,908
35	Food Services	2,473,328	548,082	1,810,431
36	Extracurricular Activities	2,167,374	613,660	78,540
41	General Administration	1,507,597	-	97,991
51	Facilities Maintenance and Operations	4,404,012	24,476	206,253
52	Security and Monitoring Services	157,303	-	2,776
53	Data Processing Services	645,933	-	38,069
61	Community Services	425,811	-	60,523
72	Debt Service - Interest on Long-Term Debt	631,382	-	110,870
81	Facilities Acquisition and Construction	-	-	-
99	Other Intergovernmental Charges	362,724	35,176	-
TP TOTAL PRIMARY GOVERNMENT		\$ 46,897,061	\$ 2,182,281	\$ 8,136,319

General Revenues:

Taxes:

MT Property Taxes, Levied for General Purposes
DT Property Taxes, Levied for Debt Service
SF State Aid - Formula Grants
GC Grants and Contributions not restricted
IE Investment Earnings
EI Extraordinary Item
MI Miscellaneous Local and Intermediate Revenue
TR Total General Revenues

CN Change in Net Position

NB Net Position - Beginning

PA Prior period adjustment

NE Net Position - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
5	6	8
Capital Grants	Governmental Activities	Total
\$ -	\$ (21,013,382)	\$ (21,013,382)
-	(409,803)	(409,803)
-	(136,628)	(136,628)
-	(561,630)	(561,630)
-	(2,375,771)	(2,375,771)
-	(1,132,705)	(1,132,705)
-	(21,479)	(21,479)
-	(405,179)	(405,179)
-	(1,373,267)	(1,373,267)
-	(114,815)	(114,815)
-	(1,475,174)	(1,475,174)
-	(1,409,606)	(1,409,606)
-	(4,173,283)	(4,173,283)
-	(154,527)	(154,527)
-	(607,864)	(607,864)
-	(365,288)	(365,288)
-	(520,512)	(520,512)
31,873	31,873	31,873
-	(327,548)	(327,548)
<u>\$ 31,873</u>	<u>(36,546,588)</u>	<u>(36,546,588)</u>
	24,866,011	24,866,011
	3,323,328	3,323,328
	10,007,701	10,007,701
	97,917	97,917
	32,040	32,040
	647,771	647,771
	2,864	2,864
	<u>38,977,632</u>	<u>38,977,632</u>
	2,431,044	2,431,044
	41,352,449	41,352,449
	37,534	37,534
	<u>43,821,027</u>	<u>43,821,027</u>

GOVERNMENTAL FUND FINANCIAL STATEMENTS

KERRVILLE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes		10 General Fund	50 Debt Service Fund
ASSETS			
1110	Cash and Cash Equivalents	\$ 4,558,881	\$ 10,814
1120	Investments - Current	2,536,295	1,093,330
1210	Property Taxes - Current	377,726	50,847
1220	Property Taxes - Delinquent	930,400	132,915
1230	Allowance for Uncollectible Taxes (Credit)	(481,061)	(71,243)
1240	Receivables from Other Governments	1,309,052	-
1260	Due from Other Funds	824,805	45,506
1290	Other Receivables	551	-
1300	Inventory	12,860	-
1410	Prepayments	95,938	-
1490	Other Current Assets	10,548	-
1000	Total Assets	10,175,995	1,262,169
DEFERRED OUTFLOWS OF RESOURCES			
1700	Deferred Outflows	-	-
1000a	Total Assets and Deferred Outflows	\$ 10,175,995	\$ 1,262,169
LIABILITIES			
2110	Accounts Payable	\$ 216,173	\$ -
2160	Accrued Wages Payable	1,083,089	-
2170	Due to Other Funds	45,506	-
2180	Due to Other Governments	10,226	-
2190	Due to Student Groups	-	-
2300	Unearned Revenues	96,342	-
2000	Total Liabilities	1,451,336	-
DEFERRED INFLOWS OF RESOURCES			
	Unavailable Revenue - Property Taxes	827,065	112,519
2600	Total Deferred Inflows of Resources	827,065	112,519
FUND BALANCE			
3410	Nonspendable - Inventory	12,860	-
3430	Nonspendable - Prepaid Items	106,486	-
3450	Restricted - Federal or State Funds	-	-
3480	Restricted - Retirement of Long-Term Debt	-	1,149,650
3510	Committed - Construction	410,000	-
3545	Committed - Other	492,818	-
3600	Unassigned Fund Balance	6,875,430	-
3000	Total Fund Balances	7,897,594	1,149,650
4000	Total Liabilities, Deferred Inflows, and Fund Balances	\$ 10,175,995	\$ 1,262,169

The accompanying notes are an integral part of this statement.

		98	
		Total	
Other		Governmental	
Funds		Funds	
\$	350,463	\$	4,920,158
	-		3,629,625
	-		428,573
	-		1,063,315
	-		(552,304)
	1,036,783		2,345,835
	-		870,311
	10,894		11,445
	60,956		73,816
	-		95,938
	-		10,548
	<u>1,459,096</u>		<u>12,897,260</u>
	-		-
\$	<u>1,459,096</u>	\$	<u>12,897,260</u>
\$	76,191	\$	292,364
	147,099		1,230,188
	823,857		869,363
	-		10,226
	311,287		311,287
	4,262		100,604
	<u>1,362,696</u>		<u>2,814,032</u>
	-		939,584
	-		939,584
	60,956		73,816
	-		106,486
	35,444		35,444
	-		1,149,650
	-		410,000
	-		492,818
	-		6,875,430
	<u>96,400</u>		<u>9,143,644</u>
\$	<u>1,459,096</u>	\$	<u>12,897,260</u>

KERRVILLE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2016

Total Fund Balances - Governmental Funds	\$ 9,143,644
1 The District uses internal service funds to charge the costs of certain activities, such as transportation costs, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	730,659
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 \$93,983,252 and the accumulated depreciation was \$34,213,186. In addition, long-term liabilities, including bonds payable and the net pension liability, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The long-term debt beginning balance was \$22,475,000, and unamortized bond premium was \$1,261,899. 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.	36,033,167
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 2016 capital outlays of \$735,330, net book value of assets disposed, debt principal payments of \$2,575,000 is to increase net position.	3,310,330
4 The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(2,045,652)
5 Bond premiums are recorded as other financing sources when received in the fund financial statements but are capitalized and amortized in the government-wide financials. This is the current year amortization.	173,819
6 Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expense is reported when due. The net effect is to decrease net position.	(29,919)
7 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability in the amount of \$9,206,243, a deferred outflow of resources of \$4,808,901, and a deferred inflow of resources of \$685,034. The net effect is to decrease net position.	(5,082,376)
8 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred tax revenue of \$939,584, accruing \$647,771 in revenue due to the District from an insurance claim for storm damage, other various adjustments, and eliminating interfund transactions. The net effect of these reclassifications is to increase net position.	1,587,355
19 Net Position of Governmental Activities (See A-1)	\$ <u>43,821,027</u>

The accompanying notes 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, 2016

Data Control Codes		10 General Fund	50 Debt Service Fund
	REVENUES		
5700	Total Local and Intermediate Sources	\$ 25,586,784	\$ 3,346,106
5800	State Program Revenues	11,645,234	110,870
5900	Federal Program Revenues	561,980	-
5020	Total Revenues	<u>37,793,998</u>	<u>3,456,976</u>
	EXPENDITURES		
	Current:		
0011	Instruction	21,329,831	-
0012	Instructional Resources and Media Services	341,737	-
0013	Curriculum and Instructional Staff Development	112,727	-
0021	Instructional Leadership	577,281	-
0023	School Leadership	2,417,552	-
0031	Guidance, Counseling, and Evaluation Services	1,130,858	-
0032	Social Work Services	19,493	-
0033	Health Services	419,343	-
0034	Student (Pupil) Transportation	1,350,178	-
0035	Food Services	-	-
0036	Extracurricular Activities	1,375,969	-
0041	General Administration	1,432,240	-
0051	Facilities Maintenance and Operations	4,617,745	-
0052	Security and Monitoring Services	154,527	-
0053	Data Processing Services	596,573	-
0061	Community Services	325,487	-
	Debt Service:		
0071	Principal on Long-Term Debt	-	2,575,000
0072	Interest on Long-Term Debt	-	810,766
	Capital Outlay:		
0081	Facilities Acquisition and Construction	316,200	-
	Intergovernmental:		
0099	Other Intergovernmental Charges	362,724	-
6030	Total Expenditures	<u>36,880,465</u>	<u>3,385,766</u>
	Excess (Deficiency) of Revenues		
1100	Over (Under) Expenditures	<u>913,533</u>	<u>71,210</u>
1200	Net Change in Fund Balances	913,533	71,210
0100	Fund Balance - September 1 (Beginning)	<u>6,984,061</u>	<u>1,078,440</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 7,897,594</u>	<u>\$ 1,149,650</u>

The accompanying notes are an integral part of this statement.

		98	
		Total	
Other	Funds	Governmental	Funds
\$	973,551	\$	29,906,441
	165,563		11,921,667
	<u>5,061,818</u>		<u>5,623,798</u>
	<u>6,200,932</u>		<u>47,451,906</u>
	2,821,577		24,151,408
	26,302		368,039
	87,273		200,000
	20,112		597,393
	67,590		2,485,142
	527,184		1,658,042
	47,771		67,264
	35,674		455,017
	-		1,350,178
	2,342,884		2,342,884
	137,952		1,513,921
	400		1,432,640
	-		4,617,745
	2,776		157,303
	-		596,573
	34,304		359,791
	-		2,575,000
	-		810,766
	31,873		348,073
	-		362,724
	<u>6,183,672</u>		<u>46,449,903</u>
	<u>17,260</u>		<u>1,002,003</u>
	17,260		1,002,003
	<u>79,140</u>		<u>8,141,641</u>
\$	<u>96,400</u>	\$	<u>9,143,644</u>

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, 2016

Total Net Change in Fund Balances - Governmental Funds	\$ 1,002,003
The District uses internal service funds to charge the costs of certain activities, such as transportation costs, to appropriate functions in other funds. The change in net position of internal service funds are reported with governmental activities. The net effect of this consolidation is to decrease net position.	8,013
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 2016 capital outlays of \$735,330 and debt principal payments of \$2,575,000 is to increase net position.	3,310,330
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(2,045,652)
Certain expenditures for the pension that are recorded to the fund financial statements must be recorded as deferred outflows of resources. Contributions made after the measurement date caused the change in net position to increase in the amount of \$880,537. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date must be amortized and the District's proportionate share of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$1,568,349. The net effect is a decrease in net position.	(687,417)
Bond premiums are recorded as other financing sources when received in the fund financial statements but are capitalized and amortized in the government-wide financials. This is the current year amortization.	173,819
Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expense is reported when due. The current year change in the accrual is a decrease of \$5,565. The net effect is to increase net position.	5,565
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred tax revenue of \$939,584 as revenue, removing the prior year's tax collection of \$922,972, accruing \$647,771 in revenue due to the District from an insurance claim for storm damage and eliminating interfund transactions.	664,383
Change in Net Position of Governmental Activities (See B-1)	\$ <u>2,431,044</u>

The accompanying notes are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

KERRVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
AUGUST 31, 2016

	Governmental Activities Internal Service Fund
<hr/>	
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 13,742
Noncurrent Assets:	
Buildings and Improvements	223,746
Depreciation on Buildings	(81,286)
Furniture and Equipment	3,052,824
Depreciation on Furniture and Equipment	<u>(2,476,516)</u>
Total Assets	<u>732,510</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	903
Due to Other Funds	<u>948</u>
Total Liabilities	<u>1,851</u>
NET POSITION	
Net Investment in Capital Assets	718,768
Unrestricted Net Position	<u>11,891</u>
Total Net Position	<u>\$ 730,659</u>

The accompanying notes are an integral part of this statement.

KERRVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED AUGUST 31, 2016

	Governmental Activities Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 1,699,587
State Program Revenue	<u>72,728</u>
Total Operating Revenues	<u>1,772,315</u>
OPERATING EXPENSES:	
Payroll Costs	1,254,314
Professional and Contracted Services	43,940
Supplies and Materials	286,037
Other Operating Costs	35,840
Depreciation Expense	<u>147,035</u>
Total Operating Expenses	<u>1,767,166</u>
Operating Income	5,149
NONOPERATING REVENUES (EXPENSES):	
Gain on Sale of Real and Personal Property	<u>2,864</u>
Total Nonoperating Revenues (Expenses)	<u>2,864</u>
Change in Net Position	8,013
Total Net Position - September 1 (Beginning)	685,112
Prior Period Adjustment	<u>37,534</u>
Total Net Position - August 31 (Ending)	<u>\$ 730,659</u>

The accompanying notes are an integral part of this statement.

KERRVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED AUGUST 31, 2016

	Governmental Activities Internal Service Fund
<hr/>	
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from User Charges	\$ 1,699,587
Cash Payments for Employees for Services	(1,181,586)
Cash Payments for Other Operating Expenses	<u>(380,375)</u>
Net Cash Provided By Operating Activities	<u>137,626</u>
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(176,520)
Proceeds from Sale of Capital Assets	<u>2,864</u>
Net Cash Used in Capital & Related Financing Activities	<u>(173,656)</u>
Net Change in Cash and Cash Equivalents	(36,030)
Cash Balances - Beginning of the Year	<u>49,772</u>
Cash Balances - End of the Year	<u><u>\$ 13,742</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 5,149
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	147,035
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease in Accounts Payable	(14,675)
Increase in Due to Other Funds	<u>117</u>
Net Cash Provided by Operating Activities	<u><u>\$ 137,626</u></u>

The accompanying notes are an integral part of this statement.

FIDUCIARY FUND FINANCIAL STATEMENTS

KERRVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
AUGUST 31, 2016

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ <u>209,158</u>
Total Assets	\$ <u><u>209,158</u></u>
LIABILITIES	
Accounts Payable	\$ 4,484
Due to State	84
Due to Student Groups	<u>204,590</u>
Total Liabilities	\$ <u><u>209,158</u></u>

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 1: REPORTING ENTITY

The Board of Trustees, a seven-member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the Kerrville Independent School District (the District). The public elects the members of the Board of Trustees. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the TEA or to the State Board of Education are reserved for the trustees, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. There are no component units included within the reporting entity. The financial statements of the District include all activities for which the Board exercises these governance responsibilities.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

Note 2: GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note 3: MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

*Note 3: MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION
(continued)*

The Proprietary Fund Types and Fiduciary Funds are accounted for using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recognized 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 net investment in capital assets, restricted net position, and unrestricted net position.

Property taxes and penalties and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the District receives cash.

The District reports the following major governmental funds:

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

The *debt service fund*, a governmental fund type, account for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in the debt service fund.

Additionally, the District reports the following fund types:

The *special revenue funds*, a governmental fund type, account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The District accounts for each federal and state grant in a separate special revenue fund.

The *internal service fund*, a proprietary fund type, accounts for its Transportation Fund. Revenues and expenses are related to services provided to organizations inside the District on a cost reimbursement basis. Internal service funds inherently create redundancy because their expenses are recorded a second time in the fund 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.

Agency funds, a fiduciary fund type, account for resources held for others in a custodial capacity.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the transportation internal service fund are District contributions for the transportation fund. Operating expenses include depreciation and other operating expense and administrative expense for administering the transportation fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 4: ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION OR EQUITY

Deposits and Investments

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

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental column in the government-wide financial statements and in the proprietary fund financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two 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.

Property, plant and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	20
Vehicles	5
Office equipment	5
Computer equipment	5

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities.

Deferred Outflows/Inflows of Resources

Deferred outflows/inflows of resources are separate elements of the financial statements. The District has deferred inflows of resources, which arises under the modified accrual basis of accounting, unavailable revenue from property taxes and for its proportionate share of TRS's deferred inflow related to pensions as described in Note 10. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District only has one deferred outflow of resources, for its proportionate share of TRS's deferred outflow related to pensions as described in Note 10.

Pensions

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

Use of Estimates

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

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 5: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's Financial Accounting Resource (FAR) module, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Debt Service Fund, and the Child Nutrition Program. The remaining special revenue funds adopt project-length budgets that do not correspond to the District's fiscal year.

Fair Value Measurements

The District adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into three-level fair value hierarchy as follows:

Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.

Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 inputs are observable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Implementation of GASB Statement No. 72 did not have a significant impact on the District's financial statements for the year ended August 31, 2016.

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 6: DETAILED NOTES ON ALL FUNDS

Deposits and Investments

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

The District's investment policies and types of investments are governed by the Public Funds Investment Act (PFIA). The District's management believes that they complied with all significant requirements of the PFIA and the District's investment policies.

Custodial Credit Risk – Deposits - At August 31, 2016, the District's deposits (cash, certificates of deposit and interest bearing savings accounts including temporary investments) were entirely covered by pledged collateral held by the District's agent bank in the District's name or by federal deposit insurance.

Investments

State statutes and Board policy authorize the District to invest in 1) obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009; 2) certificates of deposit and share certificates as permitted by Government Code 2256.010; 3) fully collateralized repurchase agreements permitted by Government Code 2256.011; 4) a securities lending program as permitted by Government Code 2256.0115; 5) no-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014; 6) a guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and 7) public funds investment pools as permitted by Government Code 2256.016. Temporary investments are reported at cost, which approximates market, and are secured, when necessary, by the FDIC or obligations of items 1-4 above at 102% of the investment's market value.

Concentration of Credit Risk – The District's investment policy does not limit investments in any one issuer except that the investment portfolio shall be diversified in terms of investment instruments, maturing scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user.

Interest Rate Risk – The District's investment policy states that any internally created pool fund group of the District shall 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. The Board may specifically authorize a longer maturity for a given investment, within legal limits.

The following table presents the maturities of investments at August 31, 2016.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)*</u>	<u>Rating</u>
TexPool	\$ 2,514,681	42	AAAm
Lone Star	1,114,944	23	AAAm
Total	<u>\$ 3,629,625</u>		

*To arrive at weighted average maturity, the maturity of floating rate and variable rate securities was deemed to be the final maturity of such securities.

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 6: DETAILED NOTES ON ALL FUNDS (continued)

TexPool

Under the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State Comptroller is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool. The reported value of the pool is the same as the fair value of the pool shares. TexPool is subject to annual review by an independent auditor consistent with the Public Funds Investment Act. Audited financial statements of the pool are available at First Public, 12008 Research Blvd., Austin, Texas 78759. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller's Office.

Lone Star

Lone Star Investment Pool is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. Lone Star is administered by First Public LLC, who also serves as the investment advisor. The reported value of the pool is the same as the fair value of the pool shares.

Property Tax

In the governmental fund financial statements, property tax revenues are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by January 31 of the year following the October 1 levy date. The assessed value of the property tax roll (net of exemptions), upon which the levy for the August 31, 2016 fiscal year was based, was \$2,998,692,254. Taxes are delinquent if not paid by February 1. Delinquent taxes are subject to both penalty and interest charges plus delinquent collection fees for attorney costs.

Current tax collections for the year ended August 31, 2016 were 97.9% of the year-end adjusted tax levy. Allowances for uncollectible taxes within the General Fund are based on historical experience in collecting 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. As of August 31, 2016, property taxes receivable, net of estimated uncollectible taxes, totaled \$939,584.

The tax rate to finance general governmental services was \$1.04000 per \$100 and the tax rate to finance the payment of principal and interest on long-term obligations was \$0.140 per \$100 for the year ended August 31, 2016.

Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2016, are summarized below.

<u>Governmental Activities:</u>	<u>Local</u>	<u>State Grants/ Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General Fund	\$ 1,615	\$ 1,307,437	\$ -	\$ 1,309,052
Nonmajor Governmental Funds	-	24,684	1,012,099	1,036,783
	<u>\$ 1,615</u>	<u>\$ 1,332,121</u>	<u>\$ 1,012,099</u>	<u>\$ 2,345,835</u>

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 6: DETAILED NOTES ON ALL FUNDS (continued)

Interfund Receivables and Payables

The composition of interfund balances as of August 31, 2016, is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund:		
Nonmajor Governmental Funds	\$ 823,857	\$ -
Internal Service Funds	948	-
Debt Service Fund	-	45,506
Nonmajor Governmental Funds:		
General Fund	-	823,857
Debt Service Fund:		
General Fund	45,506	-
Internal Service Funds:		
General Fund	<u>-</u>	<u>948</u>
Totals	\$ <u><u>870,311</u></u>	\$ <u><u>870,311</u></u>

Interfund receivables and payables were recorded to eliminate cash deficit balances and to record temporary interfund borrowing.

Interfund Transfers

There were no interfund transfers as of August 31, 2016.

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 6: DETAILED NOTES ON ALL FUNDS (continued)

Capital Assets

Capital asset activity for the year ended August 31, 2016 was as follows:

	Balance 9/1/2015	Additions	Deletions	Balance 8/31/2016
Governmental Activities:				
Capital assets, Not Being Depreciated:				
Land	\$ 2,344,403	\$ -	\$ -	\$ 2,344,403
Total Capital Assets, Not Being Depreciated	<u>2,344,403</u>	<u>-</u>	<u>-</u>	<u>2,344,403</u>
Capital assets, Being Depreciated				
Building and Improvements	87,743,710	662,226	-	88,405,936
Furniture and Equipment	<u>7,074,044</u>	<u>249,624</u>	<u>(1,085,517)</u>	<u>6,238,151</u>
Total Capital Assets, Being Depreciated	<u>94,817,754</u>	<u>911,850</u>	<u>(1,085,517)</u>	<u>94,644,087</u>
Less Accumulated Depreciation for:				
Building and Improvements	(30,635,843)	(1,982,175)	-	(32,618,018)
Furniture and Equipment	<u>(5,951,022)</u>	<u>(210,512)</u>	<u>969,574</u>	<u>(5,191,960)</u>
Total Accumulated Depreciation	<u>(36,586,865)</u>	<u>(2,192,687)</u>	<u>969,574</u>	<u>(37,809,978)</u>
Total Capital Assets, Being Depreciated (Net)	<u>58,230,889</u>	<u>(1,280,837)</u>	<u>(115,943)</u>	<u>56,834,109</u>
Total Capital Assets (Net)	<u>\$ 60,575,292</u>	<u>\$ (1,280,837)</u>	<u>\$ (115,943)</u>	<u>\$ 59,178,512</u>

Depreciation expense was charged to the District's functions as follows:

Instruction	\$ 1,090,796
Instructional Resources and Media Services	56,181
Curriculum and Staff Development	6,424
School Leadership	30,658
Guidance, Counseling and Evaluation Services	14,005
Student Transportation	147,035
Food Service	95,526
Cocurricular/Extracurricular Activities	606,610
General Administration	13,332
Facilities Maintenance and Operations	42,810
Data Processing Services	37,564
Community Services	<u>51,746</u>
Total depreciation expense	<u>\$ 2,192,687</u>

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 7: LONG-TERM DEBT

The long-term indebtedness of the District pertains to the Governmental Activities of the District. Expenditures for the debt service requirements of the long-term debt are accounted for in the General Fund.

A summary of changes in general long-term debt for the year ended August 31, 2016 is as follows:

	Interest Rate Payable	Amounts Original Issued	Balance 9/1/2015	Debt Issued	Principal Paid	Balance 8/31/2016	Due Within One Year
Unlimited Tax Refunding Bonds							
Series 2004	2% to 5%	\$ 28,405,050	\$ 2,505,000	\$ -	\$ (2,505,000)	\$ -	\$ -
Unlimited Tax Refunding Bonds							
Series 2013	2% to 3.5%	14,325,000	14,095,000	-	(30,000)	14,065,000	2,650,000
Unlimited Tax Sch Building Bonds							
Series 2013	2% to 4%	5,970,000	<u>5,875,000</u>	<u>-</u>	<u>(40,000)</u>	<u>5,835,000</u>	<u>40,000</u>
Total Bonds Payable			<u>\$ 22,475,000</u>	<u>\$ -</u>	<u>\$ (2,575,000)</u>	<u>\$ 19,900,000</u>	<u>\$ 2,690,000</u>

The Unlimited Tax Refunding Bonds, Series 2004 (Bonds Series 2004) were issued to refund a portion of the District's outstanding obligations and pay costs of issuance. The refunding resulted in a present value savings to the District. The Bonds Series 2004 were issued on July 15, 2004 and matured during the year ended August 31, 2016.

The Unlimited Tax Refunding Bonds, Series 2013 (Bond Series 2013) were issued to refund a portion of the District's outstanding obligations and pay costs of issuance. The Bonds Series 2013 were issued on April 9, 2013 and have a final maturity date of February 15, 2021. There are a number of limitations and restrictions contained in note agreements. Management believes that the District is in compliance with all significant limitations and restrictions as of August 31, 2016.

The Unlimited Tax School Building Bonds, Series 2013 (Building Bonds Series 2013) were issued to finance improvements to Antler Stadium. The District's maintenance tax revenues collateralize the Building Bonds Series 2013. The Building Bonds Series 2013 were issued on April 14, 2013 and have a final maturity date of August 15, 2033. There are a number of limitations and restrictions contained in note agreements. Management believes that the District is in compliance with all significant limitations and restrictions as of August 31, 2016.

Debt service requirements for the District's long-term debt are as follows:

Year Ended August 31	Principal	Interest	Total Requirements
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	2,940,000	434,032	3,374,032
2021	3,045,000	330,906	3,375,906
2022-2026	2,030,000	964,530	2,994,530
2027-2031	2,475,000	524,530	2,999,530
2032-2033	1,115,000	66,306	1,181,306
	<u>\$ 19,900,000</u>	<u>\$ 4,124,900</u>	<u>\$ 24,024,900</u>

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 7: LONG-TERM DEBT (continued)

A summary in changes of total bonds payable and other long-term debt follows:

	<u>Balance 9/1/2015</u>	<u>Debt Issued /Additions</u>	<u>Principal Paid /Reductions</u>	<u>Balance 8/31/2016</u>	<u>Due Within One Year</u>
Bonds Payable:					
General Obligation Bonds	\$ 22,475,000	\$ -	\$ (2,575,000)	\$ 19,900,000	\$ 2,690,000
Unamortized Bond Premium	1,261,899	-	(173,819)	1,088,080	173,819
Net Pension Liability	<u>4,215,430</u>	<u>6,446,106</u>	<u>(1,455,293)</u>	<u>9,206,243</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 27,952,329</u>	<u>\$ 6,446,106</u>	<u>\$ (4,204,112)</u>	<u>\$ 30,194,323</u>	<u>\$ 2,863,819</u>

Note 8: COMMITMENTS UNDER OPERATING LEASES

Commitments under operating lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2016, as follows:

<u>Year Ended August 31</u>	
2017	\$ 146,490
2018	146,490
2019	146,490
2020	<u>85,453</u>
	524,923
Total Minimum Rentals	<u>\$ 524,923</u>
Rental Expenditures in Fiscal Year 2016	<u>\$ 178,429</u>

Note 9: CONTINGENCIES

The District is not a party to any legal actions that are believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying financial statements for such contingencies.

The District participates in numerous state and federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2016, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 10: DEFINED BENEFIT PENSION PLAN

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

All employees of public state-supported education institutions in Texas who are employed for one-half or more of the standard work load and who are not exempt from membership under Texas Government Code, Title 8, Section 822.02 are covered by the system.

Pension Plan Fiduciary Net Position – Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us>; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2015 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2015.

Net Pension Liability	Total
Total Pension Liability	\$ 163,887,375,172
Less: Plan Fiduciary Net Position	<u>(128,538,706,212)</u>
Net Pension Liability	<u>\$ 35,348,668,960</u>
Net Position as a percentage of Total Pension Liability	78.43%

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

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

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 10: DEFINED BENEFIT PENSION PLAN (continued)

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, GAA established the employer contribution rates for fiscal years 2016 and 2017.

	Contribution Rates	
	2015	2016
Member	6.70%	7.20%
Non-Employer Contributing Entity (State)	6.80%	6.80%
Employers	6.80%	6.80%
	2015	2016
Member Contributions	\$ 1,838,528	\$ 2,004,579
NECE On-Behalf Contributions	\$ 1,476,824	\$ 1,375,046
Employer Contributions	\$ 771,178	\$ 880,537

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate in the following instances:

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

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

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

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 10: DEFINED BENEFIT PENSION PLAN (continued)

Actuarial Assumptions – The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Inflation	2.50%
Salary Increases, including inflation	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit changes during year	None
Ad hoc post-employment benefit changes	None

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

Discount Rate – The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized on next page:

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 10: DEFINED BENEFIT PENSION PLAN (continued)

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Stable Value Hedge Funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	<u>100.0%</u>		<u>8.7%</u>

* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

Discount Rate Sensitivity Analysis – The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)		Discount Rate (8.0%)		1% Increase in Discount Rate (9.0%)	
Total TRS net pension liability	\$	55,384,701,778	\$	35,348,668,960	\$	18,659,898,872
District's proportionate share of the net pension liability	\$	14,424,448	\$	9,206,243	\$	4,859,803

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 10: DEFINED BENEFIT PENSION PLAN (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At August 31, 2016, the District reported a liability of \$9,206,243 for its proportionate share of the TRS's net pension liability measured at August 31, 2015. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 9,206,243
State's proportionate share that is associated with the District	<u>17,624,966</u>
Total	<u>\$ 26,831,209</u>

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 through August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was .000260441 which was an increase of .000102627 from its proportion measured as of August 31, 2014.

Changes Since the Prior Actuarial Valuation – The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

Economic Assumptions

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotion/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

5. The post-retirement mortality tables for non-disabled retirees and disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

7. Previously it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
8. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
9. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
10. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
11. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 10: DEFINED BENEFIT PENSION PLAN (continued)

Actuarial Methods and Policies

12. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

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

For the year ended August 31, 2016, the District recognized pension expense of \$1,568,349. Additionally, the District recognized revenue of \$1,476,824 for support provided by the State of Texas.

At August 31, 2016, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 54,195	\$ 353,804
Changes in actuarial assumptions	227,783	328,438
Difference between projected and actual investment earnings	1,300,987	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,345,399	2,792
Contributions paid to TRS subsequent to the measurement date	<u>880,537</u>	<u>-</u>
Total	<u>\$ 4,808,901</u>	<u>\$ 685,034</u>

\$880,537 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended August 31, 2017. The other net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31	Pension Expense Amount
2017	\$ 583,193
2018	583,193
2019	583,193
2020	905,295
2021	334,346
Thereafter	<u>254,110</u>
Total	<u>\$ 3,243,330</u>

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 11: POSTEMPLOYMENT HEALTH BENEFITS

Plan Description – The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. 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. 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 website at www.trs.state.tx.us under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of TRS at 1000 Red River Street, Austin, Texas 78701.

Funding Policy – Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203 and 204 establish state, active employee and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table on the following page for fiscal years 2016 – 2014.

Year	Contribution Rates					
	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2016	0.65%	\$ 180,989	1.0%	\$ 278,445	0.55%	\$ 153,144
2015	0.65%	178,360	1.0%	246,481	0.55%	150,922
2014	0.65%	176,659	1.0%	243,418	0.55%	149,465

Medicare Part D – The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments have been recognized as equal revenues and expenditures by the District in the amount of \$116,456, \$117,159, and \$71,546 for the years ended August 31, 2016, 2015 and 2014, respectively.

Note 12: HEALTH CARE AND WORKERS' COMPENSATION COVERAGE

During the year ended August 31, 2016, employees of the District were covered by TRS-ActiveCare, a statewide health care benefits program for active public education employees, authorized by House Bill 3343 by the 77th Texas Legislature. The program is administered by the TRS, with Aetna as the health plan administrator and Caremark as the pharmacy benefits manager. The District contributes \$298 per month per active employee to the plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to TRS-ActiveCare.

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 13: REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

For the year ended August 31, 2016, revenues from local and intermediate sources for governmental fund types consisted of the following:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Property taxes	\$ 24,588,805	\$ 3,308,760	\$ -	\$ 27,897,565
Food service sales	-	-	543,775	543,775
Investment income	25,085	6,747	208	32,040
Campus activity related income	-	-	423,838	423,838
Penalties, interest, and other tax related income	244,563	30,599	-	275,162
Tuition	234,216	-	-	234,216
Cocurricular student activities	177,053	-	-	177,053
Other	317,062	-	5,730	322,792
Total	\$ <u>25,586,784</u>	\$ <u>3,346,106</u>	\$ <u>973,551</u>	\$ <u>29,906,441</u>

Note 14: UNEARNED REVENUE AND DEFERRED INFLOWS OF RESOURCES

Unearned revenue at year-end in the fund statements consisted of the following:

	General Fund	Nonmajor Governmental Funds	Total
State revenue	\$ -	\$ 4,262	\$ 4,262
Athletic receipts	25,785	-	25,785
Tuition	38,400	-	38,400
Other	32,157	-	32,157
Total	\$ <u>96,342</u>	\$ <u>4,262</u>	\$ <u>100,604</u>

Deferred inflows of resources at year-end in the fund statements consisted of the following:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Unavailable revenue - property taxes	\$ <u>827,065</u>	\$ <u>112,519</u>	\$ -	\$ <u>939,584</u>
Total	\$ <u>827,065</u>	\$ <u>112,519</u>	\$ -	\$ <u>939,584</u>

Note 15: VACATION AND SICK LEAVE

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

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 16: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Note 17: FUND BALANCE

The District classifies governmental fund balance in accordance with Government Accounting Standards Board (GASB) 54, Fund Balance Reporting and Governmental Fund Type Definitions:

Nonspendable fund balance includes fund balance that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. The District had fund balance reserved for nonspendable inventory of \$73,816 and nonspendable prepayments of \$106,486 at August 31, 2016.

Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. As of August 31, 2016, \$35,444 was restricted for child nutrition, and \$1,149,650 was restricted for retirement of long-term debt.

Committed fund balance is established and modified by a resolution from the District's Board, the District's highest level of decision-making authority, and can be used only for the specific purposes determined by the Board's resolution. At August 31, 2016, the District had the following committed funds:

Turf Replacement	\$	410,000
Band Uniforms		80,000
Special Education IDEA, B		215,000
Instructional Materials Allotment		<u>197,818</u>
Total Committed Funds	\$	<u><u>902,818</u></u>

Assigned fund balance is intended to be used by the District for specific purposes but does not meet the criteria to be classified as restricted or committed. The Board has delegated the authority to assign fund balance to the Superintendent or the Chief Financial Officer. At August 31, 2016, the District had no assigned funds.

Unassigned fund balance is the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications.

The District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The District does not have a formal minimum fund balance policy.

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

Note 18: GENERAL FUND FEDERAL SOURCE REVENUES

Revenues from federal sources, which are reported in the General Fund, consist of:

	<u>CFDA</u>	<u>Amount</u>
Medicaid Administrative Claiming	93.778	\$ 24,367
School of Health and Related Services	N/A	480,606
Indirect costs:		
Title I, Part A	84.010	26,351
IDEA - Part B, Formula	84.027	21,592
IDEA - Part B, Preschool	84.173	556
Career and Technical - Basic Grant	84.048	1,288
ESEA, Title VI, Part B	84.358	2,627
Title III, Part A	84.365	678
Title II, Part A	84.367	3,915
Total		\$ <u>561,980</u>

Note 19: PRIOR PERIOD ADJUSTMENT

During the fiscal year 2016, the District discovered that accumulated depreciation on furniture and equipment had been overstated in prior years by \$75,463. The District recorded an entry to correct the overstatement which had the following effect:

	<u>As Originally Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Governmental activities:			
Net position	\$ 41,352,449	\$ 37,534	\$ 41,389,983
Internal service fund:			
Net position	\$ 685,112	\$ 37,929	\$ 723,041

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, 2016

Data				Variance with
Control		Budgeted Amounts	Actual Amounts	Final Budget
Codes		Original	Final	Positive or
			(GAAP BASIS)	(Negative)
REVENUES:				
5700	Total Local and Intermediate Sources	\$ 26,331,995	\$ 26,331,995	\$ 25,586,784 \$ (745,211)
5800	State Program Revenues	10,968,005	10,968,005	11,645,234 677,229
5900	Federal Program Revenues	560,000	560,000	561,980 1,980
5020	Total Revenues	37,860,000	37,860,000	37,793,998 (66,002)
EXPENDITURES:				
Current:				
0011	Instruction	21,990,941	21,811,849	21,329,831 482,018
0012	Instructional Resources and Media Services	351,973	353,562	341,737 11,825
0013	Curriculum and Instructional Staff Development	184,108	180,200	112,727 67,473
0021	Instructional Leadership	687,565	686,175	577,281 108,894
0023	School Leadership	2,453,755	2,454,144	2,417,552 36,592
0031	Guidance, Counseling, and Evaluation Services	1,125,879	1,136,544	1,130,858 5,686
0032	Social Work Services	24,023	24,023	19,493 4,530
0033	Health Services	420,399	428,757	419,343 9,414
0034	Student (Pupil) Transportation	1,442,660	1,492,660	1,350,178 142,482
0036	Extracurricular Activities	1,398,409	1,423,423	1,375,969 47,454
0041	General Administration	1,608,041	1,607,321	1,432,240 175,081
0051	Facilities Maintenance and Operations	4,654,828	5,005,963	4,617,745 388,218
0052	Security and Monitoring Services	191,541	183,621	154,527 29,094
0053	Data Processing Services	600,416	650,096	596,573 53,523
0061	Community Services	358,962	358,962	325,487 33,475
Capital Outlay:				
0081	Facilities Acquisition and Construction	-	316,200	316,200 -
Intergovernmental:				
0099	Other Intergovernmental Charges	366,500	366,500	362,724 3,776
6030	Total Expenditures	37,860,000	38,480,000	36,880,465 1,599,535
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(620,000)	913,533 1,533,533
1200	Net Change in Fund Balances	-	(620,000)	913,533 1,533,533
0100	Fund Balance - September 1 (Beginning)	6,984,061	6,984,061	6,984,061 -
3000	Fund Balance - August 31 (Ending)	\$ 6,984,061	\$ 6,364,061	\$ 7,897,594 \$ 1,533,533

KERRVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHERS RETIREMENT SYSTEM OF TEXAS
AUGUST 31, 2016

	<u>2015 *</u>	<u>2014 *</u>
District's Proportion of the Net Pension Liability	0.026044100 %	0.015781400 %
District's Proportionate Share of Net Pension Liability	\$ 9,206,243	\$ 4,215,430
State's Proportionate Share of the Net Pension Liability associated with the District	<u>17,624,966</u>	<u>15,513,339</u>
Total	<u>\$ 26,831,209</u>	<u>\$ 19,728,769</u>
District's Covered-Employee Payroll	\$ 27,440,718	\$ 27,178,328
District's Proportionate Share of Net Pension Liability as a Percentage of its Covered-Employee Payroll	33.55 %	15.51 %
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43 %	83.25 %

* The amounts presented for each plan year are as of August 31; plan information was unavailable prior to 2014.

KERRVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHERS RETIREMENT SYSTEM OF TEXAS
AUGUST 31, 2016

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 771,178	\$ 400,103
Contribution in Relation to the Contractually Required Contribution	<u>(771,178)</u>	<u>(387,627)</u>
Contribution Deficiency	\$ <u>-</u>	\$ <u>12,476</u>
District's Covered-Employee Payroll	\$ 27,844,412	\$ 27,440,718
Contributions as a Percentage of Covered-Employee Payroll	2.77 %	1.46 %

KERRVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2016

NOTE A: NET PENSION LIABILITY – TEACHERS RETIREMENT SYSTEM

Changes of Benefit Terms

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

Changes in the Size or Composition of the Population Covered by the Benefit Terms

There are no changes in the size or composition of the population covered by the benefit terms during the measurement period.

Changes of Assumptions

Economic Assumptions

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotion/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

5. The post-retirement mortality tables for non-disabled retirees and disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

7. Previously it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore this 10% is no longer being counted as active members.
8. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
9. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
10. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
11. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

12. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

OTHER SUPPLEMENTARY INFORMATION

KERRVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes		205	211
		Head Start	ESEA I, A Improving Basic Program
ASSETS			
1110	Cash and Cash Equivalents	\$ -	\$ -
1240	Receivables from Other Governments	136,552	356,543
1290	Other Receivables	-	-
1300	Inventories	-	-
		<hr/>	<hr/>
1000	Total assets	136,552	356,543
DEFERRED OUTFLOWS OF RESOURCES			
1700	Deferred Outflows	-	-
		<hr/>	<hr/>
1000a	Total assets and deferred outflows	\$ <u>136,552</u>	\$ <u>356,543</u>
LIABILITIES			
2110	Accounts Payable	\$ 3,385	\$ -
2160	Accrued Wages Payable	24,587	60,969
2170	Due to Other Funds	108,580	295,574
2190	Due to Student Groups	-	-
2300	Unearned Revenues	-	-
		<hr/>	<hr/>
2000	Total liabilities	136,552	356,543
DEFERRED INFLOWS OF RESOURCES			
2600	Unavailable revenue - Property taxes	-	-
		<hr/>	<hr/>
	Total deferred inflows of resources	-	-
FUND BALANCES			
3410	Nonspendable - Inventory	-	-
3450	Federal or State Funds Grant Restriction	-	-
		<hr/>	<hr/>
3000	Total fund balances	-	-
		<hr/>	<hr/>
4000	Total liabilities, deferred inflows and fund balances	\$ <u>136,552</u>	\$ <u>356,543</u>

212 ESEA I, C Education of Migratory Children	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	242 Summer Feeding Program
\$ 1,264	\$ -	\$ -	\$ 29,403	\$ -
-	306,330	1,979	63,236	-
-	-	-	10,894	-
-	-	-	60,956	-
1,264	306,330	1,979	164,489	-
-	-	-	-	-
<u>\$ 1,264</u>	<u>\$ 306,330</u>	<u>\$ 1,979</u>	<u>\$ 164,489</u>	<u>\$ -</u>
\$ 1,264	\$ -	\$ -	\$ 67,295	\$ -
-	51,883	1,936	-	-
-	254,447	43	794	-
-	-	-	-	-
-	-	-	-	-
1,264	306,330	1,979	68,089	-
-	-	-	-	-
-	-	-	-	-
-	-	-	60,956	-
-	-	-	35,444	-
-	-	-	96,400	-
<u>\$ 1,264</u>	<u>\$ 306,330</u>	<u>\$ 1,979</u>	<u>\$ 164,489</u>	<u>\$ -</u>

KERRVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes	244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting
ASSETS		
1110 Cash and Cash Equivalents	\$ -	\$ -
1240 Receivables from Other Governments	16,663	59,819
1290 Other Receivables	-	-
1300 Inventories	-	-
	<hr/>	<hr/>
1000 Total assets	16,663	59,819
DEFERRED OUTFLOWS OF RESOURCES		
1700 Deferred Outflows	-	-
	<hr/>	<hr/>
1000a Total assets and deferred outflows	\$ <u>16,663</u>	\$ <u>59,819</u>
LIABILITIES		
2110 Accounts Payable	\$ -	\$ -
2160 Accrued Wages Payable	-	7,724
2170 Due to Other Funds	16,663	52,095
2190 Due to Student Groups	-	-
2300 Unearned Revenues	-	-
	<hr/>	<hr/>
2000 Total liabilities	16,663	59,819
DEFERRED INFLOWS OF RESOURCES		
2600 Unavailable revenue - Property taxes	-	-
	<hr/>	<hr/>
Total deferred inflows of resources	-	-
FUND BALANCES		
3410 Nonspendable - Inventory	-	-
3450 Federal or State Funds Grant Restriction	-	-
	<hr/>	<hr/>
3000 Total fund balances	-	-
	<hr/>	<hr/>
4000 Total liabilities, deferred inflows and fund balances	\$ <u>16,663</u>	\$ <u>59,819</u>

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	385 Visually Impaired SSVI
\$ -	\$ -	\$ -	\$ -	\$ -
20,405	44,444	6,128	-	-
-	-	-	-	-
-	-	-	-	-
20,405	44,444	6,128	-	-
-	-	-	-	-
\$ 20,405	\$ 44,444	\$ 6,128	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
20,405	44,444	6,128	-	-
-	-	-	-	-
-	-	-	-	-
20,405	44,444	6,128	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
\$ 20,405	\$ 44,444	\$ 6,128	\$ -	\$ -

KERRVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2016

Data Control Codes	392 Noneducational Community-Based Support	397 Advanced Placement Initiatives
ASSETS		
1110 Cash and Cash Equivalents	\$ -	\$ -
1240 Receivables from Other Governments	1,500	-
1290 Other Receivables	-	-
1300 Inventories	-	-
	<hr/>	<hr/>
1000 Total assets	1,500	-
DEFERRED OUTFLOWS OF RESOURCES		
1700 Deferred Outflows	-	-
	<hr/>	<hr/>
1000a Total assets and deferred outflows	\$ <u>1,500</u>	\$ <u>-</u>
LIABILITIES		
2110 Accounts Payable	\$ -	\$ -
2160 Accrued Wages Payable	-	-
2170 Due to Other Funds	1,500	-
2190 Due to Student Groups	-	-
2300 Unearned Revenues	-	-
	<hr/>	<hr/>
2000 Total liabilities	1,500	-
DEFERRED INFLOWS OF RESOURCES		
2600 Unavailable revenue - Property taxes	-	-
	<hr/>	<hr/>
Total deferred inflows of resources	-	-
FUND BALANCES		
3410 Nonspendable - Inventory	-	-
3450 Federal or State Funds Grant Restriction	-	-
	<hr/>	<hr/>
3000 Total fund balances	-	-
	<hr/>	<hr/>
4000 Total liabilities, deferred inflows and fund balances	\$ <u>1,500</u>	\$ <u>-</u>

410 Textbook & Kindergarten Material	429 Other State Special Revenue Funds	461 Campus Activity Revenue Funds	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 315,534	\$ 4,262	\$ 350,463
23,184	-	-	-	1,036,783
-	-	-	-	10,894
-	-	-	-	60,956
<u>23,184</u>	<u>-</u>	<u>315,534</u>	<u>4,262</u>	<u>1,459,096</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 23,184</u>	<u>\$ -</u>	<u>\$ 315,534</u>	<u>\$ 4,262</u>	<u>\$ 1,459,096</u>
\$ -	\$ -	\$ 4,247	\$ -	\$ 76,191
-	-	-	-	147,099
23,184	-	-	-	823,857
-	-	311,287	-	311,287
-	-	-	4,262	4,262
<u>23,184</u>	<u>-</u>	<u>315,534</u>	<u>4,262</u>	<u>1,362,696</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	60,956
-	-	-	-	35,444
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,400</u>
<u>\$ 23,184</u>	<u>\$ -</u>	<u>\$ 315,534</u>	<u>\$ 4,262</u>	<u>\$ 1,459,096</u>

KERRVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		205	211
		Head Start	ESEA I, A Improving Basic Program
	REVENUES		
5700	Local and Intermediate Sources	\$ -	\$ -
5800	State Program Revenues	-	-
5900	Federal Program Revenues	665,844	1,169,116
5020	Total Revenues	665,844	1,169,116
	EXPENDITURES		
	Current:		
0011	Instruction	432,739	856,127
0012	Instruction Resources and Media Services	-	-
0013	Curriculum and Instructional Staff Development	3,508	9,087
0021	Instructional Leadership	12,576	2,188
0023	School Leadership	66,430	-
0031	Guidance, Counseling and Evaluation Services	37,014	276,253
0032	Social Work Services	47,771	-
0033	Health Services	33,933	-
0035	Food Services	-	-
0036	Extracurricular Activities	-	-
0041	General Administration	-	-
0052	Security and Monitoring Services	-	-
0061	Community Services	-	25,461
	Capital Outlay:		
0081	Facilities Acquisition and Construction	31,873	-
6030	Total Expenditures	665,844	1,169,116
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-
1200	Net Change in Fund Balance	-	-
0100	Fund Balance - September 1 (Beginning)	-	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -

212 ESEA I, C Education of Migratory Children	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	242 Summer Feeding Program
\$ -	\$ -	\$ -	\$ 549,713	\$ -
-	-	-	13,099	-
<u>481</u>	<u>959,676</u>	<u>23,196</u>	<u>1,774,818</u>	<u>22,514</u>
<u>481</u>	<u>959,676</u>	<u>23,196</u>	<u>2,337,630</u>	<u>22,514</u>
481	742,419	22,927	-	-
-	-	-	-	-
-	9,554	269	-	-
-	-	-	-	-
-	-	-	-	-
-	207,212	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	2,320,370	22,514
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	491	-	-	-
-	-	-	-	-
<u>481</u>	<u>959,676</u>	<u>23,196</u>	<u>2,320,370</u>	<u>22,514</u>
-	-	-	17,260	-
-	-	-	17,260	-
-	-	-	79,140	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 96,400</u>	<u>\$ -</u>

KERRVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

		244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting
<hr/>			
	REVENUES		
5700	Local and Intermediate Sources	\$ -	\$ -
5800	State Program Revenues	-	-
5900	Federal Program Revenues	<u>57,250</u>	<u>174,051</u>
5020	Total Revenues	<u>57,250</u>	<u>174,051</u>
	EXPENDITURES		
	Current:		
0011	Instruction	52,210	131,310
0012	Instruction Resources and Media Services	-	-
0013	Curriculum and Instructional Staff Development	4,086	31,888
0021	Instructional Leadership	954	2,806
0023	School Leadership	-	227
0031	Guidance, Counseling and Evaluation Services	-	2,688
0032	Social Work Services	-	-
0033	Health Services	-	-
0035	Food Services	-	-
0036	Extracurricular Activities	-	-
0041	General Administration	-	400
0052	Security and Monitoring Services	-	-
0061	Community Services	-	4,732
	Capital Outlay:		
0081	Facilities Acquisition and Construction	<u>-</u>	<u>-</u>
6030	Total Expenditures	<u>57,250</u>	<u>174,051</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>
1200	Net Change in Fund Balance	-	-
0100	Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>
3000	Fund Balance - August 31 (Ending)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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	385 Visually Impaired SSVI
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	1,515
<u>30,177</u>	<u>116,780</u>	<u>65,689</u>	<u>2,226</u>	<u>-</u>
<u>30,177</u>	<u>116,780</u>	<u>65,689</u>	<u>2,226</u>	<u>1,515</u>
21,600	110,721	65,689	2,226	1,515
-	-	-	-	-
6,369	2,350	-	-	-
1,588	-	-	-	-
-	933	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	2,776	-	-	-
620	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>30,177</u>	<u>116,780</u>	<u>65,689</u>	<u>2,226</u>	<u>1,515</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

KERRVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

		392 Noneducational Community-Based Support	397 Advanced Placement Initiatives
REVENUES			
5700	Local and Intermediate Sources	\$ -	\$ -
5800	State Program Revenues	3,000	2,250
5900	Federal Program Revenues	-	-
		<u>-</u>	<u>-</u>
5020	Total Revenues	<u>3,000</u>	<u>2,250</u>
EXPENDITURES			
Current:			
0011	Instruction	-	-
0012	Instruction Resources and Media Services	-	-
0013	Curriculum and Instructional Staff Development	-	2,250
0021	Instructional Leadership	-	-
0023	School Leadership	-	-
0031	Guidance, Counseling and Evaluation Services	-	-
0032	Social Work Services	-	-
0033	Health Services	-	-
0035	Food Services	-	-
0036	Extracurricular Activities	-	-
0041	General Administration	-	-
0052	Security and Monitoring Services	-	-
0061	Community Services	3,000	-
Capital Outlay:			
0081	Facilities Acquisition and Construction	-	-
		<u>-</u>	<u>-</u>
6030	Total Expenditures	<u>3,000</u>	<u>2,250</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>
1200	Net Change in Fund Balance	-	-
0100	Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>

410 Textbook & Kindergarten Material	429 Other State Special Revenue Funds	461 Campus Activity Funds	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 423,838	\$ -	\$ 973,551
145,642	57	-	-	165,563
-	-	-	-	5,061,818
145,642	57	423,838	-	6,200,932
145,642	57	235,914	-	2,821,577
-	-	26,302	-	26,302
-	-	17,912	-	87,273
-	-	-	-	20,112
-	-	-	-	67,590
-	-	4,017	-	527,184
-	-	-	-	47,771
-	-	1,741	-	35,674
-	-	-	-	2,342,884
-	-	137,952	-	137,952
-	-	-	-	400
-	-	-	-	2,776
-	-	-	-	34,304
-	-	-	-	31,873
145,642	57	423,838	-	6,183,672
-	-	-	-	17,260
-	-	-	-	17,260
-	-	-	-	79,140
\$ -	\$ -	\$ -	\$ -	\$ 96,400

REQUIRED TEA SCHEDULES

KERRVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2016

Last Ten Years Ended August 31	1		2		3	
	Tax Rates				Assessed/ Appraised Value for School Tax Purposes	
	Maintenance		Debt Service			
2007 (and prior years)	\$	Various	\$	Various	\$	Various
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		1.040000		0.140000		2,450,340,827
2015		1.040000		0.140000		2,408,664,572
2016 (school year under audit)		1.040000		0.140000		2,382,594,852
1000 TOTALS						

10	20	31	32	40	50
Beginning Balance September 1, 2015	Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance August 31, 2016
\$ 159,071	\$ -	\$ 1,054	\$ 159	\$ 2,566	\$ 160,424
33,769	-	1,502	243	(11)	32,013
47,078	-	2,271	331	(72)	44,404
67,022	-	4,440	648	(261)	61,673
89,458	-	15,453	2,251	(1,140)	70,614
114,617	-	19,221	2,587	2,919	95,728
177,516	-	41,841	5,632	3,158	133,201
264,214	-	62,658	8,407	(5,510)	187,639
507,032	-	161,639	21,741	(46,033)	277,619
-	28,147,599	24,278,726	3,266,761	(173,539)	428,573
\$ <u>1,459,777</u>	\$ <u>28,147,599</u>	\$ <u>24,588,805</u>	\$ <u>3,308,760</u>	\$ <u>(217,923)</u>	\$ <u>1,491,888</u>

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, 2016

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	\$ 666,500	\$ 666,500	\$ 549,713	\$ (116,787)
5800	State Program Revenues	15,000	15,000	13,099	(1,901)
5900	Federal Program Revenues	<u>1,818,500</u>	<u>1,818,500</u>	<u>1,774,818</u>	<u>(43,682)</u>
5020	Total Revenues	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,337,630</u>	<u>(162,370)</u>
	EXPENDITURES:				
	Current:				
0035	Food Service	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,320,370</u>	<u>179,630</u>
6030	Total Expenditures	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,320,370</u>	<u>179,630</u>
1200	Change in Fund Balance	-	-	17,260	17,260
0100	Fund Balance - September 1 (Beginning)	<u>79,140</u>	<u>79,140</u>	<u>79,140</u>	-
3000	Fund Balance - August 31 (Ending)	<u>\$ 79,140</u>	<u>\$ 79,140</u>	<u>\$ 96,400</u>	<u>\$ 17,260</u>

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, 2016

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	\$ 3,405,000	\$ 3,405,000	\$ 3,346,106	\$ (58,894)
5800	State Program Revenues	-	-	110,870	110,870
5020	Total Revenues	3,405,000	3,405,000	3,456,976	51,976
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long Term Debt	3,405,000	3,405,000	2,575,000	830,000
0072	Interest on Long Term Debt	-	-	810,766	(810,766)
6030	Total Expenditures	3,405,000	3,405,000	3,385,766	19,234
1200	Net Change in Fund Balances	-	-	71,210	71,210
0100	Fund Balance - September 1 (Beginning)	1,078,440	1,078,440	1,078,440	-
3000	Fund Balance - August 31 (Ending)	\$ 1,078,440	\$ 1,078,440	\$ 1,149,650	\$ 71,210

FEDERAL AWARDS SECTION

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 School Trustees of
Kerrville Independent School District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kerrville Independent School District (the District), as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 1, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing 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.

Dennis Kinard & Co., PC

Certified Public Accountants

Abilene, Texas
December 1, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of School Trustees of the
Kerrville Independent School District:

Report on Compliance for Each Major Federal Program

We have audited Kerrville Independent School District's (District's) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, 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, 2016.

Report on Internal Control over Compliance

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

Dennis Kinard & Co., PC
Certified Public Accountants

Abilene, Texas
December 1, 2016

KERRVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

A. Summary of Auditor's Results

1. Type of auditor's report issued on the financial statements: Unmodified.
2. No significant deficiencies required to be reported in this schedule were disclosed in the audit of the financial statements.
3. Noncompliance which is material to the financial statements: None
4. No significant deficiencies required to be reported in this schedule were disclosed in the audit of the major programs.
5. Type of auditor's report on compliance with major programs: Unmodified
6. Did the audit disclose findings which are required to be reported in accordance with 2 CFR Section 200.516(a):
No
7. Major programs include:

Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Feeding	10.559
Special Education Cluster:	
IDEA – Part B, Formula	84.027A
IDEA – Part B Preschool	84.173
8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000
9. Low risk auditee: No

B. Findings Related to the Financial Statements

The audit disclosed no findings required to be reported.

C. Findings and Questioned Costs for Federal Awards Required to be Reported Under the Uniform Guidance

The audit disclosed no findings and questioned costs required to be reported.

KERRVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED AUGUST 31, 2016

A. Findings Required to be Reported in Accordance with *Government Auditing Standards*

None.

B. Findings and Questioned Costs – Major Federal Award Programs Audit

Finding 2015-001:	Internal Controls over Eligibility
Federal Program:	Department of Agriculture – Child Nutrition Cluster
CFDA:	10.553; 10.555; 10.559
Award Year:	2014/2015
Type of Finding:	Significant Deficiency / Instance of Noncompliance
Compliance Requirement:	Eligibility
Condition and Context:	Upon review of two applications, out of forty, for reduced or free meals, it was noted that the incorrect amount of income was entered into Skyward. The discrepancy resulted in the District providing reduced rate lunches to three students. Currently, there are no procedures in place to review the output of the data that is input from the eligibility application
Criteria or Specific Requirement:	To receive reduced or free meals a parent completes an application, including the number of members in the household and the household income. This is used to enter the data into Skyward. The system calculates the status of each student noted on the application.
Questioned Costs:	There was \$1,938.15 in known questioned costs that was received on behalf of the two applications entered in error.
Cause:	The District did not have appropriate procedures in place to compare the information input in the system to the original application.
Effect:	Due to the lack of appropriate procedures to review for accuracy, the District determined that three students qualified for reduced price lunches that should have paid full price.
Recommendation:	The District should implement a review process by another District employee to verify that the information entered into Skyward matches the original application.
Management's Response:	We agree with the findings and to ensure accuracy, we will amend our practice to require that the food service applications are reviewed by an additional business office person. During the beginning of year when a large amount of applications arrive, the CFO, Finance Director, and Staff Accountant will each review samples of the applications. Throughout the year, a sample of applications will be reviewed monthly by the Finance Director. If the Finance Director is unable to review the applications then the review will be performed by the Staff Accountant or CFO.

KERRVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED AUGUST 31, 2016

B. Findings and Questioned Costs – Major Federal Award Programs Audit – continued

Finding 2015-001:	Internal Controls over Eligibility
Corrective Action Plan:	The District has put in place procedures to verify the food service applications for accuracy. Kerrville ISD will amend the procedure to require that the food service applications are reviewed by an additional business office person. During the beginning of year when a large amount of applications arrive, the CFO, Finance Director, and Staff Accountant will each review samples of the applications. Throughout the year, a sample of applications will be reviewed monthly by the Finance Director. If the Finance Director is unable to review the applications then the review will be performed by the Staff Accountant or CFO.
Contact Representative:	Brenda Taylor, Finance Director 1009 Barnett Street, Kerrville, TX 78028
Current Status:	The recommendation was adopted in fiscal year 2016. The District implemented procedures to verify the accuracy of food service applications. No similar findings were noted in the 2016 audit.

KERRVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2016

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
<u>U.S. DEPARTMENT OF DEFENSE</u>			
<u>Direct Programs</u>			
Air Force Junior ROTC	12.000	TX1D2063	\$ <u>65,689</u>
Total Direct Programs			<u>65,689</u>
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>65,689</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<u>Passed through Texas Education Agency</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101133903	1,097,421
ESEA, Title I, Part A - Improving Basic Programs	84.010A	17610101133903	<u>56,672</u>
Total CFDA Number 84.010A			<u>1,154,093</u>
Title I, Part D, Subpart 2 - Delinquent Programs	84.010D	16-610101133903	37,075
Title I, Part D, Subpart 2 - Delinquent Programs	84.010D	17-610101133903	<u>4,299</u>
Total CFDA Number 84.010D			<u>41,374</u>
Special Education Cluster:			
IDEA - Part B, Formula *	84.027A	166600011339036600	929,385
IDEA - Part B, Formula *	84.027A	17-6600011339036600	<u>51,883</u>
Total CFDA Number 84.027A			<u>981,268</u>
IDEA - Part B Preschool *	84.173	16-6610011339036610	21,816
IDEA - Part B Preschool *	84.173	17-6600011339036610	<u>1,936</u>
Total CFDA Number 84.173			<u>23,752</u>
Total Special Education Cluster			<u>1,005,020</u>
Career and Technical - Basic Grant	84.048	16-420006133903	<u>58,538</u>
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	16-696001133903	<u>119,407</u>
Title III, Part A - English Language Acquisition	84.365A	16-671001133903	<u>30,855</u>
ESEA, Title II, Part A - Teacher/Principal Training	84.367A	16-694501133903	170,242
ESEA, Title II, Part A - Teacher/Principal Training	84.367A	17-694501133903	<u>7,724</u>
Total CFDA Number 84.367A			<u>177,966</u>
Summer School LEP	84.369A	69551402	<u>2,226</u>
Total passed through Texas Education Agency			<u>2,589,479</u>
<u>Passed through ESC Region 20</u>			
ESEA, Title I, Part C, Education of Migratory Children	84.011	3014201612	<u>481</u>
Total passed through ESC Region 20			<u>481</u>
TOTAL DEPARTMENT OF EDUCATION			<u>2,589,960</u>

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
<u>Direct Programs</u>			
Head Start	93.600	06CH0448	<u>665,844</u>
Total Direct Programs			<u>665,844</u>
<u>Passed through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778		<u>24,367</u>
Total passed through Texas Dept of Human Services			<u>24,367</u>
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>690,211</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed through Texas Education Agency			
Child Nutrition Cluster:			
School Breakfast Program *	10.553		388,799
National School Lunch Program - cash assistance *	10.555		1,234,861
National School Lunch Program - noncash assistance *	10.555		151,158
Summer Feeding*	10.559		22,514
Total Child Nutrition Cluster			<u>1,797,332</u>
Total passed through Texas Education Agency			<u>1,797,332</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>1,797,332</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 5,143,192</u>

* Clustered Programs as required by 2 CFR Part 200, Appendix XI, Compliance Supplement, June 2016

KERRVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1: The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal government for the year ended August 31, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

Note 2: The District utilizes the fund types specified in the Resource Guide.

Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state awards generally are accounted for in Special Revenue Funds. Generally, unused balances are returned to the grantor at the close of specified project periods.

Note 3: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All federal expenditures were accounted for in the General Fund and Special Revenue Funds, components of the Governmental Fund type.

The modified accrual basis of accounting is used for the Governmental Fund Types in the fund financial statements. 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 grants are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly when such funds are received they are recorded as unearned revenue until earned.

Note 4: The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date, in accordance with provisions in 2 CFR Part 200, Part 3, Section H, Period of Performance.

Note 5: Medicaid revenues are considered earned income at the local government level and thus are not included in the Schedule of Expenditures of Federal Awards. The following is a reconciliation of Federal Revenues on Exhibit C-3 to the Schedule of Expenditures of Federal Awards:

Federal Awards per Schedule of Expenditures of Federal Awards	\$ 5,143,192
School Health and Related Services	<u>480,606</u>
Federal program revenues - Exhibit C-2	<u>\$ 5,623,798</u>

Note 6: The District is not eligible to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance because the District has previously received a negotiated indirect cost rate for its federal awards.

KERRVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2016

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year-end.	\$ -
SF11	Net Pension Assets (1920) at fiscal year-end	\$ -
SF12	Net Pension Liabilities (2540) at fiscal year-end	\$ 9,206,243
SF13	Pension Expense (6147) at fiscal year-end	\$ 687,417