

KEMP INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2017**

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KEMP INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017
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CERTIFICATE OF BOARD

Kemp Independent School District
Name of School District

Kaufman
County

129-904
Co. - Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) _____ approved _____ disapproved for the year ended June 30, 2017, at a meeting of the Board of Trustees of such school district on the 16th day of October, 2017.

Signature of Board Secretary

Signature of Board President

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

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kemp Independent School District
Kemp, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kemp Independent School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Kemp Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Kemp Independent School District's 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.

Auditors' 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 Kemp Independent School District, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information 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 Kemp Independent School District's basic financial statements. The combining nonmajor fund financial statements, required TEA schedules and the Schedule of Expenditures of Federal Awards, as required by 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), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2017 on our consideration of the Kemp Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Kemp Independent School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kemp Independent School District's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
October 16, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Kemp Independent School District's, financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$8,078,507 at June 30, 2017. Of this amount \$4,877,755 (unrestricted net position) may be used to meet the District's ongoing obligation.
- During the year, the District's expenses were \$789,970 less than the \$18,373,130 generated in tax and other revenues for governmental programs and other funding sources.
- The General Fund ended the year with a fund balance of \$4,953,861.

USING THIS ANNUAL REPORT

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

Fund financial statements (Exhibit C-1 and Exhibit C-3) report the District's operating in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

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

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The combining statements for nonmajor funds are presented immediately following the required supplementary information. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

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

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

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

In the Statement of Net Position and Statement of Activities, the District is classified into one kind of activity:

- Governmental activities – Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis focuses on the net position (Table I) and the changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities increased \$789,970 this year from operations. Ending net position increased from \$7,288,537 on June 30, 2016 to a total of \$8,078,507 on June 30, 2017. This increase can largely be attributed to an increase in state and federal funding. Unrestricted net position – the part of net position that can be used to financing day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$4,877,755 on June 30, 2017 compared to \$4,813,556 on June 30, 2016.

Table 1
KEMP INDEPENDENT SCHOOL DISTRICT
NET POSITION

	Governmental Activities 2017	Governmental Activities 2016
Current and other assets	\$ 8,740,435	\$ 8,394,194
Capital assets	<u>29,538,391</u>	<u>30,528,726</u>
Total assets	<u>38,278,826</u>	<u>38,922,920</u>
Deferred loss on bond refunding	1,264,888	1,521,485
Deferred resource outflow for TRS	<u>1,380,222</u>	<u>1,399,267</u>
Total deferred outflows of resources	<u>2,645,110</u>	<u>2,920,752</u>
Long-term liabilities	31,145,544	32,720,265
Other liabilities	<u>1,533,447</u>	<u>1,638,764</u>
Total liabilities	<u>32,678,991</u>	<u>34,359,029</u>
Deferred resource inflow for TRS	<u>166,438</u>	<u>196,106</u>
Total deferred inflows of resources	<u>166,438</u>	<u>196,106</u>
Net Position:		
Invested in capital assets net of related debt	2,565,608	1,985,888
Restricted	635,144	489,093
Unrestricted	<u>4,877,755</u>	<u>4,813,556</u>
Total net position	<u>\$ 8,078,507</u>	<u>\$ 7,288,537</u>

The District's total revenues decreased \$67,442 over the previous year. This is largely due to a slight decrease in tax revenues.

The District's total property tax rate for 2017 did not change from 2016 for a total tax rate of \$1.57, \$1.17 for M&O and \$0.40 for I&S. The cost of all governmental activities this year was \$17,583,160 compared to \$17,087,191 last year.

Table 2
KEMP INDEPENDENT SCHOOL DISTRICT
CHANGES IN NET POSITION

	2017	2016
Revenues:		
Program Revenues:		
Charges for Services	\$ 239,401	\$ 250,613
Operating Grants and Contributions	3,410,041	3,635,791
General Revenues:		
Maintenance and operations taxes	3,651,748	3,795,150
Debt service taxes	1,254,211	1,308,179
Grants and Contributions not restricted	9,645,365	9,333,027
Investment Earnings	45,038	15,349
Miscellaneous	127,326	102,463
Total Revenues	<u>18,373,130</u>	<u>18,440,572</u>
Expenses:		
Instruction, curriculum and media services	8,781,538	8,281,385
Instructional and school leadership	257,059	247,392
Curriculum and staff development	121,484	146,050
Instructional leadership	208,809	134,076
School leadership	939,055	908,121
Guidance, counseling and evaluation services	484,172	455,093
Health services	263,909	273,311
Student transportation	785,133	851,947
Food service	1,037,866	990,205
Extracurricular activities	912,674	826,083
General administration	695,693	630,464
Facilities, maintenance and operations	1,585,635	1,449,648
Security and monitoring services	114,962	106,160
Data processing services	323,308	350,393
Community services	620	-
Interest on long-term debt	992,394	1,249,003
Bond issuance costs and fees	6,629	116,193
Other governmental charges	72,220	71,667
Total Expenses	<u>17,583,160</u>	<u>17,087,191</u>
Increase in net position before transfers	789,970	1,353,381
Net position beginning	<u>7,288,537</u>	<u>5,935,156</u>
Net position ending	<u><u>\$ 8,078,507</u></u>	<u><u>\$ 7,288,537</u></u>

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet, Exhibit C-1) reported a combined fund balance of \$6,771,199 which is more than last year's total of \$6,344,407.

Over the course of a year, the Board of Trustees revised the District's budget several times. These budget amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved during the year for occasional expenditures presented to the Board. The second category involved amendments moving funds from programs or areas that did not need all the resources originally appropriated to them to programs with resources needs.

The District's General Fund balance of \$4,953,861 reported on Exhibit G-1 differs from the General Fund's budgetary fund balance of \$4,546,132 reported in the budgetary comparison. This is principally due to the district setting a very conservative budget and an increase in student enrollment.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had \$29,538,391 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

As part of the effort to reduce spending, there were minimal capital improvements made during the 2016-2017 fiscal year. The following major capital improvements were made:

- Two new 80-89 passenger buses were purchased for Kemp Independent School District Transportation Department at a cost of \$190,250.
- Bleachers were purchased at a cost of \$44,315.
- The District purchased a piece of land for \$63,318. The District also made building improvements in the amount of \$33,110.

Debt

The outstanding bonded debt of the District was \$24,470,387 at the end of the fiscal year. The District has no plans to use additional debt for capital projects at this time. The outstanding loans payable of the District was \$3,787,938 at the end of the fiscal year.

Overall debt decreased \$1,574,721 over FY 2017. The TRS net pension liability increased \$251,516, but this was offset by a bond refunding in FY 2017 and payments made by the District on outstanding loans and bonds payable. More detailed information about the District's long-term liabilities is presented in notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the 2016-2017 budget and tax rates. One of those factors is the local economy. Since the economy has shown some improvement and fuel prices have not increased dramatically, we are seeing a continued increase in enrollment since many families are returning to the area. Unemployment has decreased from 4.7 in 2007 to where it now stands at 3.8 percent for Kaufman County. We are below the State's unemployment rate of 4.2 percent and below the national rate of 4.4 percent. Unemployment rates have improved slightly since last year.

The average daily student attendance is a determining factor in the state of funding formula. Average daily attendance (ADA) for Kemp I.S.D. is approximately 95% of student enrollment.

<u>Year</u>	<u>Enrollment</u>
2011-12	1,503
2012-13	1,457
2013-14	1,436
2014-15	1,455
2015-16	1,498
2016-17	1,542

Our enrollment on the snapshot date in the fall of the 2016-2017 school year varied from the previous school year by 44 students. However, the final average daily attendance (ADA) increased by 23.7 students from the previous year. The Legislature has reduced the public school state funding and because state funding is not sufficient for our needs, we continue to rely on the only other major sources of revenue generation, that of property taxes. Property values in Kemp I.S.D. saw a slight increase for 2017; therefore, the I&S tax rate remained at \$0.40. The I&S Debt Service Fund maintains a fund balance which currently eliminates the need to transfer fund from the General Fund to the Debt Service Fund to cover the deficit. Management continues to analyze the enrollment and property value trends and will continue to seize every opportunity to cut costs while continuing to provide a quality education resulting in higher student achievement.

The District intends to follow current fiscal and budgetary policies and if the projections for 2017-2018 are realized, expects to continue seeing moderate increases in the current General Fund balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Kemp I.S.D., 905 S. Main Street, Kemp, Texas.

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BASIC FINANCIAL STATEMENTS

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KEMP INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2017

Data Control Codes		1	
		Primary Government Governmental Activities	
	ASSETS		
1110	Cash and cash equivalents	\$	785,127
1120	Current investments		5,480,081
1220	Delinquent property taxes receivable		911,616
1230	Allowance for uncollectible taxes	(	338,080)
1240	Due from other governments		1,595,882
1267	Due from fiduciary funds		407
1290	Other receivables (net)		305,402
	Capital assets:		
1510	Land		353,347
1520	Buildings and improvements, net		28,289,807
1530	Furniture and equipment, net		895,237
1000	Total assets		<u>38,278,826</u>
	DEFERRED OUTFLOWS OF RESOURCES		
1700	Deferred loss on bond refunding		1,264,888
1705	Deferred resource outflow for TRS		<u>1,380,222</u>
1700	Total deferred outflows of resources		<u>2,645,110</u>
	LIABILITIES		
2110	Accounts payable		70,015
2140	Interest payable		333,254
2150	Payroll deductions and withholdings		76,785
2160	Accrued wages payable		953,354
2200	Accrued expenses		91,247
2300	Unearned revenue		8,792
	Noncurrent liabilities:		
2501	Due within one year		2,264,241
2502	Due in more than one year		<u>28,881,303</u>
2000	Total liabilities		<u>32,678,991</u>
	DEFERRED INFLOWS OF RESOURCES		
2605	Deferred resource inflow for TRS		<u>166,438</u>
2600	Total deferred inflows of resources		<u>166,438</u>
	NET POSITION		
3200	Net investment in capital assets		2,565,608
	Restricted for:		
3820	Federal and state programs		209,219
3850	Debt service		425,925
3900	Unrestricted		<u>4,877,755</u>
3000	Total net position	\$	<u><u>8,078,507</u></u>

The accompanying notes are an integral part of this financial statement.

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KEMP INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		6 Primary Government Governmental Activities
			3 Charges for Services	4 Operating Grants and Contributions	
	Primary government:				
	Governmental activities:				
11	Instruction	\$ 8,781,538	\$ 6,750	\$ 1,423,162	\$(7,351,626)
12	Instructional resources and media services	257,059	-	10,591	(246,468)
13	Curriculum and staff development	121,484	-	10,473	(111,011)
21	Instructional leadership	208,809	-	52,164	(156,645)
23	School leadership	939,055	-	56,578	(882,477)
31	Guidance, counseling, and evaluation services	484,172	-	29,835	(454,337)
33	Health services	263,909	-	250,936	(12,973)
34	Student transportation	785,133	-	27,772	(757,361)
35	Food service	1,037,866	199,613	706,646	(131,607)
36	Extracurricular activities	912,674	29,112	30,334	(853,228)
41	General administration	695,693	-	26,883	(668,810)
51	Facilities maintenance and operations	1,585,635	274	12,868	(1,572,493)
52	Security and monitoring services	114,962	-	2,120	(112,842)
53	Data processing services	323,308	-	11,479	(311,829)
61	Community services	620	-	620	-
72	Interest on long-term debt	992,394	-	757,580	(234,814)
73	Bond issuance costs and fees	6,629	-	-	(6,629)
99	Other governmental charges	72,220	3,652	-	(68,568)
TP	Total primary government	\$ 17,583,160	\$ 239,401	\$ 3,410,041	(13,933,718)

Data
Control
Codes

General revenues:

Taxes:

MT	Property taxes, levied for general purposes	3,651,748
DT	Property taxes, levied for debt service	1,254,211
GC	Grants and contributions not restricted	9,645,365
IE	Investment earnings	45,038
MI	Miscellaneous local and intermediate revenue	127,326
TR	Total general revenues	14,723,688
CN	Change in net position	789,970
NB	Net position - beginning	7,288,537
NE	Net position - ending	\$ 8,078,507

The accompanying notes are an integral part of this financial statement.

KEMP INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2017

Data Control Codes	10 General	50 Debt Service	60 Capital Projects	Other Governmental	98 Total Governmental Funds
ASSETS					
1110 Cash and cash equivalents	\$ 153,053	\$ 82,802	\$ -	\$ 549,272	\$ 785,127
1120 Current investments	4,053,876	478,046	948,159	-	5,480,081
1220 Delinquent property taxes receivable	695,014	216,602	-	-	911,616
1230 Allowance for uncollectible taxes	(257,751)	(80,329)	-	-	(338,080)
1240 Due from other governments	1,377,826	-	-	218,056	1,595,882
1260 Due from other funds	371,169	-	-	-	371,169
1290 Other receivables	<u>243,344</u>	<u>62,058</u>	<u>-</u>	<u>-</u>	<u>305,402</u>
1000 Total assets	<u>6,636,531</u>	<u>759,179</u>	<u>948,159</u>	<u>767,328</u>	<u>9,111,197</u>
LIABILITIES					
2110 Accounts payable	67,457	-	-	2,558	70,015
2150 Payroll deductions and withholdings	75,793	-	-	992	76,785
2160 Accrued wages payable	865,906	-	-	87,448	953,354
2170 Due to other funds	-	-	-	370,762	370,762
2200 Accrued expenditures	74,804	-	-	16,443	91,247
2300 Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,792</u>	<u>8,792</u>
2000 Total liabilities	<u>1,083,960</u>	<u>-</u>	<u>-</u>	<u>486,995</u>	<u>1,570,955</u>
Deferred inflows of resources:					
2601 Unavailable revenue - property taxes	<u>598,710</u>	<u>170,333</u>	<u>-</u>	<u>-</u>	<u>769,043</u>
2600 Total deferred inflows of resources	<u>598,710</u>	<u>170,333</u>	<u>-</u>	<u>-</u>	<u>769,043</u>
FUND BALANCES					
Restricted:					
3450 Federal and state programs	-	-	-	209,219	209,219
3480 Retirement of long-term debt	-	588,846	-	-	588,846
Committed:					
3510 Construction	-	-	948,159	-	948,159
3545 Other	-	-	-	71,114	71,114
3600 Unassigned	<u>4,953,861</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,953,861</u>
3000 Total fund balances	<u>4,953,861</u>	<u>588,846</u>	<u>948,159</u>	<u>280,333</u>	<u>6,771,199</u>
4000 Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,636,531</u>	<u>\$ 759,179</u>	<u>\$ 948,159</u>	<u>\$ 767,328</u>	<u>\$ 9,111,197</u>

The accompanying notes are an integral
part of this financial statement.

KEMP INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

Total Fund Balances - Governmental Funds	\$ 6,771,199
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	29,538,391
2 Uncollected property taxes are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.	769,043
3 Long-term liabilities, including bonds and notes payable, are not due and payable in the current period, and therefore are not reported in the governmental funds.	(26,993,437)
4 Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(333,254)
5 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$2,887,219, a deferred resource inflow related to TRS in the amount of \$166,438, and a deferred resource outflow related to TRS in the amount of \$1,380,222. This resulted in a decrease in net position by \$1,673,435.	(<u>1,673,435</u>)
Net Position of Governmental Activities	\$ <u><u>8,078,507</u></u>

KEMP INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

Data Control Codes		10	50	60		98
		General	Debt Service	Capital Projects	Other Governmental	Total Governmental Funds
REVENUES						
5700	Local and intermediate sources	\$ 3,839,310	\$ 1,282,056	\$ 6,834	\$ 281,337	\$ 5,409,537
5800	State program revenues	10,081,225	757,580	-	171,156	11,009,961
5900	Federal program revenues	333,072	-	-	1,611,473	1,944,545
5020	Total revenues	<u>14,253,607</u>	<u>2,039,636</u>	<u>6,834</u>	<u>2,063,966</u>	<u>18,364,043</u>
EXPENDITURES						
Current:						
0011	Instruction	6,827,870	-	-	1,018,293	7,846,163
0012	Instructional resources and media services	211,355	-	-	3,457	214,812
0013	Curriculum and staff development	111,980	-	-	2,448	114,428
0021	Instructional leadership	158,098	-	-	41,427	199,525
0023	School leadership	868,332	-	-	6,650	874,982
0031	Guidance, counseling, and evaluation services	449,693	-	-	6,770	456,463
0033	Health services	241,456	-	-	3,614	245,070
0034	Student transportation	701,215	-	-	7,109	708,324
0035	Food service	1,968	-	-	849,332	851,300
0036	Extracurricular activities	732,166	-	-	69,717	801,883
0041	General administration	676,611	-	-	175	676,786
0051	Facilities maintenance and operations	1,584,671	-	-	25,107	1,609,778
0052	Security and monitoring services	115,194	-	-	-	115,194
0053	Data processing services	324,156	-	-	-	324,156
0061	Community services	-	-	-	620	620
Debt service:						
0071	Principal on long-term debt	2,682,425	1,180,000	-	-	3,862,425
0072	Interest on long-term debt	227,368	794,242	-	-	1,021,610
0073	Bond issuance costs and fees	-	6,629	-	-	6,629
0081	Capital outlay	70,035	-	75,783	-	145,818
0099	Other intergovernmental charges	72,220	-	-	-	72,220
6030	Total expenditures	<u>16,056,813</u>	<u>1,980,871</u>	<u>75,783</u>	<u>2,034,719</u>	<u>20,148,186</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,803,206)</u>	<u>58,765</u>	<u>(68,949)</u>	<u>29,247</u>	<u>(1,784,143)</u>
OTHER FINANCING SOURCES (USES)						
7911	Capital-related debt issued	2,210,935	-	-	-	2,210,935
7080	Total other financing sources (uses)	<u>2,210,935</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,210,935</u>
1200	NET CHANGE IN FUND BALANCES	<u>407,729</u>	<u>58,765</u>	<u>(68,949)</u>	<u>29,247</u>	<u>426,792</u>
0100	FUND BALANCES, BEGINNING	<u>4,546,132</u>	<u>530,081</u>	<u>1,017,108</u>	<u>251,086</u>	<u>6,344,407</u>
3000	FUND BALANCES, ENDING	<u>\$ 4,953,861</u>	<u>\$ 588,846</u>	<u>\$ 948,159</u>	<u>\$ 280,333</u>	<u>\$ 6,771,199</u>

The accompanying notes are an integral
part of this financial statement.

KEMP INDEPENDENT SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds	\$ 426,792
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(990,335)
Property tax revenues that do not provide current financial resources are not reported as revenues in the funds.	(86,300)
Bond and tax note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and tax note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments exceeded proceeds.	1,569,640
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	111,066
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource inflows. These contributions made after the measurement date of 8/31/16 caused the change in the ending net position to increase in the amount of \$221,047. Contributions made before the measurement date but during the previous fiscal year were also de-expended and recorded as a reduction in the net position liability for the District. This caused a decrease in the change in net position totaling \$201,145. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$260,795. The net result of all these is to decrease the change in net position by \$240,893.	(240,893)
Change in net position of governmental activities	\$ <u>789,970</u>

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KEMP INDEPENDENT SCHOOL DISTRICT**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS****JUNE 30, 2017**

	Private Purpose Trusts	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 6,795	\$ 90,173
Investments - current	<u>-</u>	<u>5,318</u>
Total assets	<u>6,795</u>	<u>95,491</u>
LIABILITIES		
Due to student groups	-	95,084
Due to other funds	<u>-</u>	<u>407</u>
Total liabilities	<u>-</u>	<u>\$ 95,491</u>
NET POSITION		
Unrestricted net position	<u>6,795</u>	
Total net position	<u>\$ 6,795</u>	

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KEMP INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Private Purpose Trusts
	<u> </u>
ADDITIONS	
Local and intermediate sources	\$ <u>4,293</u>
Total additions	<u>4,293</u>
DEDUCTIONS	
Other operating costs	<u>4,600</u>
Total deductions	<u>4,600</u>
CHANGE IN NET POSITION	(307)
NET POSITION, BEGINNING	<u>7,102</u>
NET POSITION, ENDING	\$ <u><u>6,795</u></u>

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KEMP INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Kemp Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles and it complies with the requirements of the appropriate version of Texas Education Agency’s *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

The accompanying financial statements present the government and any applicable component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government’s operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the government.

The District has no component units which are required to be reported, discretely or blended, in combination with the primary government.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by taxes, state foundation funds, grants, and other intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to parties 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 revenue are reported instead as *general revenue*.

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as do the fiduciary fund financial statements. Revenue is 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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 services expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as other financing sources.

Property taxes, state foundation funds, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Entitlements are recorded as revenue when all eligibility requirements are met, including any time requirements, and the amount received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the District.

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

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

The District reports the following major governmental funds:

The **General Fund** is the government'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** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

The **Capital Projects Fund** – is used to account for funds that have been committed by the District's Board of Trustees for use in capital construction and other capital asset acquisitions. Additionally, this fund would be used to account for any long-term debt proceeds used for this same purpose in future years.

Additionally, the District reports the following fund types:

Governmental Funds:

Special Revenue Funds – The District accounts for resources restricted to, or committed for, specific purposes by the District or a grantor in a Special Revenue Fund. Most federal and some state financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Fiduciary Fund:

Private-Purpose Trust Fund – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the scholarship fund.

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

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in the governmental activities are eliminated.

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

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

1. 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.

State statutes authorize the District to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

Investments for the government are reported at fair value, except for the position in investment pools. The District's investment in pools are 2a7-like pools and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

2. Receivables and Payables

Activity between funds that is 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). All other outstanding balances between funds are reported as "due to/from other funds." All interfund transactions between governmental funds are eliminated on the government-wide financial statements.

All property taxes receivable are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 37% of outstanding property taxes at June 30, 2017.

3. Capital Assets

Capital assets, which include land, buildings, furniture and equipment, are reported in the governmental activities column in the financial statements. Capital assets are defined by the government 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 acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

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.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Vehicles	10
Furniture and Equipment	10

4. *Compensated Absences*

It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. Vacation must be used within six months of year end, the amount for accrued vacation is immaterial to the financial statements.

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

6. *Pensions*

The fiduciary net position of the Teacher Retirement System of Texas (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.

7. *Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statements element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are deferred charges on bond refundings and deferred outflows related to the TRS net pension liability reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Additionally, the District is reporting an item related to TRS represents the District's share of the unrecognized plan deferred outflow of resources which TRS uses in calculating the ending net pension liability.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows or resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two types of inflows, which arise only under a modified accrual basis of accounting. The first item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also recognized their share of the unrecognized TRS plan deferred inflows of resources which TRS uses in calculating the ending net pension liability.

8. *Fund Balance Classification*

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by ordinance of the School Board, the District's highest level of decision making authority. These amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the School Board or Superintendent.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

9. *Fund Balance Flow Assumptions*

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

10. *Net Position*

Net position represents the difference between assets, deferred outflows (inflows) of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

11. Net Position Flow Assumption

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

12. Program Revenue

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

13. Property Taxes

Property taxes are levied as of October 1 on property values assessed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the following year.

14. Data Control Codes

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

15. Estimates

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

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimates as of June 30, 2017, will change.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

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

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) Banker's acceptances as permitted by Government Code 2256.012; 6) Commercial paper as permitted by Government Code 2256.013; 7) No load money market mutual funds and no load mutual funds are permitted by Government Code 2256.014; 8) A guaranteed investment contract as in investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and 9) Public funds investment pools as permitted by Government Code 2256.016.

The District's investments at June 30, 2017, are shown below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity(Years)</u>
Certificates of Deposit	\$ 3,554,789	
TexPool	189,355	38
First Public/Lone Star Investment Pool	46,272	22
Texas CLASS	<u>1,710,958</u>	47
Total Investments	<u>\$ 5,501,374</u>	

Interest rate risk. In accordance with the District's investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase

Credit risk. It is the District's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization.

<u>Investment Type</u>	<u>Standard & Poor's Rating</u>
TexPool	AAAm
First Public/Lone Star Investment Pool	AAAm
Texas CLASS	AAAm

Concentration of credit risk. The District's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity or specific user.

Custodial credit risk. In the case of deposits, this is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Cash deposits of the District include all amounts deposited at the District's depository bank, including demand deposits and certificates of deposit. The District's cash deposits at June 30, 2017 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

B. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Property tax revenue is considered available (1) when it becomes due or past due and receivable within the current period and (2) when it is expected to be collected during a 60-day period after the close of the school fiscal year.

Allowances for uncollectible tax receivables within the General Fund and Debt Service Fund are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

C. 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 June 30, 2017, are summarized below.

	General Fund	Other Funds	Total
State Entitlements	\$ 1,377,826	\$ -	\$ 1,377,826
Federal Grants	<u>-</u>	<u>218,056</u>	<u>218,056</u>
Total	<u>\$ 1,377,826</u>	<u>\$ 218,056</u>	<u>\$ 1,595,882</u>

D. Interfund Balances and Transfers

Due to and due from other funds balances at June 30, 2017, consisted of the following amounts:

Payable Fund	Receivable Fund	Amount
Nonmajor governmental funds	General fund	\$ 370,762
Agency fund	General fund	<u>407</u>
Total		<u>\$ 371,169</u>

E. Other Receivables

Other receivables consisted of the following balances as of June 30, 2017:

	General Fund	Debt Service Fund	Total
Penalty and interest	\$ 386,787	\$ 98,639	\$ 485,426
Allowance for penalties and inte	<u>(143,443)</u>	<u>(36,581)</u>	<u>(180,024)</u>
Total	<u>\$ 243,344</u>	<u>\$ 62,058</u>	<u>\$ 305,402</u>

F. Capital Asset Activity

Capital asset activity for the District for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	\$ 290,029	\$ 63,318	\$ -	\$ 353,347
Buildings & improvements	43,794,248	38,185	-	43,832,433
Furniture & equipment	<u>2,538,174</u>	<u>337,788</u>	<u>-</u>	<u>2,875,962</u>
Total capital assets	<u>46,622,451</u>	<u>439,291</u>	<u>-</u>	<u>47,061,742</u>
Less accumulated depreciation for:				
Buildings & improvements	(14,282,692)	(1,259,934)	-	(15,542,626)
Furniture and equipment	<u>(1,811,033)</u>	<u>(169,692)</u>	<u>-</u>	<u>(1,980,725)</u>
Total accumulated depreciation	<u>(16,093,725)</u>	<u>(1,429,626)</u>	<u>-</u>	<u>(17,523,351)</u>
Governmental activities capital assets, \$	<u>30,528,726</u>	<u>\$(990,335)</u>	<u>\$ -</u>	<u>\$ 29,538,391</u>

Depreciation expense was charges to governmental functions as follows:

11	Instruction	\$ 702,688
12	Instructional Resources and Media Services	42,642
23	School Leadership	37,729
31	Guidance, Counseling and Evaluation Services	17,511
33	Health Services	17,511
34	Student (Pupil) Transportation	269,160
35	Food Services	202,066
36	Cocurricular/Extracurricular Activities	101,210
41	General Administration	10,665
51	Plant Maintenance Operations	24,288
52	Security and Monitoring Services	373
53	Data Processing Services	<u>3,783</u>
Total Depreciation Expense		<u>\$ 1,429,626</u>

G. Bonds Payable

A summary of changes in bonds payable for the year ended June 30, 2017 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 7/1/2016	Additions/ Issued	Retired/ Refunded	Amounts Outstanding 6/30/2017	Amount Due Within One Year
Unlimited Tax School Building Bonds, Series 2007	4.25% - 5.25%	\$ 22,999,995	\$ 330,000	\$ -	\$ 330,000	\$ -	\$ -
Unlimited Tax Refunding Bonds, Series 2013	2.0% - 4.0%	2,825,000	1,410,000	-	700,000	710,000	710,000
Unlimited Tax Refunding Bonds, Series 2014	2.0% - 4.00%	8,725,000	8,570,000	-	65,000	8,505,000	65,000
CAB Series 2014 Bonds		69,993	69,993	-	-	69,993	-
CAB Premium		-	552,193	-	-	552,193	-
Accreted interest		-	19,439	20,045	-	39,484	-
Unlimited Tax Refunding Bonds, Series 2015	3.0% - 4.00%	8,850,000	8,850,000	-	-	8,850,000	-
CAB Series 2015 Bonds		124,999	23,523	-	14,066	9,457	9,458
CAB Premium		-	34,961	-	15,453	19,508	19,508
Accreted Interest		-	547	609	481	675	1,034
Unlimited Tax Refunding Bonds, Series 2016	2.0% - 3.50%	<u>4,235,000</u>	<u>4,235,000</u>	<u>-</u>	<u>55,000</u>	<u>4,180,000</u>	<u>955,000</u>
Total		\$ <u>47,829,987</u>	\$ <u>24,095,656</u>	\$ <u>20,654</u>	\$ <u>1,180,000</u>	\$ <u>22,936,310</u>	\$ <u>1,760,000</u>

Debt service requirements are as follows:

Year Ended June 30	General Obligations		
	Principal	Interest	Total Requirements
2018	\$ 1,760,000	\$ 762,863	\$ 2,522,863
2019	1,090,000	718,713	1,808,713
2020	1,115,000	686,713	1,801,713
2021	1,150,000	653,963	1,803,963
2022	1,190,000	614,238	1,804,238
2023-2027	6,800,000	2,493,238	9,293,238
2028-2032	8,210,000	1,365,825	9,575,825
2033-2037	<u>1,860,000</u>	<u>74,400</u>	<u>1,934,400</u>
Total	23,175,000	\$ <u>7,369,953</u>	\$ <u>30,544,953</u>
Less: accretion of interest on CAB's	<u>238,690</u>		
Par value of bonds outstanding	\$ <u>22,936,310</u>		

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at June 30, 2017.

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As of June 30, 2017, the District there are no prior year bonds considered defeased that are still outstanding.

Accretion on Capital Appreciation Bonds

A portion of the bonds sold in the Unlimited Tax Refunding Bonds Series 2014 were capital appreciation bonds. The obligations have par values of \$70,000 and maturity values of \$900,000. The interest on these obligations will be paid upon maturity in the fiscal year ending June 30, 2027. The accreted value of these bonds at June 30, 2017, is approximately \$591,677 which has been allocated to the governmental activities.

A portion of the bonds sold in the Unlimited Tax Refunding Bonds Series 2015 were capital appreciation bonds. When issued, these obligations had par values of \$125,000 and maturity values of \$185,000. The interest on these obligations will be paid upon maturity in the fiscal years ending June 30, 2017 and 2018. The accreted value of these bonds at June 30, 2017 is approximately \$20,183, which has been allocated to the governmental activities.

H. Loans Payable

The District accounts for short-term debts for maintenance purposes through the locally defined capital projects fund. Short-term debts include notes made in accordance with the provisions of the Texas Education Code Section 45. The proceeds from loans are shown in the financial statements as Other Resources and Principal and interest payments are shown as debt service of the General Fund.

A Maintenance Tax Note, Series 2011 (“Qualified School Construction Bonds”), loan of \$2,448,000 was issued on April 12, 2011 for the purpose of providing funds to pay for the costs of the District’s maintenance improvements as authorized by Texas Education Code section 45.106, as amended. The loan is to be repaid in annual payments beginning February 15, 2012. The interest rate is 6.75% which includes a Federal Tax Credit rate of 5.45% resulting in a net tax rate of 1.30% to the District.

A Public Property Finance Act Contract No. 7489, loan of \$1,505,981 was issued on August 15, 2016 for the purpose of refinancing the Public Property Finance Contract No. 6402. The original 2007 Contract was for the acquisition of personal property as authorized by Texas Education Code Section 45.108 as amended. The new loan is to be repaid in varying monthly payments beginning October 29, 2016, in accordance with the Schedule of Payments. The interest rate is 2.483%. The estimated savings to the District is \$21,380.

A Maintenance Tax Note, Series 2016, was issued on September 8, 2016 for the purpose of refinancing the Maintenance Tax Note, Series 2007, issued on March 30, 2007. The original 2007 Tax Note was for providing funds for the District’s maintenance improvements as authorized by the Texas Education Code Section 45.108, as amended. The new loan is to be repaid in annual payments beginning September 8, 2017. The interest rate is 2.58%. The estimated savings to the District is \$33,530.

A summary of changes in loans payable for the year ended June 30, 2017 is as follows:

Description/ Purpose	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 7/1/16	Issued/ Additions	Retired/ Refinanced	Amounts Outstanding 6/30/17	Amount Due Within One Year
Maintenance Tax Note Series 2007	4.100%	\$ 1,277,000	\$ 829,732	\$ -	\$ 829,732	\$ -	\$ -
Maintenance Tax Notes Series 2011 "Qualified School Construction Bonds"	6.750%	2,128,000	1,878,000	-	137,000	1,741,000	147,000
Public Property Finance Contract No. 6402	3.800%	2,019,041	1,551,696		1,551,696	-	-
Maintenance Tax Notes Series 2016	2.580%	704,954	-	704,954	-	704,954	133,900
Public Property Finance Contract No. 7489	2.483%	<u>1,505,981</u>	<u>-</u>	<u>1,505,981</u>	<u>163,997</u>	<u>1,341,984</u>	<u>223,341</u>
Total		<u>\$ 7,634,976</u>	<u>\$ 4,259,428</u>	<u>\$ 2,210,935</u>	<u>\$ 2,682,425</u>	<u>\$ 3,787,938</u>	<u>\$ 504,241</u>

Debt service requirements are as follows:

Year Ended June 30	Principal	Interest	Requirements	Federal Interest Rebate Amount "QSCB"
2018	\$ 504,241	\$ 166,500	\$ 670,741	\$ (94,885)
2019	523,305	147,513	670,818	(86,873)
2020	542,598	127,621	670,219	(78,317)
2021	564,128	106,820	670,948	(69,215)
2022	585,900	84,966	670,866	(59,460)
2023-2027	<u>1,067,766</u>	<u>158,505</u>	<u>1,226,271</u>	<u>(126,713)</u>
Total	<u>\$ 3,787,938</u>	<u>\$ 791,925</u>	<u>\$ 4,579,863</u>	<u>\$ (515,463)</u>

I. Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Addition	Reductions/ Refundings	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 24,095,656	\$ 20,654	\$ 1,180,000	\$ 22,936,310	\$ 1,760,000
Premium (discount) on issuance of bonds:					
Premium/(discount)	1,729,478	-	195,401	1,534,077	-
Loans payable:					
Various loans payable	4,259,428	2,210,935	2,682,425	3,787,938	504,241
Pension liability:					
Net pension liability	<u>2,635,703</u>	<u>494,273</u>	<u>242,757</u>	<u>2,887,219</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 32,720,265</u>	<u>\$ 2,725,862</u>	<u>\$ 4,300,583</u>	<u>\$ 31,145,544</u>	<u>\$ 2,264,241</u>

J. Fund Balance

Fund Balance is classified as nonspendable, restricted, committed, assigned and/or unassigned. The individual fund balances of the District are:

Fund Balance	General Fund	Debt Service Fund	Capital Projects Fund	Other Funds	Total
Restricted:					
Federal Grants	\$ -	\$ -	\$ -	\$ 209,219	\$ 209,219
Debt Service	<u>-</u>	<u>588,846</u>	<u>-</u>	<u>-</u>	<u>588,846</u>
Total Restricted	<u>-</u>	<u>588,846</u>	<u>-</u>	<u>209,219</u>	<u>798,065</u>
Committed:					
Construction	-	-	948,159	-	948,159
Campus Activity	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,114</u>	<u>71,114</u>
Total Committed	<u>-</u>	<u>-</u>	<u>948,159</u>	<u>71,114</u>	<u>1,019,273</u>
Unassigned	<u>4,953,860</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,953,860</u>
Total Fund Balances	<u>\$ 4,953,860</u>	<u>\$ 588,846</u>	<u>\$ 948,159</u>	<u>\$ 280,333</u>	<u>\$ 6,771,198</u>

K. Defined Benefit Pension Plan

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

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 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/TRS%20Documents/cafr_2016.pdf; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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 in (A) 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.

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. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

Contribution Rates		
	2016	2017
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2017 Employer Contributions		\$ 260,739
2017 Member Contributions		665,910
2016 NECE On-behalf Contributions		443,826

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, 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 and junior colleges, 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 (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical 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, Survivors and Disability Insurance (OASDI) Program 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.

Actuarial Assumptions. The total pension liability in the August 31, 2016, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	8/31/2016
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	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes During the 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, 2016, are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Exception			2.2%
Alpha			1.0%
Total	100%		8.7%

* The Expected Contribution to Returns incorporates the volatility drag resulting

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 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$ 4,468,443	\$ 2,887,219	\$ 1,546,022

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the District reported a liability of \$2,887,219 for its proportionate share of the TRS's net pension liability. 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	\$ 2,887,219
State's proportionate share that is associated with the District	<u>5,268,150</u>
Total	<u>\$ 8,155,369</u>

The net pension liability was measured as of August 31, 2016 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, 2015 thru August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was .0076405% which was an increase of .0001842% from its proportion measured as of August 31, 2015.

Changes Since the Prior Actuarial Valuation There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

For the year ended June 30, 2017, the District's pension expense was \$546,708 and revenue of \$546,708 for support provided by the State.

At June 30, 2017, the District's 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	\$ 45,271	\$ 86,211
Changes in actuarial assumptions	87,997	80,030
Difference between projected and actual investment earnings	244,484	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	781,423	197
Contributions paid to TRS subsequent to the measurement date	221,047	-
Total	<u>\$ 1,380,222</u>	<u>\$ 166,438</u>

The 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
2018	\$ 176,693
2019	176,693
2020	332,637
2021	164,711
2022	115,617
Thereafter	26,386

L. Health Care Coverage

During the period ended June 30, 2017, employees of the District were covered by a state-wide health care plan, TRS Active Care. The District's participation in this plan is renewable annually. The District paid into the Plan \$282 per month per employee. Employees, at their option, pay premiums for any coverage above these amounts as well as for dependent coverage.

The Teachers Retirement System (TRS) manages TRS Active Care. The medical plan is administered by Aetna Life Insurance Company. Caremark administers the prescription drug plan. The latest financial information on the state-wide plan may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

M. Retiree Health Plans

Plan Description. The Kemp Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2015-2017.

Contribution Rates						
Year	Active Employees		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2017	0.65%	\$ 56,793	1.0%	\$ 87,373	0.55%	\$ 48,055
2016	0.65%	53,269	1.0%	81,950	0.55%	45,072
2015	0.65%	49,120	1.0%	75,570	0.55%	41,563

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 Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments of \$41,050, \$25,028, and \$32,694 were recognized for the years ended June 30, 2017, 2016, and 2015, respectively, as equal revenues and expenditures.

N. Construction and Other Commitments and Contingencies

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Cost 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 June 30, 2017 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing to respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

O. 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 disaster. During the fiscal year ended June 30, 2017 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.

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REQUIRED SUPPLEMENTARY INFORMATION

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KEMP INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

Data Control Codes		Budgeted Amounts		Actual	Variance with
				Amounts	Final Budget
		Original	Final	(Budgetary Basis)	Positive (Negative)
	REVENUES				
5700	Local and intermediate sources	\$ 3,774,661	\$ 3,774,661	\$ 3,839,310	\$ 64,649
5800	State program revenues	9,456,089	10,168,585	10,081,225	(87,360)
5900	Federal program revenues	401,754	401,754	333,072	(68,682)
5020	Total revenues	13,632,504	14,345,000	14,253,607	(91,393)
	EXPENDITURES				
	Current:				
0011	Instruction	6,771,216	6,959,140	6,827,870	131,270
0012	Instructional resources and media sources	210,070	218,070	211,355	6,715
0013	Curriculum and staff development	113,143	113,143	111,980	1,163
0021	Instructional leadership	106,764	181,264	158,098	23,166
0023	School leadership	856,875	869,375	868,332	1,043
0031	Guidance, counseling, and evaluation services	484,346	482,346	449,693	32,653
0033	Health services	255,172	262,172	241,456	20,716
0034	Student transportation	711,375	798,393	701,215	97,178
0035	Food service	5,000	5,000	1,968	3,032
0036	Extracurricular activities	691,374	726,316	732,166	(5,850)
0041	General administration	675,797	676,435	676,611	(176)
0051	Facilities maintenance and operations	1,531,094	1,605,210	1,584,671	20,539
0052	Security and monitoring services	81,846	119,569	115,194	4,375
0053	Data processing services	353,378	353,378	324,156	29,222
	Debt Service:				
0071	Principal on long-term debt	689,654	2,684,946	2,682,425	2,521
0072	Interest on long-term debt	-	206,143	227,368	(21,225)
0073	Bond issuance costs and fees	-	9,500	-	9,500
0081	Capital outlay	22,400	212,535	70,035	142,500
0099	Other governmental charges	73,000	73,000	72,220	780
6030	Total expenditures	13,632,504	16,555,935	16,056,813	499,122
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(2,210,935)	(1,803,206)	407,729
	OTHER FINANCING SOURCES (USES)				
7911	Capital-related debt issued	-	2,210,935	2,210,935	-
7080	Total other financing sources (uses)	-	2,210,935	2,210,935	-
1200	NET CHANGE IN FUND BALANCES	-	-	407,729	407,729
0100	FUND BALANCES, BEGINNING	4,546,132	4,546,132	4,546,132	-
3000	FUND BALANCES, ENDING	\$ 4,546,132	\$ 4,546,132	\$ 4,953,861	\$ 407,729

KEMP INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM****FOR THE YEAR ENDED JUNE 30, 2017**

	Measurement Year Ended August 31,		
	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0076405%	0.0074563%	0.0042480%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 2,887,219	\$ 2,635,703	\$ 1,134,700
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	<u>5,268,150</u>	<u>4,873,767</u>	<u>4,206,723</u>
Total	<u>\$ 8,155,369</u>	<u>\$ 7,509,470</u>	<u>\$ 5,341,423</u>
District's Covered Employee Payroll	\$ 8,318,607	\$ 7,648,046	\$ 7,382,594
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Employee Payroll	34.71%	34.46%	15.37%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	78.00%	78.43%	83.25%

Note: Only three years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

KEMP INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM****FOR THE YEAR ENDED JUNE 30, 2017**

	Fiscal Year Ended June 30,		
	2017	2016	2015
Contractually Required Contribution	\$ 260,739	\$ 235,290	\$ 118,788
Contribution in Relation to the Contractually Required Contribution	(260,739)	(235,290)	(118,788)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Employee Payroll	\$ 8,737,258	\$ 8,195,000	\$ 7,556,976
Contributions as a percentage of Covered Employee Payroll	2.98%	2.87%	1.57%

Note: Only three years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

KEMP INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

Budgetary Information

The Board of Trustees adopts an “appropriated budget” for the General Fund, Debt Service Fund and the Child Nutrition Fund which is included as a Special Revenue Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund budget report appears in Exhibit G-1 and the other two reports are in Exhibits J-4 and J-5.

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

1. Prior to June 20 the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least 10 days’ public notice of the meeting must be given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. The budget was amended as necessary during the year.
4. Each budget is controlled at the organizational level by the administration, appropriate department head or campus principal within Board allocations at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year’s budget.

Expenditures Over Appropriations

The District was over budget in Functions 36, 41 and 72 by \$5,850, \$176 and \$21,225, respectively. These overages were funded by surpluses in other functions.

COMBINING STATEMENTS

KEMP INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2017

	205	211	224	225	240
	Head	ESEA I, A	IDEA- Part B	IDEA- Part B	National
	Start	Improving	Formula	Preschool	Breakfast and
		Basic Program			Lunch Program
ASSETS					
Cash and cash equivalents	\$ -	\$ 157,629	\$ 75,494	\$ 3,307	\$ 232,308
Due from other governments	<u>38,755</u>	<u>16,185</u>	<u>28,958</u>	<u>1,253</u>	<u>-</u>
Total assets	<u>38,755</u>	<u>173,814</u>	<u>104,452</u>	<u>4,560</u>	<u>232,308</u>
LIABILITIES					
Accounts payable	-	-	-	-	2,558
Payroll deductions and withholdings	316	1	675	-	-
Accrued wages payable	4,855	42,358	35,775	-	2,660
Accrued expenditures	1,814	7,049	6,271	-	823
Due to other funds	31,770	124,406	61,731	4,560	12,372
Unearned revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,792</u>
Total liabilities	<u>38,755</u>	<u>173,814</u>	<u>104,452</u>	<u>4,560</u>	<u>27,205</u>
FUND BALANCES					
Restricted	-	-	-	-	205,103
Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>205,103</u>
Total liabilities and fund balances	<u>\$ 38,755</u>	<u>\$ 173,814</u>	<u>\$ 104,452</u>	<u>\$ 4,560</u>	<u>\$ 232,308</u>

EXHIBIT H-1
(continued)

244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	270 ESEA VI, Pt B Rural & Low Income	410 State Instructional Materials	429 Pre-K Grant Program
\$ -	\$ 2,747	\$ 329	\$ -	\$ -	\$ 2,286
<u>5,265</u>	<u>34,330</u>	<u>3,203</u>	<u>20,407</u>	<u>69,700</u>	<u>-</u>
<u>5,265</u>	<u>37,077</u>	<u>3,532</u>	<u>20,407</u>	<u>69,700</u>	<u>2,286</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	1,800
-	-	-	-	-	486
5,265	37,077	3,532	20,407	67,367	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>5,265</u>	<u>37,077</u>	<u>3,532</u>	<u>20,407</u>	<u>67,367</u>	<u>2,286</u>
-	-	-	-	2,333	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,333</u>	<u>-</u>
<u>\$ 5,265</u>	<u>\$ 37,077</u>	<u>\$ 3,532</u>	<u>\$ 20,407</u>	<u>\$ 69,700</u>	<u>\$ 2,286</u>

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KEMP INDEPENDENT SCHOOL DISTRICT**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS****JUNE 30, 2017**

	461 Campus Activity Funds	486 Kemp Education Foundation	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 73,335	\$ 1,837	\$ 549,272
Due from other governments	-	-	218,056
Total assets	<u>73,335</u>	<u>1,837</u>	<u>767,328</u>
LIABILITIES			
Accounts payable	-	-	2,558
Payroll deductions and withholdings	-	-	992
Accrued wages payable	-	-	87,448
Accrued expenditures	-	-	16,443
Due to other funds	2,221	54	370,762
Unearned revenues	-	-	8,792
Total liabilities	<u>2,221</u>	<u>54</u>	<u>486,995</u>
FUND BALANCES			
Restricted	-	1,783	209,219
Committed	<u>71,114</u>	<u>-</u>	<u>71,114</u>
Total fund balances	<u>71,114</u>	<u>1,783</u>	<u>280,333</u>
Total liabilities and fund balances	<u>\$ 73,335</u>	<u>\$ 1,837</u>	<u>\$ 767,328</u>

KEMP INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	205	211	224	225	240
	Head	ESEA I, A	IDEA- Part B	IDEA- Part B	National
	Start	Improving	Formula	Preschool	Breakfast and
		Basic Program			Lunch Program
REVENUES					
Local and intermediate sources	\$ -	\$ -	\$ -	\$ -	\$ 199,655
State program revenues	-	-	-	-	4,676
Federal program revenues	79,868	439,817	255,865	1,253	699,901
Total revenues	79,868	439,817	255,865	1,253	904,232
EXPENDITURES					
Instruction	79,866	439,817	209,223	1,253	-
Instructional resources and media services	-	-	-	-	-
Curriculum and staff development	-	-	-	-	-
Instructional leadership	-	-	40,838	-	-
School leadership	-	-	-	-	-
Guidance, counseling and evaluation services	-	-	5,804	-	-
Health services	-	-	-	-	-
Student transportation	-	-	-	-	-
Food services	-	-	-	-	849,332
Extracurricular activities	-	-	-	-	-
General administration	-	-	-	-	-
Facilities maintenance and operations	2	-	-	-	25,105
Community Services	-	-	-	-	-
Total expenditures	79,868	439,817	255,865	1,253	874,437
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	-	-	29,795
NET CHANGE IN FUND BALANCES	-	-	-	-	29,795
FUND BALANCES, BEGINNING	-	-	-	-	175,308
FUND BALANCES, ENDING	\$ -	\$ -	\$ -	\$ -	\$ 205,103

EXHIBIT H-2
(continued)

243 Career and Technical - Tech Prep	244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	270 ESEA VI, Pt B Rural & Low Income	272 Medicaid Administrative Claiming	410 State Instructional Materials	429 Pre-K Grant Program
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
211	-	-	-	-	-	124,983	41,246
6,008	20,853	59,245	7,692	31,112	9,859	-	-
<u>6,219</u>	<u>20,853</u>	<u>59,245</u>	<u>7,692</u>	<u>31,112</u>	<u>9,859</u>	<u>124,983</u>	<u>41,246</u>
6,219	20,264	49,972	7,072	24,384	4,898	131,983	41,246
-	-	-	-	-	-	-	-
-	-	2,448	-	-	-	-	-
-	589	-	-	-	-	-	-
-	-	6,650	-	-	-	-	-
-	-	-	-	-	966	-	-
-	-	-	-	-	3,614	-	-
-	-	-	-	6,728	381	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	175	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	620	-	-	-	-
<u>6,219</u>	<u>20,853</u>	<u>59,245</u>	<u>7,692</u>	<u>31,112</u>	<u>9,859</u>	<u>131,983</u>	<u>41,246</u>
-	-	-	-	-	-	(7,000)	-
-	-	-	-	-	-	(7,000)	-
-	-	-	-	-	-	9,333	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,333</u>	<u>\$ -</u>

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KEMP INDEPENDENT SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	461 Campus Activity Funds	486 Kemp Education Foundation	Total Nonmajor Governmental Funds
REVENUES			
Local and intermediate sources	\$ 76,169	\$ 5,513	\$ 281,337
State program revenues	-	40	171,156
Federal program revenues	-	-	1,611,473
Total revenues	<u>76,169</u>	<u>5,553</u>	<u>2,063,966</u>
EXPENDITURES			
Instruction	-	2,096	1,018,293
Instructional resources and media services	-	3,457	3,457
Curriculum and staff development	-	-	2,448
Instructional leadership	-	-	41,427
School leadership	-	-	6,650
Guidance, counseling and evaluation services	-	-	6,770
Health services	-	-	3,614
Student transportation	-	-	7,109
Food services	-	-	849,332
Extracurricular activities	69,717	-	69,717
General administration	-	-	175
Facilities maintenance and operations	-	-	25,107
Community Services	-	-	620
Total expenditures	<u>69,717</u>	<u>5,553</u>	<u>2,034,719</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>6,452</u>	<u>-</u>	<u>29,247</u>
NET CHANGE IN FUND BALANCES	6,452	-	29,247
FUND BALANCES, BEGINNING	<u>64,662</u>	<u>1,783</u>	<u>251,086</u>
FUND BALANCES, ENDING	<u>\$ 71,114</u>	<u>\$ 1,783</u>	<u>\$ 280,333</u>

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REQUIRED TEA SCHEDULES

KEMP INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

FOR THE YEAR ENDED JUNE 30, 2017

Last Ten Years Ended June 30,	1	2	3	10	20
	Tax Rates		Net Assessed/ Appraised Value for School Tax Purpose	Beginning Balance 7/1/2016	Current Year's Total Levy
	Maintenance	Debt Service			
2008 and prior years	Various	Various	Various	\$ 110,323	\$ -
2009	1.027550	0.395000	325,308,107	28,155	-
2010	1.040050	0.395000	327,157,772	29,210	-
2011	1.170000	0.265000	329,978,643	40,440	-
2012	1.170000	0.290000	326,323,064	46,212	-
2013	1.170000	0.400000	320,547,610	69,832	-
2014	1.170000	0.400000	323,683,851	91,569	-
2015	1.170000	0.400000	318,138,599	134,427	-
2016	1.170000	0.400000	310,957,389	337,952	-
2017 (School year under audit)	1.170000	0.400000	319,351,019	-	5,013,811
1000 Totals				\$ 888,120	\$ 5,013,811

31	32	40	50
Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 6/30/2017
\$ 4,185	\$ 596	\$ (12,841)	\$ 92,701
869	334	(724)	26,228
1,269	482	(191)	27,268
3,400	770	(277)	35,993
4,694	1,164	(664)	39,690
16,036	5,482	(1,504)	46,810
17,143	5,861	(1,303)	67,262
34,141	11,672	(506)	88,108
140,998	48,205	(14,308)	134,441
<u>3,450,349</u>	<u>1,179,606</u>	<u>(30,741)</u>	<u>353,115</u>
\$ <u><u>3,673,084</u></u>	\$ <u><u>1,254,172</u></u>	\$ <u><u>(63,059)</u></u>	\$ <u><u>911,616</u></u>

KEMP INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM FUND

FOR THE YEAR ENDED JUNE 30, 2017

Data Control Codes		Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
	REVENUES				
5700	Local and intermediate sources	\$ 218,965	\$ 218,965	\$ 199,655	\$(19,310)
5800	State program revenues	5,829	5,829	4,676	(1,153)
5900	Federal program revenues	<u>675,660</u>	<u>675,660</u>	<u>699,901</u>	<u>24,241</u>
5020	Total revenues	<u>900,454</u>	<u>900,454</u>	<u>904,232</u>	<u>3,778</u>
	EXPENDITURES				
	Current:				
0035	Food service	848,619	848,619	849,332	(713)
0051	Facilities maintenance and operations	<u>26,835</u>	<u>26,835</u>	<u>25,105</u>	<u>1,730</u>
6030	Total expenditures	<u>875,454</u>	<u>875,454</u>	<u>874,437</u>	<u>1,017</u>
1200	NET CHANGE IN FUND BALANCES	25,000	25,000	29,795	4,795
0100	FUND BALANCES, BEGINNING	<u>175,308</u>	<u>175,308</u>	<u>175,308</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 200,308</u>	<u>\$ 200,308</u>	<u>\$ 205,103</u>	<u>\$ 4,795</u>

KEMP INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL - DEBT SERVICE FUND

FOR THE YEAR ENDED JUNE 30, 2017

Data Control Codes		Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
	REVENUES				
5700	Local and intermediate sources	\$ 1,239,130	\$ 1,239,130	\$ 1,282,056	\$ 42,926
5800	State program revenues	<u>728,135</u>	<u>728,135</u>	<u>757,580</u>	<u>29,445</u>
5020	Total revenues	<u>1,967,265</u>	<u>1,967,265</u>	<u>2,039,636</u>	<u>72,371</u>
	EXPENDITURES				
	Current:				
0071	Principal on long-term debt	1,180,001	1,180,001	1,180,000	1
0072	Interest on long-term debt	794,242	794,242	794,242	-
0073	Bond issuance costs and fees	<u>10,000</u>	<u>14,000</u>	<u>6,629</u>	<u>7,371</u>
6030	Total expenditures	<u>1,984,243</u>	<u>1,988,243</u>	<u>1,980,871</u>	<u>7,372</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(16,978)</u>	<u>(20,978)</u>	<u>58,765</u>	<u>79,743</u>
1200	NET CHANGE IN FUND BALANCES	<u>(16,978)</u>	<u>(20,978)</u>	<u>58,765</u>	<u>79,743</u>
0100	FUND BALANCES, BEGINNING	<u>530,081</u>	<u>530,081</u>	<u>530,081</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 513,103</u>	<u>\$ 509,103</u>	<u>\$ 588,846</u>	<u>\$ 79,743</u>

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COMPLIANCE, INTERNAL CONTROL, AND FEDERAL AWARDS SECTION

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P A T T I L L O , B R O W N & H I L L , L L P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

Board of Trustees
Kemp Independent School District
Kemp, Texas

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kemp Independent School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Kemp Independent School District's basic financial statements, and have issued our report thereon dated October 16, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kemp Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kemp Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Kemp Independent School 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Kemp Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
October 16, 2017



P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

Board of Trustees
Kemp Independent School District
Kemp, Texas

Report on Compliance for Each Major Federal Program

We have audited Kemp Independent School District's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Kemp Independent School District's major federal programs for the year ended June 30, 2017. Kemp Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 Kemp Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Kemp 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 Kemp Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Kemp Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

Patillo, Brown & Hill, L.L.P.

Waco, Texas
October 16, 2017

KEMP INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

(1) Federal Grantor/ Pass-through Grantor/ Grantor/Program Title	(2) Federal CFDA Number	(2A) Pass-through Entity Identifying Number	(3) Federal Expenditures
U. S. Department of Agriculture			
<u>Passed through Texas Education Agency:</u>			
School Breakfast Program	10.553	71401701	\$ 156,294
National School Lunch Program - Cash Assistance	10.555	71301701	481,933
Total passed through Texas Education Agency			638,227
<u>Passed through Texas Department of Agriculture:</u>			
National School Lunch Program - Non Cash Assistance	10.555	00684	61,674
Total passed through Texas Department of Agriculture			61,674
Subtotal Child Nutrition Cluster			699,901
<u>Passed through Texas A&M University-Commerce:</u>			
Secondary Ag Education Challenge Grant	10.226	404040-2041	6,008
Total passed through Texas A&M University-Commerce			6,008
Total U.S. Department of Agriculture			705,909
U. S. Department of Education			
<u>Passed through Texas Education Agency:</u>			
ESEA Title I, Part A	84.010A	17-610101129904	439,817
Subtotal Title I Cluster			439,817
IDEA Part- B, Formula	84.027A	17-6600011299046600	255,865
IDEA Part- B, Preschool	84.173A	17-6610011299046610	1,253
Subtotal IDEA, Part-B Cluster			257,118
Career and Technical - Basic Grant	84.048A	17-420006129904	20,853
ESEA Title VI, Part B - Rural & Low Income Prog.	84.358B	17-696001129904	31,112
Title III, Part A - English Language Acquisition	84.365A	17-671001057950	7,692
ESEA Title II, Part A - Teacher and Principal Training	84.367A	17-694501057950	59,245
Total passed through Texas Education Agency			815,837
Total U. S. Department of Education			815,837
U. S. Department of Health and Human Services			
<u>Passed through Texas Department of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778	129904	9,859
Total passed through Texas Department of Human Services			9,859

KEMP INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017****(CONTINUED)**

(1) Federal Grantor/ Pass-through Grantor/ Grantor/Program Title	(2) Federal CFDA Number	(2A) Pass-through Entity Identifying Number	(3) Federal Expenditures
<u>Passed through Texas Department of Education:</u>			
Head Start	93.600	06CH7092-04	\$ <u>79,868</u>
Total passed through State Department of Education			<u>79,868</u>
Total U.S. Department of Health and Human Services			<u>89,727</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,611,473</u>

KEMP INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2017

1. GENERAL

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal award programs of Kemp Independent School District. The District's reporting entity is defined in Note I of the financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note I of the financial statements.

3. PASS-THROUGH EXPENDITURES

None of the federal programs expended by the District were provided to subrecipients.

4. RECONCILIATION OF FEDERAL REVENUES AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal revenues per the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds (Exhibit C-3)	\$ 1,944,545
QSCB bond interest reimbursement	(95,289)
School health and related services	(237,783)
Federal expenditures per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	\$ <u>1,611,473</u>

5. INDIRECT COSTS

The District has not elected to apply the 10% de minimis indirect cost rate to the federal expenditures included in the Schedule of Expenditures of Federal Awards.

**KEMP INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported

Type of auditors' report issued on compliance for major programs	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	None
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Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster:
10.553 and 10.555	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

**Findings Relating to the Financial Statements Which are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

None

Findings and Questioned Costs for Federal Funds

None

KEMP INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

None

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