

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

**Board of Trustees:**

***Kenny Ferguson, President***  
***Steven Archer, Vice-President***  
***Kelley O'Brien, Secretary***  
***Mike Barkowsky***  
***Quinton Kearney***  
***Clay Thixton***  
***Kirk Tidwell***

**Superintendent:**

***Steve McLaren***

**Business Manager:**

***Teresa Roberts***

**Klondike Independent School District  
Annual Financial Report  
For the Year Ended August 31, 2016**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>	<b><u>Exhibit</u></b>
<b>INTRODUCTORY SECTION</b>		
Certificate of Board .....	1	
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report .....	2	
Management's Discussion and Analysis (Required Supplementary Information) .	4	
<b><u>Basic Financial Statements</u></b>		
<b>Government-wide Financial Statements:</b>		
Statement of Net Position .....	10	A-1
Statement of Activities .....	11	B-1
<b>Fund Financial Statements:</b>		
Balance Sheet - Governmental Funds .....	12	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position .....	13	C-2
Statement of Revenues, Expenditures, and Changes in		
Fund Balance - Governmental Funds .....	14	C-3
Reconciliation of the Governmental Funds Statement of Revenues,		
Expenditures, and Changes In Fund Balances to the Statement of		
Activities .....	15	C-4
Statement of Net Position - Proprietary Funds .....	16	D-1
Statement of Revenues, Expenses, and Changes in Fund Net Position -		
Proprietary Funds .....	17	D-2
Statement of Cash Flows - Proprietary Funds .....	18	D-3
Statement of Fiduciary Net Position - Fiduciary Funds .....	19	E-1
Notes to the Financial Statements .....	20	
<b><u>Required Supplementary Information</u></b>		
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget		
and Actual - General Fund .....	44	G-1
Schedule of the District's Proportionate Share of the Net Pension		
Liability (TRS) .....	45	G-2
Schedule of District Contributions to TRS .....	46	G-3
Note to Required Supplementary Information .....	47	
<b><u>Other Supplementary Information</u></b>		
Schedule of Delinquent Taxes Receivable .....	48	J-1
Schedule of Revenues, Expenditures, and Changes in Fund Balance- Budget and		
Actual- Debt Service Fund .....	50	J-5

**TABLE OF CONTENTS (CONTINUED)**

**OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION**

Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards* . . . . 51  
Schedule of Findings and Responses. . . . . 53

## ***Introductory Section***

**CERTIFICATE OF BOARD**

Klondike Independent School District  
Name of School District

Dawson  
County

058-905  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one)  approved  disapproved for the year ended August 31, 2016, at a meeting of the board of the trustees of such school district on the 17th day of November 2016.

  
\_\_\_\_\_  
Signature of Board Vice-President

  
\_\_\_\_\_  
Signature of Board President

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

## ***Financial Section***

# STEPHENS, STEPHENS, & TELCHIK, P.C.

*Certified Public Accountants*

MEMBER AICPA  
MEMBER TSCPA

P.O. Box 500 - 212 So. Houston Ave.  
LAMESA, TEXAS 79331-0500  
Phone: 806-872-3030  
Fax: 806-872-5735

S.E. STEPHENS, CPA  
RAY A. STEPHENS, CPA  
KEVIN TELCHIK, CPA

November 10, 2016

## Independent Auditor's Report

Board of Trustees  
Klondike Independent School District  
Lamesa, 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 Klondike Independent School District (the District), as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinion 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 judgments, 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 are not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining

fund information of the Klondike Independent School District, as of August 31, 2016, and the respective changes in financial position, and where applicable, cash flows 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 the pension related information, identified as Required Supplementary Information in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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 Klondike Independent School District's basic financial statements. The accompanying other schedules listed in the Table of Contents as Other Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2016, on our consideration of Klondike Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Klondike Independent School District's internal control over financial reporting and compliance.

  
Stephens, Stephens, & Telchik, P.C.  
Lamesa, Texas



**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
LAMESA, TEXAS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**FINANCIAL HIGHLIGHTS**

- The District's total combined net position increased by \$641,795 or 4.57% between 2015 and 2016.
- During the year, the District's expenses were \$517,904 less than the \$13,528,185 in Total Program and General Revenues of the District. This amount is less of an increase to net position than last year when the District's expenses were \$1,320,832 less than the \$16,223,847 in Total Program and General Revenue of the District.
- The total cost of the District's programs was \$1,892,734 less than the \$14,903,015 from last year. This decrease in expenditures is primarily due to decreased operating expenses and a decrease in WADA expense.
- The total general revenues of the District decreased by \$2,763,714 or 17.5% from 2015 to 2016. This decrease was primarily due to a decrease in tax revenue and state aid.
- The general fund reported a fund balance this year of \$6,968,249. This amount is an increase of \$31,237 from the prior year fund balance of \$6,937,012. The District has opted to assign \$250,000 of this fund balance for future capital expenditures, \$250,000 for future construction, and \$1,500,000 for future recapture payments.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.

*The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

*Proprietary fund* statements offer *short* and *long-term* financial information about the activities the government operates, like the workers compensation fund.

*Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

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

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

### **Government-wide Statements**

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

The two government-wide statements report the District's net position and how they have changed. Net Position - the difference between the District's assets and liabilities - is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base, and the District's average daily attendance. In addition, the condition of the District's facilities should be considered.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, food services, transportation, maintenance, and general administration. Property taxes and grants finance most of these activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant *funds* - not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has three kinds of funds:

- *Governmental funds* - Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- *Proprietary funds* - The internal service fund is the only proprietary fund the District maintains. This fund reports activities that provide services for the District's workers compensation self-funded program.

- *Fiduciary funds* - The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that - because of a trust arrangement - can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net position. We exclude these activities from the district's government-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

### Net Position

The District's combined net position was increased between fiscal years 2015 and 2016 - increasing by \$517,904 or 3.69% to \$ 14,694,456 at August 31, 2016. (See Table 1)

The District implemented GASB Statement 34 in the fiscal year ended August 31, 2002. The following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

**Table 1**  
**Klondike Independent School District's Net Position**

	<b>Governmental Activities</b>	
	<u>2016</u>	<u>2015</u>
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 6,925,050	\$ 7,551,251
Property Taxes Receivable (Net)	190,849	197,840
Due from Other Governments & Other Receivables	471,485	1,957
Accrued Interest	1,533	1,821
Total Current Assets	<u>\$ 7,588,917</u>	<u>\$ 7,752,869</u>
<b>Noncurrent Assets:</b>		
Capital Assets	\$ 17,838,876	\$ 17,532,812
Less Accumulated Depreciation	<u>(4,239,458)</u>	<u>(3,733,440)</u>
Total Noncurrent Assets	<u>\$ 13,599,418</u>	<u>\$ 13,799,372</u>
Total Assets	<u>\$ 21,188,335</u>	<u>\$ 21,552,241</u>
<b>Deferred Outflows of Resources:</b>		
Deferred Outflow-TRS	<u>\$ 378,505</u>	<u>66,488</u>
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Expense	\$ 1,981	\$ 14,202
Accrued Wages Payable	94,718	67,846
Due to Other Governments	111,421	474,896
Unearned Revenue	155,702	-
Bond Payable & Other Liabilities	<u>905,557</u>	<u>880,558</u>
Total Current Liabilities	<u>\$ 1,269,379</u>	<u>\$ 1,437,502</u>
<b>Noncurrent Liabilities:</b>		
Workers Compensation Claims Liability	\$ 30,691	\$ 30,691
Bond Payable	4,610,000	5,480,000

	<u>2016</u>	<u>2015</u>
Net Pension Liability (District)	\$ 599,337	\$ 202,098
Unamortized Bond Premium	318,397	353,954
Total Noncurrent Liabilities	<u>\$ 5,558,425</u>	<u>\$ 6,066,743</u>
Total Liabilities	<u>\$ 6,827,804</u>	<u>\$ 7,504,245</u>
<b>Deferred Inflows of Resources:</b>		
Deferred Inflow-TRS	\$ 44,580	\$ 61,823
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	\$ 7,794,006	\$ 7,113,402
Restricted for Debt Service	13,305	21,912
Unrestricted	<u>6,887,145</u>	<u>6,917,347</u>
Total Net Position	<u>\$ 14,694,456</u>	<u>\$ 14,052,661</u>

The part of net position which was unrestricted and available to be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements was \$6,887,145 at August 31, 2016. Unrestricted net assets may be used to fund District Programs in the next fiscal year. However, this does not mean that the District has significant surplus resources available to pay its bills next year. Rather, it is the result of having long-term commitments that are less than currently available resources. The balance has increased compared to the prior years.

### Changes in Net Position

The District's total revenues were approximately 13.53 million. A significant percentage of this revenue comes from taxes (89%). Approximately (9%) of the revenue comes from Federal Programs, state-aid formula grants, and other state program revenues. The remaining revenue (2%) came from investment earnings, miscellaneous local revenue, user charges, and permanent school fund revenue.

The total cost of all programs and services was approximately 13.1 million, a decrease of \$1.89 million from previous year. Wealth equalization payments totaled \$8,460,153 or 65% of total expenditures.

**Table 2**  
**Changes in Klondike Independent School District's Net Position**  
**Governmental**  
**Activities**

	<u>2016</u>	<u>2015</u>
<b>Program Revenues:</b>		
Charges for Services	\$ 92,142	\$ 45,235
Operating Grants and Contributions	385,197	364,052
<b>General Revenues:</b>		
Property Taxes	12,028,115	14,786,030
State Aid - Formula	860,640	624,625
Investment Earnings	62,662	64,265
Other	99,429	339,640
Total Revenues	<u>\$ 13,528,185</u>	<u>\$ 16,223,847</u>
<b>Expenditures:</b>		
Instruction	\$ 1,857,175	\$ 1,815,728
Instructional Resources and Media Services	17,543	32,497
Curriculum Dev. and Instructional Staff Dev.	23,313	14,496
School Leadership	169,312	183,064
Guidance, Counseling and Evaluation Services	58,527	68,773
Health Services	1,085	404
Student Transportation	196,213	194,902
Food Services	266,653	235,265

	<u>2016</u>	<u>2015</u>
Extracurricular Activities	\$ 364,197	\$ 332,530
General Administration	464,832	436,682
Plant Maintenance & Operations	620,263	537,482
Security and Monitoring Services	2,419	-
Data Processing Services	230,705	209,008
Debt Service - Interest on Long Term Debt	141,517	95,068
Debt Service - Bond Issuance Costs and Fees	1,200	1,200
Contracted Instructional Services	8,460,153	10,602,691
Payments to Fiscal Agent/Member Dist. - SSA	45,784	45,784
Other Intergovernmental Charges	<u>89,390</u>	<u>97,441</u>
Total Expenditures	<u>\$ 13,010,281</u>	<u>\$ 14,903,015</u>
Increase in Net Position	\$ 517,904	\$ 1,320,832
Net Position- Beginning	<u>14,052,661</u>	<u>12,960,805</u>
Prior Period Adjustment	123,891	(228,977)
Net Position- Ending	<u>\$ 14,694,456</u>	<u>\$ 14,052,660</u>

The cost (13.01 million) of all governmental activities this year showed an decrease from the previous year. This decrease was due to decreased operating expenses and decreased WADA costs. As shown in the Statement of Activities, the amount that our taxpayers paid for these activities through property taxes was 12.02 million. Some of the cost was paid by those who directly benefitted from the programs (\$92,142) and by grants and contributions totaling (\$385,197).

#### **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds reported a combined fund balance of \$7,003,555 which is above last year's total of \$6,967,394.

- Revenues from governmental fund types totaled \$13,454,439, an decrease of 16.8% from the preceding year. The decrease in local revenues is mainly a result of an decrease in property tax revenue and state aid.
- Federal program revenue increased \$ 8,426. This increase was primarily due to a increase in federal program revenue distributed through other agencies.
- State aid increased \$156,892 during the current fiscal year.

#### **General Fund Budgetary Highlights**

Over the course of the year, the Board of Trustees amended the District's budget. Amendments were made for supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts that were estimated in August 2015). Finally, the Board approved several increases in appropriations to prevent budget overruns.

The District's General Fund Balance of \$6,968,249 differs from the General Fund's budgetary fund balance of \$6,932,012.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2016, the District had invested approximately 17.7 million in a broad range of capital assets, including land, equipment, vehicles, and buildings. There were significant increases in capital asset changes during the fiscal year.

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

- 61" Mower in the amount of \$15,299.
- 3 - Ford Expeditions in the amount of \$ 98,965.
- Laptops, Computers, and Wireless Installation in the amount of \$102,770.
- 54- Passenger Bus in the amount of \$49,900.

More detailed information about the District's capital assets is presented in the Notes to the Financial Statements.

### **Long-Term Debt**

On August 21, 2008, Klondike Independent School District issued \$8,000,000 Unlimited Tax School Building Bonds which were used to finance school renovations and technology upgrades. In March of 2012, the Board voted to issue \$4,265,000 in Unlimited Tax Refunding Bonds, Series 2012. The Board's plan was to use the bond proceeds to refund a portion of the District's 2008 Unlimited-Tax School Building Bonds for debt service savings. In addition, the taxpayers passed a bond election in May of 2012, authorizing the District to issue Unlimited Tax School Building Bonds, Series 2012 in the amount of \$3,715,000 for the purpose of constructing a new gym.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Klondike Independent School District developed its 2016-17 budget as always, with the goal of educational excellence and meeting the educational needs of all students. With this in mind, the District's elected Board of Trustees considered many factors as they worked to develop a budget and tax rate for the 2016-17 school year.

Student enrollment is holding steady, and the District is optimistic that this trend will continue.

Property taxes suffered another dramatic decline, causing the District's debt service rate to increase significantly from \$.095295 in 2015-16 to \$.163733 for the coming year. Fortunately, this did not affect the local maintenance tax rate, and the District passed a balanced budget for the 2016-17 school year.

The District is still working with TCEQ to develop a safe water supply for the school. Administration and the Board of Trustees are working diligently to keep costs down while providing the best system for the school.

## **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.

## ***Basic Financial Statements***

***Government Wide Statements***



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

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 565,050
1120 Current Investments	6,360,000
1220 Property Taxes Receivable (Delinquent)	272,642
1230 Allowance for Uncollectible Taxes	(81,793)
1240 Due from Other Governments	457,367
1250 Accrued Interest	1,533
1290 Other Receivables, net	5,133
1410 Prepayments	8,985
Capital Assets:	
1510 Land	100,139
1520 Buildings, Net	12,730,907
1530 Furniture and Equipment, Net	768,372
1000 Total Assets	21,188,335
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1705 Deferred Outflow Related to TRS	378,505
1700 Total Deferred Outflows of Resources	378,505
<b>LIABILITIES</b>	
2160 Accrued Wages Payable	94,718
2180 Due to Other Governments	111,421
2200 Accrued Expenses	1,981
2300 Unearned Revenue	155,702
Noncurrent Liabilities	
2501 Due Within One Year	905,557
2502 Due in More Than One Year	4,959,088
2540 Net Pension Liability (District's Share)	599,337
2000 Total Liabilities	6,827,804
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS	44,580
2600 Total Deferred Inflows of Resources	44,580
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	7,794,006
3850 Restricted for Debt Service	13,305
3900 Unrestricted	6,887,145
3000 Total Net Position	\$ 14,694,456

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Expenses	3 Charges for Services	4 Operating Grants and Contributions
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
11 Instruction	\$ 1,857,175	\$ -	\$ 170,431	\$ (1,686,744)
12 Instructional Resources and Media Services	17,543	-	732	(16,811)
13 Curriculum and Staff Development	23,313	-	7,526	(15,787)
23 School Leadership	169,312	-	7,161	(162,151)
31 Guidance, Counseling and Evaluation Services	58,527	-	2,972	(55,555)
33 Health Services	1,085	-	-	(1,085)
34 Student (Pupil) Transportation	196,213	-	8,608	(187,605)
35 Food Services	266,653	1,256	121,556	(143,841)
36 Extracurricular Activities	364,197	27,446	31,301	(305,450)
41 General Administration	464,832	17,987	12,947	(433,898)
51 Facilities Maintenance and Operations	620,263	45,453	10,763	(564,047)
52 Security and Monitoring Services	2,419	-	-	(2,419)
53 Data Processing Services	230,705	-	11,200	(219,505)
72 Debt Service - Interest on Long Term Debt	141,517	-	-	(141,517)
73 Debt Service - Bond Issuance Cost and Fees	1,200	-	-	(1,200)
91 Contracted Instructional Services Between Schools	8,460,153	-	-	(8,460,153)
93 Payments related to Shared Services Arrangements	45,784	-	-	(45,784)
99 Other Intergovernmental Charges	89,390	-	-	(89,390)
<b>[TP] TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 13,010,281</b>	<b>\$ 92,142</b>	<b>\$ 385,197</b>	<b>(12,532,942)</b>

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		11,014,985
DT	Property Taxes, Levied for Debt Service		1,013,130
SF	State Aid - Formula Grants		860,640
IE	Investment Earnings		62,662
MI	Miscellaneous Local and Intermediate Revenue		99,429
TR	<b>Total General Revenues</b>		<b>13,050,846</b>
CN	Change in Net Position		517,904
NB	Net Position - Beginning		14,052,661
PA	Prior Period Adjustment		123,891
NE	Net Position--Ending		<b>\$ 14,694,456</b>

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

***Fund Financial Statements***

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

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 499,052	\$ 35,307	\$ 534,359
1120 Investments - Current	6,360,000	-	6,360,000
1220 Property Taxes - Delinquent	272,642	-	272,642
1230 Allowance for Uncollectible Taxes (Credit)	(81,793)	-	(81,793)
1240 Receivables from Other Governments	454,501	2,866	457,367
1250 Accrued Interest	1,533	-	1,533
1290 Other Receivables	5,133	-	5,133
1410 Prepayments	8,985	-	8,985
1000 Total Assets	<u>\$ 7,520,053</u>	<u>\$ 38,173</u>	<u>\$ 7,558,226</u>
<b>LIABILITIES</b>			
2160 Accrued Wages Payable	\$ 92,104	\$ 2,614	\$ 94,718
2180 Due to Other Governments	111,421	-	111,421
2200 Accrued Expenditures	1,728	253	1,981
2300 Unearned Revenues	155,702	-	155,702
2000 Total Liabilities	<u>360,955</u>	<u>2,867</u>	<u>363,822</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	190,849	-	190,849
2600 Total Deferred Inflows of Resources	<u>190,849</u>	<u>-</u>	<u>190,849</u>
<b>FUND BALANCES</b>			
Restricted Fund Balance:			
3480 Retirement of Long-Term Debt	-	13,305	13,305
Assigned Fund Balance:			
3550 Construction	250,000	-	250,000
3570 Capital Expenditures for Equipment	250,000	-	250,000
3590 Other Assigned Fund Balance	1,500,000	-	1,500,000
3600 Unassigned Fund Balance	4,968,249	22,001	4,990,250
3000 Total Fund Balances	<u>6,968,249</u>	<u>35,306</u>	<u>7,003,555</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 7,520,053</u>	<u>\$ 38,173</u>	<u>\$ 7,558,226</u>

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

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

<b>Total Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>7,003,555</b>
<b>1</b> Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$17,432,673 and the accumulated depreciation was (\$3,733,440). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		6,887,427
<b>2</b> Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays and debt principal payments is to increase net position.		1,417,588
<b>3</b> 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 599,337, a Deferred Resource Inflow related to TRS in the amount of \$44,580 and a Deferred Resource Outflow related to TRS in the amount of \$378,505. This amounted to a decrease in Net Position in the amount of \$265,412.		(265,412)
<b>4</b> The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(539,551)
<b>5</b> Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		190,849
<b>19 Net Position of Governmental Activities</b>	<b>\$</b>	<b>14,694,456</b>

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

KLONDIKE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 11,275,613	\$ 1,045,319	\$ 12,320,932
5800 State Program Revenues	920,016	21,261	941,277
5900 Federal Program Revenues	119,649	72,581	192,230
5020 Total Revenues	<u>12,315,278</u>	<u>1,139,161</u>	<u>13,454,439</u>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
0011 Instruction	1,606,408	71,773	1,678,181
0012 Instructional Resources and Media Services	15,029	-	15,029
0013 Curriculum and Instructional Staff Development	14,290	7,526	21,816
0023 School Leadership	145,879	1,007	146,886
0031 Guidance, Counseling and Evaluation Services	50,118	-	50,118
0033 Health Services	1,085	-	1,085
0034 Student (Pupil) Transportation	233,373	-	233,373
0035 Food Services	227,540	-	227,540
0036 Extracurricular Activities	290,165	27,574	317,739
0041 General Administration	396,197	3,082	399,279
0051 Facilities Maintenance and Operations	554,432	-	554,432
0052 Security and Monitoring Services	2,419	-	2,419
0053 Data Processing Services	231,372	-	231,372
<b>Debt Service:</b>			
0071 Principal on Long Term Debt	-	845,000	845,000
0072 Interest on Long Term Debt	-	177,075	177,075
0073 Bond Issuance Cost and Fees	-	1,200	1,200
<b>Capital Outlay:</b>			
0081 Facilities Acquisition and Construction	44,298	-	44,298
<b>Intergovernmental:</b>			
0091 Contracted Instructional Services Between Schools	8,460,153	-	8,460,153
0093 Payments to Fiscal Agent/Member Districts of SSA	45,784	-	45,784
0099 Other Intergovernmental Charges	89,390	-	89,390
6030 Total Expenditures	<u>12,407,932</u>	<u>1,134,237</u>	<u>13,542,169</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(92,654)</u>	<u>4,924</u>	<u>(87,730)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
7915 Transfers In	110,112	-	110,112
8911 Transfers Out (Use)	(110,112)	-	(110,112)
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balances	(92,654)	4,924	(87,730)
0100 Fund Balance - September 1 (Beginning)	6,937,012	30,382	6,967,394
1300 Prior Period Adjustment(s)	123,891	-	123,891
3000 Fund Balance - August 31 (Ending)	<u>\$ 6,968,249</u>	<u>\$ 35,306</u>	<u>\$ 7,003,555</u>

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

KLONDIKE INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED AUGUST 31, 2016

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(87,730)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays and debt principal payments is to increase net position.		1,220,055
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(539,551)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(6,891)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2015 caused the change in the ending net position to increase in the amount of \$49,612. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in the net pension liability for the District. This caused a decrease in the change in net position in the amount of \$50,225. 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 \$66,916. The net result is to decrease the change in net position by \$(67,979).		(67,979)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>517,904</b>

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

KLONDIKE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
AUGUST 31, 2016

	Governmental Activities -
	Internal Service Fund
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 30,691
<b>Total Assets</b>	<b>30,691</b>
<b>LIABILITIES</b>	
<b>Noncurrent Liabilities:</b>	
Other Long-Term Debt - Due in More than One Year	30,691
<b>Total Noncurrent Liabilities</b>	<b>30,691</b>
<b>Total Liabilities</b>	<b>30,691</b>

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



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

	Governmental Activities -	
	Internal Service Fund	
<b>OPERATING REVENUES:</b>		
Local and Intermediate Sources	\$	1,851
Total Operating Revenues		1,851
<b>OPERATING EXPENSES:</b>		
Payroll Costs		1,851
Total Operating Expenses		1,851

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

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

	Governmental Activities -
	Internal Service Fund
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Received from Assessments - Other Funds	\$ 1,851
Cash Payments for Insurance Claims	(1,851)
Net Cash Provided by Operating Activities	-
Net Increase in Cash and Cash Equivalents	-
Cash and Cash Equivalents at Beginning of Year	30,691
Cash and Cash Equivalents at End of Year	\$ 30,691
<b><u>Reconciliation of Operating Income (Loss) to Net Cash</u></b>	
<b><u>Provided By (Used For) Operating Activities:</u></b>	
Operating Income (Loss):	\$ -

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

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2016**

	Private Purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 3,580	\$ 19,035
<b>Total Assets</b>	<u>3,580</u>	<u>\$ 19,035</u>
<b>LIABILITIES</b>		
Due to Student Groups	-	\$ 19,035
<b>Total Liabilities</b>	<u>-</u>	<u>\$ 19,035</u>
<b>NET POSITION</b>		
Restricted for Scholarships	<u>3,580</u>	
<b>Total Net Position</b>	<u>\$ 3,580</u>	

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

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2016**

**A. Summary of Significant Accounting Policies**

Klondike Independent School District (the "District") is a public education 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 basic financial statements of Klondike Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**1. Reporting Entity**

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity" and there are not component units included within the reporting entity.

**2. Basis of Presentation, Basis of Accounting**

**a. Basis of Presentation**

**Government-wide Statements:** The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

**The District reports the following major governmental fund:**

**General Fund** - This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

In addition, the District reports the following fund types:

**Special Revenue Funds** - The District accounts for resources restricted to, or designated for specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance 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.

**Internal Service Funds** - These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

**Agency Funds** - These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

**b. Measurement Focus, Basis of Accounting**

**Government-wide, Proprietary, and Fiduciary Fund Financial Statements** - These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Governmental Fund Financial Statements** - Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, and claims and judgments,

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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 deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

**3. Encumbrance Accounting**

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget.

**4. Financial Statement Amounts**

**a. Cash and Cash Equivalents**

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

**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 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipts of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60 day period after the close of the school fiscal year.

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

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

**c. Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

**Capital assets are being depreciated using the straight-line method over the following estimated useful lives:**

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-40
Building Improvements	20-40
Vehicles	5-12
Office Equipment	5-10
Computer Equipment	5-7

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide Statements*

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to September 1, 2001.

*Fund Financial Statements*

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**d. Receivable and Payable Balances**

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

There are no significant receivables which are not scheduled for collection within one year of year end.

**e. Interfund Activity**

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers in and Transfers out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, any interfund receivables and payables are netted and presented as a single "Internal Balances" line of government-wide statement of net assets.

**f. Equity Classifications**

*Government-wide Statements*

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

*Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as restricted, committed, assigned, or unassigned. See Note S for additional disclosures.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

1. **Nonspendable** - Not in spendable form, such as inventory, long-term receivables, etc.
2. **Restricted** - Amounts constrained to be used for a specific purpose by external parties, constitutional provisions, and enabling legislation.
3. **Committed** - Amounts that can be used only for the specific purposes determined by a formal action of the District's School Board (the District's highest level of decision-making)



**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

authority). Action to constrain resources should occur prior to year end, to report such constraints in the balance sheet of the respective period, even though the amount may be determined subsequent to fiscal year end. A commitment can only be modified or removed by the same formal action.

4. **Assigned** - Amounts intended to be used by the government for specific purposes. Intent is expressed by the District's School Board or an official authorized by the District's School Board (the District's highest level of decision-making authority). Assignments may occur subsequent to fiscal year end. Assignments may be made by an authorized official or by formal action by the School Board.
5. **Unassigned** - Residual amount available for any purpose.

The District does not currently have a minimum fund balance policy in effect. The Board of Trustees will utilize funds in the following spending order in circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications: Restricted, Committed, Assigned, and Unassigned.

**g. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

**h. Operating Revenues of Proprietary Funds**

Operating revenues for proprietary funds are those that result from providing services.

**i. Data Control Codes**

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

**j. 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.

**k. New Financial Accounting Standards- Change in Accounting Principle**

During the fiscal year ended August 31, 2013, the District implemented two statements of the Governmental Accounting Standards Board (GASB) No. 63 (*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*) and No. 65 (*Items Previously Reported as Assets and Liabilities*). These two statements:

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

- Classified items that are a consumption of net assets applicable to a future reporting period as deferred resource outflows;
- Classified items that are an acquisition of net assets applicable to a future reporting period as deferred resource inflows;
- Renames all "Statements of Net Assets" "Statements of Net Positions";
- Required all bond issuance costs to be recorded as expenses in the year the bonds were issued;
- Reclassified the effect of accounting changes adopted to conform to the provisions of Statement No. 63 retroactively in statements of net position and balance sheets, if practical, for all prior periods presented. In the period, Statement No. 63 is the first applied, the financial statements should disclose the nature of any reclassification.
- Required reasons for not reclassifying statements of net position and balance sheet information for prior periods presented to be explained.

The effect of these two statements on the District's 2016 annual financial statements was:

- To record uncollected property taxes deferred resource inflows:
 

Deferred Resource Inflows	\$190,849
"Unavailable revenues-property taxes"	

**B. Compliance and Accountability**

**1. Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

**2. Deficit Fund Balance or Fund Net Position of Individual Funds**

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

**C. Deposits and Investments**

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

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

**Cash Deposits:**

At August 31, 2016, the amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$ 6,925,050. The District's cash deposits at August 31, 2016, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

As of the highest combined balance on January 28, 2016, the District's deposits were adequately secured by FDIC coverage and pledged securities.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: First United Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$18,273,951.
- c. The highest combined balances of cash, savings and time deposit accounts amounted to \$16,568,244 and occurred during the month of January, 2016.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$250,000.

**District Policies and Legal and Contractual Provisions Governing Deposits**

**Custodial Credit Risk for Deposits** - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent.

**Foreign Currency Risk** - The District has no policy regarding foreign currency risk since it has no investments or deposits denominated in a foreign currency.

**District Policies and Legal and Contractual Provisions Governing 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, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of 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, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

The District's cash deposits held at financial institutions are categorized to give an indication of the level of risk assumed by the District at year-end. These custodial risk categories are as follows:

- Category 1 - Deposits which are insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 - Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the District's cash deposits and investments are classified as Category 1.

Additional policies and contractual provisions governing deposits and investments for Klondike Independent School District are specified below:

**Credit Risk** - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District has adopted a policy which limits its investments to certificates of deposits which are secured by FDIC coverage and securities pledged as collateral in the District's name.

**Custodial Credit Risk for Investments** - To limit the risk that in the event of the failure of the counterparty to a transaction a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party, the District requires counterparties to register the securities in the name of the District and hand them over to the District or its designated agent. All of the pledged securities covering the District's investments are in the District's name and held by the District or its agent.

**Concentration of Credit Risk** - To limit the risk of loss attributed to the magnitude of a government's investments in a single issuer, the District limits investments to certificates of deposit through a financial institution.

**Interest Rate Risk** - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires its investment officer to diversify the District's investment portfolio to include both maturities of one year and less than one year.

**Foreign Currency Risk for Investments** - The District has no policy regarding foreign currency risk since it has no investments or deposits denominated in a foreign currency.

The District's investments at August 31, 2016, are shown below.

Investment	Category			Reported Amount	Fair Value
	1	2	3		
Certificates of Deposit - First United Bank	\$ 6,360,000	\$ -0-	\$ -0-	\$ 6,360,000	\$ 6,360,000
<b>Total Investments</b>	<b>\$ 6,360,000</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 6,360,000</b>	<b>\$ 6,360,000</b>

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

**D. Capital Assets**

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated</b>				
Land	\$ 100,139	\$ -0-	\$ -0-	\$ 100,139
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 100,139</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 100,139</u>
<b>Capital Assets, Being Depreciated</b>				
Buildings and Improvements	\$15,519,185	\$ 98,915	\$ -0-	\$15,618,100
Furniture and Equipment	1,913,488	240,682	(33,533)	2,120,637
<b>Total Capital Assets Being Depreciated</b>	<u>\$17,432,673</u>	<u>\$ 339,597</u>	<u>\$(33,533)</u>	<u>\$17,738,737</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings and Improvements	\$ 2,507,374	\$ 379,819	\$ -0-	\$ 2,887,193
Furniture and Equipment	1,226,066	159,732	33,533	1,352,265
<b>Total Accumulated Depreciation</b>	<u>\$ 3,733,440</u>	<u>\$ 539,551</u>	<u>\$ 33,533</u>	<u>\$ 4,239,458</u>
<b>Total Capital Assets Being Depreciated, Net</b>	<u>\$13,699,233</u>	<u>\$ (199,954)</u>	<u>\$ -0-</u>	<u>\$ 13,499,279</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$13,799,372</u>	<u>\$ (199,954)</u>	<u>\$ -0-</u>	<u>\$13,599,418</u>

**Depreciation was charged to functions as follows:**

Instruction	\$168,236
Instructional Resources and Media Services	1,574
Curriculum Development and Instructional Staff Development	1,497
School Leadership	15,278
Guidance, Counseling and Evaluation Services	5,249
Student Transportation	104,220
Food Service	31,218
Cocurricular/Extracurricular	62,142
General Administration	53,945
Plant Maintenance and Operations	71,960
Data Processing Services	24,230
<b>Total</b>	<u>\$539,551</u>

**E. Interfund Balances and Activities**

**1. Transfers To and From Other Funds**

Transfers to and from other funds for the year ended August 31, 2016 consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Food Service	\$ 110,112	Subsidize Food Service Operations
	<b>Total</b>	<u>\$ 110,112</u>	

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

**F. Long-Term Debt**

The District issued Klondike Independent School District Unlimited Tax Refunding Bonds, Series 2012, in the amount of \$4,265,000 dated April 5, 2012, for the purpose of refunding all but \$740,000 of the District's Series 2008 unlimited-tax school building bonds. The purpose of the bonds is for debt savings. The Series 2012 Refunding Bonds are authorized by Texas Education Code, Sections 45.001 and 45.004. The bonds require annual interest and principal payments and bear interest at 2.0% to 3.0%. The bond issue resulted in the defeasance of the old debt. The debt refunding resulted in an economic gain to the District of \$369,163. This gain is the difference in the cash flow requirements necessary to service the old debt over its life and the cash flow requirements and other payments necessary to complete the advance refunding. During each year the bonds are outstanding, the District is required to levy and collect sufficient ad valorem taxes to provide for the payment of principal and interest as it becomes due. The District complied with all significant limitations and restrictions contained in the bond indentures.

In addition, the District also issued Klondike Independent School District Unlimited Tax School Building Bonds, Series 2012, in the amount of \$3,715,000 dated August 9, 2012, for the purpose of building a new school gymnasium. The Series 2012 School Building Bonds are authorized by Texas Education Code, Sections 45.001 and 45.003. The bonds require annual interest and principal payments and bear interest at 3.0%. During each year the bonds are outstanding, the District is required to levy and collect sufficient ad valorem taxes to provide for the payment of principal and interest as it becomes due. The District complied with all significant limitations and restrictions contained in the bond indentures.

**1. Long-Term Obligation Activity**

Long-term liability activity for the year ended August 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>					
<b>Bonds Payable:</b>					
Unlimited Tax Refunding					
Bonds, Series 2012	\$2,610,000	-0-	845,000	1,765,000	870,000
Unlimited Tax School Building					
Bonds, Series 2012	<u>3,715,000</u>	-	-	<u>3,715,000</u>	-
<b>Total Bonds Payable</b>	<b><u>\$6,325,000</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ 845,000</u></b>	<b><u>\$5,480,000</u></b>	<b><u>\$ 870,000</u></b>
<b>Other Liabilities:</b>					
Unamortized Bond Premium	\$ 446,597	\$ -0-	\$ 64,100	\$ 382,497	\$ 64,100
Accounting Loss - 2012					
Bond Refunding	(57,085)	-	(28,542)	(28,543)	(28,543)
Net Pension Liability-TRS	202,298	447,245	50,206	599,337	-
Workers Compensation Claims					
Liability	<u>30,691</u>	-	-	<u>30,691</u>	-
<b>Total Other Liabilities</b>	<b><u>\$ 622,501</u></b>	<b><u>\$ 447,245</u></b>	<b><u>\$ 85,764</u></b>	<b><u>\$ 983,982</u></b>	<b><u>\$ 35,557</u></b>
<b>Total Governmental Activities</b>					
Long-Term Liabilities	<b><u>\$6,947,501</u></b>	<b><u>\$ 447,245</u></b>	<b><u>\$ 930,764</u></b>	<b><u>\$6,463,982</u></b>	<b><u>\$ 905,557</u></b>

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

**2. Debt Service Requirements**

Debt service requirements on Bonds Payable debt at August 31, 2016, are as follows:

<u>Year Ending</u> <u>August 31</u>	<u>Bonds Payable</u>		<u>Total</u> <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2017	870,000	151,350	1,021,350
2018	895,000	124,875	1,019,875
2019	890,000	98,100	988,100
2020	915,000	71,025	986,025
2021	940,000	43,200	983,200
2022	970,000	14,550	984,550
Totals	<u>\$5,480,000</u>	<u>\$ 503,100</u>	<u>\$5,983,100</u>

**G. Commitments Under Capitalized Leases**

The District had no commitments under leases at August 31, 2016.

**H. Health Care Coverage**

During the year ended August 31, 2016, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$225 per month for professionals and \$241 per month for non professionals to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the licensed insurer is renewable September 1, 2015, and terms of coverage and premium costs are included in the contractual provisions.

**I. Commitments and Contingencies**

**1. Contingencies**

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

**2. Litigation**

No reportable litigation was pending against the District at August 31, 2016.

**J. Shared Services Arrangements**

The District participates in a shared services arrangement for Special Education under the IDEA-B Formula of Title VII of the Elementary and Secondary Education Act with Borden County Independent School District and Dawson Independent School District. Borden County Independent School District is

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

the fiscal agent manager and is responsible for all financial activities of the shared services arrangement. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint interest in fixed asset purchased by the fiscal agent, Borden County Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit of burden to Klondike Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Total expenditures for the current year attributable to the District's participation in the IDEA-Part B Special Education Coop was \$45,784.

**K. Workers' Compensation Fund**

The District maintains a self-funded Workers' Compensation program through the West Texas Educational Insurance Association. Claims administration was provided by Claims Administrative Services, Inc., for the period beginning September 1, 2014, and ending August 31, 2017. The District is in the 2nd year of a three year contract with Claims Administrative Services, Inc., for the District's participation in the West Texas Educational Insurance Association.

The District paid a fixed cost of \$6,383 during FYE 8-31-16 for excess insurance, claims administration, and safety and loss control. The District's ultimate liability is the sum of loss funds for each policy year since being accepted into the West Texas Educational Insurance.

The accrued liability for Workers' Compensation self-insurance of \$30,691 includes incurred but not reported claims. This liability reported in the Workers' Compensation Internal Service Fund at August 31, 2016, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount.

**L. Local and Intermediate Revenues**

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

<u>Revenue Description</u>	<u>Fund</u>	<u>Revenue Amount</u>
Property Taxes	General	\$11,011,732
Property Taxes	Debt Service	1,008,237
Penalties, Interest and Other Tax Related Income	General	59,865
Penalties, Interest and Other Tax Related Income	Debt Service	4,892
Rent Income	General	45,453
Permanent School Fund	General	46,442
Investment Income	General	62,166
Investment Income	Debt Service	495
Insurance Recovery	General	27,945
Athletic Activities	General	13,739
Other Miscellaneous Revenues from Local Sources	General	7,014
Food Sales	General	1,256
<b>Total</b>		<b><u>\$12,289,236</u></b>



**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

**M. Budgetary Control**

The official budget was prepared for adoption for the General Fund and the Food Service Fund, which is included within the Governmental Funds and the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board of Education. All budget appropriations lapse at year-end. The budgets for the General Fund and Food Service Special Revenue Fund must be filed with the Texas Education Agency on a designated date through the Public Education Information Management System (PEIMS).

The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

**N. Vacation and Sick Leave**

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

**O. Due to 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. The District receives entitlements from the State through the School Foundation Program. As of August 31, 2016, the District owed the Texas Education Agency \$ 111,421 for additional Chapter 41 recaptured costs.

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

**P. 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. The District receives entitlements from the State through the School Foundation and Per Capita Programs. In addition, the District also participates in wealth equalization agreements with other School Districts. Amounts due from federal, state, and local governments as of August 31, 2016, are:

<u>Government</u>	<u>Fund</u>	<u>Amount</u>	<u>Description</u>
Texas Education Agency	General	\$454,500	2015/2016 FSP Allotment
Texas Education Agency	Special Revenue	2,414	Title I
Texas Education Agency	Special Revenue	<u>453</u>	Title I Migrant
	Total	<u>\$457,367</u>	

**Q. Maintenance of Effort**

The following disclosure pertains to group health insurance, as required by HB 3343 of the 77th Texas Legislature (Section 1.03 which adds Insurance Code Article 3.50-9 Section 2):

1. Total District Premiums paid for health care for 2015-2016	\$ 101,322
2. Non-Medical Expenditures: Life Insurance	<u>-0-</u>
3. 2015-2016 Maintenance of Effort	<u>\$ 101,322</u>

**R. Restriction of Fund Balance and Restriction of Net Position**

The following table shows the Fund Balance Restricted as shown on the Governmental Funds Balance Sheet.

<u>Activity</u>	<u>Restricted by</u>	<u>Amount</u>
Retirement of Long-Term Debt	State Law	<u>\$ 13,305</u>
Total Restricted Fund Balance		<u>\$ 13,305</u>

The following table shows Net Position Restricted as shown in the Statement of Net Position:

<u>Activity</u>	<u>Restricted by</u>	<u>Amount</u>
Debt Service	State Law	<u>\$ 13,305</u>
Total Restricted Net Assets		<u>\$ 13,305</u>

**S. Assignment of Fund Balance**

The District has chosen to assign a portion of fund balance for future capital expenditures, future construction, and future recapture payments. As of August 31, 2016, the amount of fund balance assigned in the Governmental Funds included:

<u>Activity</u>	<u>Amount</u>
Capital Equipment	\$ 250,000
Construction	250,000
Recapture	<u>1,500,000</u>
Total Assigned Fund Balance	<u>\$2,000,000</u>

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

**T. Unavailable Revenue - Property Taxes**

Unavailable revenue for property taxes in the governmental funds at year end consisted of the following:

	<b>General Fund</b>	<b>Total</b>
Net Tax Revenue	\$ 190,849	\$ 190,849
Total Deferred Revenue	\$ 190,849	\$ 190,849

**U. School District Retiree Health Plan**

**1. Plan Description**

The 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](http://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.

**2. Funding Policy**

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2016, 2015, and 2014. The amounts contributed by the state on behalf of the District to the system for Medicare Part D for the years ending August 31, 2016, 2015, and 2014 were \$8,238, \$8,197, and \$4,987 respectively. For the years ended August 31, 2015, 2014, and 2013, the State's contributions (in thousands) to TRS-Care were \$1,049,199, \$303,695, and \$241,577, respectively, the active member contributions (in thousands) were \$202,976, \$193,125, and \$160,953, respectively, and the school district's contributions were \$10,757, \$10,337, and \$10,168, respectively, which equaled the required contributions each year.

**V. Deferred Inflows of Resources**

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

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

**W. Risk Management**

**Unemployment Compensation Pool**

During the year ended August 31, 2016, Klondike ISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2016, the Fund anticipates that Klondike ISD has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

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

**Property/ Liability Program**

During the year ended August 31, 2016, Klondike ISD participated in the TASB Risk Management Fund's (the Fund's) Property Program with coverage in (1) Auto Liability (2) Auto Physical Damage (3) General Liability (4) Legal Liability (5) Property. The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2016, the Fund anticipates Klondike ISD has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

**X. Subsequent Events**

The District has evaluated events occurring after August 31, 2016, and through November 10, 2016, that date on which financial statements were available to be issued, for additional evidence about conditions

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. There are no subsequent events that have not been previously mentioned.

**Y. Deferred Compensation Plan**

The District provides a deferred compensation plan for its employees in the form of both a 403(b) and/or a 457(b) type plan. The District matches employee contributions into the plan selected dollar for dollar up to 3% of eligible compensation. The employer contributions are subject to a 3 year cliff vesting schedule. Prior service with Klondike ISD counts toward years of service for vesting purposes. The deferred compensation plan is administered through Valic Financial.

**Z. Prior Period Adjustment**

During the previous fiscal year, the District recorded a prior period adjustment required to assume their proportionate share of the Net Pension Liability of TRS. In the current year, the District has recorded a prior period adjustment in the amount of \$123,891 for over estimated 2014/2015 FSP allotment.

**AA. Defined Benefit Pension Plan**

**Plan Description**

Klondike Independent School District 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). TRS's defined benefit pension plan is 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/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin TX 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2015 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2015.

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

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

**AA. Defined Benefit Pension Plan (continued)**

Net Position as percentage of Total Pension Liability 78.43%

**Benefits Provided**

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

**Contributions**

Contributions 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 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 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84<sup>th</sup> Texas Legislature, GAA established the employer contribution rates for fiscal years 2016 and 2017.

**Contribution Rates**

	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non- Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Klondike ISD 2016 Employer Contributions	\$ 49,162	
Klondike ISD 2016 Member Contributions	\$ 145,326	
Klondike ISD 2015 NECE On-Behalf Contributions	\$ 114,744	

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. The State contributes to the plan in accordance with state statutes and GAA.

As the non-employer contributing entity for public education, the State of Texas contributes to the

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

**AA. Defined Benefit Pension Plan (continued)**

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment
- When any part or all of an employee's salary is paid by federal funding source or a privately sponsored source.

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 instruction or administrative employees; and 100% of the state contribution rate for all other employees.

**Actuarial Assumptions**

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

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Salary Increases*	3.50% to 9.50%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.50%
* Includes Inflation of 3%	

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 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

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

**AA. Defined Benefit Pension Plan (continued)**

payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
<b>Global Equity</b>			
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%
<b>Stable Value</b>			
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%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resource	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation			2.2%
Alpha			<u>1.0%</u>
<b>Total</b>	<u>100%</u>		<u>8.7%</u>

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



**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

**AA. Defined Benefit Pension Plan (continued)**

**Discount Rate Sensitivity Analysis**

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

	<b>1% Decrease in Discount Rate (7.0%)</b>	<b>Discount Rate (8.0%)</b>	<b>1% Increase in Discount Rate (9.0%)</b>
Klondike ISD's proportionate share of the net position liability:	\$ 939,048	\$ 599,337	\$ 316,379

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At August 31, 2016, Klondike Independent School District reported a net pension liability of \$599,337 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Klondike Independent School District. The amount recognized by Klondike Independent School 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 Klondike Independent School District were as follows:

District's Proportionate Share of the Collective Net Pension Liability	\$ 599,337
State's Proportionate Share that is Associated with the District	<u>1,369,394</u>
Total	<u>\$1,968,731</u>

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

At August 31, 2015 the employer's proportion of the collective net pension liability was .0016955% which was an increase of .0009389% from its proportion measured as of August 31, 2014.

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

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective September 1, 2014. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

**AA. Defined Benefit Pension Plan (continued)**

For the year ended August 31, 2015, Klondike Independent School District recognized pension expense of \$195,117 and revenue of \$ 195,117 for support provided by the state.

At August 31, 2015, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between Expected and Actual Economic Experience	\$ 2,600	\$ 23,033
Changes in Actuarial Assumptions	10,926	21,382
Difference between Projected and Actual Investment Earnings	101,276	-
Changes in Proportion and Difference between the Employer's Contributions and the Proportionate Share of Contributions	214,541	165
Contributions Paid to TRS Subsequent to Measurement Date	<u>49,162</u>	<u>-</u>
Total as of Fiscal Year End	<u><u>\$ 378,505</u></u>	<u><u>\$ 44,580</u></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:

<u>Year Ended August 31</u>	<u>Pension Expense Amount</u>
2017	\$ 52,987
2018	52,987
2019	52,989
2020	68,429
2021	31,371
Thereafter	26,000

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

*Economic Assumptions*

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

*Mortality Assumptions*

- The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully

**KLONDIKE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2016**

**AA. Defined Benefit Pension Plan (continued)**

- generational approach and Scale BB.
- The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generated approach and Scale BB.

*Other Demographic Assumptions*

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

*Actuarial Methods and Policies*

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

**BB. Unearned Revenues**

During the year, they District received \$200,000 from its share of the Dawson County Permanent School Fund to help with the cost of a new water system being designed. Current year expenses on the system were \$44,298. The difference of \$155,702 was recorded as deferred revenue for future construction.

**CC. Other Receivables and Prepayments**

The District had other receivables in the amount of \$5,133 as of August 31, 2016. This amount was insurance recovery on a property loss incurred during the current year. In addition, the District prepaid its student insurance for the 2016/2017 school year before year end resulting in a prepayment of \$8,985.

***Required Supplementary Information***

**KLONDIKE INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 11,055,576	\$ 11,411,426	\$ 11,275,613	\$ (135,813)
5800 State Program Revenues	1,202,333	1,354,438	920,016	(434,422)
5900 Federal Program Revenues	184,880	184,880	119,649	(65,231)
5020 Total Revenues	12,442,789	12,950,744	12,315,278	(635,466)
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011 Instruction	1,701,097	1,746,097	1,606,408	139,689
0012 Instructional Resources and Media Services	22,636	22,636	15,029	7,607
0013 Curriculum and Instructional Staff Development	13,200	19,200	14,290	4,910
0023 School Leadership	144,943	149,943	145,879	4,064
0031 Guidance, Counseling and Evaluation Services	64,441	64,441	50,118	14,323
0033 Health Services	1,000	2,000	1,085	915
0034 Student (Pupil) Transportation	223,284	279,444	233,373	46,071
0035 Food Services	241,574	241,574	227,540	14,034
0036 Extracurricular Activities	292,610	292,610	290,165	2,445
0041 General Administration	397,042	397,042	396,197	845
0051 Facilities Maintenance and Operations	508,963	628,758	554,432	74,326
0052 Security and Monitoring Services	16,000	16,000	2,419	13,581
0053 Data Processing Services	266,250	266,250	231,372	34,878
<b>Capital Outlay:</b>				
0081 Facilities Acquisition and Construction	56,432	256,432	44,298	212,134
<b>Intergovernmental:</b>				
0091 Contracted Instructional Services Between Schools	8,347,533	8,427,533	8,460,153	(32,620)
0093 Payments to Fiscal Agent/Member Districts of SSA	45,784	45,784	45,784	-
0099 Other Intergovernmental Charges	100,000	100,000	89,390	10,610
6030 Total Expenditures	12,442,789	12,955,744	12,407,932	547,812
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(5,000)	(92,654)	(87,654)
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	118,338	118,338	110,112	(8,226)
8911 Transfers Out (Use)	(118,338)	(118,338)	(110,112)	8,226
7080 Total Other Financing Sources (Uses)	-	-	-	-
1200 Net Change in Fund Balances	-	(5,000)	(92,654)	(87,654)
0100 Fund Balance - September 1 (Beginning)	6,937,012	6,937,012	6,937,012	-
1300 Prior Period Adjustment(s)	-	-	123,891	123,891
3000 Fund Balance - August 31 (Ending)	\$ 6,937,012	\$ 6,932,012	\$ 6,968,249	\$ 36,237

KLONDIKE INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 TEACHER RETIREMENT SYSTEM  
 FOR THE YEAR ENDED AUGUST 31, 2016

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.0016955%	0.0007566%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 599,337	\$ 202,098
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	<u>1,369,394</u>	<u>1,158,807</u>
Total	<u>\$ 1,968,731</u>	<u>\$ 1,360,905</u>
District's Covered Employee Payroll	\$ 2,025,951	\$ 1,879,469
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Employee Payroll	29.58%	10.75%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	78.43%	83.25%

Note: Only two 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."

KLONDIKE INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT CONTRIBUTIONS  
 TEACHER RETIREMENT SYSTEM  
 FOR FISCAL YEAR 2016

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 49,162	\$ 50,225
Contribution in Relation to the Contractually Required Contribution	<u>(49,162)</u>	<u>(50,225)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered Employee Payroll	\$ 2,018,441	\$ 2,025,951
Contributions as a percentage of Covered Employee Payroll	2.44%	2.48%

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2014 - August 31, 2015.

Note: Only two 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."

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

**Changes to benefit terms**

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

**Changes of assumptions**

Changes to the actuarial assumptions or other inputs that affected the measurement of the total pension liability since the prior measurement period are reflected in Note AA of the Notes to the Financial Statements beginning on page 37.



***Other Supplementary Information***

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

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2007 and prior years	Various	Various	\$ Various
2008	1.040000	0.000000	377,802,390
2009	1.040000	0.223100	450,275,910
2010	1.040000	0.223200	471,432,630
2011	1.040000	0.208300	622,425,580
2012	1.040000	0.131300	722,235,260
2013	1.040000	0.085100	1,150,773,340
2014	1.040000	0.083700	1,243,825,381
2015	1.040000	0.076631	1,348,527,411
2016 (School year under audit)	1.040000	0.095295	1,083,370,323
1000 TOTALS			

(10) Beginning Balance 9/1/2015	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2016
\$ 24,434	\$ -	\$ 725	\$ -	\$ (1,866)	\$ 21,843
1,760	-	301	-	(17)	1,442
2,559	-	254	133	(21)	2,151
3,148	-	38	18	(20)	3,072
4,912	-	113	28	(20)	4,751
7,621	-	987	198	(20)	6,416
20,962	-	2,936	356	(19)	17,651
26,109	-	4,951	533	(223)	20,402
191,124	-	78,549	7,332	(18)	105,225
-	12,029,467	10,935,246	1,004,532	-	89,689
<u>\$ 282,629</u>	<u>\$ 12,029,467</u>	<u>\$ 11,024,100</u>	<u>\$ 1,013,130</u>	<u>\$ (2,224)</u>	<u>\$ 272,642</u>

**KLONDIKE INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - DEBT SERVICE FUND**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 1,024,075	\$ 1,024,075	\$ 1,013,625	\$ (10,450)
5800 State Program Revenues	-	-	1,043	1,043
5020 Total Revenues	<u>1,024,075</u>	<u>1,024,075</u>	<u>1,014,668</u>	<u>(9,407)</u>
<b>EXPENDITURES:</b>				
<b>Debt Service:</b>				
0071 Principal on Long Term Debt	845,000	845,000	845,000	-
0072 Interest on Long Term Debt	177,075	177,075	177,075	-
0073 Bond Issuance Cost and Fees	2,000	2,000	1,200	800
6030 Total Expenditures	<u>1,024,075</u>	<u>1,024,075</u>	<u>1,023,275</u>	<u>800</u>
1200 Net Change in Fund Balances	-	-	(8,607)	(8,607)
0100 Fund Balance - September 1 (Beginning)	<u>21,912</u>	<u>21,912</u>	<u>21,912</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 21,912</u>	<u>\$ 21,912</u>	<u>\$ 13,305</u>	<u>\$ (8,607)</u>

***Overall Compliance and Internal  
Controls Section***

# STEPHENS, STEPHENS, & TELCHIK, P.C.

*Certified Public Accountants*

MEMBER AICPA  
MEMBER TSCPA

P.O. Box 500 - 212 So. Houston Ave.  
LAMESA, TEXAS 79331-0500  
Phone: 806-872-3030  
Fax: 806-872-5735

S.E. STEPHENS, CPA  
RAY A. STEPHENS, CPA  
KEVIN TELCHIK, CPA

November 10, 2016

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

Board of Trustees  
Klondike Independent School District  
Lamesa, TX

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Klondike Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise Klondike Independent School District's basic financial statements and have issued our report thereon dated November 10, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Klondike Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Klondike Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Klondike Independent School District's internal control over financial reporting.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Klondike 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Stephens, Stephens, & Telchik, P.C.  
Lamesa, Texas

**KLONDIKE INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED AUGUST 31, 2016**

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditors' report expresses an unmodified opinion on the financial statements of Dawson Independent School District.
2. No significant deficiency or material weakness was disclosed during the audit of the financial statements that are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*.
3. Instances of noncompliance required to be reported in accordance with *Governmental Auditing Standards* were not material to the financial statements of Dawson Independent School District.

**FINDINGS-FINANCIAL STATEMENT AUDIT**

**Noncompliance**

**2016-1 Over expenditure of budget line**

Condition: Over expenditure of a function within the approved budget.

Criteria- As reflected on Exhibit G-1, the expenditure for Function 91- Contracted Instructional Services Between Schools was in excess of the budgeted amount.

Effect- Due to additional recapture amounts found to be owed by the District after the year end closing and during the audit process, the District expended funds that were not appropriated.

Recommendation: Budget amendments should be made before year end to assure that all expenditures are appropriated for.

**STATUS OF PRIOR YEAR'S FINDINGS/COMPLIANCE**

There were no prior year findings.

**CORRECTIVE ACTION PLAN**

The person responsible for corrective action is Steve McLaren, Superintendent. Budget amendments will be made in the future to prevent expending funds that have not been appropriated for.



**SCHOOLS FIRST QUESTIONNAIRE**

**Klondike Independent School District**

**Fiscal Year 2016**

<b>SF2</b>	<b>Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?</b>	<b>No</b>
<b>SF4</b>	<b>Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?</b>	<b>Yes</b>
<b>SF5</b>	<b>Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?</b>	<b>No</b>
<b>SF6</b>	<b>Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?</b>	<b>No</b>
<b>SF7</b>	<b>Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?</b>	<b>Yes</b>
<b>SF8</b>	<b>Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?</b>	<b>Yes</b>
<b>SF10</b>	<b>Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.</b>	<b>-0-</b>
<b>SF11</b>	<b>Net Pension Assets (1920) at fiscal year-end.</b>	<b>-0-</b>
<b>SF12</b>	<b>Net Pension Liabilities (2540) at fiscal year-end.</b>	<b>\$ 599,377</b>
<b>SF13</b>	<b>Pension Expense (6147) at fiscal year-end.</b>	<b>\$ 67,979</b>