

**KILGORE
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2011

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Kilgore Independent School District
Annual Financial Report
For The Year Ended August 31, 2011

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CERTIFICATE OF BOARD

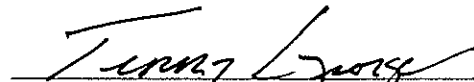
Kilgore Independent School District
Name of School District

Gregg
County

092-902
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, 2011, at a meeting of the Board of Trustees of such school district on the 14th day of November, 2011.


Signature of Board Secretary


Signature of Board President

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

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Financial Section

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BROWN, BRONSTAD, HABENICHT & ROSSON, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
P. O. BOX 1790
KILGORE, TEXAS 75663-1790

SHAREHOLDER:
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Independent Auditors' Report on Financial Statements

Board of Trustees
Kilgore Independent School District
Kilgore, Texas

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kilgore Independent School District as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kilgore Independent School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kilgore Independent School District as of August 31, 2011, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011, on our consideration of Kilgore Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kilgore Independent School District's financial statements as a whole. The individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the financial statements. The individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


BROWN, BRONSTAD, HABENICHT & ROSSON, PC

October 31, 2011

Kilgore Independent School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Kilgore Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2011. Please read it in conjunction with the independent auditors' report on page 6, and the District's Basic Financial Statements which begin on page 17.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 17 and 18). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 19) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers, and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements (starting on page 27) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 17. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the District's assets and liabilities at the end of the year while the Statement of Activities includes all of the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting, which is the basis used by private sector companies.

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

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

In the Statement of Net Assets and the Statement of Activities, we combine the District into one kind of activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 19 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds – governmental and fiduciary – use different accounting approaches:

- Governmental funds—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Kilgore Independent School District's own programs. The District includes the Student Activity Funds on the Fiduciary financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 26. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net assets of the District's governmental activities increased from \$29,662,598 to \$32,302,902. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$12,119,029 at August 31, 2011.

Table I
Kilgore Independent School District
NET ASSETS

	Governmental Activities 2011	Governmental Activities 2010
Current and other assets	14,930,104	12,646,063
Capital assets	26,919,264	27,245,546
Total assets	41,849,368	39,891,609
Long-term liabilities	7,278,142	8,286,544
Other liabilities	2,268,324	1,942,467
Total liabilities	9,546,466	10,229,011
Net Assets:		
Invested in capital assets, net of related debt	18,656,122	18,190,546
Restricted	1,527,751	883,284
Unrestricted	12,119,029	10,588,768
Total net assets	32,302,902	29,662,598

Table II
Kilgore Independent School District
CHANGES IN NET ASSETS

	Governmental Activities 2011	Governmental Activities 2010
Revenues:		
Program Revenues:		
Charges for Services	613,068	860,493
Operating grants and contributions	6,416,532	6,792,301
General Revenues:		
Maintenance and debt service taxes	18,263,022	18,793,409
State aid – formula grants	8,508,479	6,973,159
Investment Earnings	209,796	77,512
Miscellaneous	779,181	632,662
Total Revenue	34,790,078	34,129,536
Expenses:		
Instruction, curriculum and media services	19,452,598	19,772,429
Instructional and school leadership	2,192,682	2,240,551
Student support services	2,523,039	2,381,152
Child nutrition	1,686,191	1,662,560
Co-curricular activities	1,297,866	1,359,421
General administration	1,094,290	1,146,207
Plant maintenance, security & data processing	3,237,730	3,242,208
Community Services	30,886	2,747
Debt services	369,114	406,021
Other intergovernmental charges	265,378	239,899
Total Expenses	32,149,774	32,453,195
Increase in net assets before transfers and special items	2,640,304	1,676,341
Net assets, beginning	29,662,598	27,986,257
Net assets, ending	32,302,902	29,662,598

The District did not have any significant increases or decreases to revenue or expenditures.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 20) reported a combined fund balance of \$12,297,130, which is an increase of \$2,024,896. Included in this year's total change in fund balance is an increase of \$1,805,196 in the District's General Fund.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments were not significant.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the District had \$26,919,264, net of depreciation, invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net decrease of \$326,283 from last year.

Debt

At year-end, the District had \$8,105,000 in general obligation bonds payable. More detailed information about the District's long-term liabilities is presented in Note F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered the following factors when setting the fiscal year 2012 budget and tax rates:

- The District's appraised value for the 2012 year increased \$24,406,324 or 1.45% over 2011 values.
- This value increase continues a trend of increases since 1997 in which the local values have only decreased one time (2010 to 2011).
- Federal, State and Local revenue combined for general fund expenditures for 2011 – 2012 are currently projected to decrease slightly from prior years. The past legislative session applied a regular program adjustment factor (RPAF), for both 2011-2012 and 2012-2013, to the normal state aide calculation effectively lowering revenue the District would be entitled to in each year.
- The District's overall general fund revenue is still being controlled by the target revenue system implemented by HB 1. The system created a revenue per student system made up of both local and state sources. It appears, at the current time, that districts across the state will challenge this system in federal courts beginning sometime this coming year.
- Education Jobs Funds, a grant under the federal stimulus program, in the amount of \$638,296 will be used to supplant the general fund state target revenue projection in 2012. If comparing general fund operations over the period 2009 thru 2012, these federal funds must be taken into consideration along with State Fiscal Stabilization Funds in both the 2010 and 2011 years to achieve an accurate comparison.
- General operating fund spending per student is expected to decrease slightly from the 2011 budget, due to the same RPAF noted above. The District was still able to continue

employee salary increases by efficiencies in total personnel units, reducing total staff by 28 from 2011, and other non-payroll expenses throughout the District. The Kilgore Independent School District Board of Trustees, administrators, and its entire staff focused heavily on making low-impact cost reductions in the wake of reports coming from the State Legislature early in this past session. These efforts have us further prepared for additional revenue reductions estimated for the 2013 budget. Reductions made to the expenditure budget leave us with \$650,000 in excess contingency, for which there is no planned need.

- The District's Average Daily Attendance is expected to remain steady, at 3,572, the same level as 2011. The District's Average Daily Attendance increased from 2010 to 2011 by 77 students.
- Kilgore Independent School District is designated as a Chapter 41 District, although no recapture will be paid at our current wealth per student. Barring any changes to current state law or extraordinarily large increases to our local property values, no recapture is foreseen in the next few years.
- Kilgore Independent School District, on May 14, 2011, passed a fifty-five million dollar bond issue for building two new campuses, Pre-K through first grade and sixth through eighth grade; and renovations and small additions to both the Intermediate School and Chandler Elementary campuses. Planning for this construction is currently underway, with construction estimated to be completed in the summer of 2013. The debt service tax rate for 2012 has increased by twenty cents (\$0.20) to \$0.2692, which is expected to be the maximum rate needed over the life of these bonds to cover servicing the debt.
- The District issued the first of three planned installments of these bonds on September 1, 2011, issuing \$40,605,000 of Unlimited Tax School Building Bonds. Proceeds from this first issue were received by the District September 27, 2011. The District plans to issue the second installment, \$4,250,000 of Qualified School Construction Bonds in January 2012, followed by the third and last installment of bonds \$10,145,000 of Unlimited Tax School Building Bonds in September 2012.
- These indicators were taken into account when adopting the general fund budget for 2012. The maintenance and operations tax rate will remain unchanged at \$1.04, the maximum rate allowable by state law without taxpayer approval. General Fund Revenue is currently being controlled by what is known as target revenue, put in place by HB3646 from the 2009 legislature. There are only two ways in which Kilgore Independent School District can generate additional revenue: 1) additional students in average daily attendance and 2) receive voter approval for a tax rate above \$1.04. The overall Kilgore economy is hard to gauge at this point in time. Similar to the state and national economies, Kilgore has seen a slow down, even with the benefits of the local oil and gas industry. However, sales tax revenues generated by the City of Kilgore have been trending upward over the past few months. As a result of the uncertainty of our national, state, and local economy, we continue to remain conservative in our budgeting strategies and strive for efficiency in every aspect of our operations.

Amounts available for appropriation in the general fund are \$26,747,629, an increase of 4.65% over the final actual expenditure of \$25,557,938. It should be noted, Kilgore ISD imposed a spending freeze in January 2011 for the 2010-2011 year because of the worst-case scenario news

reports coming from Austin and the 2011 legislative session, causing expenditures for the year to be reduced significantly from original budgeted projections. Kilgore Independent School District was able to continue pay increases with normal teacher step salary increases and two percent for all other groups, except for administration. The cost of these increases was paid for with savings from more efficient operations in both payroll and non-payroll expenditures as mentioned above.

The 2011-2012 original budget, taking into account the indicators above, was adopted as a balanced budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at Kilgore Independent School District, 301 N. Kilgore Street, Kilgore, Texas 75662.

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Basic Financial Statements

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2011

1

Data Control Codes		Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 9,550,709
1120	Current Investments	1,822,189
1225	Property Taxes Receivable (Net)	1,241,048
1240	Due from Other Governments	1,879,587
1290	Other Receivables (Net)	206,742
1300	Inventories	58,789
1420	Capitalized Bond and Other Debt Issuance Costs	140,502
Capital Assets:		
1510	Land	1,309,401
1520	Buildings and Improvements, Net	19,570,627
1530	Furniture and Equipment, Net	5,326,307
1580	Construction in Progress	712,929
1800	Restricted Assets	30,538
1000	Total Assets	<u>41,849,368</u>
LIABILITIES:		
2110	Accounts Payable	309,531
2165	Accrued Liabilities	892,601
2300	Unearned Revenue	49,292
Noncurrent Liabilities:		
2501	Due Within One Year	1,016,900
2502	Due in More Than One Year	7,278,142
2000	Total Liabilities	<u>9,546,466</u>
NET ASSETS:		
3200	Invested in Capital Assets, Net of Related Debt	18,656,122
Restricted For:		
3820	State and Federal Programs	970,295
3850	Debt Service	526,918
	Scholarships	
3880	Expendable	538
3880	Nonexpendable	30,000
3900	Unrestricted	12,119,029
3000	Total Net Assets	<u>\$ 32,302,902</u>

The accompanying notes are an integral part of this statement.

BROWN, BRONSTAD, HABENICHT & ROSSON, P.C. - CERTIFIED PUBLIC ACCOUNTANTS

KILGORE INDEPENDENT SCHOOL DISTRICT**STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Assets
		Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 18,406,564	\$ 2,850	\$ 2,892,099	\$ (15,511,615)
12	Instructional Resources and Media Services	485,432	--	21,679	(463,753)
13	Curriculum and Staff Development	560,602	--	100,146	(460,456)
21	Instructional Leadership	349,646	--	28,926	(320,720)
23	School Leadership	1,843,036	--	95,963	(1,747,073)
31	Guidance, Counseling, & Evaluation Services	915,421	--	230,890	(684,531)
33	Health Services	326,316	--	514,490	188,174
34	Student Transportation	1,281,302	--	147,676	(1,133,626)
35	Food Service	1,686,191	610,218	1,298,106	222,133
36	Co-curricular/Extracurricular Activities	1,297,866	--	143,953	(1,153,913)
41	General Administration	1,094,290	--	49,429	(1,044,861)
51	Plant Maintenance and Operations	2,840,669	--	750,406	(2,090,263)
52	Security and Monitoring Services	161,183	--	115,571	(45,612)
53	Data Processing Services	235,878	--	10,970	(224,908)
61	Community Services	30,886	--	3,726	(27,160)
72	Interest on Long-term Debt	345,291	--	--	(345,291)
73	Bond Issuance Costs and Fees	23,823	--	--	(23,823)
99	Other Intergovernmental Charges	265,378	--	12,502	(252,876)
TG	Total Governmental Activities	<u>32,149,774</u>	<u>613,068</u>	<u>6,416,532</u>	<u>(25,120,174)</u>
TP	Total Primary Government	<u>\$ 32,149,774</u>	<u>\$ 613,068</u>	<u>\$ 6,416,532</u>	<u>(25,120,174)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				17,118,842
DT	Property Taxes, Levied for Debt Service				1,144,180
IE	Investment Earnings				209,796
SF	State Aid Formula Grants				8,508,479
MI	Miscellaneous				779,181
TR	Total General Revenues				<u>27,760,478</u>
CN	Change in Net Assets				2,640,304
NB	Net Assets - Beginning				29,662,598
NE	Net Assets - Ending				<u>\$ 32,302,902</u>

The accompanying notes are an integral part of this statement.

BROWN, BRONSTAD, HABENICHT & ROSSON, P.C. - CERTIFIED PUBLIC ACCOUNTANTS

KILGORE INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2011

Data Control Codes	10 General Fund	50 Debt Service Fund
ASSETS:		
1110 Cash and Cash Equivalents	\$ 7,598,428	\$ 829,239
1120 Current Investments	1,822,189	--
1225 Taxes Receivable, Net	1,156,762	84,286
1240 Due from Other Governments	1,486,193	--
1260 Due from Other Funds	388,492	--
1290 Other Receivables	204,776	1,884
1300 Inventories	--	--
1800 Restricted Assets	--	--
1000 Total Assets	<u>\$ 12,656,840</u>	<u>\$ 915,409</u>
LIABILITIES:		
Current Liabilities:		
2110 Accounts Payable	\$ 3,545	\$ --
2160 Accrued Wages Payable	739,537	--
2170 Due to Other Funds	72,071	388,491
2300 Unearned Revenue	1,156,762	84,286
2000 Total Liabilities	<u>1,971,915</u>	<u>472,777</u>
FUND BALANCES:		
Nonspendable Fund Balances:		
3410 Inventories	--	--
3425 Endowment Principal	--	--
Restricted Fund Balances:		
3450 Federal/State Funds Grant Restrictions	--	--
3480 Retirement of Long-Term Debt	--	442,632
3490 Other Restrictions of Fund Balance	975	--
Committed Fund Balances:		
3545 Other Committed Fund Balance	--	--
Assigned Fund Balances:		
3550 Construction	3,000,000	--
3570 Capital Expenditures for Equipment	2,000,000	--
3600 Unassigned	5,683,950	--
3000 Total Fund Balances	<u>10,684,925</u>	<u>442,632</u>
4000 Total Liabilities and Fund Balances	<u>\$ 12,656,840</u>	<u>\$ 915,409</u>

The accompanying notes are an integral part of this statement.

BROWN, BRONSTAD, HABENICHT & ROSSON, P.C. - CERTIFIED PUBLIC ACCOUNTANTS

60 Capital Projects	Other Governmental Funds	98 Total Governmental Funds
\$ 305,779	\$ 817,263	\$ 9,550,709
--	--	1,822,189
--	--	1,241,048
--	393,394	1,879,587
--	72,070	460,562
--	82	206,742
--	58,789	58,789
--	30,538	30,538
<u>\$ 305,779</u>	<u>\$ 1,372,136</u>	<u>\$ 15,250,164</u>
 \$ 305,779	 \$ 207	 \$ 309,531
--	153,064	892,601
--	--	460,562
--	49,292	1,290,340
<u>305,779</u>	<u>202,563</u>	<u>2,953,034</u>
 --	 58,789	 58,789
--	30,000	30,000
--	911,506	911,506
--	--	442,632
--	538	1,513
--	168,740	168,740
--	--	3,000,000
--	--	2,000,000
--	--	5,683,950
<u>--</u>	<u>1,169,573</u>	<u>12,297,130</u>
<u>\$ 305,779</u>	<u>\$ 1,372,136</u>	<u>\$ 15,250,164</u>

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KILGORE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
AUGUST 31, 2011

Total fund balances - governmental funds balance sheet	\$ 12,297,130
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	26,919,264
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,241,048
Payables for bond principal which are not due in the current period are not reported in the funds.	(8,105,000)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(31,900)
Bond issue costs are capitalized in the Statement of Net Assets.	140,502
Unamortized bond premium is reported as a liability in the Statement of Net Assets.	<u>(158,142)</u>
Net assets of governmental activities - Statement of Net Assets	<u>\$ 32,302,902</u>

The accompanying notes are an integral part of this statement.

BROWN, BRONSTAD, HABENICHT & ROSSON, P.C. - CERTIFIED PUBLIC ACCOUNTANTS

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes		10 General Fund	50 Debt Service Fund
REVENUES:			
5700	Local and Intermediate Sources	\$ 18,123,756	\$ 1,168,663
5800	State Program Revenues	9,459,054	—
5900	Federal Program Revenues	493,253	—
5020	Total Revenues	<u>28,076,063</u>	<u>1,168,663</u>
EXPENDITURES:			
Current:			
0011	Instruction	15,555,263	--
0012	Instructional Resources and Media Services	460,172	--
0013	Curriculum and Staff Development	413,225	—
0021	Instructional Leadership	323,895	--
0023	School Leadership	1,742,011	--
0031	Guidance, Counseling, & Evaluation Services	678,138	—
0033	Health Services	314,093	—
0034	Student Transportation	1,138,866	—
0035	Food Service	15,590	--
0036	Co-curricular/Extracurricular Activities	1,093,319	--
0041	General Administration	1,049,228	--
0051	Plant Maintenance and Operations	2,206,738	—
0052	Security and Monitoring Services	27,848	—
0053	Data Processing Services	232,856	--
0061	Community Services	22,400	—
0071	Principal on Long-Term Debt	--	950,000
0072	Interest on Long-Term Debt	—	345,291
0073	Bond Issuance Costs and Fees	--	3,456
0081	Capital Outlay	--	--
0099	Other Intergovernmental Charges	265,378	—
6030	Total Expenditures	<u>25,539,020</u>	<u>1,298,747</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,537,043</u>	<u>(130,084)</u>
Other Financing Sources and (Uses):			
7915	Transfers In	—	--
8911	Transfers Out	(712,929)	--
8949	Other Uses	(18,918)	--
7080	Total Other Financing Sources and (Uses)	<u>(731,847)</u>	<u>--</u>
1200	Net Change in Fund Balances	1,805,196	(130,084)
0100	Fund Balances - Beginning	8,879,729	572,716
3000	Fund Balances - Ending	<u>\$ 10,684,925</u>	<u>\$ 442,632</u>

The accompanying notes are an integral part of this statement.

60 Capital Projects	Other Governmental Funds	98 Total Governmental Funds
\$ --	\$ 815,967	\$ 20,108,386
--	515,033	9,974,087
--	4,249,340	4,742,593
--	5,580,340	34,825,066
--	2,238,938	17,794,201
--	683	460,855
--	141,594	554,819
--	14,185	338,080
--	44,642	1,786,653
--	199,695	877,833
--	6,440	320,533
--	101,422	1,240,288
--	1,606,744	1,622,334
--	94,058	1,187,377
--	--	1,049,228
--	653,863	2,860,601
--	115,000	142,848
--	--	232,856
--	8,486	30,886
--	--	950,000
--	--	345,291
--	--	3,456
712,929	--	712,929
--	--	265,378
712,929	5,225,750	32,776,446
(712,929)	354,590	2,048,620
712,929	--	712,929
--	(4,806)	(717,735)
--	--	(18,918)
712,929	(4,806)	(23,724)
--	349,784	2,024,896
--	819,789	10,272,234
\$ --	\$ 1,169,573	\$ 12,297,130

KILGORE INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011

Net change in fund balances - total governmental funds	\$ 2,024,896
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,092,050
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,418,333)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(34,666)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	950,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(20,367)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	23,322
Bond premiums are reported in the funds but not in the SOA.	<u>23,402</u>
Change in net assets of governmental activities - Statement of Activities	\$ <u><u>2,640,304</u></u>

The accompanying notes are an integral part of this statement.

BROWN, BRONSTAD, HABENICHT & ROSSON, P.C. - CERTIFIED PUBLIC ACCOUNTANTS

KILGORE INDEPENDENT SCHOOL DISTRICT**STATEMENT OF FIDUCIARY NET ASSETS****FIDUCIARY FUNDS****AUGUST 31, 2011**

<u>Data Control Codes</u>		<u>Agency Fund</u>
		<u>Student Activity</u>
ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 114,785
1000	Total Assets	<u>114,785</u>
LIABILITIES:		
Current Liabilities:		
2190	<i>Due to Student Groups</i>	<u>114,785</u>
2000	Total Liabilities	<u>114,785</u>
NET ASSETS		
3000	Total Net Assets	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR-ENDED AUGUST 31, 2011

A. Summary of Significant Accounting Policies

The basic financial statements of Kilgore 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 (the "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," as revised by GASB Statement No. 39, and there are no component units included within the reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-Wide Financial Statements: The statement of net assets 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.

The District reports the following major governmental funds:

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:

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.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED AUGUST 31, 2011

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 and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They 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, claims and judgments, and compensated absences, 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.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. 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 receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due, and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds 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.

b. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR-ENDED AUGUST 31, 2011

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>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

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.

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 benefiting 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, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the Government-Wide Statement of Net Assets.

f. Use of Estimates

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

g. 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.

h. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

The District adopted GASB 54, Fund Balance Reporting and Government Fund Type Definitions. This does not affect the calculation of fund balance, but alters the various components used to report it.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED AUGUST 31, 2011

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

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 Assets 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

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED AUGUST 31, 2011

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.

1. Cash Deposits:

At August 31, 2011, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$9,661,784 and the bank balance was \$9,955,434. The District's cash deposits at August 31, 2011, and during the year ended August 31, 2011, were not entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

The District's cash deposits can be tied to the exhibits as follows:

Exhibit C-1 - Cash and Cash Equivalents	\$ 9,550,709
Exhibit E-1 - Cash and Cash Equivalents	114,785
	<hr/> 9,665,494
Less Petty Cash	(3,710)
Total Deposits	<hr/> <u>\$ 9,661,784</u>

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

- a. Depository: Citizens Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$14,171,764.
- c. The highest combined balances of cash, savings and time deposit accounts amounted to \$16,579,758 and occurred during the month of February 2011.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$275,716.

2. Investments:

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

The Public Funds Investment Act (the "Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements, disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED AUGUST 31, 2011

The District's investments at August 31, 2011 are shown below:

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Texas CLASS	N/A	\$ 255,055
Texpool	N/A	94,357
TexStar	N/A	504
Lone Star Investment Pool	N/A	1,502,811
Total Investments		<u>\$ 1,852,727</u>

The District's investments can be tied to the exhibits as follows:

Exhibit C-1 - Current Investments	\$ 1,822,189
Exhibit C-1 - Restricted Assets	30,538
Total Investments	<u>\$ 1,852,727</u>

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year-end, and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year-end, the District was not significantly exposed to credit risk.

At August 31, 2011, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

Texas CLASS	AAAm
Texpool	AAAm
TexStar	AAAm
Lone Star Investment Pool	AAAm

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year-end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the District was not exposed to interest rate risk.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR-ENDED AUGUST 31, 2011

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one-half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

D. Capital Assets

Capital asset activity for the year ended August 31, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,309,401	\$ —	\$ —	\$ 1,309,401
Construction in progress	—	712,929	—	712,929
Total capital assets not being depreciated	1,309,401	712,929	—	2,022,330
<i>Capital assets being depreciated:</i>				
Buildings and improvements	37,857,850	—	—	37,857,850
Equipment	9,409,442	133,410	—	9,542,852
Vehicles	2,868,029	245,711	—	3,113,740
Total capital assets being depreciated	50,135,321	379,121	—	50,514,442
Less accumulated depreciation for:				
Buildings and improvements	(17,608,202)	(679,021)	—	(18,287,223)
Equipment	(4,418,165)	(502,620)	—	(4,920,785)
Vehicles	(2,172,808)	(236,692)	—	(2,409,500)
Total accumulated depreciation	(24,199,175)	(1,418,333)	—	(25,617,508)
Total capital assets being depreciated, net	25,936,146	(1,039,212)	—	24,896,934
Governmental activities capital assets, net	\$ 27,245,547	\$ (326,283)	\$ —	\$ 26,919,264

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED AUGUST 31, 2011

Depreciation was charged to functions as follows:

Instruction	\$	676,337
Instructional Resources and Media Services		24,577
Curriculum and Staff Development		5,783
Instructional Leadership		11,566
School Leadership		56,383
Guidance, Counseling, & Evaluation Services		37,588
Health Services		5,783
Student Transportation		286,725
Food Services		88,557
Extracurricular Activities		110,489
General Administration		45,062
Plant Maintenance and Operations		48,126
Security and Monitoring Services		18,335
Data Processing Services		3,022
	\$	<u>1,418,333</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2011, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Interest and Sinking	\$ 388,492	Debt payments
Other Governmental Funds	General Fund	72,070	For transfer of federal receipts
	Total	<u>\$ 460,562</u>	

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2011, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Capital Projects	\$ 712,929	Short-term transfer to cover pre-bond issuance expenses

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2011, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 9,055,000	\$ --	\$ 950,000	\$ 8,105,000	\$ 985,000
Unamortized bond premium	181,544	--	23,402	158,142	--
Compensated absences *	55,222	25,466	48,788	31,900	31,900
Total governmental activities	<u>\$ 9,291,766</u>	<u>\$ 25,466</u>	<u>\$ 1,022,190</u>	<u>\$ 8,295,042</u>	<u>\$ 1,016,900</u>

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General Fund

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED AUGUST 31, 2011

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2011, are as follows:

Year ending August 31,	Governmental Activities		
	Principal	Interest	Total
2012	\$ 985,000	\$ 310,286	\$ 1,295,286
2013	1,020,000	274,461	1,294,461
2014	1,065,000	236,941	1,301,941
2015	1,110,000	196,965	1,306,965
2016	1,150,000	154,603	1,304,603
2017-2021	2,775,000	168,387	2,943,387
Totals	<u>\$ 8,105,000</u>	<u>\$ 1,341,643</u>	<u>\$ 9,446,643</u>

Interest rates on bonds range from 2.5% to 5.5%.

G. Risk Management

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 2011, 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.

H. Pension Plan

1. Plan Description

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

2. Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2011, 2010, and 2009, and a state contribution rate of 6.644% for fiscal years 2011-2010 and 6.58% for fiscal year 2009. In certain instances the reporting district is required to make all or a portion of the state's 6.644% contribution, limited to 6.4% for the period of September through December 2009 and increased to 6.644% for the period of January 2010 through August 2011. State contributions to TRS made on behalf of the District's employees for the years ending August 31, 2011, 2010 and 2009 were \$1,247,261, \$1,241,367 and \$1,192,409, respectively. The District paid additional state contributions for the years ending August 31, 2011,

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED AUGUST 31, 2011

2010 and 2009 in the amount of \$125,202, \$112,014 and \$123,050, respectively, on the portion of the employees' salaries that exceeded the statutory minimum. The amount contributed by the State on behalf of the District was \$1,288,724 for the year ended August 31, 2011.

I. Retiree Health Care 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 postemployment health care plan administered by the Teacher Retirement System of Texas (TRS). 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 under the TRS Publications heading, by writing to the 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 2011, 2010 and 2009. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2011, 2010, and 2009, the State's contributions to TRS-Care were \$194,885, \$193,964, and \$186,314, respectively, the active member contributions were \$126,675, \$126,076, and \$121,104, respectively, and the District's contributions were \$107,187, \$106,680, and \$102,473, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2011, 2010, and 2009, the subsidy payments received by TRS-Care on behalf of the District were \$51,736, \$49,088, and \$42,527, respectively.

J. Employee Health Care Coverage

During the year ended August 31, 2011, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$150 per month, per employee 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, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Plan have been filed with the Texas State Board of Insurance in Austin, Texas, and are public record.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR-ENDED AUGUST 31, 2011

K. 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 the 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, 2011.

L. Subsequent Events

The District issued \$40,605,000 of Unlimited Tax School Building Bonds pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 45, Texas Education Code, as amended. Proceeds from the sale of the bonds will be used for the purpose of (1) constructing, renovating and equipping school facilities, and the purchase of necessary sites for school facilities, and (2) paying the costs of issuing the Bonds. The closing date for the sale of the bonds was September 27, 2011.

M. Risk Pool

During the year ended August 31, 2011, Kilgore 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 obligations to the Texas Workforce Commission. Expenses are accrued each month 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 Unemployment Compensation pool members.

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 approved by the Fund's Board of Trustees in February the following year. The Fund's audited financial statements as of August 31, 2010, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

During the year-ended August 31, 2011, Kilgore ISD participated in the TASB Risk Management Fund's (the "Fund's") Liability Program and the Property Program with coverage in:

Auto Physical Damage	Auto Liability
Crime	General Liability
Equipment Breakdown	Sexual Misconduct Endorsement
Property	SP Legal Liability

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.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED AUGUST 31, 2011

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Liability Program and 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, 2011, the Fund anticipates Kilgore 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 approved by the Fund's Board of Trustees in February, the following year. The Fund's audited financial statements as of August 31, 2010, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

N. Restricted Assets

The District has classified as restricted certain current investments that are not available for use in its operations. At August 31, 2011, the District had \$30,538 in current investments that is restricted for scholarship funds.

O. Delinquent Taxes Receivable

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

At August 31, 2011, the components of delinquent taxes receivable are as follows:

	General Fund	Debt Service Fund	Total
Delinquent taxes	\$ 1,648,433	\$ 125,976	\$ 1,774,409
Allowance	(491,671)	(41,690)	(533,361)
Totals	<u>\$ 1,156,762</u>	<u>\$ 84,286</u>	<u>\$ 1,241,048</u>

P. Due From Other Governments

The District participated in a variety of federal and state programs from which it received grants to partially or fully finance certain activities. The District also receives entitlements from the State through the School Foundation and Per Capita Programs. In addition, the District receives a refund of taxes paid on gasoline or diesel fuel. Amounts due from federal and state governments as of August 31, 2011, are summarized below:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
State Revenue	\$ 1,463,175	\$ 49,030	\$ --	\$ 1,512,205
Federal Revenue	--	343,836	--	343,836
Other	23,018	528	--	23,546
Totals	<u>\$ 1,486,193</u>	<u>\$ 393,394</u>	<u>\$ --</u>	<u>\$ 1,879,587</u>

Q. Other Receivables

Other receivables as of August 31, 2011 consisted primarily of taxes collected by the tax office, but not yet deposited to the District's bank, SHARS cost settlement, and money owed the District for use of the stadium as follows:

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR-ENDED AUGUST 31, 2011

	General Fund	Debt Service Fund	Other Funds	Total
Ad Valorem Taxes	\$ 26,962	\$ 1,884	\$ --	\$ 28,846
SHARS Cost Settlement	137,709	--	--	137,709
Stadium	36,761	--	--	36,761
Other	3,344	--	82	3,426
Totals	<u>\$ 204,776</u>	<u>\$ 1,884</u>	<u>\$ 82</u>	<u>\$ 206,742</u>

R. General Fund Federal Revenue

During the year ending August 31, 2011, general fund federal source revenues consisted of the following:

	CFDA Number	Amount
School Health and Related Services	N/A	<u>\$ 493,253</u>

S. General Fund Local Revenue

During the year ending August 31, 2011, revenues from local and intermediate sources consisted of the following:

	General Fund	Federal Special Revenue	Debt Service Fund	Other Funds	Total
Property Taxes	\$ 17,171,567	\$ --	\$ 1,149,846	\$ --	\$ 18,321,413
Investment Earnings	201,562	1,163	6,437	633	209,795
Co-curricular Activities	92,447	--	--	6,466	98,913
Food Service	--	577,296	--	--	577,296
Tuition and Fees	2,850	--	--	--	2,850
Alternative Education Fees	327,450	--	--	--	327,450
Gifts and Bequests	8,552	--	--	14,060	22,612
Other Revenue	319,328	--	12,380	216,349	548,057
Totals	<u>\$ 18,123,756</u>	<u>\$ 578,459</u>	<u>\$ 1,168,663</u>	<u>\$ 237,508</u>	<u>\$ 20,108,386</u>

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

KILGORE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with
		Budgeted Amounts		Actual	Final Budget Positive (Negative)
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 17,868,731	\$ 17,986,616	\$ 18,123,756	\$ 137,140
5800	State Program Revenues	8,582,016	8,932,016	9,459,054	527,038
5900	Federal Program Revenues	130,000	330,000	493,253	163,253
5020	Total Revenues	26,580,747	27,248,632	28,076,063	827,431
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	16,076,624	15,993,270	15,555,263	438,007
0012	Instructional Resources and Media Services	463,168	463,963	460,172	3,791
0013	Curriculum and Staff Development	486,038	496,337	413,225	83,112
	Total Instruction & Instr. Related Services	17,025,830	16,953,570	16,428,660	524,910
Instructional and School Leadership:					
0021	Instructional Leadership	343,964	342,045	323,895	18,150
0023	School Leadership	1,793,624	1,792,921	1,742,011	50,910
	Total Instructional & School Leadership	2,137,588	2,134,966	2,065,906	69,060
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	727,197	727,255	678,138	49,117
0033	Health Services	308,906	323,906	314,093	9,813
0034	Student (Pupil) Transportation	1,234,008	1,284,008	1,138,866	145,142
0035	Food Services	15,086	17,086	15,590	1,496
0036	Co-curricular/Extracurricular Activities	1,042,616	1,095,720	1,093,319	2,401
	Total Support Services - Student (Pupil)	3,327,813	3,447,975	3,240,006	207,969
Administrative Support Services:					
0041	General Administration	1,101,743	1,108,773	1,049,228	59,545
	Total Administrative Support Services	1,101,743	1,108,773	1,049,228	59,545
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	2,445,181	2,482,226	2,206,738	275,488
0052	Security and Monitoring Services	34,900	36,835	27,848	8,987
0053	Data Processing Services	240,724	240,724	232,856	7,868
	Total Support Services - Nonstudent Based	2,720,805	2,759,785	2,467,442	292,343
Ancillary Services:					
0061	Community Services	1,000	23,500	22,400	1,100
	Total Ancillary Services	1,000	23,500	22,400	1,100
0099	Other Intergovernmental Charges	283,968	283,968	265,378	18,590
	Total Intergovernmental Charges	283,968	283,968	265,378	18,590
6030	Total Expenditures	26,598,747	26,712,537	25,539,020	1,173,517
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(18,000)	536,095	2,537,043	2,000,948

KILGORE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	Other Financing Sources (Uses):				
7912	Sale of Real or Personal Property	\$ 18,000	\$ 18,000	\$ --	\$ (18,000)
8911	Transfers Out	--	--	(712,929)	(712,929)
8949	Other Uses	--	(18,918)	(18,918)	--
7080	Total Other Financing Sources and (Uses)	18,000	(918)	(731,847)	(730,929)
1200	Net Change in Fund Balance	--	535,177	1,805,196	1,270,019
0100	Fund Balance - Beginning	8,879,729	8,879,729	8,879,729	--
3000	Fund Balance - Ending	\$ 8,879,729	\$ 9,414,906	\$ 10,684,925	\$ 1,270,019

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Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

KILGORE INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF DELINQUENT TAXES RECEIVABLE****FOR THE YEAR ENDED AUGUST 31, 2011**

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2002 and Prior Years	\$ Various	\$	Various	\$	Various	
2003	1.4785		.1185		750,070,758	
2004	1.5000		.1169		764,238,702	
2005	1.5000		.1200		839,156,580	
2006	1.5000		.1120		921,886,126	
2007	1.3700		.0967		1,084,141,915	
2008	1.0400		.0931		1,260,683,523	
2009	1.0400		.0810		1,585,005,174	
2010	1.0400		.0692		1,679,917,890	
2011 (School Year Under Audit)	1.0400		.0692		1,637,686,080	

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

10 Beginning Balance 9/1/10	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/11
\$ 364,832	\$ --	\$ 4,939	\$ 1,788	\$ (55,326)	\$ 302,779
83,824	--	1,649	132	(7,771)	74,272
90,585	--	2,858	223	(387)	87,117
70,711	--	4,456	356	(80)	65,819
112,025	--	15,101	1,128	605	96,401
137,249	--	23,497	1,658	1,436	113,530
188,555	--	20,431	1,829	(5,875)	160,420
242,934	--	37,835	2,947	(21,234)	180,918
502,093	--	161,655	10,756	(37,884)	291,798
--	18,165,214	16,623,149	1,106,079	(34,631)	401,355
<u>\$ 1,792,808</u>	<u>\$ 18,165,214</u>	<u>\$ 16,895,570</u>	<u>\$ 1,126,896</u>	<u>\$ (161,147)</u>	<u>\$ 1,774,409</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2012-2013 GENERAL AND SPECIAL REVENUE FUNDS FOR THE YEAR ENDED AUGUST 31, 2011

FUNCTION 41 - GENERAL ADMINISTRATION AND FUNCTION 99 - APPRAISAL DISTRICT COST

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ --	\$ --	\$ 316,220	\$ 531,874	\$ --	\$ 354	\$ 848,448
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)	--	--	--	--	--	--	--
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)	--	--	--	--	--	--	--
6211	Legal Services	--	--	6,893	--	--	--	6,893
6212	Audit Services	--	--	--	19,650	--	--	19,650
6213	Tax Appraisal and Collection	--	301,799	--	--	--	--	301,799
621X	Other Prof. Services	--	--	--	--	--	--	--
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	--	--	700	5,681	--	--	6,381
6240	Contr. Maint. and Repair	--	--	--	--	--	--	--
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	--	--	--	--	--
6290	Miscellaneous Contr.	2,969	--	31,788	15,664	--	--	50,421
6310	Operational Supplies, Materials	--	--	--	--	--	--	--
6320	Textbooks and Reading	--	--	--	10	--	--	10
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	40	--	5,991	13,677	--	15,186	34,894
6410	Travel, Subsistence, Stipends	5,152	--	4,166	6,581	--	--	15,899
6420	Ins. and Bonding Costs	--	--	--	--	--	--	--
6430	Election Costs	6,109	--	--	--	--	--	6,109
6490	Miscellaneous Operating	4,060	--	14,741	4,196	--	1,105	24,102
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	--	--

Total \$ 18,330 \$ 301,799 \$ 380,499 \$ 597,333 \$ -- \$ 16,645 \$ 1,314,606

Total Expenditures for General and Special Revenue Funds (9) \$ 30,764,770

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 379,122
Total Debt & Lease (6500)	(11)	\$ --
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 2,792,543
Food (Function 35, 6341 and 6499)	(13)	\$ 574,184
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		\$ 597,333

Subtotal 4,343,182

Net Allowed Direct Cost \$ 26,421,588

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 37,857,850
Historical Cost of Buildings over 50 years old	(16)	\$ 4,825,946
Amount of Federal Money in Building Cost (Net of #16)	(17)	\$ --
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)	\$ 12,656,594
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 1,784,133
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ 89,948

(8) Note A - No Function 53 expenditures and \$265,378 in Function 99 expenditures are included in this report on administrative costs.

KILGORE INDEPENDENT SCHOOL DISTRICT**FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET (UNAUDITED)****GENERAL FUND****AS OF AUGUST 31, 2011****EXHIBIT J-3**

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2011 (from Exhibit C-1 object 3000 for the General Fund only)	\$ 10,684,925
2	Total General Fund Nonspendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only)	--
3	Total General Fund Restricted Fund Balance (from Exhibit C-1 - total of object 345X-349X for the General Fund only)	975
4	Total General Fund Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only)	--
5	Total General Fund Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	5,000,000
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	1,000,000
7	Estimate of two months' average cash disbursements during the fiscal year	5,642,000
8	Estimate of delayed payments from state sources (58XX)	--
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	498,300
10	Estimate of delayed payments from federal sources (59XX)	1,000,000
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	840,000
12	General Fund Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10+11)	13,981,275
13	Excess (Deficit) Undesignated General Fund Fund Balance (1-12)	\$ (3,296,350)

If Item 13 is a Positive Number

Explanation of need for and/or projected use of net positive
Undesignated Unreserved General Fund Fund Balance:

Kilgore Independent School District strives to maintain a fund balance that, if needed, would cover three months of operations. Kilgore Independent School District, in light of current budgetary concerns at the state level, has elected to continue to work towards this reserve so that if needed, we would be able to lessen the impact of any significant short-term changes in revenue levels resulting from these legislative actions.

KILGORE INDEPENDENT SCHOOL DISTRICT

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT J-4

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 589,700	\$ 589,700	\$ 578,461	\$ (11,239)
5800	State Program Revenues	11,000	11,000	32,921	21,921
5900	Federal Program Revenues	1,234,000	1,234,000	1,297,372	63,372
5020	Total Revenues	1,834,700	1,834,700	1,908,754	74,054
EXPENDITURES:					
Current:					
	Support Services - Student (Pupil):				
0035	Food Services	1,834,700	1,834,700	1,606,744	227,956
	Total Support Services - Student (Pupil)	1,834,700	1,834,700	1,606,744	227,956
6030	Total Expenditures	1,834,700	1,834,700	1,606,744	227,956
1100	Excess (Deficiency) of Revenues Over (Under)				
	Expenditures	--	--	302,010	302,010
1200	Net Change in Fund Balance	--	--	302,010	302,010
0100	Fund Balance - Beginning	488,059	488,059	488,059	--
3000	Fund Balance - Ending	\$ 488,059	\$ 488,059	\$ 790,069	\$ 302,010

KILGORE INDEPENDENT SCHOOL DISTRICT

INTEREST AND SINKING

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT J-5

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and Intermediate Sources	\$ 1,123,000	\$ 1,123,000	\$ 1,168,663	\$ 45,663
5020	Total Revenues	<u>1,123,000</u>	<u>1,123,000</u>	<u>1,168,663</u>	<u>45,663</u>
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long-Term Debt	950,000	950,000	950,000	--
0072	Interest on Long-Term Debt	345,292	345,292	345,291	1
0073	Bond Issuance Costs and Fees	9,708	9,708	3,456	6,252
	Total Debt Service	<u>1,305,000</u>	<u>1,305,000</u>	<u>1,298,747</u>	<u>6,253</u>
6030	Total Expenditures	<u>1,305,000</u>	<u>1,305,000</u>	<u>1,298,747</u>	<u>6,253</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
	Expenditures	<u>(182,000)</u>	<u>(182,000)</u>	<u>(130,084)</u>	<u>51,916</u>
1200	Net Change in Fund Balance	<u>(182,000)</u>	<u>(182,000)</u>	<u>(130,084)</u>	<u>51,916</u>
0100	Fund Balance - Beginning	572,716	572,716	572,716	--
3000	Fund Balance - Ending	\$ 390,716	\$ 390,716	\$ 442,632	\$ 51,916

BROWN, BRONSTAD, HABENICHT & ROSSON, P.C.
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KILGORE, TEXAS 75663-1790

SHAREHOLDER:
LYNDA R. NEWSOME, C.P.A.

THOMAS DANIEL PHILLIPS, C.P.A.
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Independent Auditors' Report

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
Kilgore Independent School District
Kilgore, Texas

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kilgore Independent School District as of and for the year ended August 31, 2011, which collectively comprise the Kilgore Independent School District's basic financial statements and have issued our report thereon dated October 31, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kilgore Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kilgore Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Kilgore 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kilgore Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are

required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item(s) 2011-1.

We noted certain matters that we reported to management of Kilgore Independent School District in a separate letter dated October 31, 2011.

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


BROWN, BRONSTAD, HABENICHT & ROSSON, PC

October 31, 2011

BROWN, BRONSTAD, HABENICHT & ROSSON, P.C.
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Independent Auditors' Report

**Report on Compliance with Requirements That Could Have a Direct and
Material Effect on each Major Program and on Internal Control Over Compliance
In Accordance With OMB Circular A-133**

Board of Trustees
Kilgore Independent School District
Kilgore, Texas

Members of the Board of Trustees:

Compliance

We have audited Kilgore Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Kilgore Independent School District's major federal programs for the year ended August 31, 2011. Kilgore Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Kilgore Independent School District's management. Our responsibility is to express an opinion on Kilgore Independent School District's compliance based on our audit.

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

In our opinion, Kilgore Independent School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2011-2.

Internal Control Over Compliance

Management of Kilgore Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kilgore Independent School District's internal control over compliance with the requirements that could have a direct and material effect on a major

federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kilgore Independent School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


BROWN, BRONSTAD, HABENICHT & ROSSON, PC

October 31, 2011

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2011

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010a	ESEA Title I, Part A
84.389	ARRA - ESEA Title I, Part A
84.027	IDEA-B Formula
84.391	ARRA - IDEA-B Formula
84.173	IDEA-B Preschool
84.392	ARRA - IDEA-B Preschool
84.394	ARRA Title XIV State Fiscal Stabilization

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2011

B. Financial Statement Findings

2011-1

Criteria and Condition:

In order to comply with state law, deposits should be covered by FDIC insurance or pledged securities at all times.

Cause:

The deposits at the date of the highest combined cash balance were in excess of the FDIC insurance and pledged securities.

Effect:

The District's funds were not fully collateralized at the date of the highest combined cash balance.

Recommendation:

District personnel should review the cash balances and compare to the total FDIC coverage and pledged securities to ensure deposits are fully collateralized.

C. Federal Award Findings and Questioned Costs

2011-2

Criteria and Condition:

An employee who works on multiple activities or cost objectives, including federal program funds, must maintain time and effort distribution records in accordance with OMB Circular A-87.

Cause:

Program employees were solely funded for their teaching duties from the federal program funds and were only paid from other sources during the summer or for bus driving duties. The program employees maintained semi-annual certifications which they thought were adequate to support their teaching duties.

Effect:

Program employees were not in compliance with maintenance of time and effort distribution requirements. However, adequate documentation was provided to support time and effort distribution and there is no questioned cost.

Recommendation:

Split-funded employees should maintain adequate time and effort distribution records in accordance with OMB Circular A-87.

KILGORE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2011

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
N/A - No prior year findings.		

KILGORE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2011

2011-01

Finding:

Cash deposits were not fully collateralized at all times.

Corrective Action:

District employees will review deposits daily comparing to known bank pledges and work with bank employees and other approved investment companies to ensure balances are within secured limits.

2011-02

Finding:

Adequate time and effort distribution records were not maintained for split-funded employees.

Corrective Action:

KISD has developed new practices to ensure compliance with federal time and effort requirements. The District's Grants Management Manual has been updated to reflect these changes and will be presented to the Board of Trustees for their approval. Reports have been set up to run from the District's accounting software that will ensure that all earnings of federally funded employees are reviewed and accounted for.

Contact:

Revard Pfeffer, Assistant Superintendent of Finance
(903) 988-3900

Implementation Timeline:

November 15, 2011

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT K-1
Page 1 of 2

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through State Department of Education:			
Medicaid Administrative Claiming Program - MAC *	93.778	092-902	\$ 3,190
Medicaid Administrative Claiming Program - MAC *	93.778	092-902	3,250
Total CFDA Number 93.778			<u>6,440</u>
Total Passed Through State Department of Education			<u>6,440</u>
Total U. S. Department of Health and Human Services			<u>6,440</u>
U. S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
ESEA Title I Part A - Improving Basic Programs *	84.010A	11610101092902	596,755
ESEA Title I Part A - Improving Basic Programs *	84.010A	12610101092902	40,087
Total CFDA Number 84.010a			<u>636,842</u>
IDEA-B Formula *	84.027	116600010929026600	631,980
IDEA-B Formula *	84.027	126600010929026600	34,701
Total CFDA Number 84.027			<u>666,681</u>
Career and Technical - Basic Grant	84.048	11420006092902	35,040
Career and Technical - Basic Grant	84.048	12420006092902	2,288
Total CFDA Number 84.048			<u>37,328</u>
IDEA-B Preschool *	84.173	116610010929026610	8,189
ESEA Title IV Part A-Safe & Drug-Free Schools & Communities Act	84.186A	11691001092902	2,217
Title II Part D Enhancing Education Through Technology *	84.318X	11630001092902	2,045
Title III Part A English Language Acq. and Language Enhancement	84.365	11671001092902	50,557
Title III Part A English Language Acq. and Language Enhancement	84.365	12671001092902	5,860
Total CFDA Number 84.365			<u>56,417</u>
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	11694501092902	129,150
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	12694501092902	2,453
Total CFDA Number 84.367a			<u>131,603</u>
Summer School LEP	84.369A	69551002	4,297
ARRA - Title II Part D Subpart 1-Enhancing Educ. Through Tech. *	84.386	10553001092902	292
ARRA - ESEA, Title I, Part A - Improving Basic Programs *	84.389	11551001092902	149,546
ARRA - IDEA-Part B Formula *	84.391	11554001092902	174,143
ARRA - IDEA Part B, Preschool *	84.392	10555001092902	3,539
ARRA of 2009 Title XIV State Fiscal Stabilization Fund *	84.394	11557001092902	1,034,120
Education Jobs Fund	84.410	11550101092902	38,267
Total Passed Through State Department of Education			<u>2,945,526</u>
Total U. S. Department of Education			<u>\$ 2,945,526</u>

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT K-1
Page 2 of 2

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
School Breakfast Program *	10.553	092-902	\$ 305,637
National School Lunch Program *	10.555	092-902	875,718
National School Lunch Program (Non-cash) *	10.555	092-902	116,019
Total CFDA Number 10.555			<u>991,737</u>
Total Passed Through State Department of Education			<u>1,297,374</u>
Total U. S. Department of Agriculture			<u>1,297,374</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,249,340</u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2011

Basis of Presentation

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

KILGORE INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2011*

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

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BROWN, BRONSTAD, HABENICHT & ROSSON, P.C.

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KILGORE, TEXAS 75662

October 31, 2011

Board of Trustees

Kilgore Independent School District

In planning and performing our audit of the financial statements of Kilgore Independent School District ("the District") for the year ended August 31, 2011, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of the following matters that are opportunities for strengthening internal controls and operating efficiency.

- During the testing of the Activity Funds, there were three voided checks that were not properly defaced by removing the signature line from the check. Two were from the Heights Campus and one was from the High School Campus. Voided checks should be properly defaced by removing the signature line from the check.
- During testing of expenditures there were four instances where disbursements were coded to an incorrect object code. The dollar amounts for these transactions were immaterial. Account coding should be reviewed to ensure proper object codes are used.

We previously reported on the District's internal control in our report dated October 31, 2011. This letter does not affect our report dated October 31, 2011 on the financial statements of Kilgore Independent School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,


Brown, Bronstad, Habenicht & Rosson, P.C.

