

**KILGORE
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2010

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Kilgore Independent School District
Annual Financial Report
For The Year Ended August 31, 2010

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CERTIFICATE OF BOARD

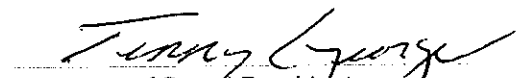
Kilgore Independent School District
Name of School District

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, 2010, at a meeting of the Board of Trustees of such school district on the 15th of November, 2010.


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

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MEMBERS
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KILGORE, TEXAS 75662

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, 2010, 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, 2010, 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 November 8, 2010, 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 introductory section and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for 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 individual nonmajor fund financial statements 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 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. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


BROWN, BRONSTAD, HABENICHT & ROSSON, PC

November 8, 2010

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, 2010. Please read it in conjunction with the independent auditors' report on page 6, and the District's Basic Financial Statements which begin on page 15.

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 15 and 16). 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 17) 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 22) 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 10. 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 from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers 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, cocurricular 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 17 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 proprietary – use different accounting approaches:

- Governmental funds—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. The internal service funds report activities that provide supplies and services for the District's other programs and activities—such as the District's self-insurance programs, the print shop, and transportation.

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 21. 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 \$27,986,257 to \$29,662,598. 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 \$10,588,768 at August 31, 2010.

Table I
Kilgore Independent School District
NET ASSETS

	Governmental Activities 2010	Governmental Activities 2009
Current and other assets	12,646,063	12,138,666
Capital assets	27,245,546	27,344,415
Total assets	39,891,609	39,483,081
Long-term liabilities	8,286,544	10,258,750
Other liabilities	1,942,467	1,238,074
Total liabilities	10,229,011	11,496,824
Net Assets:		
Invested in capital assets net of related debt	18,190,546	17,369,416
Restricted	883,284	1,102,794
Unrestricted	10,588,768	9,514,047
Total net assets	29,662,598	27,986,257

Table II
Kilgore Independent School District
CHANGES IN NET ASSETS

	Governmental Activities 2010	Governmental Activities 2009
Revenues:		
Program Revenues:		
Charges for Services	860,493	951,580
Operating grants and contributions	6,792,301	5,165,149
General Revenues:		
Maintenance and debt service taxes	18,793,409	17,853,389
State aid – formula grants	6,973,159	8,041,839
Investment Earnings	77,512	233,206
Miscellaneous	632,662	969,556
Total Revenue	34,129,536	33,214,719
Expenses:		
Instruction, curriculum and media services	19,772,429	18,501,748
Instructional and school leadership	2,240,551	2,788,029
Student support services	2,381,152	2,093,273
Child nutrition	1,662,560	1,814,304
Cocurricular activities	1,359,421	1,300,354
General administration	1,146,207	1,124,778
Plant maintenance, security & data processing	3,242,208	3,288,056
Community Services	2,747	-0-
Debt services	406,021	438,477
Other intergovernmental charges	239,899	185,081
Total Expenses	32,453,195	31,534,100
Increase in net assets before transfers and special items	1,676,341	1,680,619
Net assets, beginning	27,986,257	26,305,638
Net assets, ending	29,662,598	27,986,257

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 17) reported a combined fund balance of \$10,272,234, which is an increase of \$759,482. Included in this year's total change in fund balance is an increase of \$779,152 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 2010, the District had \$27,245,546, 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 \$98,869 from last year.

Debt

At year-end, the District had \$9,055,000 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 2011 budget and tax rates:

- The District's appraised value for the 2011 year is down \$39,679,694 or 2.31% over 2010 values.
- This value decrease, the first since 1996 to 1997 will result in taxpayers bearing a smaller portion of the District's total revenue.
- Federal, State and Local revenue combined for general fund expenditures are expected to remain unchanged from the 2010 budget.
- Total revenue is controlled by target revenue amounts set by HB 1, resulting in greater contributions from the State of Texas.
- Federal Stimulus Revenue, State Fiscal Stabilization Funds, in the amount of \$1,034,120 will be used to supplant the general fund state target revenue projection in 2011, as opposed to \$1,093,891 in 2010. If comparing general fund operations over the period 2009 thru 2011 these federal funds must be taken into consideration to achieve an accurate comparison.
- General operating fund spending per student is expected to remain unchanged from the 2010 budget. Increases in individual employee salaries were made up by efficiencies in total personnel units and other non-payroll expenses throughout the District.
- The District's average daily attendance is expected to remain steady at the same level as 2010, 3,495. The District Average Daily Attendance decreased from 2009 to 2010 by 7 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.

These indicators were taken into account when adopting the general fund budget for 2011. 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. As such, revenue is expected to remain unchanged from 2010 as a result of our expectations for very little if any change in our average daily attendance. 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 seem to be starting a slight increase upward indicating a possible beginning to a rebound. As a result of the uncertainty of our 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 \$26,598,747, an increase of 0.934% over the final actual expenditure of \$26,354,591. In addition to the General Fund, Kilgore Independent School District budgeted for expenditures normally paid for in the General Fund with State Fiscal Stabilization Funds totaling \$1,034,120, down from \$1,093,991 in 2010. Kilgore Independent School District was able to increase its teacher salary scale by \$500 per step and give all employees, except administrators, a three percent raise. The cost of these increases was paid for with budget saved by working on efficient operations in both payroll and non-payroll expenditures.

The 2010-2011 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.

Basic Financial Statements

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2010

1

Data
Control
Codes

Governmental
Activities

ASSETS:		
1110	Cash and Cash Equivalents	\$ 8,734,246
1120	Current Investments	1,848,311
1225	Property Taxes Receivable (Net)	1,275,715
1240	Due from Other Governments	466,327
1290	Other Receivables (Net)	81,634
1300	Inventories	47,984
1420	Capitalized Bond and Other Debt Issuance Costs	160,869
Capital Assets:		
1510	Land	1,309,401
1520	Buildings and Improvements, Net	20,249,648
1530	Furniture and Equipment, Net	5,686,497
1800	Restricted Assets	30,977
1000	Total Assets	39,891,609
LIABILITIES:		
2110	Accounts Payable	24,799
2165	Accrued Liabilities	857,706
2180	Due to Other Governments	2,487
2300	Unearned Revenue	52,253
Noncurrent Liabilities:		
2501	Due Within One Year	1,005,222
2502	Due in More Than One Year	8,286,544
2000	Total Liabilities	10,229,011
NET ASSETS		
3200	Invested in Capital Assets, Net of Related Debt	18,190,546
Restricted For:		
3820	State and Federal Programs	189,639
3850	Debt Service	662,668
	Scholarships	
3880	Nonexpendable	30,977
3900	Unrestricted	10,588,768
3000	Total Net Assets	\$ 29,662,598

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, 2010

		1	3	4	Net (Expense) Revenue and Changes in Net Assets
			Program Revenues		
			Charges for Services	Operating Grants and Contributions	
Data Control Codes	Functions/Programs	Expenses			Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 18,588,021	\$ 398,550	\$ 3,903,851	\$ (14,285,620)
12	Instructional Resources and Media Services	546,199	--	350	(545,849)
13	Curriculum and Staff Development	638,209	--	210,607	(427,602)
21	Instructional Leadership	327,113	--	417	(326,696)
23	School Leadership	1,913,438	--	55,576	(1,857,862)
31	Guidance, Counseling, & Evaluation Services	908,220	--	304,641	(603,579)
33	Health Services	305,606	--	186,165	(119,441)
34	Student Transportation	1,167,326	--	5,471	(1,161,855)
35	Food Service	1,662,560	461,943	1,302,484	101,867
36	Cocurricular/Extracurricular Activities	1,359,421	--	85,729	(1,273,692)
41	General Administration	1,146,207	--	--	(1,146,207)
51	Plant Maintenance and Operations	2,807,328	--	588,749	(2,218,579)
52	Security and Monitoring Services	152,680	--	115,000	(37,680)
53	Data Processing Services	282,200	--	29,325	(252,875)
61	Community Services	2,747	--	2,240	(507)
72	Interest on Long-term Debt	378,804	--	1,696	(377,108)
73	Bond Issuance Costs and Fees	27,217	--	--	(27,217)
99	Other Intergovernmental Charges	239,899	--	--	(239,899)
TG	Total Governmental Activities	32,453,195	860,493	6,792,301	(24,800,401)
TP	Total Primary Government	\$ 32,453,195	\$ 860,493	\$ 6,792,301	(24,800,401)
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				17,613,150
DT	Property Taxes, Levied for Debt Service				1,180,259
IE	Investment Earnings				77,512
SF	State Aid Formula Grants				6,973,159
MI	Miscellaneous				632,662
TR	Total General Revenues				26,476,742
CN	Change in Net Assets				1,676,341
NB	Net Assets - Beginning				27,986,257
NE	Net Assets - Ending				\$ 29,662,598

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT**BALANCE SHEET - GOVERNMENTAL FUNDS**

AUGUST 31, 2010

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:			
1110 <i>Cash and Cash Equivalents</i>	\$ 7,652,533	\$ 1,081,713	\$ 8,734,246
1120 <i>Current Investments</i>	1,848,311	--	1,848,311
1225 <i>Taxes Receivable, Net</i>	1,185,763	89,952	1,275,715
1240 <i>Due from Other Governments</i>	83,655	382,672	466,327
1260 <i>Due from Other Funds</i>	3,368	9,260	12,628
1290 <i>Other Receivables</i>	78,536	3,098	81,634
1300 <i>Inventories</i>	--	47,984	47,984
1800 <i>Restricted Assets</i>	--	30,977	30,977
1000 Total Assets	<u>\$ 10,852,166</u>	<u>\$ 1,645,656</u>	<u>\$ 12,497,822</u>
LIABILITIES:			
Current Liabilities:			
2110 <i>Accounts Payable</i>	\$ 15,119	\$ 9,680	\$ 24,799
2150 <i>Payroll Deductions & Withholdings</i>	12,121	--	12,121
2160 <i>Accrued Wages Payable</i>	750,174	95,411	845,585
2170 <i>Due to Other Funds</i>	9,260	3,368	12,628
2180 <i>Due to Other Governments</i>	--	2,487	2,487
2300 <i>Unearned Revenue</i>	1,185,763	142,205	1,327,968
2000 Total Liabilities	<u>1,972,437</u>	<u>253,151</u>	<u>2,225,588</u>
FUND BALANCES:			
Reserved Fund Balances:			
3410 <i>Investments in Inventory</i>	--	47,984	47,984
3420 <i>Debt Service</i>	--	572,716	572,716
3450 <i>Reserve for Food Service</i>	--	440,075	440,075
3490 <i>Other Reserves of Fund Balance</i>	--	331,730	331,730
3600 Unreserved	<u>8,879,729</u>	<u>--</u>	<u>8,879,729</u>
3000 Total Fund Balances	<u>8,879,729</u>	<u>1,392,505</u>	<u>10,272,234</u>
4000 Total Liabilities and Fund Balances	<u>\$ 10,852,166</u>	<u>\$ 1,645,656</u>	<u>\$ 12,497,822</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, 2010

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 18,383,270	\$ 2,055,307	\$ 20,438,577
5800 <i>State Program Revenues</i>	8,199,343	485,819	8,685,162
5900 <i>Federal Program Revenues</i>	173,329	4,683,032	4,856,361
5020 <i>Total Revenues</i>	26,755,942	7,224,158	33,980,100
EXPENDITURES:			
Current:			
0011 <i>Instruction</i>	15,545,881	2,777,005	18,322,886
0012 <i>Instructional Resources and Media Services</i>	491,076	26,632	517,708
0013 <i>Curriculum and Staff Development</i>	468,782	163,729	632,511
0021 <i>Instructional Leadership</i>	316,724	417	317,141
0023 <i>School Leadership</i>	1,766,888	90,992	1,857,880
0031 <i>Guidance, Counseling, & Evaluation Services</i>	659,796	215,659	875,455
0033 <i>Health Services</i>	288,496	12,836	301,332
0034 <i>Student Transportation</i>	1,061,339	57,738	1,119,077
0035 <i>Food Service</i>	1,751	1,659,780	1,661,531
0036 <i>Cocurricular/Extracurricular Activities</i>	1,181,992	29,665	1,211,657
0041 <i>General Administration</i>	1,102,554	--	1,102,554
0051 <i>Plant Maintenance and Operations</i>	2,716,841	614,643	3,331,484
0052 <i>Security and Monitoring Services</i>	83,142	115,780	198,922
0053 <i>Data Processing Services</i>	249,853	29,325	279,178
0061 <i>Community Services</i>	507	2,240	2,747
0071 <i>Principal on Long-term Debt</i>	--	920,000	920,000
0072 <i>Interest on Long-term Debt</i>	--	378,804	378,804
0073 <i>Bond Issuance Costs and Fees</i>	--	6,850	6,850
0099 <i>Other Intergovernmental Charges</i>	239,899	--	239,899
6030 <i>Total Expenditures</i>	26,175,521	7,102,095	33,277,616
1100 <i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	580,421	122,063	702,484
Other Financing Sources and (Uses):			
7912 <i>Sale of Real or Personal Property</i>	25,000	--	25,000
7949 <i>Other Resources</i>	173,731	--	173,731
8949 <i>Other Uses</i>	--	(141,733)	(141,733)
7080 <i>Total Other Financing Sources and (Uses)</i>	198,731	(141,733)	56,998
1200 <i>Net Change in Fund Balances</i>	779,152	(19,670)	759,482
0100 <i>Fund Balances - Beginning</i>	8,100,577	1,412,175	9,512,752
3000 <i>Fund Balances - Ending</i>	\$ 8,879,729	\$ 1,392,505	\$ 10,272,234

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
AUGUST 31, 2010

Total fund balances - governmental funds balance sheet	\$ 10,272,234
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.	27,245,546
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,275,715
Payables for bond principal which are not due in the current period are not reported in the funds.	(9,055,000)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(55,222)
Bond issue costs are capitalized in the statement of net assets.	160,869
Unamortized bond premium is not reported in the statement of net assets.	(181,544)
Net assets of governmental activities - Statement of Net Assets	\$ 29,662,598

The accompanying notes are an integral part of this statement.

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

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, 2010

Net change in fund balances - total governmental funds	\$	759,482
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:		
Capital outlays are not reported as expenses in the SOA.		1,283,144
The depreciation of capital assets used in governmental activities is not reported in the funds.		(1,381,938)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.		69,036
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.		920,000
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.		23,582
Bond premiums are reported in the funds but not in the SOA.		23,402
Change in net assets of governmental activities - Statement of Activities	\$	1,676,341

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, 2010

Data Control Codes		Agency Fund	Student Activity
	ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$	138,093
1000	Total Assets		138,093
	LIABILITIES:		
	Current Liabilities:		
2190	<i>Due to Student Groups</i>		138,093
2000	Total Liabilities		138,093
	NET ASSETS		
3000	Total Net Assets	\$	--

The accompanying notes are an integral part of this statement.

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

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

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, 2010

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, 2010

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:

Asset Class	Estimated Useful Lives
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 ensure accuracy in building a statewide database for policy development and funding plans.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

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:

Violation	Action Taken
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:

Fund Name	Deficit Amount	Remarks
None reported	Not applicable	Not applicable

C. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2010, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$8,868,629 and the bank balance was \$9,596,743. The District's cash deposits at August 31, 2010 and during the year ended August 31, 2010, were 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	\$ 8,734,246
Exhibit E-1 - Cash and Cash Equivalents	138,093
	8,872,339
Less Petty Cash	(3,710)
Total Cash Deposits	\$ 8,868,629

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.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

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.

The District's investments at August 31, 2010 are shown below.

Investment or Investment Type	Maturity	Fair Value
Texas CLASS	N/A	\$ 485,265
TexPool	N/A	1,393,512
TexSTAR	N/A	503
Lone Star Investment Pool	N/A	8
Total Investments		\$ 1,879,288

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

Exhibit C-1 - Current Investments	\$ 1,848,311
Exhibit C-1 - Restricted Assets	30,977
Total Investments	\$ 1,879,288

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, 2010, 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	AAA
TexPool	AAA
TexSTAR	AAA
Lone Star Investment Pool	AAA ^{Am}

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.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

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.

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 AAA-m 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.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

D. Capital Assets

Capital asset activity for the year ended August 31, 2010, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,309,401	\$ --	\$ --	\$ 1,309,401
Total capital assets not being depreciated	1,309,401	--	--	1,309,401
<i>Capital assets being depreciated:</i>				
Buildings and improvements	37,957,850	--	--	37,857,850
Equipment	8,348,560	1,060,880	--	9,409,440
Vehicles	2,751,870	222,264	106,104	2,868,030
Total capital assets being depreciated	48,958,280	1,283,144	106,104	50,135,320
Less accumulated depreciation for:				
Buildings and improvements	(16,914,175)	(694,027)	--	(17,608,202)
Equipment	(3,932,004)	(486,161)	--	(4,418,165)
Vehicles	(2,077,162)	(201,750)	(106,104)	(2,172,808)
Total accumulated depreciation	(22,923,341)	(1,381,938)	(106,104)	(24,199,175)
Total capital assets being depreciated, net	26,034,939	(98,794)	--	25,936,145
Governmental activities capital assets, net	\$ 27,344,340	\$ (98,794)	\$ --	\$ 27,245,546

Depreciation was charged to functions as follows:

Instruction	\$ 578,048
Instructional Resources and Media Services	28,491
Curriculum and Staff Development	5,698
Instructional Leadership	9,972
School Leadership	55,558
Guidance, Counseling, & Evaluation Services	32,765
Health Services	4,274
Student Transportation	254,313
Food Services	93,471
Extracurricular Activities	147,764
General Administration	43,653
Plant Maintenance and Operations	106,574
Security and Monitoring Services	18,335
Data Processing Services	3,022
	<u>\$ 1,381,938</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2010, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 3,368	Transfer of receipts
Other Governmental Funds	General Fund	9,260	Transfer of receipts
	Other Balances	--	
	Total	\$ 12,628	

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

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2010, consisted of the following:

Transfers From	Transfers To	Amount	Reason
Other Governmental Funds	General Fund	\$ 141,733	Permanent Transfer

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, 2010, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 9,975,000	\$ --	\$ 920,000	\$ 9,055,000	\$ 950,000
Unamortized bond premium	204,946	--	23,402	181,544	--
Compensated absences *	78,804	18,411	41,993	55,222	55,222
Total governmental activities	\$ 10,258,750	\$ 18,411	\$ 985,395	\$ 9,291,766	\$ 1,005,222

* 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

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2010, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2011	\$ 950,000	\$ 345,291	\$ 1,295,291
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
2016-2020	3,925,000	322,989	4,247,989
Totals	\$ 9,055,000	\$ 1,686,933	\$ 10,741,933

Interest rates on bonds range from 2.5% - 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 2010, 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.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

H. Pension Plan

1. Plan Description

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. The Texas legislature has the authority to establish or amend benefit provisions. The System issues a publicly available financial report that includes financial statements and required supplementary information for the District. That report may be obtained by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, TX 78701-2698 or by calling (800) 223-8778.

2. Funding Policy

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.644% of the District's covered payroll. The District's employees' contributions to the System for the years ending August 31, 2010, 2009 and 2008 were \$1,241,367, \$1,192,409 and \$1,169,444, respectively, and were equal to the required contributions for each year. Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ending August 31, 2010, 2009 and 2008 were \$240,795, \$232,665 and \$246,603, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$1,225,607 for the year ended August 31, 2010.

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, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

2. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2010, 2009 and 2008. 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, 2010, 2009, and 2008, the State's contributions to TRS-Care were \$193,964, \$186,314, and \$182,730, respectively, the active member contributions were \$126,076, \$121,104, and \$118,775, respectively, and the District's contributions were \$106,680, \$102,473, and \$118,775, respectively, which equaled the required contributions each year.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2010

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, 2010, 2009, and 2008, the subsidy payments received by TRS-Care on behalf of the District were \$49,088, \$42,527, and \$43,062, respectively.

J. Employee Health Care Coverage

During the year ended August 31, 2010, 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, 2010, and terms of coverage and premium costs are included in the contractual provisions.

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

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, 2010.

L. Risk Pool

During the year ended August 31, 2010, 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, 2009, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

M. Restricted Assets

The District has classified as restricted certain current investments that are not available for use in its operations. At August 31, 2010 the District had \$30,977 in current investments that is restricted for scholarship funds.

N. 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, 2010 the components of delinquent taxes receivable are as follows:

	General Fund	Debt Service Fund	Total
Delinquent taxes	\$ 1,651,518	\$ 141,290	\$ 1,792,808
Allowance	(465,755)	(51,338)	(517,093)
Totals	\$ 1,185,763	\$ 89,952	\$ 1,275,715

O. 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. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2010 are summarized below:

	General Fund	Special Revenue Fund	Total
State Revenue	\$ 76,413	\$ 38,947	\$ 115,360
Federal Revenue	--	343,725	343,725
Other	7,242	--	7,242
Totals	\$ 83,655	\$ 382,672	\$ 466,327

P. Other Receivables

Other receivables as of August 31, 2010 consisted mainly of taxes collected by the tax office, but not yet deposited to the District's bank as follows:

	General Fund	Debt Service Fund	Other	Total
Other Receivable	\$ 78,536	\$ 2,729	\$ 369	\$ 81,634

Q. General Fund Federal Source Revenue

During the year ending August 31, 2010, general fund federal source revenues consisted of the following:

	CFDA Number	Amount
School Health and Related Services	N/A	\$ 173,329

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2010

R. Revenue From Local and Intermediate Sources

During the year ending August 31, 2010, revenues from local and intermediate sources consisted of the following:

	General Fund	Federal Special Revenue	Debt Service Fund	Other Funds	Total
Property Taxes	\$ 17,542,769	\$ --	\$ 1,181,530	\$ --	\$ 18,724,299
Investment Earnings	68,936	1,244	7,331	83	77,594
Co-curricular Activities	85,729	--	--	--	85,729
Food Service	--	570,748	--	--	570,748
Tuition and Fees	11,150	--	--	--	11,150
Alternative Education Fees	387,400	--	--	--	387,400
Gifts and Bequests	--	--	--	50	50
Other Revenue	287,286	--	19,101	275,220	581,607
Totals	\$ 18,383,270	\$ 571,992	\$ 1,207,962	\$ 275,353	\$ 20,438,577

S. Other Reserves of Fund Balance

Reserved Fund Balance is that portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose. Other reservations of fund balance at August 31, 2010 consisted of the following:

Reserved for State and Local Special Revenue	\$ 300,753
Reserved for Scholarships	30,977
Total	\$ 331,730

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, 2010

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 18,443,095	\$ 18,266,895	\$ 18,383,270	\$ 116,375
5800	State Program Revenues	9,296,796	8,587,905	8,199,343	(388,562)
5900	Federal Program Revenues	85,000	130,000	173,329	43,329
5020	Total Revenues	27,824,891	26,984,800	26,755,942	(228,858)
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	16,372,452	15,772,379	15,545,881	226,498
0012	Instructional Resources and Media Services	479,973	526,010	491,076	34,934
0013	Curriculum and Staff Development	468,261	493,432	468,782	24,650
	Total Instruction & Instr. Related Services	17,320,686	16,791,821	16,505,739	286,082
Instructional and School Leadership:					
0021	Instructional Leadership	325,986	338,939	316,724	22,215
0023	School Leadership	1,826,671	1,773,422	1,766,888	6,534
	Total Instructional & School Leadership	2,152,657	2,112,361	2,083,612	28,749
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	789,406	703,060	659,796	43,264
0032	Social Work Services	1,300	1,300	--	1,300
0033	Health Services	298,926	298,926	288,496	10,430
0034	Student (Pupil) Transportation	1,152,513	1,166,400	1,061,339	105,061
0035	Food Services	1,400	1,900	1,751	149
0036	Cocurricular/Extracurricular Activities	1,056,045	1,211,469	1,181,992	29,477
	Total Support Services - Student (Pupil)	3,299,590	3,383,055	3,193,374	189,681
Administrative Support Services:					
0041	General Administration	1,149,866	1,172,671	1,102,554	70,117
	Total Administrative Support Services	1,149,866	1,172,671	1,102,554	70,117
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	3,244,346	2,909,396	2,716,841	192,555
0052	Security and Monitoring Services	159,000	89,900	83,142	6,758
0053	Data Processing Services	253,746	253,746	249,853	3,893
	Total Support Services - Nonstudent Based	3,657,092	3,253,042	3,049,836	203,206
Ancillary Services:					
0061	Community Services	--	1,350	507	843
	Total Ancillary Services	--	1,350	507	843
0099	Other Intergovernmental Charges	255,000	255,000	239,899	15,101
	Total Intergovernmental Charges	255,000	255,000	239,899	15,101
6030	Total Expenditures	27,834,891	26,969,300	26,175,521	793,779
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(10,000)	15,500	580,421	564,921
Other Financing Sources (Uses):					
7912	Sale of Real or Personal Property	--	15,000	25,000	10,000
7949	Other Resources	--	172,631	173,731	1,100

KILGORE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2010

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
7080	Total Other Financing Sources and (Uses)	--	187,631	198,731	11,100
SPECIAL ITEM:					
7918	Special Item (Resource)	10,000	10,000	--	(10,000)
1200	Net Change in Fund Balance	--	213,131	779,152	566,021
0100	Fund Balance - Beginning	8,100,577	8,100,577	8,100,577	--
3000	Fund Balance - Ending	\$ 8,100,577	\$ 8,313,708	\$ 8,879,729	\$ 566,021

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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, 2010**

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2001 and Prior Years	\$	Various	\$	Various	\$	Various
2002		1.4547		.1157		674,780,759
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 (School Year Under Audit)		1.0400		.0692		1,679,917,890

1000 Totals

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

10 Beginning Balance 9/1/09	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/10
\$ 338,345	\$ --	\$ 15,152	\$ 2,078	\$ (41,321)	\$ 279,794
120,857	--	5,740	457	(29,622)	85,038
126,093	--	3,593	288	(38,388)	83,824
108,063	--	4,257	332	(12,889)	90,585
76,333	--	4,104	306	(1,212)	70,711
125,770	--	12,180	909	(656)	112,025
164,198	--	24,191	1,708	(1,050)	137,249
232,872	--	40,162	3,595	(560)	188,555
435,892	--	152,630	11,888	(28,440)	242,934
--	18,633,649	17,057,099	1,134,953	60,496	502,093
\$ 1,728,423	\$ 18,633,649	\$ 17,319,108	\$ 1,156,514	\$ (93,642)	\$ 1,792,808
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2011-2012

GENERAL AND SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED AUGUST 31, 2010

FUNCTION 41 - GENERAL ADMINISTRATION

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	\$ --	\$ --	\$ (2,170)	\$ (5,907)	\$ --	\$ 902,411	\$ 894,334
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	--	--	1,868	--	--	--	1,868
6212	Audit Services	--	--	--	19,650	--	--	19,650
6213	Tax Appraisal and Collection	--	50,122	--	--	--	--	50,122
621X	Other Prof. Services	--	--	--	--	--	--	--
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	--	--	--	--	--	7,121	7,121
6240	Contr. Maint. and Repair	--	--	--	--	515	--	515
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	--	--	--	--	--
6290	Miscellaneous Contr.	--	--	--	--	--	55,188	55,188
6310	Operational Supplies, Materials	--	--	--	--	--	--	--
6320	Textbooks and Reading	--	--	--	--	--	255	255
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	--	--	--	--	--	28,344	28,344
6410	Travel, Subsistence, Stipends	--	--	--	--	--	17,169	17,169
6420	Ins. and Bonding Costs	--	--	--	--	--	--	--
6430	Election Costs	1,829	--	--	--	--	--	1,829
6490	Miscellaneous Operating	--	--	--	--	--	26,159	26,159
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	--	--
Total		\$ 1,829	\$ 50,122	\$ (302)	\$ 13,743	\$ 515	\$ 1,036,647	\$ 1,102,554

Total Expenditures for General and Special Revenue Funds (9) \$ 31,971,962

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 1,283,143
Total Debt & Lease (6500)	(11)	\$ --
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 2,700,754
Food (Function 35, 6341 and 6499)	(13)	\$ 604,754
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		\$ 13,743

Subtotal 4,602,394

Net Allowed Direct Cost \$ 27,369,568

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)	12,277,473
Historical Cost of Furniture & Equipment over 16 years old	(19)	117,916
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ --

(8) Note A - No Function 53 expenditures and no 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, 2010

EXHIBIT J-3

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2010 (Exhibit C-1 object 3000 for the General Fund only)	\$ 8,879,729
2	Total General Fund Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund only)	--
3	Total General Fund Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	--
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	--
5	Estimate of one month's average cash disbursements during the regular school session (9/1/10 - 5/31/11)	2,908,723
6	Estimate of delayed payments from state sources (58XX) including August payment delays	--
7	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
8	Estimate of delayed payments from federal sources (59XX)	--
9	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)	--
10	General Fund Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)	3,407,023
11	Excess (Deficit) Undesignated Unreserved General Fund Fund Balance (Line 1 minus Line 10)	\$ 5,472,706

If Item 11 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. As stated above, the fund balance covers less than these three months. In addition, the District is currently considering buildings and renovations for its campuses. Money has not been reserved or designated for this purpose as current reports of State budget shortfalls make us question the wisdom of such a move when these funds may be needed to maintain our minimum instruction costs as we now know it. We do not want to give our taxpayers the belief that we may pay for a portion of construction costs from fund balance if those funds may not be available at that time.

KILGORE INDEPENDENT SCHOOL DISTRICT

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2010

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	\$ 570,600	\$ 570,600	\$ 571,993	\$ 1,393
5800	State Program Revenues	10,000	27,000	56,360	29,360
5900	Federal Program Revenues	1,010,000	1,186,651	1,245,699	59,048
5020	Total Revenues	1,590,600	1,784,251	1,874,052	89,801
EXPENDITURES:					
Current:					
Support Services - Student (Pupil):					
0035	Food Services	1,622,251	1,784,251	1,659,355	124,896
	Total Support Services - Student (Pupil)	1,622,251	1,784,251	1,659,355	124,896
6030	Total Expenditures	1,622,251	1,784,251	1,659,355	124,896
1100	Excess (Deficiency) of Revenues Over (Under)				
	Expenditures	(31,651)	--	214,697	214,697
1200	Net Change in Fund Balance	(31,651)	--	214,697	214,697
0100	Fund Balance - Beginning	273,362	273,362	273,362	--
3000	Fund Balance - Ending	\$ 241,711	\$ 273,362	\$ 488,059	\$ 214,697

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-5

INTEREST AND SINKING

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes		1	2	3	Variance with
		Budgeted Amounts			Final Budget
		Original	Final	Actual	Positive (Negative)
	REVENUES:				
5700	Local and Intermediate Sources	\$ 1,203,804	\$ 1,203,804	\$ 1,207,962	\$ 4,158
5800	State Program Revenues	--	--	1,696	1,696
5020	Total Revenues	1,203,804	1,203,804	1,209,658	5,854
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long-Term Debt	920,000	950,000	920,000	30,000
0072	Interest on Long-Term Debt	378,804	378,804	378,804	--
0073	Bond Issuance Costs and Fees	6,300	6,300	6,850	(550)
	Total Debt Service	1,305,104	1,335,104	1,305,654	29,450
6030	Total Expenditures	1,305,104	1,335,104	1,305,654	29,450
1100	Excess (Deficiency) of Revenues Over (Under)				
	Expenditures	(101,300)	(131,300)	(95,996)	35,304
1200	Net Change in Fund Balance	(101,300)	(131,300)	(95,996)	35,304
0100	Fund Balance - Beginning	668,712	668,712	668,712	--
3000	Fund Balance - Ending	\$ 567,412	\$ 537,412	\$ 572,716	\$ 35,304

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

CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 1790

KILGORE, TEXAS 75663-1790

SHAREHOLDER:

LYNDA R. NEWSOME, C.P.A.

THOMAS DANIEL PHILLIPS, C.P.A.

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MEMBERS

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KILGORE, TEXAS 75662

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, 2010, which collectively comprise the Kilgore Independent School District's basic financial statements and have issued our report thereon dated November 8, 2010. 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 no instances of noncompliance or other matters that are

required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Kilgore Independent School District in a separate letter dated November 8, 2010.

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

November 8, 2010

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

CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 1790

KILGORE, TEXAS 75663-1790

SHAREHOLDER:

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KILGORE, TEXAS 75662

Independent Auditors' Report

Report on Compliance with Requirements Applicable
To 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 the compliance of Kilgore Independent School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2010. 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 requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2010.

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 in order to determine our 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

November 8, 2010

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2010

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 Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.391	Special Education - Grants to States Recovery Act
84.394	State Fiscal Stabilization Fund
84.389	ESEA Title I - ARRA

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

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

KILGORE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2010

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
There were no prior audit findings required to be reported.		

KILGORE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2010

None required.

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2010

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:			
<i>Medicaid Administrative Claiming Program - MAC *</i>	93.778	092-902	\$ 12,511
Total U. S. Department of Health and Human Services			12,511
U. S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
<i>ESEA Title I Part A - Improving Basic Programs *</i>	84.010A	10610101092902	603,709
<i>ESEA Title I Part A - Improving Basic Programs *</i>	84.010A	11610101092902	35,154
Total CFDA Number 84.010A			638,863
 <i>IDEA-B Formula *</i>	84.027	10660001092902	680,667
<i>IDEA-B Formula *</i>	84.027	11660001092902	32,281
Total CFDA Number 84.027			712,948
 <i>Career and Technical - Basic Grant</i>	84.048	10420006092902	38,027
<i>Career and Technical - Basic Grant</i>	84.048	11420006092902	2,882
Total CFDA Number 84.048			40,909
 <i>IDEA-B Preschool *</i>	84.173	10661001092902	10,181
 <i>ESEA Title IV Part A-Safe & Drug-Free Schools & Communities Act</i>	84.186A	10691001092902	10,430
<i>ESEA Title IV Part A-Safe & Drug-Free Schools & Communities Act</i>	84.186A	11691001092902	215
Total CFDA Number 84.186A			10,645
 <i>Title II Part D Enhancing Education Through Technology *</i>	84.318X	10630001092902	6,331
 <i>Title III Part A English Language Acq. and Language Enhancement</i>	84.365A	11671001092902	485
<i>Title III Part A English Language Acq. and Language Enhancement</i>	84.365A	10671001092902	40,282
Total CFDA Number 84.186A			40,767
 <i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	10694501092902	143,062
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	11694501092902	5,141
Total CFDA Number 84.367A			148,203
 <i>Title IV Summer School</i>	84.369A	092-902	3,079
 <i>ARRA - Title II Part D Subpart 1-Enhancing Education Through Tech</i>	84.386A	10553001092902	8,495
 <i>ARRA - ESEA, Title I, Part A - Improving Basic Programs *</i>	84.389A	11551001092902	122,018
 <i>ARRA - IDEA-Part B Formula *</i>	84.391A	11554001092902	572,492
 <i>ARRA - IDEA Part B, Preschool *</i>	84.392A	10555001092902	16,000
 <i>ARRA of 2009 Title XIV State Fiscal Stabilization Fund *</i>	84.394A	10557001092902	1,093,891
Total Passed Through State Department of Education			3,424,822
Total U. S. Department of Education			\$ 3,424,822

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2010

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:			
Food Distribution	10.550	092-902	\$ 98,388
School Breakfast Program *	10.553	092-902	299,801
National School Lunch Program *	10.555	092-902	847,510
Total Passed Through State Department of Education			1,245,699
Total U. S. Department of Agriculture			1,245,699
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,683,032

* 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, 2010

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, 2010*

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
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?	\$ --