

KILGORE
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2008

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Kilgore Independent School District
Annual Financial Report
For The Year Ended August 31, 2008

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Introductory Section

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CERTIFICATE OF BOARD

Kilgore Independent School District
Name of School District

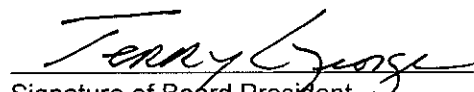
Gregg
County

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, 2008, at a meeting of the board of trustees of such school district on the 17th day of November 2008.



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.

THOMAS DANIEL PHILLIPS, C.P.A.
CINDY ALFORD, C.P.A.

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

(903) 983-2051
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1116 N. KILGORE ST.
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, 2008, 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 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, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2008, 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 the 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.

The Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the Kilgore Independent School District's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brown Bronstad Habenicht & Rosson, PC
BROWN, BRONSTAD, HABENICHT & ROSSON, PC

October 28, 2008

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, 2008. 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 \$24,608,930 to \$26,305,638. 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 \$8,598,587 at August 31, 2008.

Table I
Kilgore Independent School District
NET ASSETS

	Governmental Activities 2008	Governmental Activities 2007
Current and other assets	11,430,907	14,757,763
Capital assets	27,633,441	23,356,335
Total assets	39,064,348	38,114,098
Long-term liabilities	10,203,349	11,111,752
Other liabilities	2,555,361	2,393,416
Total liabilities	12,758,710	13,505,168
Net Assets:		
Invested in capital assets net of related debt	16,773,441	11,636,335
Restricted	933,610	743,206
Unrestricted	8,598,587	12,229,389
Total net assets	26,305,638	24,608,930

Table II
Kilgore Independent School District
CHANGES IN NET ASSETS

	Governmental Activities 2008	Governmental Activities 2007
Revenues:		
Program Revenues:		
Charges for Services	1,069,358	1,747,532
Operating grants and contributions	4,588,650	3,444,643
General Revenues:		
Maintenance and debt service taxes	14,385,865	16,040,819
State aid – formula grants	11,471,146	9,211,684
Grants and Contributions not restricted to specific functions	-0-	-0-
Investment Earnings	624,067	864,747
Miscellaneous	694,981	481,711
Total Revenue	32,834,067	31,791,136
Expenses:		
Instruction, curriculum and media services	18,802,780	16,694,327
Instructional and school leadership	2,259,084	1,948,569
Student support services	2,406,323	2,076,911
Child nutrition	1,678,128	1,548,399
Cocurricular activities	1,228,596	1,238,046
General administration	1,272,708	1,193,527
Plant maintenance, security & data processing	3,022,170	2,900,466
Community services	-0-	25,219
Debt services	467,570	512,624
Facilities acquisition and construction	-0-	-0-
Total Expenses	31,137,359	28,138,088
Increase in net assets before transfers and special items	1,696,708	3,653,048
Net assets, beginning	24,608,930	20,955,882
Net assets, ending	26,305,638	24,608,930

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 \$8,344,447, which is a decrease of \$3,480,674. Included in this year's total change in fund balance is a decrease of \$3,480,007 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 2008, the District had \$27,633,441, 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 increase of \$4,277,106 from last year.

Debt

At year-end, the District had \$10,860,000 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 2009 budget and tax rates:

- Appraised value for the 2009 budget preparation is up \$245,306,371 or 27.1% over 2008 values.
- State Foundation Revenue is expected to decrease by approximately the same amount overall as the increase in local property tax revenue.
- General operating fund spending per student is expected to decrease in the 2009 budget. The decrease in spending is a result of construction related expenditures in the 2008 budget.
- The District's average daily attendance is expected to remain steady at 3,431.

These indicators were taken into account when adopting the general fund budget for 2008. Property tax revenues are expected to increase substantially due to the large increase in values noted earlier. The maintenance and operations tax rate will remain unchanged at \$1.04. Overall revenue per student is expected to remain unchanged from 2008 to 2009 even with the substantial increase in property values and related property taxes, solely due to the state education funding formula put in place during the 2007 legislature. That legislature set target revenue per student of combined local and state funds. As local revenue collections increase, state revenue declines and visa versa so that target revenue per student multiplied by average students on hand equals overall revenue available. 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 flourishing with the current oil and gas boom. Unfortunately, under the current funding formula described briefly above, Kilgore Independent School District does not benefit from the growing property values as most of the other area governmental entities do, requiring that we be cautious and frugal in our budgeting.

Amounts available for appropriation in the general fund are \$26,602,567, a decrease of 14.1% over the final actual expenditure of \$30,967,878. Kilgore Independent School District gave salary increases to all employee classifications, except for teachers with twenty two plus years of experience and administrators for the 2009 year; the majority of this additional cost was made by cutting costs in other areas. During the 2008, year the District completed two major construction projects and several smaller projects with expenditures totaling \$4,723,278, the majority of these funds being taken from the District's Fund Balance.

The 2008-2009 original budget, taking into account indicators above, was adopted projecting a \$96,069 deficit.

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, 2008

1

Data Control Codes		Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 4,465,297
1120	Current Investments	3,158,458
1225	Property Taxes Receivable (Net)	1,339,015
1240	Due from Other Governments	2,163,540
1250	Accrued Interest	16,939
1290	Other Receivables (Net)	14,527
1300	Inventories	38,963
1420	Capitalized Bond and Other Debt Issuance Costs	201,603
Capital Assets:		
1510	Land	1,309,401
1520	Buildings and Improvements, Net	21,602,216
1530	Furniture and Equipment, Net	4,721,824
1800	Restricted Assets	32,565
1000	Total Assets	<u>39,064,348</u>
LIABILITIES:		
2110	Accounts Payable	503,536
2165	Accrued Liabilities	984,237
2180	Due to Other Governments	2,920
2300	Unearned Revenue	55,151
Noncurrent Liabilities:		
2501	Due Within One Year	1,009,517
2502	Due in More Than One Year	10,203,349
2000	Total Liabilities	<u>12,758,710</u>
NET ASSETS		
3200	Invested in Capital Assets, Net of Related Debt	16,773,441
Restricted For:		
3820	State and Federal Programs	321,524
3850	Debt Service	579,521
3880	Scholarships	32,565
3900	Unrestricted	8,598,587
3000	Total Net Assets	<u>\$ 26,305,638</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Assets
		Expenses	Program Revenues Charges for Services	Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 17,950,039	\$ 322,587	\$ 3,380,651	\$ (14,246,801)
12	Instructional Resources and Media Services	570,364	--	1,896	(568,468)
13	Curriculum and Staff Development	282,377	--	66,415	(215,962)
21	Instructional Leadership	594,368	--	10,162	(584,206)
23	School Leadership	1,664,716	81,479	2,619	(1,580,618)
31	Guidance, Counseling, & Evaluation Services	906,914	--	19,551	(887,363)
32	Social Work Services	51,721	--	88	(51,633)
33	Health Services	289,971	--	93,077	(196,894)
34	Student Transportation	1,157,717	--	1,676	(1,156,041)
35	Food Service	1,678,128	552,642	952,554	(172,932)
36	Cocurricular/Extracurricular Activities	1,228,596	112,650	1,527	(1,114,419)
41	General Administration	1,272,708	--	2,190	(1,270,518)
51	Plant Maintenance and Operations	2,663,312	--	4,471	(2,658,841)
52	Security and Monitoring Services	165,129	--	471	(164,658)
53	Data Processing Services	193,729	--	305	(193,424)
72	Interest on Long-Term Debt	440,854	--	50,997	(389,857)
73	Bond Issuance Costs and Fees	26,716	--	--	(26,716)
TG	Total Governmental Activities	<u>31,137,359</u>	<u>1,069,358</u>	<u>4,588,650</u>	<u>(25,479,351)</u>
TP	Total Primary Government	<u>\$ 31,137,359</u>	<u>\$ 1,069,358</u>	<u>\$ 4,588,650</u>	<u>(25,479,351)</u>
General Revenues:					
MT	Property Taxes, Levied for General Purposes				13,209,377
DT	Property Taxes, Levied for Debt Service				1,176,488
SF	State Aid Formula Grants				11,471,146
IE	Investment Earnings				624,067
MI	Miscellaneous				694,981
TR	Total General Revenues				<u>27,176,059</u>
CN	Change in Net Assets				<u>1,696,708</u>
NB	Net Assets - Beginning				24,608,930
NE	Net Assets - Ending				<u>\$ 26,305,638</u>

The accompanying notes are an integral part of this statement.

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

AUGUST 31, 2008

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:			
1110 Cash and Cash Equivalents	\$ 3,303,622	\$ 1,161,675	\$ 4,465,297
1120 Current Investments	3,158,458	--	3,158,458
1225 Taxes Receivable, Net	1,233,531	105,484	1,339,015
1240 Due from Other Governments	2,002,253	161,287	2,163,540
1250 Accrued Interest	16,939	--	16,939
1260 Due from Other Funds	--	5,071	5,071
1290 Other Receivables	9,736	4,791	14,527
1300 Inventories	--	38,963	38,963
1800 Restricted Assets	--	32,565	32,565
1000 Total Assets	<u>\$ 9,724,539</u>	<u>\$ 1,509,836</u>	<u>\$ 11,234,375</u>
LIABILITIES:			
Current Liabilities:			
2110 Accounts Payable	\$ 503,536	\$ --	\$ 503,536
2160 Accrued Wages Payable	856,833	127,404	984,237
2170 Due to Other Funds	5,071	--	5,071
2180 Due to Other Governments	--	2,920	2,920
2300 Unearned Revenue	1,233,530	160,634	1,394,164
2000 Total Liabilities	<u>2,598,970</u>	<u>290,958</u>	<u>2,889,928</u>
FUND BALANCES:			
Reserved Fund Balances:			
3410 Investments in Inventory	--	38,963	38,963
3420 Debt Service	--	579,521	579,521
3450 Reserve for Food Service	--	179,058	179,058
3490 Other Reserves of Fund Balance	--	421,336	421,336
Designated Fund Balance:			
3510 Construction	262,000	--	262,000
3590 Other Designated Fund Balance	200,000	--	200,000
3600 Unreserved	6,663,569	--	6,663,569
3000 Total Fund Balances	<u>7,125,569</u>	<u>1,218,878</u>	<u>8,344,447</u>
4000 Total Liabilities and Fund Balances	<u>\$ 9,724,539</u>	<u>\$ 1,509,836</u>	<u>\$ 11,234,375</u>

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, 2008

Total fund balances - governmental funds balance sheet	\$ 8,344,447
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.	27,633,441
Property taxes receivable, unavailable to pay for current period expenditures, are deferred in the funds.	1,339,013
Payables for bond principal, which are not due in the current period, are not reported in the funds.	(10,860,000)
Payables for compensated absences, which are not due in the current period, are not reported in the funds.	(124,517)
Bond issue costs are capitalized in the statement of net assets.	201,603
Unamortized bond premium.	<u>(228,349)</u>
Net assets of governmental activities - statement of net assets	\$ <u>26,305,638</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, 2008

Data Control Codes		10		98
		General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
5700	Local and Intermediate Sources	\$ 14,759,698	\$ 1,959,951	\$ 16,719,649
5800	State Program Revenues	12,622,961	919,269	13,542,230
5900	Federal Program Revenues	87,140	2,429,206	2,516,346
5020	Total Revenues	<u>27,469,799</u>	<u>5,308,426</u>	<u>32,778,225</u>
EXPENDITURES:				
Current:				
0011	Instruction	15,030,860	2,270,525	17,301,385
0012	Instructional Resources and Media Services	550,718	1,439	552,157
0013	Curriculum and Staff Development	197,128	80,879	278,007
0021	Instructional Leadership	574,997	8,312	583,309
0023	School Leadership	1,590,308	18,405	1,608,713
0031	Guidance, Counseling, & Evaluation Services	872,145	18,019	890,164
0032	Social Work Services	50,264	--	50,264
0033	Health Services	275,456	4,320	279,776
0034	Student Transportation	1,368,426	26,697	1,395,123
0035	Food Service	50,943	1,562,721	1,613,664
0036	Cocurricular/Extracurricular Activities	1,169,338	279	1,169,617
0041	General Administration	1,246,623	--	1,246,623
0051	Plant Maintenance and Operations	2,938,182	1,775	2,939,957
0052	Security and Monitoring Services	155,762	215	155,977
0053	Data Processing Services	173,450	--	173,450
0071	Principal on Long-Term Debt	--	860,000	860,000
0072	Interest on Long-Term Debt	--	440,854	440,854
0073	Bond Issuance Costs and Fees	--	6,350	6,350
0081	Capital Outlay	4,723,278	8,303	4,731,581
6030	Total Expenditures	<u>30,967,878</u>	<u>5,309,093</u>	<u>36,276,971</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,498,079)</u>	<u>(667)</u>	<u>(3,498,746)</u>
Other Financing Sources and (Uses):				
7912	Sale of Real or Personal Property	15,587	--	15,587
7949	Other Resources	2,485	--	2,485
7080	Total Other Financing Sources and (Uses)	<u>18,072</u>	<u>--</u>	<u>18,072</u>
1200	Net Change in Fund Balances	<u>(3,480,007)</u>	<u>(667)</u>	<u>(3,480,674)</u>
0100	Fund Balances - Beginning	10,605,576	1,219,545	11,825,121
3000	Fund Balances - Ending	\$ 7,125,569	\$ 1,218,878	\$ 8,344,447

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, 2008*

Net change in fund balances - total governmental funds	\$ (3,480,674)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	5,603,027
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,217,010)
Trade-in or disposal of capital assets decrease net assets in the SOA, but not in the funds.	(18,072)
The gain or loss on the sale of capital assets is not reported in the funds.	(90,860)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	123,299
Repayment of bond principal is an expenditure in the funds, but is not an expense in the SOA.	860,000
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.	(86,038)
Bond premiums are reported in the funds, but not in the SOA.	<u>23,403</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 1,696,708</u>

The accompanying notes are an integral part of this statement.

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

KILGORE INDEPENDENT SCHOOL DISTRICT**STATEMENT OF FIDUCIARY NET ASSETS****FIDUCIARY FUNDS****AUGUST 31, 2008**

		Agency Fund
Data Control Codes		Student Activity
ASSETS:		
1110	Cash and Cash Equivalents	\$ 133,827
1000	Total Assets	<u>133,827</u>
LIABILITIES:		
Current Liabilities:		
2190	Due to Student Groups	133,827
2000	Total Liabilities	<u>133,827</u>
NET ASSETS		
3000	Total Net Assets	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

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

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2008

Nonmajor Special Revenue Funds: The District accounts for resources restricted to, or designated for, a specific purpose by the District or a grantor in a special revenue fund. State and local financial assistance is accounted for in a State or Local Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Fiduciary funds:

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

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

b. Measurement Focus, Basis of Accounting

Government-Wide 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.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2008

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:
Governmental Funds:

Debt Service Fund: The District uses this fund to account for the resources accumulated and payments made for principal and interest on long-term obligations of governmental funds.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

b. Inventories and Prepaid Items

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies.

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

c. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. Receivable and Payable Balances

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

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

e. Compensated Absences

On retirement or death of certain employees, the District pays any accrued sick leave in a lump case payment to such employee or his/her estate. Individuals employed after October 1, 1985 are not eligible to receive the lump sum payments.

f. Interfund Activity

Interfund activity results from loans, services provided, and 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.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

g. Use of Estimates

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

h. 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.

i. Bond Premium

Bond premiums are deferred and amortized over the term of the bonds using the straight line method. Bond premiums are presented as an increase of the face amount of the bonds payable.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

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

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

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

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

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, 2008, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$4,598,214 and the bank balance was \$5,033,526. The District's cash deposits at August 31, 2008 and during the year ended August 31, 2008, 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	\$ 4,465,297
Exhibit E-1 - Cash and Cash Equivalents	133,827
	<hr/> 4,599,124
Less Petty Cash	(910)
Total Cash Deposits	<hr/> \$ 4,598,214

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

2. Investments:

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

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

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

The District's investments at August 31, 2008 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
TexPool	N/A	\$ 273,706
TexStar	N/A	497
First Public Lone Star Investment Pool	N/A	8
MBIA Municipal Investors Service Corp.	N/A	2,916,812
Total Investments		<u>\$ 3,191,023</u>

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

Exhibit C-1 - Current Investments	\$ 3,158,458
Exhibit C-1 - Restricted Assets	32,565
Total Investments	<u>\$ 3,191,023</u>

3. Analysis of Specific Deposit and Investment Risks:

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

a. Credit Risk

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

At August 31, 2008, 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:

TexPool	AAA
TexStar	AAAm
First Public Lone Star Investment Pool	AAA
MBIA Municipal Investors Services corp	AAA/V1

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

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, 2008

D. Capital Assets

Capital asset activity for the year ended August 31, 2008, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,309,401	\$ --	\$ --	\$ 1,309,401
Construction in progress	2,427,776	--	2,427,776	--
Total capital assets not being depreciated	<u>3,737,177</u>	<u>--</u>	<u>2,427,776</u>	<u>1,309,401</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	30,876,454	7,093,606	176,800	37,793,260
Equipment	7,001,761	612,710	236,333	7,378,138
Vehicles	2,588,657	414,641	189,500	2,813,798
Total capital assets being depreciated	<u>40,466,872</u>	<u>8,120,957</u>	<u>602,633</u>	<u>47,985,196</u>
Less accumulated depreciation for:				
Buildings and improvements	(15,635,663)	(625,486)	(70,105)	(16,191,044)
Equipment	(3,147,874)	(399,043)	(143,963)	(3,402,954)
Vehicles	(2,064,174)	(192,483)	(189,499)	(2,067,158)
Total accumulated depreciation	<u>(20,847,711)</u>	<u>(1,217,012)</u>	<u>(403,567)</u>	<u>(21,661,156)</u>
Total capital assets being depreciated, net	<u>19,619,161</u>	<u>6,903,945</u>	<u>199,066</u>	<u>26,324,040</u>
Governmental activities capital assets, net	<u>\$ 23,356,338</u>	<u>\$ 6,903,945</u>	<u>\$ 2,626,842</u>	<u>\$ 27,633,441</u>

Depreciation was charged to functions as follows:

Instruction	\$ 579,364
Instructional Resources and Media Services	18,207
Curriculum and Staff Development	4,370
Instructional Leadership	11,059
School Leadership	56,003
Guidance, Counseling, & Evaluation Services	16,750
Social Work Services	1,457
Health Services	10,196
Student Transportation	189,230
Food Services	79,414
Extracurricular Activities	106,626
General Administration	26,086
Plant Maintenance and Operations	78,645
Security and Monitoring Services	19,326
Data Processing Services	20,279
	<u>\$ 1,217,012</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2008, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
Other Governmental Funds	General Fund	\$ 5,071	Transfer of receipts
	Other Balances	--	
	Total	<u>\$ 5,071</u>	

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, 2008

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, 2008, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
General obligation bonds	\$ 11,720,000	\$ —	\$ 860,000	\$ 10,860,000	\$ 885,000
Unamortized bond premium	251,752	--	23,403	228,349	—
Compensated absences *	38,478	93,391	7,352	124,517	124,517
Total governmental activities	<u>\$ 12,010,230</u>	<u>\$ 93,391</u>	<u>\$ 890,755</u>	<u>\$ 11,212,866</u>	<u>\$ 1,009,517</u>

* Other long-term liabilities

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

Liability	Activity Type	Fund
Compensated absences	Governmental	General

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2008, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2009	\$ 885,000	\$ 410,391	\$ 1,295,391
2010	920,000	378,804	1,298,804
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
2014-2018	4,825,000	720,401	5,545,401
2019-2023	1,275,000	36,495	1,311,495
Totals	<u>\$ 10,860,000</u>	<u>\$ 2,476,129</u>	<u>\$ 13,336,129</u>

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 2008, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Pension Plan

1. Plan Description

The District contributes to the Teacher Retirement System of Texas (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.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

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 6.58% of the District's covered payroll. The District's employees' contributions to the System for the years ending August 31, 2008, 2007 and 2006 were \$1,169,444, \$1,091,571 and \$976,469, 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, 2008, 2007 and 2006 were \$246,603, \$209,675 and \$192,400, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$1,143,381 for the year ended August 31, 2008.

I. Health Care Coverage

During the year ended August 31, 2008, 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, 2008, and terms of coverage and premium costs are included in the contractual provisions.

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

J. 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, 2008.

K. Risk Pool

During the year ended August 31, 2008, 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, 2007, 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, 2008

L. Restricted Assets

The District has classified as restricted certain current investments that are not available for use in its operations. At August 31, 2008, the District had \$32,565 in current investments that is restricted for scholarship funds.

M. 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, 2008, the components of delinquent taxes receivable are as follows:

	General Fund	Debt Service Fund	Total
Delinquent taxes	\$ 1,681,965	\$ 167,062	\$ 1,849,027
Allowance	(448,434)	(61,578)	(510,012)
Total	\$ 1,233,531	\$ 105,484	\$ 1,339,015

N. 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, 2008 are summarized below:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
State Revenue	\$ 1,954,127	\$ 70,056	\$ --	\$ 2,024,183
Federal Revenue	--	91,231	--	91,231
Other	48,126	--	--	48,126
Totals	\$ 2,002,253	\$ 161,287	\$ --	\$ 2,163,540

O. Other Receivables

Other receivables as of August 31, 2008 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	\$ 9,736	\$ 3,454	\$ 1,337	\$ 14,527

P. General Fund Federal Source Revenue

During the year ending August 31, 2008, general fund federal source revenues consisted of the following:

	CFDA Number	Amount
School Health and Related Services	N/A	\$ 87,140

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2008

Q. Revenue from Local and Intermediate Sources

During the year ending August 31, 2008, revenues from local and intermediate sources consisted of the following:

	General Fund	Federal Special Revenue	Debt Service Fund	Other Funds	Total
Property Taxes	\$ 13,096,771	\$ --	\$ 1,165,795	\$ --	\$ 14,262,566
Investment Earnings	587,167	10,518	26,363	1,238	625,286
Co-curricular Activities	114,669	--	--	--	114,669
Food Service	--	552,643	--	--	552,643
Tuition and Fees	16,800	--	--	--	16,800
Alternative Education Fees	387,266	--	--	--	387,266
Gifts and Bequests	4,498	--	--	--	4,498
Other Revenue	552,527	--	20,446	182,948	755,921
Totals	<u>\$ 14,759,698</u>	<u>\$ 563,161</u>	<u>\$ 1,212,604</u>	<u>\$ 184,186</u>	<u>\$ 16,719,649</u>

R. 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, 2008 consisted of the following:

Reserved for State and Local Special Revenue	\$ 321,524
Reserved for Scholarships	32,565
	<u>\$ 354,089</u>

S School District Retiree Health Plan

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

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. 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 2008, 2007 and 2006. 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, 2008, 2007, and 2006, the State's contributions to TRS-Care were \$182,730, \$170,565, and \$152,572, respectively, the active member contributions were \$118,775, \$110,867, \$99,172, respectively, and the school district's contributions were \$100,502, \$93,811, and \$83,915, respectively, which equaled the required contributions each year.

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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, 2008

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with
		Budgeted Amounts		Actual	Final Budget Positive (Negative)
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 14,179,675	\$ 14,535,923	\$ 14,759,698	\$ 223,775
5800	State Program Revenues	12,408,848	12,067,848	12,622,961	555,113
5900	Federal Program Revenues	120,000	100,000	87,140	(12,860)
5020	Total Revenues	26,708,523	26,703,771	27,469,799	766,028
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	15,175,449	15,192,855	15,030,860	161,995
0012	Instructional Resources and Media Services	556,874	552,004	550,718	1,286
0013	Curriculum and Staff Development	154,975	225,351	197,128	28,223
	Total Instruction & Instr. Related Services	15,887,298	15,970,210	15,778,706	191,504
Instructional and School Leadership:					
0021	Instructional Leadership	526,061	716,761	574,997	141,764
0023	School Leadership	1,552,110	1,606,935	1,590,308	16,627
	Total Instructional & School Leadership	2,078,171	2,323,696	2,165,305	158,391
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	978,984	981,733	872,145	109,588
0032	Social Work Services	50,908	50,723	50,264	459
0033	Health Services	275,301	283,286	275,456	7,830
0034	Student (Pupil) Transportation	1,477,319	1,385,980	1,368,426	17,554
0035	Food Services	40,204	61,636	50,943	10,693
0036	Cocurricular/Extracurricular Activities	1,113,237	1,205,689	1,169,338	36,351
	Total Support Services - Student (Pupil)	3,935,953	3,969,047	3,786,572	182,475
Administrative Support Services:					
0041	General Administration	1,316,263	1,320,263	1,246,623	73,640
	Total Administrative Support Services	1,316,263	1,320,263	1,246,623	73,640
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	3,094,348	3,171,821	2,938,182	233,639
0052	Security and Monitoring Services	170,000	169,000	155,782	13,238
0053	Data Processing Services	193,768	183,268	173,450	9,818
	Total Support Services - Nonstudent Based	3,458,116	3,524,089	3,267,394	256,695
Ancillary Services:					
0061	Community Services	3,150	3,150	-	3,150
	Total Ancillary Services	3,150	3,150	-	3,150
Capital Outlay:					
0081	Capital Outlay	4,500,000	4,758,633	4,723,278	35,355
	Total Capital Outlay	4,500,000	4,758,633	4,723,278	35,355
6030	Total Expenditures	31,178,951	31,869,088	30,967,878	901,210
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(4,470,428)	(5,165,317)	(3,498,079)	1,667,238

KILGORE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
Other Financing Sources (Uses):					
7912	Sale of Real or Personal Property	\$ --	\$ --	\$ 15,587	\$ 15,587
7949	Other Resources	--	--	2,485	2,485
7080	Total Other Financing Sources and (Uses)	--	--	18,072	18,072
1200	Net Change in Fund Balance	(4,470,428)	(5,165,317)	(3,480,007)	1,685,310
0100	Fund Balance - Beginning	10,605,576	10,605,576	10,605,576	--
9000	Fund Balance - Ending	\$ 6,135,148	\$ 5,440,259	\$ 7,125,569	\$ 1,685,310

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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, 2008**

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
1999 and Prior Years	\$	Various	\$	Various	\$	Various
2000		1.3942		.1395		586,779,634
2001		1.4424		.1313		602,719,781
2002		1.4547		.1157		674,780,759
2003		1.4785		.1185		750,070,758
2004		1.50		.1169		764,238,702
2005		1.50		.12		839,156,580
2006		1.50		.112		921,886,126
2007		1.37		.0967		1,084,141,915
2008 (School Year Under Audit)		1.04		.0931		1,260,683,523

1000 Totals

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

10 Beginning Balance 9/1/07	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/08
\$ 395,578	\$ --	\$ 7,883	\$ 2,869	\$ (132,040)	\$ 252,786
71,332	--	2,547	255	(2,171)	66,359
87,942	--	3,446	314	(703)	83,479
130,557	--	6,255	498	807	124,611
142,893	--	7,719	619	(1,850)	132,705
135,384	--	14,695	1,145	(1,916)	117,628
131,208	--	28,419	2,122	(8,417)	92,250
228,249	--	13,961	1,042	(20,527)	192,719
444,023	--	175,019	12,353	(27,214)	229,437
--	14,284,805	12,618,681	1,129,614	20,543	557,053
<u>\$ 1,767,166</u>	<u>\$ 14,284,805</u>	<u>\$ 12,878,625</u>	<u>\$ 1,150,831</u>	<u>\$ (173,488)</u>	<u>\$ 1,849,027</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

KILGORE INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2009-2010
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2008

EXHIBIT J-2

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	\$ --	\$ --	\$ 350,707	\$ 457,429	\$ --	\$ 35,359	\$ 843,495
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	--	--	3,173	--	--	--	3,173
6212	Audit Services	--	--	--	18,750	--	--	18,750
6213	Tax Appraisal and Collection	--	254,794	--	--	--	--	254,794
621X	Other Prof. Services	1,823	--	39,552	3,899	--	24	45,298
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	--	--	--	--	--	--	--
6240	Contr. Maint. and Repair	--	--	--	--	--	--	--
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	--	--	--	--	--
6290	Miscellaneous Contr.	--	--	1,034	1,560	--	--	2,594
6310	Operational Supplies, Materials	--	--	4,826	--	--	--	4,826
6320	Textbooks and Reading	--	--	--	175	--	--	175
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	1,576	--	7,987	15,771	--	11,341	36,675
6410	Travel, Subsistence, Stipends	5,663	--	2,797	4,935	--	475	13,870
6420	Ins. and Bonding Costs	--	--	--	--	--	--	--
6430	Election Costs	3,211	--	--	--	--	--	3,211
6490	Miscellaneous Operating	3,362	--	8,498	6,593	--	1,309	19,762
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	--	--

Total \$ 15,635 \$ 254,794 \$ 418,574 \$ 509,112 \$ -- \$ 48,508 \$ 1,246,623

Total expenditures for General and Special Revenue Funds (9) \$ 34,969,767

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 5,603,049
Total Debt & Lease (6500)	(11)	\$ --
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 2,584,667
Food (Function 35, 6341 and 6499)	(13)	\$ 553,285
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		\$ 509,112

Subtotal 9,250,113

Net Allowed Direct Cost \$ 25,719,654

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 30,876,454
Historical Cost of Buildings over 50 years old	(16)	4,796,228
Amount of Federal Money in Building Cost (Net of #16)	(17)	--
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)	9,590,418
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 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, 2008

EXHIBIT J-3

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2008 (Exhibit C-1 object 3000 for the General Fund only)	\$ 7,125,569
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)	462,000
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	96,522
5	Estimate of one month's average cash disbursements during the regular school session (9/1/08 - 5/31/09)	2,533,578
6	Estimate of delayed payments from state sources (58XX) including August payment delays	1,954,127
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	116,752
8	Estimate of delayed payments from federal sources (59XX)	94,574
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)	5,257,553
11	Excess (Deficit) Undesignated Unreserved General Fund Fund Balance (Line 1 minus Line 10)	\$ 1,868,016

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 two months of operations.

KILGORE INDEPENDENT SCHOOL DISTRICT

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

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	\$ 566,500	\$ 566,500	\$ 563,161	\$ (3,339)
5800	State Program Revenues	10,000	10,000	9,727	(273)
5900	Federal Program Revenues	898,634	898,634	942,737	44,103
5020	Total Revenues	1,475,134	1,475,134	1,515,625	40,491
EXPENDITURES:					
Current:					
Support Services - Student (Pupil):					
0035	Food Services	1,475,134	1,582,283	1,562,721	19,562
	Total Support Services - Student (Pupil)	1,475,134	1,582,283	1,562,721	19,562
6030	Total Expenditures	1,475,134	1,582,283	1,562,721	19,562
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	(107,149)	(47,096)	60,053
1200	Net Change in Fund Balance	--	(107,149)	(47,096)	60,053
0100	Fund Balance - Beginning	265,117	265,117	265,117	--
3000	Fund Balance - Ending	\$ 265,117	\$ 157,968	\$ 218,021	\$ 60,053

KILGORE INDEPENDENT SCHOOL DISTRICT

INTEREST AND SINKING

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

EXHIBIT J-5

Data Control Codes	1		2	3	Variance with Final Budget Positive (Negative)	
	Budgeted Amounts					
	Original	Final		Actual		
REVENUES:						
5700	Local and Intermediate Sources		\$ 1,155,963	\$ 1,201,963	\$ 1,212,604	\$ 10,641
5800	State Program Revenues		101,091	101,091	50,997	(50,094)
5020	Total Revenues		1,257,054	1,303,054	1,263,601	(39,453)
EXPENDITURES:						
Debt Service:						
0071	Principal on Long-Term Debt		1,303,854	860,000	860,000	--
0072	Interest on Long-Term Debt		--	440,854	440,854	--
0073	Bond Issuance Costs and Fees		--	6,500	6,350	150
	Total Debt Service		1,303,854	1,307,354	1,307,204	150
6030	Total Expenditures		1,303,854	1,307,354	1,307,204	150
1100	Excess (Deficiency) of Revenues Over (Under)					
1100	Expenditures		(46,800)	(4,300)	(43,603)	(39,303)
1200	Net Change in Fund Balance		(46,800)	(4,300)	(43,603)	(39,303)
0100	Fund Balance - Beginning		623,124	623,124	623,124	--
3000	Fund Balance - Ending		\$ 576,324	\$ 618,824	\$ 579,521	\$ (39,303)

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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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, 2008, which collectively comprise the Kilgore Independent School District's basic financial statements and have issued our report thereon dated October 28, 2008. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Kilgore Independent School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Kilgore Independent School District's financial statements that is more than inconsequential will not be prevented by the Kilgore Independent School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Kilgore Independent School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered 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*.

This report is intended solely for the information and use of the audit committee, 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
BROWN, BRONSTAD, HABENICHT & ROSSON, PC

October 28, 2008

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

CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 1790

KILGORE, TEXAS 75663-1790

SHAREHOLDER:

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Independent Auditors' Report

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, 2008. 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, 2008.

Internal Control Over Compliance

The 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, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the audit committee, 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
BROWN, BRONSTAD, HABENICHT & ROSSON, PC

October 28, 2008

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2008

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>
84.010	Title I
84.027	Special Education IDEA B

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, 2008

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
2007-1 Deposits were not fully insured or collateralized at all times during the fiscal year ending August 31, 2007.	Resolved	

KILGORE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2008

None needed.

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2008

EXHIBIT K-1
Page 1 of 2

	(1)	(2)	(2A)	(3)
Data Control Codes	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:			
272	Medicaid Administrative Claiming Program (MAC) *	93.778	092-902	\$ 5,589
	Total U. S. Department of Health and Human Services			5,589
	U. S. DEPARTMENT OF EDUCATION Passed Through State Department of Education:			
211	ESEA Title I Part A - Improving Basic Programs	84.010A	08610101092902	607,520
211	ESEA Title I Part A - Improving Basic Programs	84.010A	09610101092902	32,826
	Total CFDA Number 84.010A			640,346
224	IDEA-B Formula *	84.027	0866000109290266	476,617
224	IDEA-B Formula *	84.027	0866000109290266	26,333
	Total CFDA Number 84.027			502,950
244	Vocational Education - Basic Grant	84.048	0842000609290207	37,137
244	Vocational Education - Basic Grant	84.048	09420006092902	2,408
	Total CFDA Number 84.048			39,545
225	IDEA-B Preschool *	84.173	0866100109290266	6,781
204	ESEA Title IV Part A-Safe & Drug-Free Schools & Communities	84.186A	08691001092902	15,083
243	East Texas School to Careers Partnership	84.243A	092-902	1,850
269	Title V, Part A - Innovative Programs	84.298	08685001092902	4,452
262	Title II Part D Enhancing Education Through Technology	84.318	08630001092902	7,705
263	Title III Part A English Language Acquisition and Language Enh.	84.365A	08671001092902	48,288
263	Title III Part A English Language Acquisition and Language Enh.	84.365A	09671001092902	1,229
	Total CFDA Number 84.365A			49,517
255	ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	08694501092902	186,214
255	ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	09694501092902	3,882
	Total CFDA Number 84.367A			190,096
289	Title VI Summer School	84.369A	092-902	2,311
	Total Passed Through State Department of Education			1,460,636
	Total U. S. Department of Education			1,460,636
	U. S. DEPARTMENT OF AGRICULTURE Passed Through State Department of Education:			
240	Food Distribution	10.550	092-902	69,975
240	School Breakfast Program *	10.553	092-902	230,735
240	National School Lunch Program *	10.555	092-902	642,027
	Total Passed Through State Department of Education			942,737
	Total U. S. Department of Agriculture			942,737
	TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,408,962

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

The accompanying notes are an integral part of this schedule.

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

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2008

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, 2008*

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

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