

KILGORE
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2007

This page is left blank intentionally.

Introductory Section

This page is left blank intentionally.

Kilgore Independent School District
Annual Financial Report
For The Year Ended August 31, 2007

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
INTRODUCTORY SECTION		
Certificate of Board.....	2	
FINANCIAL SECTION		
Independent Auditors' Report on Financial Statements.....	6	
Management's Discussion and Analysis (Required Supplementary Information).....	8	
<u>Basic Financial Statements</u>		
Government-Wide Financial Statements:		
Statement of Net Assets.....	15	A-1
Statement of Activities.....	16	B-1
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	17	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Assets.....	18	C-1R
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	19	C-2
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	20	C-3
Statement of Fiduciary Net Assets - Fiduciary Funds.....	21	E-1
Notes to the Financial Statements	22	
<u>Required Supplementary Information:</u>		
Budgetary Comparison Schedules:		
General Fund.....	35	G-1
OTHER SUPPLEMENTARY INFORMATION SECTION		
Schedule of Delinquent Taxes Receivable.....	39	J-1
Indirect Cost Computation Schedule	41	J-2
Fund Balance and Cash Flow Calculation Worksheet (Unaudited)-General Fund.....	42	J-3
Budgetary Comparison Schedules Required by the Texas Education Agency:		
National School Breakfast and Lunch Program.....	43	J-4
Interest and Sinking.....	44	J-5
Report on Internal Control over Financial Reporting and on Compliance and		
Other Matters Based on an Audit of Financial Statements Performed		
in Accordance with <i>Government Auditing Standards</i>	45	
Report on Compliance with Requirements Applicable		
To each Major Program and Internal Control over Compliance		
In Accordance With OMB Circular A-133.....	47	
Schedule of Findings and Questioned Costs	49	
Summary Schedule of Prior Audit Findings.....	50	
Corrective Action Plan.....	51	
Schedule of Expenditures of Federal Awards	52	K-1

Kilgore Independent School District
Annual Financial Report
For The Year Ended August 31, 2007

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Notes to the Schedule of Expenditures of Federal Awards.....	53	
Schedule of Required Responses to Selected School First Indicators.....	54	K-2

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, 2007, at a meeting of the Board of Trustees of such school district on the 15th day of November, 2007.


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)

This page is left blank intentionally.

Financial Section

This page is left blank intentionally.

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
FAX(903) 983-2055
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, 2007, 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, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2007, 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary 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 31, 2007

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, 2007. 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 divide 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 \$20,955,868 to \$24,608,911. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$12,229,370 at August 31, 2007.

Table I
Kilgore Independent School District
NET ASSETS

	Governmental Activities 2007	Governmental Activities 2006
Current and other assets	14,757,744	14,258,201
Capital assets	23,356,335	21,143,193
Total assets	38,114,079	35,401,394
Long-term liabilities	11,111,752	11,855,000
Other liabilities	2,393,416	2,590,526
Total liabilities	13,505,168	14,445,526
Net Assets:		
Invested in capital assets net of related debt	11,636,335	8,487,696
Restricted	743,206	733,619
Unrestricted	12,229,370	11,734,553
Total net assets	24,608,911	20,955,868

Table II
Kilgore Independent School District
CHANGES IN NET ASSETS

	Governmental Activities 2007	Governmental Activities 2006
Revenues:		
Program Revenues:		
Charges for Services	1,747,532	960,609
Operating grants and contributions	3,444,643	4,963,367
General Revenues:		
Maintenance and debt service taxes	16,040,819	15,542,953
State aid – formula grants	9,211,684	7,875,567
Grants and Contributions not restricted to specific functions	-0-	5,837
Investment Earnings	864,747	649,975
Miscellaneous	481,711	417,858
Total Revenue	31,791,136	30,416,166
Expenses:		
Instruction, curriculum and media services	16,694,327	16,680,699
Instructional and school leadership	1,948,569	1,961,072
Student support services	2,076,911	1,956,945
Child nutrition	1,548,399	1,505,372
Cocurricular activities	1,238,046	1,238,941
General administration	1,193,527	1,084,863
Plant maintenance, security & data processing	2,900,466	2,882,089
Community services	25,219	27,015
Debt services	512,624	584,751
Facilities acquisition and construction	-0-	-0-
Total Expenses	28,138,088	27,921,747
Increase in net assets before transfers and special items	3,653,048	2,494,419
Net assets, beginning	20,955,863	18,461,444
Net assets, ending	24,608,911	20,955,863

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 \$11,825,121, which is an increase of \$704,447. Included in this year's total change in fund balance is an increase of \$779,008 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 2007, the District had \$23,356,335 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 \$2,213,142 from last year.

Debt

At year-end, the District had \$11,720,000 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 2008 budget and tax rates:

- Appraised value for the 2008 budget preparation is up \$210,120,207 or 15.88% over 2007 values.
- General operating fund spending per student is expected to increase in the 2008 budget to \$8,921 from actual expenditures of approximately \$8,146.
- The District's average daily attendance is expected to remain steady at 3,484.

These indicators were taken into account when adopting the general fund budget for 2008. Property tax revenues are expected to decrease due to the property tax reductions mandated by the Texas Legislature, even with a sizable increase in property appraisals noted above. The maintenance and operations tax rate decreased by \$0.33 from 2007 to \$1.04. State revenue is expected to increase due to legislation passed during the 2006 special session and 2007 regular session of the Texas Legislature as part of their property tax reduction legislation. Overall revenue per student is expected to remain unchanged from 2007 to 2008.

Amounts available for appropriation in the general fund are \$31,178,951, an increase of 9.51% over the final actual expenditure of \$28,471,711. Kilgore Independent School District gave salary increases to all employee classifications for the 2008 year; the majority of this additional cost will be borne by local sources. In addition, the District is in the midst of several substantial construction projects, with \$4,851,428 budgeted in 2008 for additions on the Kilgore High School Campus. During the 2007 year Kilgore Independent School District expended some \$2.6 million in construction projects across the District. The entire cost of the projects was paid from current year revenues and the District's Fund Balance.

The 2007-2008 original budget, taking into account indicators above, was adopted projecting a \$4,470,428 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, 2007

EXHIBIT A-1

1

Data Control Codes		Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 4,098,042
1120	Current Investments	7,583,501
1225	Property Taxes Receivable (Net)	1,215,714
1240	Due from Other Governments	1,536,878
1250	Accrued Interest	8,987
1290	Other Receivables (Net)	17,119
1300	Inventories	41,683
1420	Capitalized Bond and Other Debt Issuance Costs	221,970
Capital Assets:		
1510	Land	1,309,401
1520	Buildings and Improvements, Net	15,240,789
1530	Furniture and Equipment, Net	4,378,369
1580	Construction in Progress	2,427,776
1800	Restricted Assets	33,850
1000	Total Assets	<u>38,114,079</u>
LIABILITIES:		
2110	Accounts Payable	694,929
2165	Accrued Liabilities	742,497
2300	Unearned Revenue	57,511
Noncurrent Liabilities:		
2501	Due Within One Year	898,479
2502	Due in More Than One Year	11,111,752
2000	Total Liabilities	<u>13,505,168</u>
NET ASSETS		
3200	Invested in Capital Assets, Net of Related Debt	11,636,335
Restricted For:		
3850	Debt Service	709,355
3880	Scholarships	33,851
3900	Unrestricted	12,229,370
3000	Total Net Assets	<u>\$ 24,608,911</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2007

EXHIBIT B-1

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Assets
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
	Government Activities:				
11	Instruction	\$ 15,994,796	\$ 217,130	\$ 2,920,014	\$ (12,857,652)
12	Instructional Resources and Media Services	530,470	--	22	(530,448)
13	Curriculum and Staff Development	169,061	--	62,225	(106,836)
21	Instructional Leadership	423,486	--	984	(422,502)
23	School Leadership	1,525,083	68,670	31,329	(1,425,084)
31	Guidance, Counseling, & Evaluation Services	900,901	--	28,058	(872,843)
32	Social Work Services	47,627	--	--	(47,627)
33	Health Services	249,302	--	131,145	(118,157)
34	Student Transportation	879,081	--	--	(879,081)
35	Food Service	1,548,399	1,366,281	--	(182,118)
36	Cocurricular/Extracurricular Activities	1,238,046	95,451	--	(1,142,595)
41	General Administration	1,193,527	--	--	(1,193,527)
51	Plant Maintenance and Operations	2,615,829	--	--	(2,615,829)
52	Security and Monitoring Services	99,166	--	2,795	(96,371)
53	Data Processing Services	185,471	--	--	(185,471)
61	Community Services	25,219	--	--	(25,219)
72	Interest on Long-Term Debt	495,074	--	268,071	(227,003)
73	Bond Issuance Costs and Fees	17,550	--	--	(17,550)
TG	Total Governmental Activities	28,138,088	1,747,532	3,444,643	(22,945,913)
TP	Total Primary Government	\$ 28,138,088	\$ 1,747,532	\$ 3,444,643	(22,945,913)
	General Revenues:				
	Property Taxes, Levied for General Purposes				14,996,906
	Property Taxes, Levied for Debt Service				1,043,913
	State Aid Formula Grants				9,211,684
	Investment Earnings				864,747
	Miscellaneous				481,711
	Total General Revenues				26,598,961
	Change in Net Assets				3,653,048
	Net Assets - Beginning				20,955,863
	Net Assets - Ending				\$ 24,608,911

The accompanying notes are an integral part of this statement.

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

KILGORE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2007

EXHIBIT C-1

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:				
1110 Cash and Cash Equivalents	\$ 3,031,186	\$ 589,367	\$ 477,488	\$ 4,098,041
1120 Current Investments	7,583,501	--	--	7,583,501
1225 Taxes Receivable, Net	1,120,923	94,791	--	1,215,714
1240 Due from Other Governments	1,305,229	24,686	206,963	1,536,878
1250 Accrued Interest	8,987	--	--	8,987
1260 Due from Other Funds	29,401	8,560	--	37,961
1290 Other Receivables	16,186	511	422	17,119
1300 Inventories	--	--	41,683	41,683
1800 Restricted Assets	--	--	33,850	33,850
1000 Total Assets	\$ 13,095,413	\$ 717,915	\$ 760,406	\$ 14,573,734
LIABILITIES:				
Current Liabilities:				
2110 Accounts Payable	\$ 693,678	\$ --	\$ 1,251	\$ 694,929
2160 Accrued Wages Payable	651,047	--	91,450	742,497
2170 Due to Other Funds	24,187	--	13,774	37,961
2300 Unearned Revenue	1,120,924	94,791	57,511	1,273,226
2000 Total Liabilities	2,489,836	94,791	163,986	2,748,613
FUND BALANCES:				
Reserved Fund Balances:				
3410 Investments in Inventory	--	--	41,683	41,683
3420 Debt Service	--	623,124	--	623,124
3450 Reserve for Food Service	--	--	85,477	85,477
3490 Other Reserves of Fund Balance	--	--	331,303	331,303
Designated Fund Balance:				
3510 Construction	4,000,000	--	--	4,000,000
3530 Capital Expenditures for Equipment	--	--	137,957	137,957
3600 Unreserved	6,605,577	--	--	6,605,577
3000 Total Fund Balances	10,605,577	623,124	596,420	11,825,121
4000 Total Liabilities and Fund Balances	\$ 13,095,413	\$ 717,915	\$ 760,406	\$ 14,573,734

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, 2007

Total fund balances - governmental funds balance sheet	\$ 11,825,121
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.	23,356,337
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,215,714
Payables for bond principal, which are not due in the current period, are not reported in the funds.	(11,720,000)
Bond issue costs are capitalized in the statement of net assets.	221,970
Unamortized bond premium.	(251,752)
Payables for compensated absences, which are not due in the current period, are not reported in the funds.	(38,479)
Net assets of governmental activities - statement of net assets	<u>\$ 24,608,911</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, 2007

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 Local and Intermediate Sources	\$ 16,571,939	\$ 1,116,634	\$ 726,033	\$ 18,414,606
5800 State Program Revenues	9,942,928	268,071	768,520	10,979,519
5900 Federal Program Revenues	131,145	—	2,396,228	2,527,373
5020 Total Revenues	<u>26,646,012</u>	<u>1,384,705</u>	<u>3,890,781</u>	<u>31,921,498</u>
EXPENDITURES:				
Current:				
0011 Instruction	13,194,423	—	2,302,951	15,497,374
0012 Instructional Resources and Media Services	513,037	—	579	513,616
0013 Curriculum and Staff Development	81,971	—	85,742	167,713
0021 Instructional Leadership	413,738	—	984	414,722
0023 School Leadership	1,445,123	—	36,474	1,481,597
0031 Guidance, Counseling, & Evaluation Services	850,551	—	29,046	879,597
0032 Social Work Services	46,279	—	—	46,279
0033 Health Services	239,864	—	—	239,864
0034 Student Transportation	843,785	—	—	843,785
0035 Food Service	50,074	—	1,539,898	1,589,972
0036 Cocurricular/Extracurricular Activities	1,250,494	—	—	1,250,494
0041 General Administration	1,203,964	—	—	1,203,964
0051 Plant Maintenance and Operations	2,863,487	—	7,500	2,870,987
0052 Security and Monitoring Services	90,685	—	2,795	93,480
0053 Data Processing Services	170,602	—	—	170,602
0061 Community Services	23,871	—	—	23,871
0071 Principal on Long-Term Debt	—	6,043,370	—	6,043,370
0072 Interest on Long-Term Debt	—	837,201	—	837,201
0073 Bond Issuance Costs and Fees	—	126,331	—	126,331
0081 Capital Outlay	2,630,292	—	—	2,630,292
6030 Total Expenditures	<u>25,912,240</u>	<u>7,006,902</u>	<u>4,005,969</u>	<u>36,925,111</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>733,772</u>	<u>(5,622,197)</u>	<u>(115,188)</u>	<u>(5,003,613)</u>
Other Financing Sources and (Uses):				
7911 Capital-Related Debt Issued (Regular Bonds)	—	5,661,419	—	5,661,419
7912 Sale of Real or Personal Property	39,200	—	1,405	40,605
7949 Other Resources	6,036	—	—	6,036
7080 Total Other Financing Sources and (Uses)	<u>45,236</u>	<u>5,661,419</u>	<u>1,405</u>	<u>5,708,060</u>
1200 Net Change in Fund Balances	<u>779,008</u>	<u>39,222</u>	<u>(113,783)</u>	<u>704,447</u>
0100 Fund Balances - Beginning	9,826,569	583,902	710,203	11,120,674
3000 Fund Balances - Ending	<u>\$ 10,605,577</u>	<u>\$ 623,124</u>	<u>\$ 596,420</u>	<u>\$ 11,825,121</u>

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, 2007

Net change in fund balances - total governmental funds	\$ 704,447
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	3,407,294
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,136,479)
Trade-in or disposal of capital assets decrease net assets in the SOA, but not in the funds.	(39,200)
The gain or loss on the sale of capital assets is not reported in the funds.	(18,473)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(138,013)
Repayment of bond principal is an expenditure in the funds, but is not an expense in the SOA.	6,043,370
Bond issuance costs and similar items are amortized in the SOA, but not in the funds	127,468
The accretion of interest on capital appreciation bonds is not reported in the funds.	342,127
Compensated absences are reported as the amount earned in the SOA, but as the amount paid in the funds.	21,926
Proceeds of long-term debt is recognized as other financial resources in the funds, but not revenue in the SOA.	(5,450,000)
Bond premiums are reported in the funds, but not in the SOA.	(211,419)
Change in net assets of governmental activities - statement of activities	\$ <u>3,653,048</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, 2007**

		Agency Fund
<u>Data Control Codes</u>		<u>Student Activity</u>
ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 124,869
1000	Total Assets	<u>124,869</u>
LIABILITIES:		
Current Liabilities:		
2190	<i>Due to Student Groups</i>	124,869
2000	Total Liabilities	<u>124,869</u>
NET ASSETS		
3000	Total Net Assets	\$ -

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, 2007

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" 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.

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, 2007

In addition, the District reports the following fund types:

Governmental Funds:

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.

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, 2007

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 sum 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, 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, 2007

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those 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 insure 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, 2007, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$4,222,000 and the bank balance was \$4,434,115. The District's cash deposits at August 31, 2007 were covered by FDIC insurance or by a bank deposit guaranty bond with the District as the owner of the bond. However, cash deposits were not entirely covered by FDIC coverage or a bank deposit guaranty bond at the date of the highest cash balance.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

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

Exhibit C-1 - Cash and Cash Equivalents	\$ 4,098,041
Exhibit E-1 - Cash and Cash Equivalents	124,869
	<u>4,222,910</u>
Less Petty Cash	(910)
Total Cash Deposits	<u>\$ 4,222,000</u>

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

- a. Depository: City National Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$10,000,000.
- c. The highest combined balances of cash, savings and time deposit accounts amounted to \$11,056,293 and occurred during the month of February, 2007.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$100,000.

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, 2007 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
TexPool	N/A	\$ 3,243,830
TexStar	N/A	481
First Public Lone Star Investment Pool	N/A	7
MBIA Municipal Investors Service Corp.	N/A	4,373,033
Total Investments		<u>\$ 7,617,351</u>

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

Exhibit C-1 - Current Investments	\$ 7,583,501
Exhibit C-1 - Restricted Assets	33,850
Total Investments	<u>\$ 7,617,351</u>

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

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, 2007, 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	AAAm
TexStar	AAAm
First Public Lone Star Investment Pool	AAAF/S1+
MBIA Municipal Investors Service Corp.	AAA

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.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

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.

D. Capital Assets

Capital asset activity for the year ended August 31, 2007, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,299,468	\$ 17,426	\$ 7,493	\$ 1,309,401
Construction in progress	861,892	1,565,884	—	2,427,776
Total capital assets not being depreciated	<u>2,161,360</u>	<u>1,583,310</u>	<u>7,493</u>	<u>3,737,177</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	30,061,764	983,987	169,296	30,876,455
Equipment	6,344,286	663,670	6,200	7,001,756
Vehicles	2,490,835	176,323	78,500	2,588,658
Total capital assets being depreciated	<u>38,896,885</u>	<u>1,823,980</u>	<u>253,996</u>	<u>40,466,869</u>
Less accumulated depreciation for:				
Buildings and improvements	(15,187,638)	(567,144)	(119,116)	(15,635,666)
Equipment	(2,780,028)	(374,045)	(6,200)	(3,147,873)
Vehicles	(1,947,382)	(195,290)	(78,500)	(2,064,172)
Total accumulated depreciation	<u>(19,915,048)</u>	<u>(1,136,479)</u>	<u>(203,816)</u>	<u>(20,847,711)</u>
Total capital assets being depreciated, net	<u>18,981,837</u>	<u>687,501</u>	<u>50,180</u>	<u>19,619,158</u>
Governmental activities capital assets, net	<u>\$ 21,143,197</u>	<u>\$ 2,270,811</u>	<u>\$ 57,673</u>	<u>\$ 23,356,335</u>

Depreciation was charged to functions as follows:

Instruction	\$ 535,099
Instructional Resources and Media Services	16,854
Curriculum and Staff Development	1,348
Instructional Leadership	8,764
School Leadership	43,486
Guidance, Counseling, & Evaluation Services	21,301
Social Work Services	1,348
Health Services	9,438
Student Transportation	173,084
Food Services	59,462
Extracurricular Activities	121,734
General Administration	28,099
Plant Maintenance and Operations	76,998
Security and Monitoring Services	17,239
Data Processing Services	20,877
Community Services	1,348
	<u>\$ 1,136,479</u>

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2007, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 29,401	Short-term Loans
Other Governmental Funds	General Fund	8,560	Property Taxes
	Total	\$ 37,961	

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

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, 2007, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 12,313,370	\$ 5,450,000	\$ 6,043,370	\$ 11,720,000	\$ 860,000
Unamortized premiums	59,020	211,419	18,687	251,752	—
Compensated absences *	60,405	8,383	30,310	38,479	38,479
Total governmental activities	\$ 12,432,795	\$ 5,669,802	\$ 6,092,367	\$ 12,010,231	\$ 898,479

* 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, 2007, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2008	\$ 860,000	\$ 440,854	\$ 1,300,854
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
2013-2017	5,550,000	968,757	6,518,757
2018-2022	1,570,000	62,600	1,632,600
Totals	\$ 11,720,000	\$ 2,916,983	\$ 14,636,983

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

3. Refunding of Debt

The District issued \$5,450,000 of Unlimited Tax Refunding Bonds, Series 2006 dated November 16, 2006. The proceeds of the sale of the Bonds, together with other funds of the District, was used to refund the District's outstanding \$5,585,000 Unlimited Tax Refunding Bonds, Series 1997 in order to lower the overall debt service requirements of the District. The refunding resulted in a net present value benefit to the District of \$377,528.

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 2007, 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.

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 6.0% of the District's covered payroll. The District's employees' contributions to the System for the years ending August 31, 2007, 2006 and 2005 were \$1,091,571, \$976,469 and \$911,354, 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, 2007, 2006 and 2005 were \$209,675, \$192,400 and \$155,809, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$984,161 for the year ended August 31, 2007.

I. Health Care Coverage

During the year ended August 31, 2007, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$150 per month per employee and dependents 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, 2007, 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.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

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, 2007.

K. Risk Pool

During the year ended August 31, 2007, 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, 2006, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

L. Restricted Assets

The District has classified as restricted certain current investments that are not available for use in its operations. At August 31, 2007 the District had \$33,850 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, 2007 the components of delinquent taxes receivable are as follows:

	General Fund	Debt Service Fund	Total
Delinquent taxes	\$ 1,592,971	\$ 174,195	\$ 1,767,166
Allowance	(472,048)	(79,404)	(551,452)
Total	\$ 1,120,923	\$ 94,791	\$ 1,215,714

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

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, 2007 are summarized below:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
State Revenue	\$ 1,254,434	\$ 134,787	\$ 24,686	\$ 1,413,907
Federal Revenue	--	72,176	--	72,176
Other	50,795	--	--	50,795
Totals	<u>\$ 1,305,229</u>	<u>\$ 206,963</u>	<u>\$ 24,686</u>	<u>\$ 1,536,878</u>

O. Other Receivables

Other receivables as of August 31, 2007 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	\$ 16,186	\$ 511	\$ 422	\$ 17,119

P. General Fund Federal Source Revenues

During the year ending August 31, 2007, general fund federal source revenues consisted of the following:

	CFDA Number	Amount
School Health and Related Services	N/A	\$ 131,145

Q. Revenue from Local and Intermediate Sources

During the year ending August 31, 2007, revenues from local and intermediate sources consisted of the following:

	General Fund	Federal Special Revenue	Debt Service Fund	Other Funds	Total
Property Taxes	\$ 15,112,354	\$ --	\$ 1,066,483	\$ --	\$ 16,178,837
Investment Earnings	772,173	26,394	47,412	1,796	847,775
Cocurricular Activities	95,452	--	--	--	95,452
Food Service	--	514,000	--	--	514,000
Tuition and Fees	9,100	--	--	--	9,100
Alternative Education Fees	276,700	--	--	--	276,700
Gifts and Bequests	350	--	--	--	350
Other Revenue	305,810	--	2,739	183,843	492,392
Totals	<u>\$ 16,571,939</u>	<u>\$ 540,394</u>	<u>\$ 1,116,634</u>	<u>\$ 185,639</u>	<u>\$ 18,414,606</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, 2007 consisted of the following:

Reserved for State and Local Special Revenue	\$ 298,452
Reserved for Scholarships	32,851
	<u>\$ 331,303</u>

This page is left blank intentionally.

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, 2007

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
REVENUES:					
5700	Local and Intermediate Sources	\$ 16,108,665	\$ 16,108,665	\$ 16,571,939	\$ 463,274
5800	State Program Revenues	10,073,565	10,473,565	9,942,928	(530,637)
5900	Federal Program Revenues	80,000	80,000	131,145	51,145
5020	Total Revenues	26,262,230	26,662,230	26,646,012	(16,218)
EXPENDITURES:					
Current:					
Instruction & Instructional-Related Services:					
0011	Instruction	13,788,355	13,371,719	13,194,423	177,296
0012	Instructional Resources and Media Services	513,689	524,262	513,037	11,225
0013	Curriculum and Staff Development	193,590	203,840	81,971	121,869
	Total Instruction & Instr.-Related Services	14,495,634	14,099,821	13,789,431	310,390
Instructional and School Leadership:					
0021	Instructional Leadership	468,232	464,432	413,738	50,694
0023	School Leadership	1,474,242	1,467,998	1,445,123	22,875
	Total Instructional & School Leadership	1,942,474	1,932,430	1,858,861	73,569
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	837,035	865,599	850,551	15,048
0032	Social Work Services	47,855	47,855	46,279	1,576
0033	Health Services	247,461	247,461	239,864	7,597
0034	Student (Pupil) Transportation	1,043,194	893,101	843,785	49,316
0035	Food Services	41,739	61,280	50,074	11,206
0036	Cocurricular/Extracurricular Activities	1,183,762	1,294,174	1,250,494	43,680
	Total Support Services - Student (Pupil)	3,401,046	3,409,470	3,281,047	128,423
Administrative Support Services:					
0041	General Administration	1,169,625	1,250,725	1,203,964	46,761
	Total Administrative Support Services	1,169,625	1,250,725	1,203,964	46,761
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	3,067,378	3,158,808	2,863,487	295,321
0052	Security and Monitoring Services	87,550	99,104	90,685	8,419
0053	Data Processing Services	223,767	223,767	170,602	53,165
	Total Support Services - Nonstudent Based	3,378,695	3,481,679	3,124,774	356,905
Ancillary Services:					
0061	Community Services	28,787	26,586	23,871	2,715
	Total Ancillary Services	28,787	26,586	23,871	2,715
Capital Outlay:					
0081	Capital Outlay	2,298,000	4,271,000	2,630,292	1,640,708
	Total Capital Outlay	2,298,000	4,271,000	2,630,292	1,640,708
6030	Total Expenditures	26,714,261	28,471,711	25,912,240	2,559,471
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(452,031)	(1,809,481)	733,772	2,543,253
Other Financing Sources (Uses):					
7912	Sale of Real or Personal Property	--	--	39,200	39,200

KILGORE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2007

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
7949	Other Resources	\$ --	\$ --	\$ 6,036	\$ 6,036
7080	Total Other Financing Sources and (Uses)	--	--	45,236	45,236
1200	Net Change in Fund Balance	(452,031)	(1,809,481)	779,008	2,588,489
0100	Fund Balance - Beginning	9,826,569	9,826,569	9,826,569	--
3000	Fund Balance - Ending	\$ 9,374,538	\$ 8,017,088	\$ 10,605,577	\$ 2,588,489

This page is left blank intentionally.

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, 2007

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
1998 and Prior Years	\$	Various	\$	Various	\$	Various
1999		1.2922		.2416		563,113,379
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 (School Year Under Audit)		1.37		.0967		1,084,141,915

1000 Totals

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

10 Beginning Balance 9/1/06	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/07
\$ 349,912	\$ --	\$ 11,158	\$ 2,701	\$ (13,550)	\$ 322,503
81,891	--	2,160	404	(6,252)	73,075
76,593	--	2,998	300	(1,963)	71,332
98,295	--	5,839	532	(1,982)	87,942
140,373	--	7,771	618	(1,427)	130,557
165,758	--	19,401	1,555	(1,909)	142,893
209,441	--	23,630	1,842	(48,585)	135,384
192,184	--	53,310	4,265	(3,401)	131,208
463,016	--	193,945	14,481	(26,341)	228,249
--	15,901,109	14,553,077	1,027,214	123,205	444,023
<u>\$ 1,775,463</u>	<u>\$ 15,901,109</u>	<u>\$ 14,873,289</u>	<u>\$ 1,053,912</u>	<u>\$ 17,795</u>	<u>\$ 1,767,166</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2008-2009

GENERAL AND SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED AUGUST 31, 2007

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	\$ --	\$ --	\$ 342,995	\$ 364,932	\$ --	\$ 28,325	\$ 736,252
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	--	--	2,456	--	--	--	2,456
6212	Audit Services	--	--	--	18,000	--	--	18,000
6213	Tax Appraisal and Collection	--	239,741	--	--	--	--	239,741
621X	Other Prof. Services	3,584	--	46,041	24,860	--	--	74,485
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	--	--	--	--	--	--	--
6240	Contr. Maint. and Repair	--	--	--	--	411	--	411
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	--	--	--	--	--
6290	Miscellaneous Contr.	--	--	4,808	--	--	--	4,808
6310	Operational Supplies, Materials	--	--	3,913	--	--	--	3,913
6320	Textbooks and Reading	--	--	--	159	--	175	334
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	8,799	--	10,524	17,148	--	15,379	51,850
6410	Travel, Subsistence, Stipends	6,843	--	1,445	5,617	--	551	14,456
6420	Ins. and Bonding Costs	--	--	--	--	--	--	--
6430	Election Costs	216	--	--	--	--	--	216
6490	Miscellaneous Operating	4,028	--	5,086	8,893	--	499	18,506
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	38,536	38,536

Total \$ 23,470 \$ 239,741 \$ 417,268 \$ 439,609 \$ 411 \$ 83,465 \$ 1,203,964

Total expenditures for General and Special Revenue Funds (9) \$ 29,918,209

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 3,407,295
Total Debt & Lease (6500)	(11)	\$ --
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 2,529,556
Food (Function 35, 6341 and 6499)	(13)	\$ 495,918
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		\$ 439,609

Subtotal 6,872,378

Net Allowed Direct Cost \$ 23,045,831

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 30,077,074
Historical Cost of Buildings over 50 years old	(16)	4,904,600
Amount of Federal Money in Building Cost (Net of #16)	(17)	--
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)	1,965,154
Historical Cost of Furniture & Equipment over 16 years old	(19)	433,899
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, 2007

EXHIBIT J-3

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2007 (Exhibit C-1 object 3000 for the General Fund only)	\$ 10,605,577
2	Total General Fund Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund only)	--
3	Total General Fund Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	4,000,000
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	470,428
5	Estimate of one month's average cash disbursements during the regular school session (9/1/07 - 5/31/08)	3,117,895
6	Estimate of delayed payments from state sources (58XX) including August payment delays	2,224,022
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	--
8	Estimate of delayed payments from federal sources (59XX)	--
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	--
10	General Fund Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)	9,812,345
11	Excess (Deficit) Undesignated Unreserved General Fund Fund Balance (Line 1 minus Line 10)	\$ 793,232

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 operations.

KILGORE INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2007

EXHIBIT J-4

Data Control Codes	1	2	3	Variance with Final Budget Positive (Negative)
	Budgeted Amounts			
	Original	Final	Actual	
REVENUES:				
5700 Local and Intermediate Sources	\$ 513,000	\$ 534,000	\$ 540,395	\$ 6,395
5800 State Program Revenues	10,000	10,000	9,664	(336)
5900 Federal Program Revenues	880,000	840,000	842,619	2,619
5020 Total Revenues	1,403,000	1,384,000	1,392,678	8,678
EXPENDITURES:				
Current:				
Support Services - Student (Pupil):				
0035 Food Services	1,569,258	1,613,887	1,539,898	73,989
Total Support Services - Student (Pupil)	1,569,258	1,613,887	1,539,898	73,989
6030 Total Expenditures	1,569,258	1,613,887	1,539,898	73,989
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(166,258)	(229,887)	(147,220)	82,667
Other Financing Sources (Uses):				
7912 Sale of Real or Personal Property	--	--	1,405	1,405
7080 Total Other Financing Sources and (Uses)	--	--	1,405	1,405
1200 Net Change in Fund Balance	(166,258)	(229,887)	(145,815)	84,072
0100 Fund Balance - Beginning	410,932	410,932	410,932	--
3000 Fund Balance - Ending	\$ 244,674	\$ 181,045	\$ 265,117	\$ 84,072

KILGORE INDEPENDENT SCHOOL DISTRICT
INTEREST AND SINKING
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2007

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	\$ 1,048,645	\$ 1,048,645	\$ 1,116,634	\$ 67,989
5800	State Program Revenues	259,489	259,489	268,071	8,582
5020	Total Revenues	1,308,134	1,308,134	1,384,705	76,571
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long-Term Debt	384,927	6,066,741	6,043,370	23,371
0072	Interest on Long-Term Debt	960,007	919,814	837,201	82,613
0073	Bond Issuance Costs and Fees	--	127,000	126,331	669
	Total Debt Service	1,344,934	7,113,555	7,006,902	106,653
6030	Total Expenditures	1,344,934	7,113,555	7,006,902	106,653
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(36,800)	(5,805,421)	(5,622,197)	183,224
	Other Financing Sources (Uses):				
7911	Capital-Related Debt Issued (Regular Bonds)	--	5,768,821	5,661,419	(107,402)
7080	Total Other Financing Sources and (Uses)	--	5,768,821	5,661,419	(107,402)
1200	Net Change in Fund Balance	(36,800)	(36,600)	39,222	75,822
0100	Fund Balance - Beginning	583,902	583,902	583,902	--
3000	Fund Balance - Ending	\$ 547,102	\$ 547,302	\$ 623,124	\$ 75,822

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
FAX (903) 983-2055
1116 N. KILGORE ST.
KILGORE, TEXAS 75662

Independent Auditors' Report

Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

Board of Trustees
Kilgore Independent School District
Kilgore, Texas

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kilgore Independent School District as of and for the year ended August 31, 2007, which collectively comprise the Kilgore Independent School District's basic financial statements and have issued our report thereon dated October 31, 2007. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2007-1

Kilgore Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Kilgore Independent School District's response and, accordingly, we express no opinion on it.

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


BROWN, BRONSTAD, HABENICHT & ROSSON, PC

October 31, 2007

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
FAX (903) 983-2055
1116 N. KILGORE ST.
KILGORE, TEXAS 75662

Independent Auditors' Report

Report on Compliance with Requirements Applicable To each Major Program and 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 its major federal program for the year ended August 31, 2007. Kilgore Independent School District's major federal program is 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 its major federal program 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 its major federal program for the year ended August 31, 2007.

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 that we considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, 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 31, 2007

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2007

A. Summary of Auditors' 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>
10.553/10.555	National School Lunch/Breakfast Program

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

2007-1

Deposits were not fully insured or collateralized at all times during the fiscal year ending August 31, 2007. Deposits should be fully insured or collateralized at all times.

C. Federal Award Findings and Questioned Costs

NONE

KILGORE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2007

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
2006-1 Deposits were not fully insured or collateralized at all times during the fiscal year ending August 31, 2006.	Not Resolved	Securities pledged and bonds were increased to ensure the District's deposits were fully secured. However this was not enough to cover the deposits at the date of the highest cash balance.
2006-2 Certain individual organizations had a deficit balance within the activity funds. No organization should be allowed to have a deficit balance.	Resolved	

KILGORE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2007

2007-1

Deposits were not fully insured or collateralized at all times during the fiscal year ending August 31, 2007. Deposits should be fully insured or collateralized at all times.

The District's unsecured balance occurred on the date of the highest cash balance of the fiscal year. The District will meet with the Depository to ensure deposits are fully secured or collateralized.

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2007

EXHIBIT K-1

Data Control Codes	(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
	U. S. DEPARTMENT OF EDUCATION			
	Passed Through State Department of Education:			
211	ESEA Title I Part A - Improving Basic Programs	84.010A	076101092902	\$ 618,442
211	ESEA Title I Part A - Improving Basic Programs	84.010A	08610101092902	22,330
	Total CFDA Number 84.010A			<u>640,772</u>
224	IDEA-B Formula	84.027	0766000109290266	629,023
224	IDEA-B Formula	84.027	0866000109290266	20,903
	Total CFDA Number 84.027			<u>649,926</u>
244	Vocational Education - Basic Grant	84.048	0742000609290207	35,514
244	Vocational Education - Basic Grant	84.048	0842000609290207	1,697
	Total CFDA Number 84.048			<u>37,211</u>
225	IDEA-B Preschool *	84.173	0766100109290266	10,426
204	ESEA Title IV Part A-Safe & Drug-Free Schools & Communities Act	84.186A	07691001092902	16,625
243	East Texas School to Careers	84.243A	092-902	1,860
269	Title V, Part A - Innovative Programs	84.298	07685001092902	3,000
262	Title II Part D Enhancing Education Through Technology	84.318	07630001092902	4,000
263	Title III Part A English Language Acquisition and Language Enhance	84.365A	07671001092902	42,964
263	Title III Part A English Language Acquisition and Language Enhance	84.365A	08671001092902	1,159
	Total CFDA Number 84.365A			<u>44,123</u>
255	ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	07694501092902	139,099
255	ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	08694501092902	4,107
	Total CFDA Number 84.367A			<u>143,206</u>
289	Summer School LEP	84.369A	69550602	2,460
	Total Passed Through State Department of Education			<u>1,553,609</u>
	Total U. S. Department of Education			<u>1,553,609</u>
	U. S. DEPARTMENT OF AGRICULTURE			
	Passed Through State Department of Education:			
240	Food Distribution	10.550	092-902	41,525
240	School Breakfast Program *	10.553	092-902	205,078
240	National School Lunch Program *	10.555	092-902	596,017
	Total Passed Through State Department of Education			<u>842,620</u>
	Total U. S. Department of Agriculture			<u>842,620</u>
	TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,398,229

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

The accompanying notes are an integral part of this schedule.

KILGORE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2007

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, 2007*

<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?	\$ --

This page is left blank intentionally.