

**KILGORE
INDEPENDENT SCHOOL
DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

AUGUST 31, 2012

KILGORE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

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CERTIFICATE OF BOARD

KILGORE INDEPENDENT SCHOOL DISTRICT

Name of School

GREGG

County

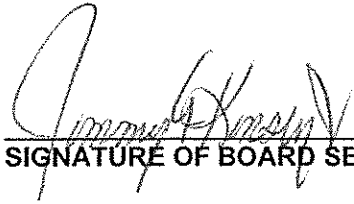
092-902

Co.-Dist Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and

☒ **APPROVED** — ☐ **DISAPPROVED**
(Check One)

for the year ended August 31, 2012 at a meeting of the Board of Trustees of such school district on the 26th day of November, 2012.



SIGNATURE OF BOARD SECRETARY



SIGNATURE OF BOARD PRESIDENT

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

FINANCIAL SECTION

HLSK

Hereford, Lynch, Sellars & Kirkham

Certified Public Accountants • A Professional Corporation

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kilgore Independent School District
301 N. Kilgore St.
Kilgore, TX 75662

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 (District), as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2012, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying other supplementary information, including the schedule of required responses to selected school first indicators, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The other supplementary information, including the schedule of required responses to selected school first indicators and the schedule of expenditures of federal awards, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
November 26, 2012

Management's Discussion and Analysis

As management of the Kilgore Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2012.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$36,528,314 (*net assets*). Of this amount, \$13,766,144 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to students and creditors.
- The District's total net assets increased by \$4,225,412.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$44,782,234, an increase of \$32,485,104.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,525,906, or 22 percent of total general fund expenditures.
- The District's total bonded debt increased by \$43,566,444 during the current fiscal year.

Overview of the Financial Statements

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

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Health Services, Student Transportation, Food Service, Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Current Debt Fees, Facilities Repair and Maintenance, and Other Intergovernmental Charges.

The government-wide financial statements can be found as noted in the table of contents of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains twenty-two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital project funds, which are considered to be major funds. Data from the other nineteen governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found as noted in the table of contents of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of students. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is similar to the accounting used for proprietary funds.

The basic fiduciary fund financial statements can be found as noted in the table of contents of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as noted in the table of contents of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information, which includes schedules required by the Texas Education Agency. Other supplementary information can be found as noted in the table of contents of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$36,528,314 at the close of the most recent fiscal year.

KILGORE INDEPENDENT SCHOOL DISTRICT'S NET ASSETS

	Governmental Activities					
	2012		2011		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and Other Assets	\$ 51,327,518	55	\$ 14,930,104	36	\$ 36,397,414	244
Capital Assets	41,838,479	45	26,919,264	64	14,919,215	55
Total Assets	93,165,997	100	41,849,368	100	51,316,629	
Noncurrent Liabilities	51,829,586	92	8,295,042	87	43,534,544	525
Other Liabilities	4,808,097	8	1,251,424	13	3,556,673	284
Total Liabilities	56,637,683	100	9,546,466	100	47,091,217	
Net Assets:						
Invested in Capital Assets,						
net of Related Debt	21,941,448	60	18,656,122	57	3,285,326	18
Restricted	820,722	2	1,527,751	5	(707,029)	(46)
Unrestricted	13,766,144	38	12,119,029	38	1,647,115	14
Total Net Assets	\$ 36,528,314	100	\$ 32,302,902	100	\$ 4,225,412	

The largest portion of the District's net assets (60 percent) reflects its investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net assets (\$820,722 or 2 percent of net assets) are restricted for debt service. The remaining balance of *unrestricted net assets* (\$13,766,144) may be used to meet the District's ongoing obligations to students and creditors.

Governmental activities. Governmental activities increased the District's net assets by \$4,225,412. Key elements of this change are as follows:

KILGORE INDEPENDENT SCHOOL DISTRICT'S CHANGES IN NET ASSETS

	Governmental Activities					
	2012		2011		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program Revenues:						
Charges for Services	\$ 1,295,012	4	\$ 613,068	2	\$ 681,944	111
Operating Grants and Contributions	5,038,054	14	6,416,532	18	(1,378,478)	(21)
General Revenues:						
Property Taxes, Levied for General Purpose	17,290,236	47	17,118,842	49	171,394	1
Property Taxes, Levied for Debt Service	4,522,507	12	1,144,180	3	3,378,327	295
Grants and Contributions Not Restricted to Specific Programs	8,119,806	22	8,508,479	25	(388,673)	(5)
Investment Earnings	388,829	1	209,796	1	179,033	85
Miscellaneous	174,965	-	779,181	2	(604,216)	(78)
Total Revenues	36,829,409	100	34,790,078	100	2,039,331	
Expenses:						
Instruction	17,412,275	54	18,406,564	57	(994,289)	(5)
Instructional Resources and Media Services	396,765	1	485,432	2	(88,667)	(18)
Curriculum and Staff Development	556,898	2	560,602	2	(3,704)	(1)
Instructional Leadership	341,066	1	349,646	1	(8,580)	(2)
School Leadership	1,854,223	6	1,843,036	6	11,187	1
Guidance, Counseling, and Evaluation Services	790,292	2	915,421	3	(125,129)	(14)
Health Services	236,347	1	326,316	1	(89,969)	(28)
Student Transportation	1,306,048	4	1,281,302	4	24,746	2
Food Service	1,670,710	5	1,686,191	5	(15,481)	(1)
Extracurricular Activities	1,431,849	4	1,297,866	4	133,983	10
General Administration	1,147,798	4	1,094,290	3	53,508	5
Plant Maintenance and Operations	2,658,482	8	2,840,669	9	(182,187)	(6)
Security and Monitoring Services	151,651	-	161,183	1	(9,532)	(6)
Data Processing Services	264,070	1	235,878	1	28,192	12
Community Services	3,748	-	30,886	-	(27,138)	(88)
Interest on Long-term Debt	2,070,312	6	345,291	1	1,725,021	500
Current Debt Fees	-	-	23,823	-	(23,823)	(100)
Facilities Repair and Maintenance	10,495	-	-	-	10,495	100
Other Intergovernmental Charges	300,968	1	265,378	-	35,590	13
Total Expenses	32,603,997	100	32,149,774	100	454,223	
Change in Net Assets	4,225,412		2,640,304		1,585,108	
Net Assets - Beginning	32,302,902		29,662,598		2,640,304	
Net Assets - Ending	\$ 36,528,314		\$ 32,302,902		\$ 4,225,412	

Revenues are generated primarily from two sources. Grants and contributions (program and general revenues totaling \$13,157,860) represent 36 percent of total revenues and property taxes (\$21,812,743) represent 59 percent of total revenues. The remaining 5 percent is generated from charges for services, investment earnings, and miscellaneous revenues. The most significant change was an increase in property taxes due to increased property values and an increase in the debt service tax rate.

The primary functional expense of the District is Instruction (\$17,412,275), which represents 54 percent of total expenses. The remaining functional categories of expenses are individually 10 percent or less than total expenses. The significant change was a decrease in instruction and an increase in interest on long-term debt.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$44,782,234, an increase of \$32,485,104.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,525,906 while total fund balance reached \$10,525,906. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 22 percent of total general fund expenditures, while total fund balance represents 41 percent of that same amount.

The fund balance of the District's general fund decreased by \$159,019 during the current fiscal year. The decrease was primarily due a transfer from General Fund to Capital Projects Fund.

The debt service fund has a total fund balance of \$776,805, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$334,173 and was due to the increase in property tax revenue resulting from the increases in the tax rate and property values exceeded the increase in debt requirements.

The capital projects fund has a total fund balance of \$31,932,555. The increase in fund balance is due to the issuance of bonds.

General Fund Budgetary Highlights

The District amends the budget as needed throughout the year. There were not significant differences between the original budget and the final amended budget of the general fund.

There were no significant variations between final budget and actual results.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental type activities as of August 31, 2012, amounts to \$41,838,479 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment, construction in progress. The total increase in the District's investment in capital assets for the current fiscal year was 55 percent.

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

- \$15,599,184 Construction on new elementary and intermediate school
- \$239,593 Three new buses
- \$190,000 Field replacement

KILGORE INDEPENDENT SCHOOL DISTRICT'S CAPITAL ASSETS (net of depreciation)

	Governmental Activities					
	2012		2011		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land	\$ 1,309,401	3	\$ 1,309,401	5	\$ -	-
Buildings and Improvements, net	18,896,608	45	19,570,627	72	(674,019)	(3)
Furniture and Equipment, net	5,320,357	13	5,326,307	20	(5,950)	-
Construction in Progress	16,312,113	39	712,929	3	15,599,184	2,188
Totals	\$ 41,838,479	100	\$ 26,919,264	100	\$ 14,919,215	

Additional information on the District's capital assets can be found in notes to the financial statements as noted in the table of contents of this report.

Long-term liabilities. At the end of the current fiscal year, the District had total long-term liabilities outstanding of \$51,829,586 for debt backed by the full faith and credit of the District.

KILGORE INDEPENDENT SCHOOL DISTRICT'S OUTSTANDING DEBT

	Governmental Activities					
	2012		2011		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General Obligation Bonds (Net)	\$ 51,829,586	100	\$ 8,263,142	100	\$ 43,566,444	527
Compensated Absences	-	-	31,900	-	(31,900)	(100)
Totals	\$ 51,829,586	100	\$ 8,295,042	100	\$ 43,534,544	

The District's bonded debt increased by \$43,566,444 during the current fiscal year.

The District maintains an "Aaa" rating from Moody's for general obligation debt.

State statutes do not limit the rate or amount for the support of school districts bonded indebtedness.

Additional information on the District's long-term debt can be found in the notes to the financial statements as indicated in the table of contents of this report.

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 2013 budget and tax rates:

- The District's appraised value for the 2013 year remained materially unchanged, increasing \$4,553,030 or 0.267% over 2012 values. This value increase continues a trend since 1997 in which the local values have only decreased one time (2010 to 2011).
- Federal, State and Local revenue combined for general fund expenditures for 2013 are currently projected to decrease slightly from prior years. The past legislative session, 2011, applied a regular program adjustment factor (RPAF), for both 2011-2012 and 2012-2013, to the normal state aid calculation effectively lowering revenue the District would be entitled to in each year.
- The District's overall general fund revenue is still being controlled by the target revenue system implemented by HB 1 in 2009. The system created a "revenue per student" system made up of both local and state sources. At the current time districts across the state have challenged this system in court and are in a "wait-to-see results mode", with no expectation for meaningful change within the next few years.
- Education Jobs Funds, a grant under the federal stimulus program, in the amount of \$638,296 was used to supplant the general fund state target revenue system in 2012. All of the federal stimulus grants received by Kilgore ISD have now ended. In order to properly compare general fund type revenues over the most recent three to five year period these stimulus funds must be taken into account as many of them were used to replace general fund revenue sources.
- Actual general operating fund spending per student is expected to increase slightly from the 2012 budget. In making this determination, the transfer of \$2,040,623 to the District's construction program and the \$1,956,851 expenditure related to the 2005 sale of WADA to Hallsville ISD were not considered.
- In lieu of giving raises to all employees, the district froze salaries at 2011-2012 levels and approved an \$800 supplement to all employee groups payable in two installments during the 2013 year.
- Personnel units, reduced for the 2012 year by 28, were increased by six for the 2013 year with the expectation of the need for additional classrooms in elementary grades. The above personnel units do not consider the custodial units removed when the District employed a third party custodial services company for the first time in 2012.
- The Kilgore Independent School District Board of Trustees, administrators and its entire staff remain focused heavily on making low impact cost reductions trying to be conservative in the face of an unknown financial funding formula and expected increases due to inflation and new costs of opening two new schools in the summer of 2013.
- The District's average daily attendance is expected to increase from 2012 levels by approximately one percent, 3,627 to 3,667. The District Average Daily Attendance increased from 2011 to 2012 by 55 students, or one and a half percent. This trend is expected to continue as several classes with smaller enrollments will be graduating in the next few years and continued larger numbers replacing them at the lower grades.

- Kilgore Independent School District is designated as a Chapter 41 District, although no recapture will be paid at our current wealth per student. Barring any changes to current state law or extraordinarily large increases to our local property values, no recapture is foreseen in the next few years.
- Kilgore Independent School District on May 14, 2011, passed a fifty-five million dollar bond issue for building two new campuses, Pre-K through first grade and sixth through eighth grade, as well as renovations and small additions to both the Intermediate School and Chandler Elementary campuses. This construction is currently underway with construction estimated to be completed in the summer of 2013. The debt service tax rate for 2012 was increased by twenty cents (\$0.20) to \$0.2692 which is expected to be the maximum rate needed over the life of these bonds to cover servicing the debt. The District has one installment of those bonds remaining to be sold, \$9,500,000 of Unlimited Tax School Building Bonds, expected to be sold between December 2012 and January 2013.

These indicators were taken into account when adopting the general fund budget for 2013. The maintenance and operations tax rate remained unchanged at \$1.04, the maximum rate allowable by state law without taxpayer approval. There are only two ways in which Kilgore Independent School District can generate additional revenue: 1) additional students in average daily attendance and 2) receive voter approval for a tax rate above \$1.04.

The overall Kilgore economy is hard to gauge at this time. The Kilgore economy, even with many attempts to diversify, remains highly reliant upon the oil and gas industry. Sales tax revenues generated by the City of Kilgore have been level over the past few months, seeing minor increases and decreases each month. As a result of the many uncertainties related to public education funding in Texas we continue to remain conservative in our budgeting strategies and strive for efficiency in every aspect of our operations.

Amounts available for appropriation in the general fund are \$27,088,046, a decrease of 8.085% over the final actual expenditure of \$29,470,661 in 2012. It should be noted that \$3,997,474 of the 2012 actual expenditure amount was a transfer to the District construction project and that the 2013 budget relies upon a \$766,367 use of fund balance.

All of these factors were considered in preparing the District's budget for the 2013 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, Kilgore Independent School District 301 N. Kilgore St. Kilgore, TX 75662.

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BASIC FINANCIAL STATEMENTS

KILGORE INDEPENDENT SCHOOL DISTRICT**STATEMENT OF NET ASSETS****AUGUST 31, 2012****EXHIBIT A-1**

1

Data Control Codes		Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 4,363,097
1120	Current Investments	44,490,031
1225	Property Taxes Receivable (Net)	1,205,593
1240	Due from Other Governments	395,194
1290	Other Receivables (Net)	204,872
1300	Inventories	42,198
1420	Capital Bond and Other Debt Issuance Costs	626,533
Capital Assets:		
1510	Land	1,309,401
1520	Buildings and Improvements (Net)	18,896,608
1530	Furniture and Equipment (Net)	5,320,357
1580	Construction in Progress	16,312,113
1000	Total Assets	<u>93,165,997</u>
LIABILITIES:		
2110	Accounts Payable	3,869,838
2140	Interest Payable	94,939
2165	Accrued Liabilities	677,834
2180	Due to Other Governments	108,228
2300	Deferred Revenue	57,258
Noncurrent Liabilities:		
2501	Due Within One Year	1,170,000
2502	Due in More Than One Year	50,659,586
2000	Total Liabilities	<u>56,637,683</u>
NET ASSETS		
3200	Invested in Capital Assets (Net of Related Debt)	21,941,448
3850	Restricted for Debt Service	820,722
3900	Unrestricted	13,766,144
3000	Total Net Assets	<u>\$ 36,528,314</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT B-1

		1	3	4	Net (Expense) Revenue and Changes in Net Assets
			Program Revenues		
Data Control Codes	Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
0011	Instruction	\$ 17,412,275	\$ 48,264	\$ 3,134,042	\$ (14,229,969)
0012	Intructional Resources and Media Services	396,765	7,756	18,424	(370,585)
0013	Curriculum and Staff Development	556,898	-	119,081	(437,817)
0021	Instructional Leadership	341,066	-	20,744	(320,322)
0023	School Leadership	1,854,223	47,773	91,987	(1,714,463)
0031	Guidance, Counseling, and Evaluation Services	790,292	-	45,547	(744,745)
0033	Health Services	236,347	-	28,861	(207,486)
0034	Student Transportation	1,306,048	-	48,347	(1,257,701)
0035	Food Service	1,670,710	799,467	1,357,505	486,262
0036	Extracurricular Activities	1,431,849	374,268	29,408	(1,028,173)
0041	General Administration	1,147,798	-	46,757	(1,101,041)
0051	Plant Maintenance and Operations	2,658,482	17,484	37,688	(2,603,310)
0052	Security amd Monitoring Services	151,651	-	-	(151,651)
0053	Data Processing Services	264,070	-	10,050	(254,020)
0061	Community Services	3,748	-	3,748	-
0072	Interest on Long-term Debt	2,070,312	-	45,865	(2,024,447)
0081	Facilities Repair and Maintenance	10,495	-	-	(10,495)
0099	Other Intergovernmental Charges	300,968	-	-	(300,968)
TG	Total Governmental Activities	<u>32,603,997</u>	<u>1,295,012</u>	<u>5,038,054</u>	<u>(26,270,931)</u>
TP	Total Primary Government	<u>\$ 32,603,997</u>	<u>\$ 1,295,012</u>	<u>\$ 5,038,054</u>	<u>(26,270,931)</u>
General Revenues:					
MT	Property Taxes, Levied for General Purposes				17,290,236
DT	Property Taxes, Levied for Debt Services				4,522,507
IE	Investment Earnings				388,829
GC	Grants and Contributions Not Restricted to Specific Programs				8,119,806
MI	Miscellaneous				174,965
TR	Total General Revenues				<u>30,496,343</u>
CN	Change in Net Assets				4,225,412
NB	Net Assets - Beginning				32,302,902
NE	Net Assets - Ending				<u>\$ 36,528,314</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2012

Data Control Codes		199	599
		General Fund	Debt Service Fund
ASSETS:			
1110	Cash and Cash Equivalents	\$ 1,903,685	\$ 775,506
1120	Current Investments	8,846,780	-
1225	Taxes Receivable (Net)	1,066,737	138,856
1240	Due from Other Governments	13,566	-
1260	Due from Other Funds	312,582	-
1290	Other Receivables (Net)	200,445	4,402
1300	Inventories	-	-
1000	Total Assets	\$ 12,343,795	\$ 918,764
LIABILITIES:			
Current Liabilities:			
2110	Accounts Payable	\$ 37,822	\$ -
2160	Accrued Wages Payable	605,102	-
2170	Due to Other Funds	-	3,103
2180	Due to Other Governments	108,228	-
2300	Deferred Revenue	1,066,737	138,856
2000	Total Liabilities	1,817,889	141,959
FUND BALANCES:			
3410	Non-Spendable - Inventories	-	-
3425	Nonspendable Endowment Principal	-	-
3450	Restricted Federal/State Funds Grant Restrictions	-	-
3470	Restricted - Capital Acquisitions and Contractual Obligations	-	-
3480	Restricted - Debt Service	-	776,805
3510	Committed - Construction	3,000,000	-
3530	Committed - Capital Expenditures for Equipment	2,000,000	-
3545	Committed - Other	-	-
3600	Unassigned	5,525,906	-
3000	Total Fund Balances	10,525,906	776,805
4000	Total Liabilities and Fund Balances	\$ 12,343,795	\$ 918,764

The accompanying notes are an integral part of this statement.

EXHIBIT C-1

616	Other Governmental Funds	98 Total Governmental Funds
Capital Projects Funds		
\$ 151,148	\$ 1,532,758	\$ 4,363,097
35,613,148	30,103	44,490,031
-	-	1,205,593
-	381,628	395,194
-	-	312,582
-	25	204,872
-	42,198	42,198
<u>\$ 35,764,296</u>	<u>\$ 1,986,712</u>	<u>\$ 51,013,567</u>
\$ 3,831,741	\$ 275	\$ 3,869,838
-	72,732	677,834
-	309,479	312,582
-	-	108,228
-	57,258	1,262,851
<u>3,831,741</u>	<u>439,744</u>	<u>6,231,333</u>
-	25,799	25,799
-	30,000	30,000
-	152,854	152,854
31,932,555	-	31,932,555
-	-	776,805
-	-	3,000,000
-	-	2,000,000
-	1,338,315	1,338,315
-	-	5,525,906
<u>31,932,555</u>	<u>1,546,968</u>	<u>44,782,234</u>
\$ 35,764,296	\$ 1,986,712	\$ 51,013,567

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KILGORE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
AUGUST 31, 2012

EXHIBIT C-1R

Total Fund Balances - Governmental Funds (Exhibit C-1) **\$ 44,782,234**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental Capital Assets Costs	\$ 68,740,983	
Accumulated Depreciation of Governmental Capital Assets	<u>(26,902,504)</u>	41,838,479

Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.	1,205,593
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Issuance cost related to debt is not a financial resource and, therefore, is not reported in the funds. Issuance cost is amortized over the life of the debt.	626,533
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to bonds payable consisted of:

Bonds Payable, at Original Par	\$ (50,650,000)	
Premium on Bonds Payable	(1,182,881)	
Discount on Bonds Payable	3,295	
Accrued Interest on the Bonds	<u>(94,939)</u>	<u>(51,924,525)</u>

Total Net Assets - Governmental Activities (Exhibit A-1) **\$ 36,528,314**

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

		199	599
Data			
Control			
Codes		General Fund	Debt Service Fund
REVENUES:			
5700	Local and Intermediate Sources	\$ 18,324,884	\$ 4,602,168
5800	State Program Revenues	8,713,113	-
5900	Federal Program Revenues	284,879	45,865
5020	Total Revenues	27,322,876	4,648,033
EXPENDITURES:			
Current:			
0011	Instruction	14,475,684	-
0012	Instructional Resources and Media Services	367,789	-
0013	Curriculum and Staff Development	439,969	-
0021	Instructional Leadership	322,365	-
0023	School Leadership	1,753,878	-
0031	Guidance, Counseling, and Evaluation Services	735,186	-
0033	Health Services	213,457	-
0034	Student Transportation	1,237,035	-
0035	Food Service	11,932	-
0036	Extracurricular Activities	1,116,535	-
0041	General Administration	1,107,273	-
0051	Plant Maintenance and Operations	2,889,176	-
0052	Security and Monitoring Services	133,316	-
0053	Data Processing Services	280,493	-
0061	Community Services	-	-
Debt Service:			
0071	Principal on Long-term Debt	-	2,310,000
0072	Interest on Long-term Debt	-	1,999,659
0073	Issuance Costs and Fees	-	8,150
Capital Outlay:			
0081	Facilities Acquisition and Construction	88,132	-
Intergovernmental:			
0099	Other Intergovernmental Charges	300,968	-
6030	Total Expenditures	25,473,188	4,317,809
1100	Excess (Deficiency) of Revenues Over (Under)		
1100	Expenditures	1,849,688	330,224
Other Financing Sources and (Uses):			
7911	Capital-related Debt Issued (Regular Bonds)	-	-
7912	Sale of Real and Personal Property	31,916	-
7915	Transfers In	-	-
7916	Premium or Discount on Issuance of Bonds	-	3,949
7949	Prior Year State Foundation - WADA Reimbursement	1,956,851	-
8911	Transfers Out	(2,040,623)	-
8949	Refund of WADA Reimbursement to Hallsville ISD	(1,956,851)	-
7080	Total Other Financing Sources and (Uses)	(2,008,707)	3,949
1200	Net Change in Fund Balances	(159,019)	334,173
0100	Fund Balances - Beginning	10,684,925	442,632
3000	Fund Balances - Ending	\$ 10,525,906	\$ 776,805

The accompanying notes are an integral part of this statement.

616	Other Governmental Funds	98 Total Governmental Funds
Capital Projects Funds		
\$ 82,711	\$ 932,576	\$ 23,942,339
-	390,033	9,103,146
-	3,457,910	3,788,654
<u>82,711</u>	<u>4,780,519</u>	<u>36,834,139</u>
-	2,374,704	16,850,388
-	6,311	374,100
-	112,030	551,999
-	8,212	330,577
-	49,688	1,803,566
-	18,001	753,187
-	16,393	229,850
-	12,744	1,249,779
-	1,592,326	1,604,258
-	208,967	1,325,502
-	-	1,107,273
-	-	2,889,176
-	-	133,316
-	-	280,493
-	3,748	3,748
-	-	2,310,000
-	-	1,999,659
518,132	-	526,282
15,609,679	-	15,697,811
-	-	300,968
<u>16,127,811</u>	<u>4,403,124</u>	<u>50,321,932</u>
<u>(16,045,100)</u>	<u>377,395</u>	<u>(13,487,793)</u>
44,855,000	-	44,855,000
-	-	31,916
2,040,623	5,081	2,045,704
1,082,032	-	1,085,981
-	-	1,956,851
-	(5,081)	(2,045,704)
-	-	(1,956,851)
<u>47,977,655</u>	<u>-</u>	<u>45,972,897</u>
31,932,555	377,395	32,485,104
-	1,169,573	12,297,130
<u>\$ 31,932,555</u>	<u>\$ 1,546,968</u>	<u>\$ 44,782,234</u>

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-3

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, 2012

Total Net Changes in Fund Balances - Governmental Funds (Exhibit C-2) **\$ 32,485,104**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Assets <i>increased</i>	\$ 16,346,458	
Depreciation Expense	<u>(1,426,052)</u>	14,920,406

The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is a increase (decrease) to net assets. (1,191)

Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year. (35,455)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Bond Issuance Costs <i>increased</i>	\$ 519,132	
Amortization of Issuance Costs	<u>(33,101)</u>	486,031

Issuance of bonds provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.

Par Value	\$ (44,855,000)	
(Premium) Discount	<u>(1,085,981)</u>	(45,940,981)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 2,310,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The increase (decrease) in interest reported in the statement of activities consist of the following:

Accrued Interest on Current Interest Bonds Payable (<i>increased</i>) decreased	\$ (94,939)	
Amortization of Bond Premium and Discount	<u>64,537</u>	(30,402)

The (increase) decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. 31,900

Change in Net Assets for Governmental Activities (Exhibit B-1) **\$ 4,225,412**

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-4

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		
REVENUES:					
5700	Local and Intermediate Sources	\$ 18,095,021	\$ 18,194,496	\$ 18,324,884	\$ 130,388
5800	State Program Revenues	8,352,608	8,352,608	8,713,113	360,505
5900	Federal Program Revenues	300,000	300,000	284,879	(15,121)
5020	Total Revenues	26,747,629	26,847,104	27,322,876	475,772
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	15,352,010	15,160,341	14,475,684	684,657
0012	Instructional Resources and Media Services	350,470	375,185	367,789	7,396
0013	Curriculum and Staff Development	464,879	479,406	439,969	39,437
	Total Instruction & Instr. Related Services	16,167,359	16,014,932	15,283,442	731,490
Instructional and School Leadership:					
0021	Instructional Leadership	328,892	341,106	322,365	18,741
0023	School Leadership	1,745,972	1,780,969	1,753,878	27,091
	Total Instructional & School Leadership	2,074,864	2,122,075	2,076,243	45,832
Support Services - Student (Pupil):					
0031	Guidance, Counseling, and Evaluation Services	829,807	851,407	735,186	116,221
0033	Health Services	241,233	241,233	213,457	27,776
0034	Student Transportation	1,248,118	1,317,518	1,237,035	80,483
0035	Food Service	14,431	24,431	11,932	12,499
0036	Extracurricular Activities	1,050,119	1,132,021	1,116,535	15,486
	Total Support Services - Student (Pupil)	3,383,708	3,566,610	3,314,145	252,465
Administrative Support Services:					
0041	General Administration	1,145,770	1,163,755	1,107,273	56,482
	Total Administrative Support Services	1,145,770	1,163,755	1,107,273	56,482
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	3,274,570	3,141,016	2,889,176	251,840
0052	Security and Monitoring Services	144,000	144,000	133,316	10,684
0053	Data Processing Services	276,358	285,546	280,493	5,053
	Total Support Services - Nonstudent Based	3,694,928	3,570,562	3,302,985	267,577
Ancillary Services:					
0061	Community Services	1,000	1,000	-	1,000
	Total Ancillary Services	1,000	1,000	-	1,000
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	88,170	88,132	38
	Total Capital Outlay	-	88,170	88,132	38
Intergovernmental Charges:					
0099	Other Intergovernmental Charges	280,000	320,000	300,968	19,032
	Total Intergovernmental Charges	280,000	320,000	300,968	19,032
6030	Total Expenditures	26,747,629	26,847,104	25,473,188	1,373,916
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	-	-	1,849,688	1,849,688
Other Financing Sources (Uses):					
7912	Sale of Real and Personal Property	-	-	31,916	31,916
7949	Other Resources	-	1,956,851	1,956,851	-
8911	Transfers Out	-	(2,040,623)	(2,040,623)	-
8949	Other Uses	-	(1,956,851)	(1,956,851)	-
7080	Total Other Financing Sources and (Uses)	-	(2,040,623)	(2,008,707)	31,916
1200	Net Change in Fund Balance	-	(2,040,623)	(159,019)	1,881,604
0100	Fund Balance - Beginning	10,684,925	10,684,925	10,684,925	-
3000	Fund Balance - Ending	\$ 10,684,925	\$ 8,644,302	\$ 10,525,906	\$ 1,881,604

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
AUGUST 31, 2012

EXHIBIT E-1

Data Control Codes		865 Agency Fund
		Student Activity
ASSETS:		
1110	Cash and Cash Equivalents	\$ 123,139
1000	Total Assets	<u>\$ 123,139</u>
LIABILITIES:		
Current Liabilities:		
2190	Due to Student Groups	\$ 123,139
2000	Total Liabilities	<u>\$ 123,139</u>

The accompanying notes are an integral part of this statement.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Kilgore Independent School District (District) is governed by a seven-member board of trustees (Board), which has governance responsibilities over all activities related to public, elementary and secondary education within the District. Because members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. The accompanying financial statements present the District. There are no component units, entities for which the District is considered to be financially accountable, included within the reporting entity.

The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Depreciation expense has been allocated to all applicable functions in order to present the expenditures of the District more accurately in the statement of activities. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grant revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects fund* is used to account for the expenditures of resources accumulated from sales of bonds and related interest earnings for the acquisition and construction of school facilities.

Additionally, the District reports in the following fund types:

The *agency fund* is used to account for assets held by the District as an agent for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement or results of operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted (committed, assigned, or unassigned) resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. The District considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classification could be used.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and demand or certificate of deposits with original maturities of one year or less from the date of acquisition.

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges collateral, which complies with state law. The collateral is approved by the Texas Education Agency and shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of collateral is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

State statutes authorize the District to invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, or investment pools.

Investments for the District are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012

All property tax receivables are shown net of an allowance for uncollectible. The property tax receivable allowance is equal to 31 percent of outstanding property taxes at August 31, 2012. Revenues from property taxes are recognized when levied to the extent they are available. The District considers property taxes as available when collected. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements.

Property values are determined by both the Gregg County Central Appraisal District and the Rusk County Central Appraisal District, as of January 1 of each year. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

3. *Inventories and Deferred Expenses*

All inventories are valued at cost using the first-in first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as deferred expenses in both government-wide and fund financial statements.

4. *Capital Assets*

Capital assets, which include land, buildings and improvements and furniture and equipment, are reported in the governmental column in the government-wide financial statements. The cost of the infrastructure (e.g., roads, bridges, sidewalks, and similar items) was initially capitalized with the building cost and is being depreciated over the same useful life as the building. Capital assets are defined by the District as assets with an initial, individual cost, which equals or exceeds \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	45
Building Improvements	8-20
Vehicles	6
Furniture and Equipment	3-20

5. *Compensated Absences*

The term leave includes local and state personal days and state sick leave days. Effective September 1, 2011, the District revised its policy on compensated absences that does not require benefits to be paid when employees separate from service with the District for local leave earned. Vested benefits remaining from the prior fiscal year will be forfeited at fiscal year end.

The District does not have a liability for unpaid vacation at year-end due to the District's policy does not allow a carryover of vacation days not taken at August 31.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012

6. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund Equity

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., Board of Trustees). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the Board or by an official or body to which the Board delegates the authority.
- Unassigned fund balance - the residual amounts that are available for any purpose.

The Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Superintendent or his designee through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

8. Use of Estimates

The presentation of financial statements, in conformity with the generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

9. Data Control Codes

The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide data base for policy development and funding plans.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, National School Breakfast and Lunch Program special revenue fund and debt service fund. All other governmental funds adopt project length budgets. All annual appropriations lapse at fiscal year-end. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

The appropriated budget is prepared by fund, function, and campus/department. The District's campus/department heads may make transfers of appropriations within a department. Transfers of appropriations between campus/departments require the approval of the District's management. Transfers of appropriations between functions require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. The District made several supplemental budgetary appropriations throughout the year which were not significant.

B. Excess of Expenditures Over Appropriations

For the year ended August 31, 2012, expenditures exceeded appropriations in the functions (the legal level of budgetary control) of the following funds:

<u>Fund</u>	<u>Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
None		\$	\$	\$

There were no excess expenditures.

III. Detailed Notes on All Funds

A. Deposits and Investments

As of August 31, 2012, the District had the following governmental activities investments:

<u>Investment Type</u>	<u>Standard & Poor's Rating</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Texas CLASS	AAAm	\$ 5,068,310	0.14
Texpool - LGIP	AAAm	495,273	0.11
TexStar	AAAm	504	0.19
Lone Star Investment Pool - Government Overnight Fund	AAAm	7,498	0.30
Lone Star Investment Pool - Corporate Overnight Fund	AAAm	3,305,298	0.15
LOGIC	AAAm	35,613,148	0.14
Total Fair Value		\$ 44,490,031	
Portfolio Weighted Average Maturity			0.14

Credit risk. For fiscal year 2012, the District invested in Texas Cooperative Liquid Assets Securities Trust (CLASS), Texpool, Lone Star Investment Pool, TexStar and Local Government Investment Cooperative (LOGIC). Texpool is duly chartered and administered by the State Comptroller's Office. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC formerly the Texas Association of School Boards Financial Services. LOGIC is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Southwest Asset Management, Inc. and JP Morgan Chase. TexStar is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Southwest Asset Management, Inc. and JP Morgan Chase. Texas CLASS is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by Cutwater Investor Services Corporate.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012

Interest rate risk. Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of any internally created pool to no more than 180 days and any individual investment to one year from purchase, unless approved by the Board of Trustees.

Concentration of credit risk. The District's investment policy limits the amount of a single security type or financial institution to fifty percent of the District's total investment portfolio excluding U.S. Treasury securities and authorized pools.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2012, District's bank balance of \$4,813,197 was not exposed to custodial credit risk because it was insured and collateralized with securities held by the District's agent and in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial risk due to the investments are insured or registered, or securities held by the District or its agent in the District's name.

B. Receivables

Receivables as of year-end for the District's individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Debt Service	Nonmajor Governmental Funds	Total
Receivables:				
Property Taxes	\$ 1,572,681	\$ 183,227	\$ -	\$ 1,755,908
Due From Other Governments	13,566	-	381,628	395,194
Other	200,445	4,402	25	204,872
Gross Receivables	1,786,692	187,629	381,653	2,355,974
Less: Allowance for Uncollectibles	(505,944)	(44,371)	-	(550,315)
Net Total Receivables	\$ 1,280,748	\$ 143,258	\$ 381,653	\$ 1,805,659

Tax revenues of the general and debt service fund are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period increased (decreased) revenues as follows:

Uncollectibles Related to General Fund Property Taxes	\$ (14,273)
Uncollectibles Related to Debt Service Property Taxes	2,681
Total Uncollectibles of the Current Fiscal Year	\$ (11,592)

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent Property Taxes Receivable (General Fund)	\$ 1,066,737	\$ -
Delinquent Property Taxes Receivable (Debt Service Fund)	138,856	-
Grant Draw downs Prior To Meeting all Eligibility Requirements	-	57,258
Total Deferred/Unearned Revenue For Governmental Funds	\$ 1,205,593	\$ 57,258

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012

C. Interfund Receivables, Payables, and Transfers

The composition of interfund receivable/payable balances as of August 31, 2012, is as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 312,582	\$ -
Debt Service Fund	-	3,103
Other Governmental Funds - Nonmajor	-	309,479
Total	\$ 312,582	\$ 312,582

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

Interfund transfers are defined as "flows of assets without equivalent flow of assets in return and without a requirement for repayment." The following is a summary of the District's interfund transfers for the year ended August 31, 2012.

Transfer Out	Transfer In	Amount
General Fund	Capital Projects Fund	\$ 2,040,623
Other Governmental Funds - Nonmajor	Other Governmental Funds - Nonmajor	5,081
Total		\$ 2,045,704

The District transferred \$2,040,623 from the General Fund to the Capital Projects Fund for projects completed and paid for using General Fund reserves. The District transferred \$2,514 from Food Service to Summer Feeding Program to absorb the deficit fund balance. The District transferred the remaining fund balance from Technology Allotment to Instructional Materials Allotment for \$2,567.

D. Capital Assets

Capital asset activity for the year ended August 31, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 1,309,401	\$ -	\$ -	\$ 1,309,401
Construction in Progress	712,929	15,599,184	-	16,312,113
Total Capital Assets, not being Depreciated	2,022,330	15,599,184	-	17,621,514
Capital Assets, being Depreciated:				
Buildings and Improvements	37,857,850	-	-	37,857,850
Furniture and Equipment	12,656,592	747,274	(142,247)	13,261,619
Total Capital Assets, being Depreciated	50,514,442	747,274	(142,247)	51,119,469
Less Accumulated Depreciation for:				
Buildings and Improvements	(18,287,223)	(674,019)	-	(18,961,242)
Furniture and Equipment	(7,330,285)	(752,033)	141,056	(7,941,262)
Total Accumulated Depreciation	(25,617,508)	(1,426,052)	141,056	(26,902,504)
Total Capital Assets, being Depreciated, net	24,896,934	(678,778)	(1,191)	24,216,965
Governmental Activities Capital Assets, net	\$ 26,919,264	\$ 14,920,406	\$ (1,191)	\$ 41,838,479

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012

Depreciation expense was charged to functions of the District as follows:

Governmental Activities:

Instruction	\$ 670,872
Instructional Resources and Media Services	23,106
Curriculum Development and Instructional Staff Development	5,437
Instructional Leadership	10,873
School Leadership	53,007
Guidance, Counseling, and Evaluation Services	38,056
Health Services	6,796
Student Transportation	296,894
Food Service	90,873
Extracurricular Activities	107,344
General Administration	41,790
Plant Maintenance and Operations	58,468
Security and Monitoring Services	18,335
Data Processing Services	4,201
Total Depreciation Expense-Governmental Activities	\$ 1,426,052

Construction Commitments

The District has active construction projects as of August 31, 2012. The projects include the construction and equipment of school facilities. At year end, the District's total commitments with contractors totals \$33,456,952. The commitment for construction and equipment of school facilities is being financed by bonds secured by tax revenues and local funds.

E. Long-term Liabilities

The District's long-term liabilities consist of bond indebtedness and compensated absences. The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The requirements for compensated absences are accounted for in the general fund.

Changes in Long-term Liabilities

Long-term liability activity for the year ended August 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 8,105,000	\$ 44,855,000	\$ (2,310,000)	\$ 50,650,000	\$ 1,170,000
Less Deferred Amounts:					
For Issuance Premium (Discount) (CIB's)	158,142	1,085,981	(64,537)	1,179,586	-
Total Bonds Payable, net	8,263,142	45,940,981	(2,374,537)	51,829,586	1,170,000
Compensated Absences	31,900	-	(31,900)	-	-
Governmental Activity Long-term Liabilities	\$ 8,295,042	\$ 45,940,981	\$ (2,406,437)	\$ 51,829,586	\$ 1,170,000

General Obligation Bonds

The District issues general obligation bonds to provide funds for the construction and equipment of school facilities and to refund general obligation bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds are issued as 12-27 year current interest (CIB) with various amounts of principal maturing each year. The following is a summary of changes in the general obligation bonds for the fiscal year.

Series	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2003	2.5-3.5%	\$ 4,960,000	2018	\$ 2,275,000	\$ -	\$ (295,000)	\$ 1,980,000
2004	3.5-5.0%	3,405,000	2019	2,095,000	-	(220,000)	1,875,000
2006	3.5-5.5%	5,450,000	2018	3,735,000	-	(470,000)	3,265,000
2011	1.5-5.0%	40,605,000	2038	-	40,605,000	(1,325,000)	39,280,000
2012	3.50%	4,250,000	2027	-	4,250,000	-	4,250,000
Total Bonds Payable				\$ 8,105,000	\$ 44,855,000	\$ (2,310,000)	\$ 50,650,000

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending August 31	Principal Value	Interest	Total Requirements
2013	\$ 1,170,000	\$ 2,058,186	\$ 3,228,186
2014	1,205,000	1,944,116	3,149,116
2015	1,250,000	1,902,040	3,152,040
2016	1,290,000	1,857,228	3,147,228
2017	1,350,000	1,804,837	3,154,837
2018	1,410,000	1,743,880	3,153,880
2019	1,460,000	1,692,245	3,152,245
2020	1,510,000	1,639,125	3,149,125
2021	1,565,000	1,585,750	3,150,750
2022	1,620,000	1,529,625	3,149,625
2023	1,685,000	1,470,500	3,155,500
2024	1,745,000	1,408,375	3,153,375
2025	1,800,000	1,350,125	3,150,125
2026	1,860,000	1,289,000	3,149,000
2027	1,940,000	1,217,750	3,157,750
2028	2,030,000	1,130,375	3,160,375
2029	2,125,000	1,037,125	3,162,125
2030	2,215,000	950,325	3,165,325
2031	2,305,000	859,925	3,164,925
2032	2,400,000	764,325	3,164,325
2033	2,500,000	663,263	3,163,263
2034	2,610,000	556,238	3,166,238
2035	2,720,000	442,975	3,162,975
2036	2,835,000	324,931	3,159,931
2037	2,960,000	199,938	3,159,938
2038	3,090,000	67,594	3,157,594
Totals	\$ 50,650,000	\$ 31,489,796	\$ 82,139,796

As of August 31, 2012, the District had \$9,500,000 in authorized but unissued bonds remaining from the May 14, 2011 bond election.

F. Fund Balance

Other committed fund balance includes the following commitments of funds:

Other Governmental Fund:	
Food Service	\$ 1,097,843
Campus Activity	240,369
Gene & Nora Elder Scholarship	103
Total Other Committed Fund Balance	\$ 1,338,315

G. Revenues from Local and Intermediate Sources

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

	General Fund	Debt Service Fund	Capital Projects Fund	Other Funds	Totals
Property Taxes	\$ 17,380,261	\$ 4,467,937	\$ -	\$ -	\$ 21,848,198
Investment Income	173,706	127,240	82,711	5,172	388,829
Food Sales	-	-	-	566,967	566,967
Extracurricular Student Activities	117,624	-	-	360,187	477,811
Other	653,293	6,991	-	250	660,534
Total	\$ 18,324,884	\$ 4,602,168	\$ 82,711	\$ 932,576	\$ 23,942,339

IV. Other Information

A. Risk Management

Property/Liability

The District is exposed to various risks of loss related to property/liability losses for which the District carries commercial insurance.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2012

Health Insurance

During the year ended August 31, 2012, employees of the District were covered by a health insurance plan. The District paid premiums of \$225 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents.

Workers' Compensation

The District participates in the Deep East Texas Self Insurance Fund for workers' compensation. The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for workers' compensation coverage and develop a comprehensive loss control program. The District pays an annual premium to the Fund for its workers' compensation coverage and transfers the risk of loss to the Fund. The District's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and will provide, through commercial companies, reinsurance contracts. The Fund maintains stop loss coverage for any claim in excess of the Fund's self-insured retention of \$850,000 per individual. In the event that the Fund was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the Fund. In addition, 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.

B. Litigation and Contingencies

The District is involved in legal disputes arising principally in the normal course of operations. In the opinion of the District's management, the potential losses, after insurance coverage, on all allegations, claims, and lawsuits will not have a material effect on the District's financial position, results of operations or liquidity.

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through August 31, 2012, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

C. Defined Benefit Pension Plan

Pension Plan for Employees Participating in Teacher Retirement System

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.4% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year; (2) state statute prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. Contribution rates and contributions for fiscal years 2012-2010 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the reporting district is required to make all or a portion of the state's and/or member's contribution and on the portion of the employees' salaries that exceeded the statutory minimum.

KILGORE INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****AUGUST 31, 2012****Contribution Rates and Contribution Amounts**

Year	Member		State		School District Statutory
	Rate	Amount	Rate	Amount	Amount
2012	6.4%	\$ 1,180,017	6.000%	\$ 899,959	\$ 107,559
2011	6.4%	\$ 1,247,267	6.644%	\$ 1,247,261	\$ 125,202
2010	6.4%	\$ 1,241,367	6.644%	\$ 1,241,367	\$ 112,014

For the current fiscal year and each of the past two years, the District's actual contributions were equal to 100 percent of the required contributions. The contributions made by the State are on behalf of the District and have been recorded in the governmental funds' financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

D. School District Retiree Health Plan

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

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2012-2010.

Contribution Rates

Year	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2012	0.65%	\$ 119,845	1.00%	\$ 169,441	0.55%	\$ 101,408
2011	0.65%	\$ 126,675	1.00%	\$ 194,885	0.55%	\$ 107,187
2010	0.65%	\$ 126,076	1.00%	\$ 193,964	0.55%	\$ 106,680

In addition, the State of Texas contributed \$85,834, \$51,736 and \$49,088 in 2012, 2011, and 2010, respectively, for on-behalf payments for Medicare Part D and Early Retiree Reinsurance Program.

For the current fiscal year and each of the past two years, the District's actual contributions were equal to 100 percent of the required contributions. The contributions made by the State are on behalf of the District and have been recorded in the governmental funds' financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

E. Nonmonetary Transactions

During 2012, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of \$228,123. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of \$228,123 in a special revenue fund as both state revenues and expenditures, which represents the amount of consideration given by the State of Texas.

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OTHER SUPPLEMENTARY INFORMATION

KILGORE INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2012**

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2003 and Prior Years	\$	Various	\$	Various	\$	Various
2004		1.5000		0.1169		764,238,702
2005		1.5000		0.1200		839,156,580
2006		1.5000		0.1120		921,886,126
2007		1.3700		0.0967		1,084,141,915
2008		1.0400		0.0931		1,260,683,523
2009		1.0400		0.0810		1,585,005,174
2010		1.0400		0.0692		1,679,917,890
2011		1.0400		0.0692		1,637,686,080
2012 (School Year Under Audit)		1.0400		0.2692		1,655,149,175

1000 Totals

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

10 Beginning Balance 9/1/11	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/12
\$ 377,051	\$ -	\$ 12,513	\$ 1,003	\$ (45,355)	\$ 318,180
87,117	-	1,907	149	(1,709)	83,352
65,819	-	2,438	182	(893)	62,306
96,401	-	4,761	355	(831)	90,454
113,530	-	9,812	693	4,198	107,223
160,420	-	14,606	1,307	914	145,421
180,918	-	31,390	2,445	2,112	149,195
291,798	-	52,509	3,494	(76,545)	159,250
401,355	-	170,103	11,318	(8,053)	211,881
-	21,669,213	16,903,325	4,375,361	38,119	428,646
<u>\$ 1,774,409</u>	<u>\$ 21,669,213</u>	<u>\$ 17,203,364</u>	<u>\$ 4,396,307</u>	<u>\$ (88,043)</u>	<u>\$ 1,755,908</u>
		\$ -	\$ -		

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2013-2014 GENERAL AND SPECIAL REVENUE FUNDS FOR THE YEAR ENDED AUGUST 31, 2012

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION AND FUNCTION 99 - APPRAISAL DISTRICT COST

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ -	\$ -	\$ 345,868	\$ 567,807	\$ -	\$ -	\$ 913,675
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	-	-	23,018	-	-	-	23,018
6212	Audit Services	-	-	-	27,650	-	-	27,650
6213	Tax Appraisal and Collection	-	342,877	-	-	-	-	342,877
621X	Other Prof. Services	-	-	-	-	-	-	-
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	600	5,631	-	-	6,231
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	-	-	-	-
6290	Miscellaneous Contr.	1,190	-	918	11,802	-	-	13,910
6310	Operational Supplies, Materials	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	198	-	-	-	198
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies, Materials	-	-	14,571	14,301	-	4,927	33,799
6410	Travel, Subsistence, Stipends	6,800	-	8,892	8,341	-	-	24,033
6420	Ins. and Bonding Costs	-	-	-	-	-	-	-
6430	Election Costs	2,619	-	-	-	-	-	2,619
6490	Miscellaneous Operating	1,591	-	11,069	4,886	-	2,685	20,231
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-

Total \$ 12,200 \$ 342,877 \$ 405,134 \$ 640,418 \$ - \$ 7,612 \$ 1,408,241

Total Expenditures for General and Special Revenue Funds (9) \$ 29,876,312

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600) (10) \$ 747,274
 Total Debt & Lease (6500) (11) \$ -
 Plant Maintenance (Function 51, 6100-6400) (12) \$ 2,600,886
 Food (Function 35, 6341 and 6499) (13) \$ 614,851
 Stipends (6413) (14) \$ -
 Column 4 (above) - Total Indirect Cost \$ 640,418

Subtotal

4,603,429

Net Allowed Direct Cost

\$ 25,272,883

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520) (15) \$ 37,857,850
 Historical Cost of Buildings over 50 years old (16) 4,825,946
 Amount of Federal Money in Building Cost (Net of #16) (17) -
 Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540) (18) 13,261,619
 Historical Cost of Furniture & Equipment over 16 years old (19) 2,430,733
 Amount of Federal Money in Furniture & Equipment (Net of #19) (20) \$ 89,948

(8) Note A - \$0 in Function 53 expenditures and \$300,968 in Function 99 expenditures are included in this report on administrative costs.

KILGORE INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT J-3

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		
REVENUES:					
5700	Local and Intermediate Sources	\$ 527,500	\$ 527,500	\$ 568,059	\$ 40,559
5800	State Program Revenues	20,500	20,500	22,092	1,592
5900	Federal Program Revenues	1,258,000	1,258,000	1,329,111	71,111
5020	Total Revenues	1,806,000	1,806,000	1,919,262	113,262
EXPENDITURES:					
Current:					
Support Services - Student (Pupil):					
0035	Food Service	1,806,000	1,806,000	1,583,175	222,825
	Total Support Services - Student (Pupil)	1,806,000	1,806,000	1,583,175	222,825
6030	Total Expenditures	1,806,000	1,806,000	1,583,175	222,825
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	-	-	336,087	336,087
Other Financing Sources (Uses):					
8911	Transfers Out	-	-	(2,514)	(2,514)
7080	Total Other Financing Sources and (Uses)	-	-	(2,514)	(2,514)
1200	Net Change in Fund Balance	-	-	333,573	333,573
0100	Fund Balance - Beginning	790,069	790,069	790,069	-
3000	Fund Balance - Ending	\$ 790,069	\$ 790,069	\$ 1,123,642	\$ 333,573

KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		
REVENUES:					
5700	Local and Intermediate Sources	\$ 4,294,135	\$ 4,419,105	\$ 4,602,168	\$ 183,063
5900	Federal Program Revenues	106,250	106,250	45,865	(60,385)
5020	Total Revenues	4,400,385	4,525,355	4,648,033	122,678
EXPENDITURES:					
Debt Service:					
0071	Principal on Long-term Debt	2,310,000	2,310,000	2,310,000	-
0072	Interest on Long-term Debt	1,999,659	1,999,659	1,999,659	-
0073	Issuance Costs and Fees	90,726	219,646	8,150	211,496
	Total Debt Service	4,400,385	4,529,305	4,317,809	211,496
6030	Total Expenditures	4,400,385	4,529,305	4,317,809	211,496
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	-	(3,950)	330,224	334,174
Other Financing Sources (Uses):					
7916	Premium or Discount on Issuance of Bonds	-	-	3,949	3,949
7080	Total Other Financing Sources and (Uses)	-	-	3,949	3,949
1200	Net Change in Fund Balance	-	(3,950)	334,173	338,123
0100	Fund Balance - Beginning	442,632	442,632	442,632	-
3000	Fund Balance - Ending	\$ 442,632	\$ 438,682	\$ 776,805	\$ 338,123

OVERALL COMPLIANCE, INTERNAL CONTROL SECTION AND FEDERAL AWARDS

HLSK

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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
301 N. Kilgore St.
Kilgore, TX 75662

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kilgore Independent School District (District), as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 26, 2012. 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

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, describing in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting, noted as 2012-1. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, 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.

Respectfully submitted,

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
November 26, 2012

HLSK

Hereford, Lynch, Sellars & Kirkham

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Kilgore Independent School District
301 N. Kilgore St.
Kilgore, TX 75662

Compliance

We have audited Kilgore Independent School District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2012. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the 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 the 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 the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012.

Internal Control Over Compliance

The management of the 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 the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, 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.

Respectfully submitted,

Hereford, Lynch, Sellars & Kirkham, P.C.

HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.
Certified Public Accountants

Conroe, Texas
November 26, 2012

KILGORE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2012

SECTION I – SUMMARY OF AUDITORS' RESULTS	
FINANCIAL STATEMENTS	
1. Type of auditors' report issued	Unqualified
2. Internal Control over Financial Reporting:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	Yes
3. Noncompliance material to Financial Statements noted?	No
FEDERAL AWARDS	
4. Internal control over major programs:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	None reported
5. Type of auditors' report issued on compliance with major programs	Unqualified
6. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133	No
7. Identification of Major Programs	ESEA Title I, Part A - Improving Basic Programs 84.010A Child Nutrition Cluster Education Jobs Fund 84.410A
8. Dollar Threshold used to distinguish Between Type A and Type B Federal Programs	\$300,000
9. Auditee Qualified as a Low-Risk Auditee?	No
SECTION II –FINANCIAL STATEMENT FINDINGS	
2012-1 Collateralization of Bank Deposits	
<p>Criteria or Specific Requirement: In accordance with Local Government Code 2256, bank deposits must be guaranteed or insured by the Federal Deposit Insurance Corporation or collateralized with securities owned by the Depository Bank, which comply with state requirements.</p> <p>Condition: The District's deposits were not adequately collateralized.</p> <p>Context: The District's increase in tax deposits for a particular day resulted in bank deposits were not adequately insured/collateralized.</p> <p>Effect: The District's deposits were unsecured in the amount of \$1,024,586 on January 11, 2012.</p> <p>Cause: The District's tax deposits exceeded expectations.</p> <p>Recommendation: Review District procedures and implement a process to insure that the District's deposits are adequately collateralized and insured.</p> <p>Views of responsible officials and planned corrective actions: See corrective action plan.</p>	

KILGORE INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2012*

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

KILGORE INDEPENDENT SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED AUGUST 31, 2012

PRIOR YEAR FINDINGS

A. Financial Statement Findings

2011-1

Criteria and Condition:

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

Recommendation:

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

Current Status:

See current Finding 2012-1 for similar instance of deposits no being adequately collateralized.

B. Federal Award Findings and Questioned Costs

2011-2

Criteria and Condition:

An employee who works on multiple activities or cost objectives, including federal program funds, must maintain time and effort distribution records in accordance with OMB Circular A-187

Recommendation:

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

Status:

In November, 2011, the District developed new practices to ensure compliance with federal time and effort requirements. No similar findings were noted in the 2012 audit.

KILGORE INDEPENDENT SCHOOL DISTRICT

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED AUGUST 31, 2012

CURRENT YEAR FINDINGS

Responsible Party: Revard Pfeffer

Corrective Action Plan:

District employees will review cash positions after each deposit into the District's depositories to see if collateral is sufficient to protect the District's interest. When determined that collateral is insufficient, the District will move cash immediately to secured investments.

Expected completion Date: November 2012

KILGORE INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT K-1

(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 HEALTH AND HUMAN SERVICES			
Passed Through State Department of Health and Human Services:			
<i>Medicaid Administrative Claiming Program - MAC</i>	93.778	529-07-0157-00056	\$ 16,393
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
<i>ESEA Title I, Part A - Improving Basic Programs</i>	84.010A	12610101092902	611,665
<i>ESEA Title I, Part A - Improving Basic Programs</i>	84.010A	13610101092902	26,552
Total CFDA Number 84.010A			638,217
Special Education Cluster (IDEA):			
<i>IDEA-B Formula</i>	84.027A	126600010929026600	586,580
<i>IDEA-B Formula</i>	84.027A	136600010929026600	21,515
<i>IDEA-B Preschool</i>	84.173A	126610010929026610	3,770
Total Special Education Cluster (IDEA)			611,865
<i>Career and Technical - Basic Grant</i>	84.048A	12420006092902	39,004
<i>Career and Technical - Basic Grant</i>	84.048A	13420006092902	1,511
Total CFDA Number 84.048A			40,515
<i>Title III, Part A English Language Acquisition and Language Enhancement</i>	84.365A	12671001092902	53,725
<i>Title III, Part A English Language Acquisition and Language Enhancement</i>	84.365A	13671001092902	1,691
Total CFDA Number 84.365A			55,416
<i>ESEA Title II, Part A - Teacher & Principal Training & Recruiting</i>	84.367A	12694501092902	138,235
<i>ESEA Title II, Part A - Teacher & Principal Training & Recruiting</i>	84.367A	13694501092902	2,695
Total CFDA Number 84.367A			140,930
<i>Summer School LEP</i>	84.369A	69551102	4,439
<i>Education Jobs Fund</i>	84.410A	11550101092902	614,839
TOTAL U.S. DEPARTMENT OF EDUCATION			2,106,221
U.S. DEPARTMENT OF AGRICULTURE			
Child Nutrition Cluster:			
Passed Through State Department of Education:			
Non-Cash Assistance (Commodities):			
<i>National School Lunch Program</i>	10.555	092007A	121,264
Cash Assistance:			
<i>School Breakfast Program</i>	10.553	71401201	314,939
<i>National School Lunch Program</i>	10.555	71301201	892,908
Passed Through State Department of Agriculture:			
<i>Summer Feeding Program</i>	10.559	00438	6,185
TOTAL U.S. DEPARTMENT OF AGRICULTURE - CHILD NUTRITION CLUSTER			1,335,296
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,457,910

The accompanying notes are an integral part of this schedule.

KILGORE INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED AUGUST 31, 2012

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 and *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 basic financial statements. Presented below is a reconciliation of federal revenues:

Total Expenditures of Federal Awards per Exhibit K-1	\$ 3,457,910
Additional federal revenues reported in the General Fund and Debt Service Fund:	
SHARS	284,879
Interest Subsidy on Qualified School Construction Bonds	45,865
Total Federal Revenues per Exhibit C-2	\$ <u>3,788,654</u>

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KILGORE INDEPENDENT SCHOOL DISTRICT

EXHIBIT L-1

**SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2012**

<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?	\$ -