

KEMP INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2007

KEMP INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2007

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CERTIFICATE OF BOARD

Kemp Independent School District  
Name of School District

Kaufman  
County

129-904  
Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and \_\_\_\_\_ approved \_\_\_\_\_ disapproved for the year ended August 31, 2007 at a meeting of the board of school trustees of such school district on the \_\_\_\_\_ day of \_\_\_\_\_, 2007.

\_\_\_\_\_  
Signature of Board Secretary

\_\_\_\_\_  
Signature of Board President

If the board of trustees disapproved of the auditor's report, the reason(s) for disapproving it is(are):

(attach list as necessary)

# SMITH, LAMBRIGHT & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA  
J. W. Lambright, CPA

Cheri E. Kirkland, CPA  
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UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS  
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION  
AND OTHER SUPPLEMENTARY INFORMATION  
INCLUDING THE SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Independent Auditor's Report

Board of School Trustees  
Kemp Independent School District  
202 W. 17<sup>th</sup> Street  
Kemp, Texas 75143

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 Kemp Independent School District (the "District"), as of and for the year ended August 31, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2007 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-5. Except for Exhibit J-3 (Fund Balance and Cash Flow Calculation Worksheet) which is marked UNAUDITED and on which we express no opinion, these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,



SMITH, LAMBRIGHT & ASSOCIATES, P. C.  
Certified Public Accountants  
October 30, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## BASIC FINANCIAL STATEMENTS

KEMP INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS

AUGUST 31, 2007

**Total Fund Balances - Governmental Funds** \$ 31 077 449

**Amounts reported for governmental activities in the  
Statement of Net Assets are different because:**

Data  
Control  
Codes

|           |  |                             |
|-----------|--|-----------------------------|
| 1         | Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$19,661,672 and the accumulated depreciation was \$7,094,965. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The long-term debt was \$6,720,543. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets. | <u>5 846 164</u>            |
| 2         | Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2007 capital outlays and debt principal payments is to increase net assets.  | <u>768 484</u>              |
| 3         | Other assets and liabilities related to long-term debt issuance are not reported in the governmental funds. At the beginning of the year, assets included unamortized debt issuance cost of \$179,547 and unamortized discount on issuance of debt of \$32,516. The liabilities included unamortized premium on issuance of debt of \$212,063. The net effect of these debt issuance assets and liabilities is no change to net assets.  | <u>0</u>                    |
| 4         | The 2007 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.   | <u>(575 133)</u>            |
| 5         | Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net assets.   | <u>(24 742 402)</u>         |
| <b>19</b> | <b>Net Assets of Governmental Activities</b>   | <u><u>\$ 12 374 562</u></u> |

The accompanying notes are an integral part of this statement.

KEMP INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2007

|  |                                   |
|--|-----------------------------------|
| <b>Total Net Change in Fund Balances - Governmental Funds</b>  | <b>\$ <u>26 401 010</u></b>       |
| <br><b>Amounts reported for governmental activities in the<br/>Statement of Activities are different because:</b>  |                                   |
| Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2006 capital outlays and debt principal payments is to increase net assets.   | <u>768 484</u>                    |
| Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.  | <u>(575 133)</u>                  |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net assets. | <u>(25 572 537)</u>               |
| <b>Change in Net Assets of Governmental Activities</b>   | <b>\$ <u><u>1 021 824</u></u></b> |

The accompanying notes are an integral part of this statement.

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

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Kemp Independent School District (“The District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency’s *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

**A. REPORTING ENTITY**

The Board of Trustees (the “Board”) is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board (“GASB”) in its Statement No. 14, “The Financial Reporting Entity.” There are no component units included within the reporting entity.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the District’s nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The “charges for services” column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples includes tuition paid by students not residing in the district, school lunch charges, etc. The “grants and contributions” column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District’s functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the governmental fund Balance Sheet and proprietary fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the proprietary fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

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

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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 use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The proprietary fund types and fiduciary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

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

**D. FUND ACCOUNTING**

The District reports the following fund types:

Governmental Funds:

**1. General Fund** - The general fund is the District's primary operating fund and is always reported as a major fund. It accounts for all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Funds** - The District accounts for resources restricted to, or designated for specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

**3. Debt Service Fund** - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

**4. Capital Projects Fund** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Fiduciary Funds:

**5. Private Purpose Trust Fund** - The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the scholarship fund.

**6. Agency Fund** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the student activity fund.

**E. CASH AND CASH EQUIVALENTS**

For the purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

**F. INVENTORIES**

The District records purchases of supplies as expenditures. Inventory on the balance sheet is recorded at cost and represents paper supplies purchased for the subsequent school year.

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

**G. CAPITAL ASSETS**

Capital assets, which include land, buildings, furniture and equipment are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 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               | 40           |
| Vehicles                | 10           |
| Furniture and Equipment | 10           |

**H. LONG TERM DEBT**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using 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.

**I. RESERVED AND/OR DESIGNATED FUND BALANCES**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

**J. RESTRICTED ASSETS**

When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.

**K. 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 insure accuracy in building a Statewide data base for policy development and funding plans.

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

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS**

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

| <u>Capital Assets<br/>at the Beginning of the year</u>        | <u>Historical Cost</u>      | <u>Accumulated<br/>Depreciation</u> | <u>Net Value at the<br/>Beginning of the<br/>Year</u> | <u>Change in Net<br/>Assets</u> |
|---|-----------------------------|-------------------------------------|---|---------------------------------|
| Land  | \$ 238 551                  | \$                                  | \$ 238 551  |                                 |
| Buildings & Improvements                                      | 16 700 767                  | 5 051 580                           | 11 649 187  |                                 |
| Furniture & Equipment   | 2 722 354                   | 2 043 385                           | 678 969   |                                 |
| Construction in Progress                                      | <u>                    </u> | <u>                    </u>         | <u>                    </u>                           |                                 |
| Totals  | <u>\$ 19 661 672</u>        | <u>\$ 7 094 965</u>                 |   |                                 |
| Change in Net Assets  |                             |                                     |   | \$ 12 566 707                   |
| <u>Long-term Liabilities<br/>at the Beginning of the year</u> |                             |                                     | <u>Payable at the<br/>Beginning of the<br/>Year</u>   |                                 |
| Bonds Payable   |                             |                                     | \$ 6 320 484  |                                 |
| Accretion Payable   |                             |                                     | <u>400 059</u>  |                                 |
| Change in Net Assets  |                             |                                     |   | <u>6 720 543</u>                |
| Net Adjustment to Net Assets                                  |                             |                                     |   | <u>\$ 5 846 164</u>             |

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

**B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

|                                | <u>Amount</u> | <u>Adjustments to<br/>Changes in Net<br/>Assets</u> | <u>Adjustments to<br/>Net Assets</u> |
|--------------------------------|---------------|---|--------------------------------------|
| Current Year Capital Outlay:   |               |   |                                      |
| Buildings & Improvements       | \$ 91 871     |   |                                      |
| Furniture & Equipment          | 126 603       |   |                                      |
| Construction in Progress       | 374 525       |   |                                      |
| Total Capital Outlay           | 592 999       | 592 999   | 592 999                              |
| Debt Principal Payments:       |               |   |                                      |
| Bond Principal                 | 175 485       |   |                                      |
| Total Principal Payments       | \$ 175 485    | 175 485   | 175 485                              |
| Total Adjustment to Net Assets |               | \$ 768 484  | \$ 768 484                           |

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

**C. EXPLANATION OF OTHER DIFFERENCES**

Another element of the reconciliation on Exhibits C-2 and C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

|   | <u>Amount</u> | <u>Adjustments to<br/>Change in Net<br/>Assets</u> | <u>Adjustments<br/>to Net Assets</u> |
|---|---------------|--|--------------------------------------|
| Adjustments to Revenue and Deferred Revenue:                      |               |  |                                      |
| Taxes Collected from Prior Year Levies                            | \$ 410 844    | \$ (410 844)                                       | \$                                   |
| Uncollected taxes (assumed collectible) from<br>Current Year Levy | 308 960       | 308 960  | 308 960                              |
| Uncollected Taxes (assumed collectible) from<br>Prior Year Levy   | 430 501       |  | 430 501                              |
| Reclassify Proceeds of Bonds and Loans:                           |               |  |                                      |
| Bond Proceeds   | 22 999 995    | (22 999 995)                                       | (22 999 995)                         |
| Loan Proceeds   | 1 777 000     | (1 777 000)  | (1 777 000)                          |
| Reclassify Debt Issue Items:                                      |               |  |                                      |
| Discount on Issuance of Bonds                                     | 161 755       | 161 755  | 161 755                              |
| Bond Issuance Cost  | 146 017       | 146 017  | 146 017                              |
| Bond Issuance Premium   | 1 263 120     | (1 263 120)  | (1 263 120)                          |
| Loan Issuance Cost  | 27 000        | 27 000   | 27 000                               |
| Accretion on Capital Appreciation Bonds:                          |               |  |                                      |
| Current Year Paid   | 369 515       | 369 515  | 369 515                              |
| Current Year Accrued  | 132 626       | (132 626)  | (132 626)                            |
| Amortization of Bond Related Items:                               |               |  |                                      |
| Bond Issue Costs  | 17 333        | (17 333)   | (17 333)                             |
| Discount on Issuance of Bonds                                     | 4 018         | (4 018)  | (4 018)                              |
| Premium on Issuance of Bonds                                      | 53 831        | 53 831   | 53 831                               |
| Loan Issuance Cost  | 775           | (775)  | (775)                                |
| Accrued Interest on Debt:   |               |  |                                      |
| Prior Year  | 11 210        | 11 210   |                                      |
| Current Year  | 45 114        | <u>(45 114)</u>                                    | <u>(45 114)</u>                      |
| Total   |               | <u>\$ (25 572 537)</u>                             | <u>\$ (24 742 402)</u>               |

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

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. BUDGETARY DATA**

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Fund). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund budget report appears in Exhibit C-5 and the other two reports are in Exhibits J-4 and J-5.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 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. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. The budget was amended as necessary during the year.
4. Each budget is controlled at the organizational level by the administration, appropriate department head or campus principal within Board allocations at the revenue and expenditure function /object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

|   | August 31, 2007<br><u>Fund Balance</u> |
|---|--|
| Appropriated Budget Funds - Food Service Special Revenue Fund | \$ 263 224                             |
| Nonappropriated Budget Funds                                  | <u>183 622</u>                         |
| All Special Revenue Funds                                     | <u><u>\$ 446 846</u></u>               |

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

**B. ENCUMBRANCE ACCOUNTING**

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders or contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31, and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at August 31, 2007 that were subsequently provided for in the 2007 - 2008 budget.

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

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. DEPOSITS AND INVESTMENTS**

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investment, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investment, (7) maximum average dollar - weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

State statutes and Board policy authorize the District to invest in 1) Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.; 2) Certificates of deposit and share certificates as permitted by Government Code 2256.010.; 3) Fully collateralized repurchase agreements permitted by Government Code 2256.011.; 4) A securities lending program as permitted by Government Code 2256.0115.; 5) Banker's acceptances as permitted by Government Code 2256.012.; 6) Commercial paper as permitted by Government Code 2256.013.; 7) No load money market mutual funds and no load mutual funds as permitted by Government Code 2256.014.; 8) A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.; and 9) Public funds investment pools as permitted by Government Code 2256.016.

In compliance with the Public Funds Investment Act, the District has adopted an investment policy. The District is in substantial compliance with the requirements of the Act and with local policies. The risks that the District may be subject are:

- a. Custodial Credit Risk - Deposits: This is the risk that in the event of a bank failure, the District's deposits, including checking, money market accounts and certificates of deposit, may not be returned to it.

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. During 2006-2007 the District's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the District and held by the District's agent.

The largest combined balances of cash, savings and time deposit accounts amounted to \$1,567,069 and occurred on September 25, 2006. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$1,980,786. The total amount of FDIC coverage at the time of the highest combined balance was \$300,000.

- b. Custodial Credit Risk - Investments: 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. Any investment that is both uninsured and unregistered is exposed to custodial credit risk if the investment is held by the counterparty, or if the investment is held by the counterparty's trust department or agent, but not in the name of the investor government. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Positions in external investment pools are not subject to custodial credit risk.

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

- c. Interest Rate Risk: Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.
- d. Concentration of Credit Risk: Concentration risk is defined as positions of five percent or more in the securities of a single issuer. This is the issuer of the underlying investment, and not a pool. This does not apply to U.S. Government securities.

CASH DEPOSITS

At August 31, 2007, the amount of the District’s cash balance in checking accounts was \$219,667. The cash balance in savings, time and certificate of deposit accounts was \$70,933. Cash on hand was \$1,950.

INVESTMENTS

The District’s investments at August 31, 2007, are shown below:

| <u>Investment Type</u>    | <u>Cost</u>          | <u>Fair Value</u>    | <u>Weighted Average Maturity (Years)</u> |
|---------------------------|----------------------|----------------------|--|
| Certificates of Deposit   | \$ 70 933            | \$ 70 933            | .2521                                    |
| Texpool                   | 3 426 138            | 3 426 481            | .0959                                    |
| Lone Star Investment Pool | 139 435              | 139 464              | .0877                                    |
| MBIA Texas Class          | 3 499 638            | 3 499 286            | .1123                                    |
| Bayern LB                 | <u>23 101 119</u>    | <u>23 101 119</u>    | .0833                                    |
| Total Investments         | <u>\$ 30 237 263</u> | <u>\$ 30 237 283</u> |  |

Local government investment pools operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly the market value of the position in these pools is the same as the value of the shares in each pool, which approximates the carrying amount. The investment pools are organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

For the purpose of the statement of cash flows for proprietary fund types, if any, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

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

**B. PROPERTY TAXES**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid by February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Delinquent taxes not paid by June 30 are subject to penalty and interest charges plus 15% delinquent collection fees for attorney costs. Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

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

The assessed value of the property tax roll upon which the levy for the 2006-07 fiscal year was based, was \$276,372,884. The tax rates assessed for the year ended August 31, 2007 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.37005 and \$.08 per \$100 valuation, respectively, for a total of \$1.45005 per \$100 valuation. Current tax collections for the year ended August 31, 2007 were 92.2% of the year end adjusted tax levy. As of August 31, 2007, property taxes receivable totaled \$726,890 and \$51,491 for the General and Debt Service Funds respectively.

**C. DUE FROM OTHER GOVERNMENTS**

The District participates in variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2007 are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

|                    | <u>General<br/>Fund</u> | <u>Debt<br/>Service<br/>Fund</u> | <u>Capital<br/>Projects<br/>Fund</u> | <u>Other<br/>Funds</u> | <u>Total</u>            |
|--------------------|-------------------------|----------------------------------|--------------------------------------|------------------------|-------------------------|
| State Entitlements | \$ 1 280 470            | \$                               | \$                                   | \$                     | \$ 1 280 470            |
| Federal Grants     |                         |                                  |                                      | 106 419                | 106 419                 |
| State Grants       |                         |                                  |                                      | <u>37 725</u>          | <u>37 725</u>           |
| <br>Total          | <br><u>\$ 1 280 470</u> | <br><u>\$ 0</u>                  | <br><u>\$ 0</u>                      | <br><u>\$ 144 144</u>  | <br><u>\$ 1 424 614</u> |

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

**D. INTERFUND BALANCES AND TRANSFERS**

Interfund balances at August 31, 2007 consisted of the following individual fund amounts:

| <u>Fund</u> _____     | <u>Due From</u>   | <u>Due to</u>     |
|-----------------------|-------------------|-------------------|
| General Fund:         |                   |                   |
| Special Revenue Fund  | \$ _____          | \$ _____          |
| Special Revenue Fund: |                   |                   |
| General Fund          | \$ _____          | \$ _____          |
| Totals                | <u>\$ _____</u> 0 | <u>\$ _____</u> 0 |

Interfund transfers for the year ended August 31, 2007 consisted of the following individual fund amounts:

| <u>Fund</u> _____     | <u>Transfer In</u> | <u>Transfer Out</u> |
|-----------------------|--------------------|---------------------|
| General Fund:         |                    |                     |
| Special Revenue Fund  | \$ _____           | \$ _____            |
| Special Revenue Fund: |                    |                     |
| General Fund          | \$ _____           | \$ _____            |
| Totals                | <u>\$ _____</u> 0  | <u>\$ _____</u> 0   |

KEMP INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
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**E. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at August 31, 2007, were as follows:

|                   | General<br>Fund     | Debt<br>Service<br>Fund | Capital<br>Projects<br>Fund | Other<br>Funds    | Total               |
|-------------------|---------------------|-------------------------|-----------------------------|-------------------|---------------------|
| Property Taxes    | \$ 726 890          | \$ 51 491               | \$                          | \$                | \$ 778 381          |
| Other Governments | <u>1 280 470</u>    | <u></u>                 | <u></u>                     | <u>144 144</u>    | <u>1 424 614</u>    |
| Totals            | <u>\$ 2 007 360</u> | <u>\$ 51 491</u>        | <u>\$ 0</u>                 | <u>\$ 144 144</u> | <u>\$ 2 202 995</u> |

Payables at August 31, 2007, were as follows:

|                   | General<br>Fund   | Debt<br>Service<br>Fund | Capital<br>Projects<br>Fund | Other<br>Funds   | Total             |
|-------------------|-------------------|-------------------------|-----------------------------|------------------|-------------------|
| Accounts Payable  | \$ 131 455        | \$                      | \$ 61 037                   | \$ 30 328        | \$ 222 820        |
| Accrued Wages     | 321 004           |                         |                             | 64 428           | 385 432           |
| Other Governments | <u>4 537</u>      | <u></u>                 | <u></u>                     | <u></u>          | <u>4 537</u>      |
| Totals            | <u>\$ 456 996</u> | <u>\$ 0</u>             | <u>\$ 61 037</u>            | <u>\$ 94 756</u> | <u>\$ 612 789</u> |

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

**F. CAPITAL ASSET ACTIVITY**

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

|  | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Retirements/<br/>Adjustments</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|------------------|-------------------------------------|---------------------------|
| Governmental Activities:                       |                              |                  |                                     |                           |
| Land   | \$ 238 551                   | \$               | \$ 1                                | \$ 238 552                |
| Buildings & Improvements                       | 16 700 767                   | 91 871           |                                     | 16 792 638                |
| Furniture & Equipment                          | 2 722 354                    | 126 603          |                                     | 2 848 957                 |
| Construction in Progress                       |                              | <u>374 525</u>   |                                     | <u>374 525</u>            |
| Total at Historical Cost                       | <u>19 661 672</u>            | <u>592 999</u>   | <u>1</u>                            | <u>20 254 672</u>         |
| Less Accumulated Depreciation<br>for:          |                              |                  |                                     |                           |
| Buildings & Improvements                       | 5 051 580                    | 464 675          |                                     | 5 516 255                 |
| Furniture and Equipment                        | <u>2 043 385</u>             | <u>110 458</u>   |                                     | <u>2 153 843</u>          |
| Total Accumulated<br>Depreciation              | <u>7 094 965</u>             | <u>575 133</u>   |                                     | <u>7 670 098</u>          |
| Governmental Activities Capital<br>Assets, Net | <u>\$ 12 566 707</u>         | <u>\$ 17 866</u> | <u>\$ 1</u>                         | <u>\$ 12 584 574</u>      |

Depreciation expense was charged to governmental functions as follows:

|    |  |                   |
|----|--|-------------------|
| 11 | Instruction                                  | \$ 288 844        |
| 12 | Instructional Resources and Media Services   | 21 881            |
| 23 | School Leadership                            | 15 487            |
| 31 | Guidance, Counseling and Evaluation Services | 7 217             |
| 33 | Health Services                              | 7 217             |
| 34 | Student (Pupil) Transportation               | 91 522            |
| 35 | Food Services                                | 83 904            |
| 36 | Cocurricular/Extracurricular Activities      | 37 795            |
| 41 | General Administration                       | 1 776             |
| 51 | Plant Maintenance and Operations             | <u>19 490</u>     |
|    | Total Depreciation Expense                   | <u>\$ 575 133</u> |

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

**G. BONDS PAYABLE**

Bonded indebtedness of the District is reflected in the Long-Term Debt Account Group, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in bonds payable for the year ended August 31, 2007 is as follows:

| <u>Description</u>   | <u>Interest<br/>Rate<br/>Payable</u> | <u>Amounts<br/>Original<br/>Issue</u> | <u>Amounts<br/>Outstanding<br/>9/1/06</u> | <u>Issued</u>       | <u>Retired</u>    | <u>Amounts<br/>Outstanding<br/>8/31/07</u> | <u>Interest<br/>Current<br/>Year</u> |
|--|--------------------------------------|---------------------------------------|---|---------------------|-------------------|--|--------------------------------------|
| Unlimited Tax<br>School Building<br>& Refunding Bonds<br>Series 1998 | 3.85%<br>to<br>5.0%                  | \$ 8 696 250                          | \$ 1 520 485                              |                     | \$ 130 485        | \$ 1 390 000                               | \$ 433 949                           |
| Unlimited Tax<br>Refunding Bonds<br>Series 2005                      | 3.0%<br>to<br>4.0%                   | 4 814 999                             | 4 799 999                                 |                     | 45 000            | 4 754 999                                  | 170 980                              |
| Unlimited Tax<br>School Building<br>Bonds<br>Series 2007             | 4.25%<br>to<br>5.25%                 | 22 999 995                            | 0   | 22 999 995          |                   | 22 999 995                                 | 138 306                              |
| Totals   |                                      |                                       | <u>\$ 6 320 484</u>                       | <u>\$22 999 995</u> | <u>\$ 175 485</u> | <u>\$29 144 994</u>                        | <u>\$ 743 235</u>                    |

Debt service requirements are as follows:

| <u>Year Ended<br/>August 31</u> | <u>General Obligations</u> |                      | <u>Total<br/>Requirements</u> |
|---------------------------------|----------------------------|----------------------|-------------------------------|
|                                 | <u>Principal</u>           | <u>Interest</u>      |                               |
| 2008                            | \$ 545 000                 | \$ 1 365 661         | \$ 1 910 661                  |
| 2009                            | 339 999                    | 1 577 312            | 1 917 311                     |
| 2010                            | 613 198                    | 1 490 594            | 2 103 792                     |
| 2011                            | 612 994                    | 1 511 250            | 2 124 244                     |
| 2012                            | 627 516                    | 1 504 998            | 2 132 514                     |
| 2013 - 2017                     | 4 391 287                  | 6 523 040            | 10 914 327                    |
| 2018 - 2022                     | 5 145 000                  | 4 911 188            | 10 056 188                    |
| 2023 - 2027                     | 6 510 000                  | 3 553 892            | 10 063 892                    |
| 2028 - 2032                     | 8 400 000                  | 1 662 938            | 10 062 938                    |
| 2033                            | <u>1 960 000</u>           | <u>51 450</u>        | <u>2 011 450</u>              |
| Totals                          | <u>\$ 29 144 994</u>       | <u>\$ 24 152 323</u> | <u>\$ 53 297 317</u>          |

KEMP INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
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There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2007.

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As of August 31, 2007 \$4,815,000 of the prior year bonds considered defeased are still outstanding.

**H. LOANS PAYABLE**

The District accounts for short-term debts for maintenance purposes through the locally defined capital projects fund. Short-term debts include notes made in accordance with the provisions of the Texas Education Code Section 45.108. The proceeds from loans are shown in the financial statements as Other Resources and principal and interest payments are shown as debt service of the General Fund.

A Time Warrant, Series 2007, loan of \$500,000 was issued on March 26, 2007 for the purpose of providing funds to pay for the costs of renovations as authorized by Texas Education Code Section 45.103, as amended. The loan is to be repaid in annual payments of \$112,816 beginning September 10, 2007. The interest rate is 5.127%

A Maintenance Tax Note, Series 2007, loan of \$1,277,000 was issued on March 30, 2007 for the purpose of providing funds to pay for the costs of the District's maintenance improvements as authorized by Texas Education Code Section 45.108, as amended. The loan is to be repaid in annual payments of \$166,399 beginning September 10, 2012. Interest only is to be paid annually until then. The interest rate is 5.127%.

A summary of changes in loans payable for the year ended August 31, 2007 is as follows:

| Description/<br>Purpose                | Interest<br>Rate | Amounts<br>Original<br>Issue | Amounts<br>Outstanding<br>9/1/06 | Amounts<br>Issued   | Amounts<br>Retired | Amounts<br>Outstanding<br>8/31/07 | Interest<br>Current<br>Year |
|--|------------------|------------------------------|----------------------------------|---------------------|--------------------|-----------------------------------|-----------------------------|
| Time Warrant<br>Series 2007            | 5.127%           | \$ 500 000                   | \$ 0                             | \$ 500 000          | \$ 0               | \$ 500 000                        | \$ 0                        |
| Maintenance<br>Tax Note<br>Series 2007 | 5.127%           | 1 277 000                    | 0                                | 1 277 000           | 0                  | 1 277 000                         | 0                           |
| Totals                                 |                  |                              | <u>\$ 0</u>                      | <u>\$ 1 777 000</u> | <u>\$ 0</u>        | <u>\$ 1 777 000</u>               | <u>\$ 0</u>                 |

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

Debt service requirements are as follows:

| Year Ended<br>August 31, 2007 | Principal           | Interest          | Total<br>Requirements |
|-------------------------------|---------------------|-------------------|-----------------------|
| 2008                          | \$ 101 138          | \$ 41 504         | \$ 142 642            |
| 2009                          | 92 366              | 85 921            | 178 287               |
| 2010                          | 97 102              | 81 186            | 178 288               |
| 2011                          | 102 080             | 76 207            | 178 287               |
| 2012                          | 107 314             | 70 974            | 178 288               |
| 2013 - 2017                   | 559 102             | 272 892           | 831 994               |
| 2018 - 2022                   | <u>717 898</u>      | <u>114 097</u>    | <u>831 995</u>        |
| Totals                        | <u>\$ 1 777 000</u> | <u>\$ 742 781</u> | <u>\$ 2 519 781</u>   |

**I. CHANGES IN LONG-TERM LIABILITIES**

Long-term liabilities activity for the year ended August 31, 2007, was as follows:

|   | Beginning<br>Balance | Additions            | Reductions        | Ending<br>Balance    | Due Within<br>One Year |
|---|----------------------|----------------------|-------------------|----------------------|------------------------|
| Governmental Activities:                                  |                      |                      |                   |                      |                        |
| Bonds Payable:  |                      |                      |                   |                      |                        |
| General Obligation Bonds                                  | \$ 6 320 484         | \$ 22 999 995        | \$ 175 485        | \$ 29 144 994        | \$ 545 000             |
| Accretion Payable:  |                      |                      |                   |                      |                        |
| Capital Appreciation Bonds                                | 400 059              | 132 626              | 369 515           | 163 170              | 0                      |
| Loans Payable:  |                      |                      |                   |                      |                        |
| Time Warrant  | 0                    | 500 000              | 0                 | 500 000              | 101 138                |
| Maintenance Tax Note                                      | 0                    | 1 277 000            | 0                 | 1 277 000            | 0                      |
| Total Governmental<br>Activities Long-term<br>Liabilities | <u>\$ 6 720 543</u>  | <u>\$ 24 909 621</u> | <u>\$ 545 000</u> | <u>\$ 31 085 164</u> | <u>\$ 646 138</u>      |

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

**J. DEFERRED REVENUE**

Deferred revenue at year-end consisted of the following:

|                         | <u>General<br/>Fund</u> | <u>Debt<br/>Service Fund</u> | <u>Capital<br/>Projects Fund</u> | <u>Other<br/>Funds</u> | <u>Total</u>      |
|-------------------------|-------------------------|------------------------------|----------------------------------|------------------------|-------------------|
| Net Tax Revenue         | \$ 690 545              | \$ 48 916                    | \$                               | \$                     | \$ 739 461        |
| State Foundation        | 142 775                 |                              |                                  |                        | 142 775           |
| Existing Debt Allotment |                         | <u>4 648</u>                 |                                  |                        | <u>4 648</u>      |
| Totals                  | <u>\$ 833 320</u>       | <u>\$ 53 564</u>             | <u>\$ 0</u>                      | <u>\$ 0</u>            | <u>\$ 886 884</u> |

**K. LOCAL AND INTERMEDIATE SOURCES OF REVENUES**

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

|                             | <u>General<br/>Fund</u> | <u>Debt<br/>Service Fund</u> | <u>Capital<br/>Projects Fund</u> | <u>Other<br/>Funds</u> | <u>Total</u>        |
|-----------------------------|-------------------------|------------------------------|----------------------------------|------------------------|---------------------|
| Property Taxes              | \$ 3 880 161            | \$ 225 053                   | \$                               | \$                     | \$ 4 105 214        |
| Penalties, Interest & Other |                         |                              |                                  |                        |                     |
| Tax Related Income          | 202 640                 | 11 815                       |                                  |                        | 214 455             |
| Food Sales                  |                         |                              |                                  | 323 264                | 323 264             |
| Investment Income           | 132 714                 | 132 816                      | 273 621                          | 4 388                  | 543 539             |
| Co-curricular Student       |                         |                              |                                  |                        |                     |
| Activities                  | 38 422                  |                              |                                  | 325                    | 38 747              |
| Other                       | <u>42 778</u>           |                              |                                  | <u>59 673</u>          | <u>102 451</u>      |
| Totals                      | <u>\$ 4 296 715</u>     | <u>\$ 369 684</u>            | <u>\$ 273 621</u>                | <u>\$ 387 650</u>      | <u>\$ 5 327 670</u> |

**L. COMMITMENTS UNDER LEASES**

Commitments under operating (noncapitalized) lease agreements for equipment provided for minimum future rental payments as of August 31, 2007, as follows:

| <u>Year Ended<br/>August 31</u>         | <u>Total</u>     |
|---|------------------|
| 2007                                    | <u>\$ 28 767</u> |
| Total Minimum Rentals                   | <u>\$ 28 767</u> |
| Rental Expenditures in Fiscal Year 2007 | <u>\$ 43 151</u> |

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

**M. JOINT VENTURE SHARED SERVICE ARRANGEMENT**

The District participated in a shared services arrangement for special education services with one other school district. Although a portion of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The District made payments to the fiscal agent of \$246,922.

The District also participates in a shared services arrangement for career and technology federal vocational funds with three other school districts. Although a portion of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

The District is the fiscal agent for a Shared Service Arrangement ("SSA") which provides special education services to member districts. In addition to the District, one other member district is a participant. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in Special Revenue Fund No. 437, Shared Services Arrangements - Special Education. The District also acts as fiscal agent for two federal revenue programs in Special Revenue Funds No. 313, IDEA - Part B, Formula and No. 314, IDEA - Part B, Preschool. Expenditures of the SSA are summarized below:

|                   | <u>SSA</u><br><u>Fund 437</u> | <u>SSA</u><br><u>Fund 313</u> | <u>SSA</u><br><u>Fund 314</u> |
|-------------------|-------------------------------|-------------------------------|-------------------------------|
| Kemp ISD          | \$ 264 297                    | \$ 348 697                    | \$ 4 006                      |
| Scurry-Rosser ISD | <u>42 814</u>                 | <u>174 322</u>                | <u>2 002</u>                  |
| Totals            | <u>\$ 307 111</u>             | <u>\$ 523 019</u>             | <u>\$ 6 008</u>               |

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

**N. PENSION PLAN OBLIGATIONS**

The District contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan. The System 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. The System also administers proportional retirement benefits and service credit transfers under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The System 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 writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

State law provides for a state contribution rate of 6.0% and a member contribution rate of 6.4%. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize the System's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Eligible employment for membership in the System is defined as employment in a public, state-supported educational institution in Texas for one half or more of the standard workload at a rate comparable to the rate of compensation for other persons employed in similar positions. Any employee of a public, state-supported educational institution in Texas shall be considered to meet these requirements if the member's customary employment is for twenty hours or more for each week and for four and one-half months or more in one school year. All employees of the public education system in Texas must participate in the System unless an exception to membership applies.

In order to be eligible to retire and receive a lifetime monthly service annuity, a member must have at least five years of service credit and meet the eligibility requirements for age and service.

When a member meets the requirements for a normal age service retirement and retires, the retiree is entitled to receive a payment of a lifetime monthly annuity, calculated according to the standard annuity benefit formula in effect at the time of retirement with no reduction that would be required for early age retirement. Under current law, effective through August 31, 2007, a member meets the age and service requirements for normal age service retirement when 1) the member is age sixty-five with five or more years of service credit, or 2) the member's age and years of service credit total eighty and the member has at least five years of service credit.

When a member elects an early age service retirement, the retiree is entitled to receive a payment of a lifetime monthly annuity, calculated according to the standard annuity benefit formula in effect at the time of retirement, but reduced for early age according to actuarial tables. Under current law, the member is entitled to early age service retirement when the total of age and service is less than eighty and the following conditions are met: 1) the member is at least age fifty-five with five or more years of service credit, or 2) the member is any age below age fifty with thirty or more years of service credit.

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

The District's employees' contributions to the System for the years ending August 31, 2005, 2006 and 2007 were \$493,539, \$519,110 and \$546,616, respectively. Other contributions made from federal and private grants and from the district for salaries above the statutory minimum for the years ending August 31, 2005, 2006 and 2007 were \$51,416, \$88,053 and \$92,143, respectively.

The on behalf amounts contributed by the State, \$515,881 are reflected in the financial statements in the General Fund by respective function, in accordance with Governmental Accounting Standards Board Statement No. 24.

**O. COMPENSATED ABSENCES**

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying general purpose financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying general purpose financial statements.

**P. HEALTH CARE**

During the year ended August 31, 2007, employees of the Kemp Independent School District were covered by the state sponsored health insurance plan. The district paid premiums of \$282 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents.

**Q. SELF-INSURED WORKERS' COMPENSATION**

During the year ended August 31, 2007 the Kemp Independent School District was a participant in the East Texas Educational Insurance Association's Workers' Compensation Self-insurance Joint Fund pursuant to Texas Labor Code Annotated Section 504 and Texas Government Code Ch. 791 (the Interlocal Cooperation Act).

The Board of Trustees of the plan and the plan supervisor, Claims Administrative Services, Inc., shall establish the proportionate contribution of each participant annually upon the actual loss experience and claims of the District, the experience rating modification of the District, the prorata costs or savings to the plan from the loss experience of all participants, and all reasonable and necessary administrative expenses of the plan. The proportionate contributions of all participants shall be combined into a self-insurance joint fund.

The District paid a fixed cost of \$49,039 to the plan supervisor for administration of claims, loss control, record keeping, and the cost of excess insurance. The loss fund maximum set aside in a separate account for claims not covered by excess insurance was established to be \$82,977 for the fiscal year. The self insurance retention maximum was \$225,000.

During the fiscal year, the District paid net claims of \$52,758 covering sixteen plan periods ending August 31, 2007, and has accrued \$31,433 as a liability for unpaid claims determined by the claims administrator.

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

**R. CONSTRUCTION AND OTHER COMMITMENTS AND CONTINGENCIES**

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectibility of any related receivable at August 31, 2007 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies. The District is continuing construction of District facilities in 2007-2008.

**S. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During fiscal year 2007 the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

## COMBINING STATEMENTS

REQUIRED TEA SCHEDULES

COMPLIANCE, INTERNAL CONTROL AND FEDERAL AWARDS

# SMITH, LAMBRIGHT & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA  
J. W. Lambright, CPA

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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*

### Independent Auditor's Report

Board of School Trustees  
Kemp Independent School District  
202 W. 17<sup>th</sup> Street  
Kemp, Texas 75143

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the District as of and for the year ended August 31, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

We noted certain matters that we reported to the Board of Trustees and management of the District in a separate letter dated October 30, 2007.

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 the Board of Trustees, audit committee, management, Texas Education Agency, federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than those specified parties.

Respectfully submitted,



SMITH, LAMBRIGHT & ASSOCIATES, P. C.  
Certified Public Accountants  
October 30, 2007

**SMITH, LAMBRIGHT & ASSOCIATES, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA  
J. W. Lambright, CPA  

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditor's Report

Board of School Trustees  
Kemp Independent School District  
202 W. 17<sup>th</sup> Street  
Kemp, Texas 75143

Members of the Board of Trustees:

Compliance

We have audited the compliance of the District with the types of compliance requirements described in the U. S Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2007. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of 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 on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2007.

### 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

This report is intended solely for the information and use of the Board of Trustees, audit committee, management, Texas Education Agency, federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than those specified parties.

Respectfully submitted,



SMITH, LAMBRIGHT & ASSOCIATES, P. C.  
Certified Public Accountants  
October 30, 2007

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

I. Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes  X  no
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes  X  no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes  X  no
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section \_\_\_\_ .510 (a), OMB Circular A-133? \_\_\_\_\_ yes  X  no

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|-------------|------------------------------------|
| 84.010A     | ESEA - Title I Part A              |

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

Auditee qualified as low risk auditee?  X  yes \_\_\_\_\_ no

District Contact Person Peter J. Running, Ed.D.  
Superintendent

KEMP INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
FOR THE YEAR ENDED AUGUST 31, 2007

II. Financial Statement Findings

The audit disclosed no finding required to be reported.

III. Federal Awards Findings and Questioned Costs

The audit disclosed no finding required to be reported.

KEMP INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF STATUS OF PRIOR FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2007

N/A

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

N/A

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

Basis of Presentation:

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