

KILLEEN INDEPENDENT SCHOOL DISTRICT

SINGLE AUDIT REPORTS

For the Year Ended
August 31, 2005

KILLEEN INDEPENDENT SCHOOL DISTRICT
SINGLE AUDIT REPORTS
FOR THE YEAR ENDED AUGUST 31, 2005

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

Independent Auditors' Report

Board of Trustees
Killeen Independent School District
200 North W. S. Young Drive
Killeen, Texas 76543

Members of the Board:

We have audited the financial statements of Killeen Independent School District as of and for the year ended August 31, 2005, which collectively comprise Killeen Independent School District's basic financial statements and have issued our report thereon dated November 2, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether Killeen Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Killeen Independent School District in a separate letter, dated November 2, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Killeen Independent School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the administration of Killeen Independent School District in a separate letter dated November 2, 2005.

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

Lott, Vernon & Company P.C.



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

Independent Auditors' Report

Board of Trustees
Killeen Independent School District
200 North W. S. Young Drive
Killeen, Texas 76543

Members of the Board:

Compliance

We have audited the compliance of Killeen Independent School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended August 31, 2005. 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 Killeen Independent School District's administrators. 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 Killeen Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Killeen Independent School District's compliance with those requirements.

As described in item 05-1 in the accompanying schedule of findings and questioned costs, the District was unable to provide to us a complete population of all Impact Aid survey applications. In addition, we noted certain immaterial instances of noncompliance, which we have reported to

management of Killeen Independent School District in a separate letter, dated November 2, 2005.

In our opinion, except for the noncompliance described in the preceding paragraph, Killeen Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2005.

Internal Control Over Compliance

The administration of Killeen Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered 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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Killeen Independent School District as of and for the year ended August 31, 2005, and have issued our report thereon dated November 2, 2005. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of Killeen Independent School District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Lott, Verman & Company P.C.

KILLEEN INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2005

Summary Information:	
Type of report on financial statements	Unqualified opinion
Reportable conditions	None
Material weaknesses involving financial statements	None
Noncompliance material to the financial statements	The level of noncompliance was not material in relation to financial statements covering federal programs.
Type of report on compliance with major programs	Qualified opinion
Findings and questioned costs for federal awards as defined in Section .510(a). OMB Circular A-133	No known questioned costs as defined in Section .510(a). OMB Circular A-133 were noted.
Dollar threshold considered between Type A and Type B federal programs	\$ 2,097,470
Low risk auditee statements	The district was not classified as a low-risk auditee in the context of OMB Circular A-133.
Major federal programs	ESEA Title I, Part A – Improving Basic Programs CFDA 84.010A Title VIII of ESEA – Impact Aid CFDA 84.041 National School Lunch/Breakfast Program CFDA 10.555/10.553 IDEA Part B – CFDA 84.027/84.173
Pass-through entity for applicable programs	Texas Education Agency
Current Year Findings:	
Schedule reference number: 05-1	Non-compliance with District record retention policy.
Criteria:	
Condition:	The District was unable to provide to us a complete population of all Impact Aid survey applications. Therefore, our sample of applications tested for compliance with rules and regulations was not selected from the entire population. However, the results of our test sample disclosed no instances of non-compliance with the applicable laws and regulations.
Questioned costs:	N/A
Effect:	The District is in violation of record retention requirements established in the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

KILLEEN INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2005

Recommendation:	The District should ensure future compliance with local record retention policy
Total Questioned Costs	\$-0-

KILLEEN INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL PROGRAMS
FOR THE YEAR ENDED AUGUST 31, 2005

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Project Number	Federal Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
DIRECT PROGRAMS			
Impact Aid - P.L. 81.874 *	84.041	33014906	\$ 41,726,249
Impact Aid - P.L. 103-382 Section F *	84.041	33014906	1,997,562
Impact Aid - P.L. 103-382 Section 8007 *	84.041	33014906	2,894,557
Total CFDA Number 84.041			<u>46,618,368</u>
TOTAL DIRECT PROGRAMS			\$ 46,618,368
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
ESEA Title I Part A*	84.010A	661010104906	\$ 858,515
ESEA Title I Part A*	84.010A	561010104906	4,881,761
Total CFDA Number 84.010A			<u>5,740,276</u>
IDEA B - Capacity Building *	84.027	56600040149066604	67,162
IDEA B - Capacity Building (Deaf) *	84.027	56600040149066614	588
IDEA, Part B, Formula (Deaf) *	84.027	5660001014906644	15,694
IDEA, Part B, Formula *	84.027	66600010149066600	537,753
IDEA, Part B, Formula *	84.027	56600010149066600	5,168,342
IDEA-B Discretionary (Deaf)*	84.027	566000210149066673	80,145
Total CFDA Number 84.027			<u>5,869,684</u>
Vocational Education- Basic Grant	84.048	642000601490612	102,381
Vocational Education- Basic Grant	84.048	542000601490612	246,266
Total CFDA Number 84.048			<u>348,647</u>
IDEA, Part B, Preschool *	84.173	666100101490666	16,883
IDEA, Part B, Preschool *	84.173	566100101490666	166,171
IDEA, Part B, Preschool (Deaf) *	84.173	56610010149066611	3,048
Total CFDA Number 84.173			<u>186,102</u>
IDEA, Part C Early Intervention	84.181A	53911010149063911	405
ESEA Title IV - Safe and Drug-Free Schools	84.186A	5691001014906	173,691
Title V, Part A - Innovative Programs	84.298	5685001014906	122,406
SSA - Title II, Part D, Enhancing Education Through Technology	84.318x	6630001014906	75,000
SSA - Title II, Part D, Enhancing Education Through Technology	84.318x	5630001014906	224,476
SSA - Technology Applications Readiness Grants for Empowering Texas	84.318x	66300027110007	62,000
SSA - Technology Applications Readiness Grants for Empowering Texas	84.318x	56300027110007	359,617
Total CFDA Number 84.318x			<u>721,093</u>
Title III, Part A, English Language Acquisition and Enhancement	84.365A	5671001014906	118,742
Title III, Part A, Immigrant	84.365A	5671003014906	34,184
Total CFDA Number 84.365			<u>152,926</u>
ESEA Title II, Part A, Teacher & Principal Training	84.367A	6694501014906	124,208
ESEA Title II, Part A, Teacher & Principal Training	84.367A	5694501014906	1,412,993
Total CFDA Number 84.367			<u>1,537,201</u>
Classroom Teacher Supply Reimbursement Grant			33,097
TOTAL PASS THROUGH PROGRAMS			\$ 14,885,528
 TOTAL DEPARTMENT OF EDUCATION			 \$ 61,503,896

KILLEEN INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL PROGRAMS
 FOR THE YEAR ENDED AUGUST 31, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Project Number	Federal Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
National School Lunch Program*	10.555	71300501	\$ 5,854,504
National School Lunch Program (Donated Commodities)	10.550	N/A	672,735
National School Breakfast Program*	10.553	71400501	<u>1,635,950</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>\$ 8,163,189</u>
<u>UNITED STATES ARMY</u>			
DIRECT PROGRAMS			
ROTC	N/A	N/A	<u>248,585</u>
TOTAL UNITED STATES ARMY			<u>\$ 248,585</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 69,915,670</u>

* Indicated Major Program

KILLEEN INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL PROGRAMS
YEAR ENDED AUGUST 31, 2005

The District utilizes the fund types specified by the Texas Education Agency in the Financial Accountability System Resource Guide.

Special Revenue Funds are used to account for resources restricted to, or designed for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in the General Fund, a Special Revenue Fund or a Capital Projects Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and expendable Trust Fund are accounted for using a current financial resources measurement focus. All federal grant funds were accounted for in a Governmental Fund type. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund Types, The Expendable Trust Fund, and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H., Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Supplement – March 2004 Revision.

KILLEEN INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED AUGUST 31, 2005

DEPARTMENT OF EDUCATION

FINDING 98-2: Accountability of General Fixed Assets

Condition: A complete physical inventory count of equipment has not been taken in the last two years.

Recommendation: The auditor recommended that bi-annually; the District should complete a physical inventory count of all equipment and update the general and subsidiary ledgers accordingly.

Current Status: This finding is resolved.

KILLEEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CORRECTIVE ACTION
FOR THE YEAR ENDED AUGUST 31, 2005

Current Year Findings

Finding 05-1

Contact Person:

Billy Walker, Assistant Superintendent for Business Services

Corrective Action:

The District will ensure that all state and federal record retention guidelines will be followed in the future. The retain/destroy procedures for all documentation will be reviewed. The Coordinator for Property Management will have a third party from the Fiscal Management office confirm all documents before destroying.

Anticipated Completion Date:

December 2005