

**KEENEY, HEMBREE & COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS

116 EAST SEVENTH

P.O. BOX 800 - TELEPHONE 806-935-4188

DUMAS, TEXAS 79029

THOMAS R. BRANDON, C.P.A.  
K. B. "BART" TEMPLETON, C.P.A.  
COY BARTON, C.P.A.

MEMBERS OF  
THE AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
THE AICPA'S PRIVATE COMPANIES  
PRACTICE SECTION  
TEXAS SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

May 10, 2011

Board of Trustees  
Dalhart Independent School District  
701 East 10<sup>th</sup>  
Dalhart, Texas 79022

We are pleased to confirm our understanding of the audit and non-audit services we are to provide Dalhart Independent School District (the "District") for the year ended August 31, 2011. We will audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of Dalhart Independent School District as of and for the year ended August 31, 2011.

Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as Management's Discussion and Analysis (MD&A), to supplement Dalhart Independent School District's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to Dalhart Independent School District's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis;
- 2) The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund (G-1) (and all major special revenue funds with legally adopted budgets if these are in Required Supplementary Information and not in the Basic Financial Statements).

Supplementary information other than RSI also accompanies Dalhart Independent School District's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole:

- 1) Schedule of Delinquent Taxes Receivable;
- 2) Schedule of Expenditures for Computations of Indirect Cost for 2012-2013;
- 3) Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Child Nutrition Program;
- 4) Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Debt Service Fund;
- 5) Schedule of Expenditures of Federal Awards.

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and for which our auditor's report will not provide an opinion or any assurance.

- 1) Fund Balance and Cash Flow Calculation Worksheet

### **Audit Objectives**

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on -

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.



The reports on internal control and compliance will each include a statement that the report is intended solely for the information and use of the District's Board of Trustees, administration, Texas Education Agency, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of *OMB Circular A-133*, and will include tests of accounting records, a determination of major program(s) in accordance with *OMB Circular A-133*, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

### **Administration Responsibilities**

Administration is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. Administration is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the Schedule of Expenditures of Federal Awards in accordance with the requirements of *OMB Circular A-133*. As part of the audit, we will assist with preparation of your financial statements, Schedule of Expenditures of Federal Awards, and related notes. You are responsible for making all administrative decisions and performing all administrative functions relating to the financial statements, Schedule of Expenditures of Federal Awards, and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and the Schedule of Expenditures of Federal Awards and that you have reviewed and approved the financial statements, Schedule of Expenditures of Federal Awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any non-audit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Professional standards promulgated by the American Institute of Certified Public Accountants (AICPA), the Government Accountability Office (GAO), and others require that auditors be independent of the clients for whom they perform attest services and that they document their independence. These standards apply to the services we will be providing Dalhart Independent School District. They may restrict some of the non-attest services we can do for you (such as your bookkeeping), but they allow us to provide numerous other services as long as you agree to perform the following functions:



- Make all management decisions and perform all management functions;
- Designate an individual (preferably in senior management) who possesses suitable skill, knowledge, and/or experience to oversee the preparation of suggested adjustments and the draft of financial statements, including the adjustments needed to convert fund information to government-wide information in the annual financial statements, and to oversee the filing of statements with appropriate regulatory or funding agencies;
- Evaluate the adequacy and results of the services performed by us;
- Accept the responsibility for:
  - The District's accounting and information systems;
  - Adjustments we have suggested and you have approved;
  - The financial statements and other reports we have helped you prepare and you have approved, such as the audit data feed;
  - The submission of those financial statements and reports to TEA and other appropriate oversight or granting agencies;
- Establish and maintain internal controls over the budgeting and bookkeeping process and over the data and report submission processes required by TEA, the Municipal Advisory Council, the Office of Management and Budget, and others.

Administration is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements. You are also responsible for the selection and application of accounting principles; for the fair presentation in the financial statements of the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Dalhart Independent School District and the respective changes in financial position, in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Administration is also responsible for making all financial records and related information available to us and for ensuring that management and financial information is reliable and properly recorded. Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control,



and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by *OMB Circular A-133*, it is administration's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to present the supplementary information with the audited financial statements.

Administration is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Administration is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

You, the District, will be responsible for ensuring that the audit report is received by the Texas Education Agency within 150 days of the close of the fiscal year. The District is further responsible for ensuring that other appropriate governmental agencies receive copies of the audit report according to instructions in the Texas Education Agency's *Financial Accountability System Resource Guide*.

#### **Audit Procedures - General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to



acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from the administration about the financial statements and related matters.

#### **Audit Procedures - Internal Controls**

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by *OMB Circular A-133*, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *OMB Circular A-133*.



An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and *OMB Circular A-133*.

We will communicate to the Board, to the extent that they come to our attention, irregularities and illegal acts that are clearly not inconsequential, and significant deficiencies and material weaknesses. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. 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.

In addition, to the extent they are applicable, we will communicate to the Board certain other matters related to the conduct of our audit, including:

- Significant accounting policies;
- Management judgments and accounting estimates;
- Significant audit adjustments (recorded and unrecorded);
- Consultation by management with other accountants on significant matters;
- Difficulties encountered in performing the audit;
- Major issues discussed with management prior to our retention as auditor.

We may also have other comments for management on matters we have observed and possible ways to improve the efficiency of your operations or other recommendations concerning the internal control.

With respect to these other communications, it is our practice to discuss all comments, if appropriate, with the level of management responsible for the matters prior to their communication to senior management and/or the Board.

### **Audit Procedures - Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Dalhart Independent School District's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.



*OMB Circular A-133* requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* and related addenda for the types of compliance requirements that could have a direct and material effect on each of Dalhart Independent School District's major programs. The purpose of these procedures will be to express an opinion on Dalhart Independent School District's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to *OMB Circular A-133*.

### **Engagement Administration, Fees, and Other**

We understand that your employees will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

The audit documentation for this engagement is the property of Keeney, Hembree & Company and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to federal, state, or local agencies providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Keeney, Hembree & Company personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies. The audit documentation for this engagement will be retained for a minimum of five years after the report release date.

We expect to begin our audit in Fall 2011 and to issue reports no later than December 2011. Coy Barton is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.



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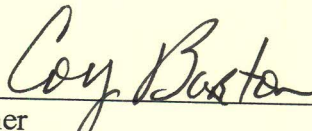
Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.). Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. The fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a fee estimate before we incur the additional costs.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2009 peer review report accompanies this letter.

We appreciate the opportunity to be of service to Dalhart Independent School District, and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

KEENEY, HEMBREE & COMPANY

  
\_\_\_\_\_  
Partner

5/10/11  
\_\_\_\_\_  
Date

RESPONSE:

This letter correctly sets forth the understanding of Dalhart Independent School District.

By: \_\_\_\_\_

Title: President - Dalhart Independent School District Board of Trustees

Date: \_\_\_\_\_



**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

certified public accountants

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 Nashville Avenue

LUBBOCK, TEXAS 79423-1954

**System Review Report**

September 10, 2009

To the Owners of  
Keeney, Hembree & Company  
and the Texas Society of CPA's Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Keeney, Hembree & Company (the firm) in effect for the year ended June 30, 2009. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards*.

In our opinion, the system of quality control for the accounting and auditing practice of Keeney, Hembree & Company in effect for the year ended June 30, 2009, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency (ies)* or *fail*. Keeney, Hembree & Company has received a peer review rating of *pass*.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants