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FINAL REVIEW AND POSSIBLE REVISION.

**KELLER INDEPENDENT  
SCHOOL DISTRICT**

**FINANCIAL REPORT**

**AUGUST 31, 2004**

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KELLER INDEPENDENT SCHOOL DISTRICT  
TABLE OF CONTENTS

DEC 14 2004

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FINAL REVIEW AND POSSIBLE REVISION.

**INTRODUCTORY SECTION**

Certificate of Board .....	1
----------------------------	---

**FINANCIAL SECTION**

Independent Auditor's Report.....	2
-----------------------------------	---

Management's Discussion and Analysis .....	4
--	---

Basic Financial Statements:

Government Wide Statements:

Statement of Net Assets .....	13	A-1
-------------------------------	----	-----

Statement of Activities.....	14	B-1
------------------------------	----	-----

Governmental Fund Financial Statements:

Balance Sheet.....	15	C-1
--------------------	----	-----

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	17	C-2
--	----	-----

Statement of Revenues, Expenditures, and Changes in Fund Balance .....	18	C-3
---	----	-----

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	20	C-4
--	----	-----

Proprietary Fund Financial Statements:

Statement of Net Assets .....	21	D-1
-------------------------------	----	-----

Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	22	D-2
--	----	-----

Statement of Cash Flows .....	23	D-3
-------------------------------	----	-----

Fiduciary Funds:

Statement of Fiduciary Net Assets .....	24	E-1
---	----	-----

Notes to Basic Financial Statements .....	25	-
---	----	---

# DRAFT

## KELLER INDEPENDENT SCHOOL DISTRICT TABLE OF CONTENTS

DEC 14 2004

TO Page 00 Exhibit MANAGEMENT  
DISCUSSION PURPOSES. ENGAGEMENT IS  
INCOMPLETE. THE DRAFT IS SUBJECT TO  
FINAL REVIEW AND POSSIBLE REVISION.

### Required Supplementary Information:

Budgetary Comparison Schedule – General Fund .....	43	G-1
--	----	-----

### Combining Statements:

Combining Balance Sheet – Nonmajor Governmental Funds .....	44	H-1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	48	H-2

### Required TEA Schedules

Schedule of Delinquent Property Taxes Receivable.....	52	I-1
Fund Balance and Cash Flow Calculation Worksheet – Unaudited.....	54	I-2
Budgetary Comparison Schedule – Child Nutrition Program .....	55	I-3
Budgetary Comparison Schedule – Debt Service Fund .....	56	I-4

## **FEDERAL AWARDS SECTION**

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....	57	
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	59	
Schedule of Findings and Questioned Costs .....	61	
Schedule of Prior Audit Findings .....	63	
Corrective Action Plan.....	64	
Schedule of Expenditures of Federal Awards.....	65	J-1

# DRAFT

DEC 14 2004

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DISCUSSION PURPOSES. ENGAGEMENT IS  
INCOMPLETE. THE DRAFT IS SUBJECT TO  
FINAL REVIEW AND POSSIBLE REVISION.

## INTRODUCTORY SECTION

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KELLER INDEPENDENT SCHOOL DISTRICT  
CERTIFICATE OF BOARD

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Keller Independent  
School District  
\_\_\_\_\_  
Name of Local Education Agency

Tarrant  
County  
\_\_\_\_\_

220-907  
County-District-Number No.  
\_\_\_\_\_

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

approved                  disapproved

\_\_\_\_\_

for the year ended August 31, 2004 at a meeting of the Board of Trustees of such school district on the 10<sup>th</sup> day of January, 2005.

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

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

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

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## FINANCIAL SECTION

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DEC 14 2004

## INDEPENDENT AUDITOR'S REPORT

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Board of Trustees  
Keller Independent School District  
Keller, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Keller Independent School District as of and for the year ended August 31, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Keller Independent School 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 Keller Independent School District as of August 31, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages \_ through \_ and budgetary comparison schedule on page \_ 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.

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DISCUSSION PURPOSES. ENGAGEMENT  
INCOMPLETE. THE DRAFT IS SUBJECT  
FINAL REVIEW AND POSSIBLE REVISION

Board of Trustees  
Keller Independent School District  
Page Two

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 2004, on our consideration of Keller Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 opinions on the financial statements that collectively comprise the Keller Independent School District's 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 in addition to the combining nonmajor fund financial statements, and the required TEA schedules listed in the table of contents, are not a required part of the basic financial statements. Such information, excluding the Fund Balance and Cash Flow Worksheet – General Fund (Exhibit I-2) marked unaudited on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas  
December 3, 2004



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## **BASIC FINANCIAL STATEMENTS**

KELLER INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
AUGUST 31, 2004

EXHIBIT A-1

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Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 71,467,886
1220 Property Taxes Receivable (Delinquent)	2,599,720
1230 Allowance for Uncollectible Taxes	(649,929)
1240 Due from Other Governments	13,302,857
1250 Accrued Interest	700
1290 Other Receivables (net)	53,415
1300 Inventories	488,321
1410 Deferred Expenses	3,200
1420 Capital Bond & Other Debt Issuance Costs	141,993
1510 Land	19,950,339
1520 Buildings, net	348,725,459
1530 Furniture and Equipment, net	2,912,781
1580 Construction in Progress	4,512,299
1000 Total Assets	<u>463,509,041</u>
<b>LIABILITIES</b>	
2110 Accounts Payable	6,473,857
2140 Interest Payable	790,077
2150 Payroll Deductions & Withholdings	44,986
2160 Accrued Wages Payable	3,907,501
Long Term Liabilities:	
2501 Due Within One Year	5,446,511
2502 Due in More Than One Year	438,114,046
2000 Total Liabilities	<u>454,776,978</u>
<b>NET ASSETS</b>	
3200 Invested in Capital Assets, Net of Related Debt	(9,928,901)
3840 Restricted for Food Service	1,001,892
3850 Restricted for Debt Service	3,517,874
3900 Unrestricted Net Assets	14,141,198
3000 Total Net Assets	<u>\$ 8,732,063</u>

The accompanying notes are an integral part of this statement.

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KELLER INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2004

EXHIBIT B-1

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Net (Expense)  
Revenue and  
Changes in Net  
Assets

Data Control Codes	1	Program Revenues		6
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 80,692,773	\$ 444,481	\$ 8,260,940	\$ (71,987,352)
12 Instructional Resources & Media Services	2,721,286	-	121,262	(2,600,024)
13 Curriculum and Staff Development	997,670	193,476	201,256	(602,938)
21 Instructional Leadership	1,108,848	-	88,440	(1,020,408)
23 School Leadership	7,142,795	-	424,083	(6,718,712)
31 Guidance, Counseling & Evaluation Services	4,131,299	-	302,678	(3,828,621)
32 Social Work Services	42	-	42	-
33 Health Services	809,888	-	52,840	(757,048)
34 Student (Pupil) Transportation	3,016,569	-	1,765	(3,014,804)
35 Food Services	6,819,696	4,653,640	1,584,003	(582,053)
36 Cocurricular/Extracurricular Activities	3,618,896	322,574	25,462	(3,270,860)
41 General Administration	3,790,150	-	133,093	(3,657,057)
51 Plant Maintenance and Operations	14,483,278	167,816	376,337	(13,939,125)
52 Security and Monitoring Services	214,075	-	-	(214,075)
53 Data Processing Services	1,519,701	-	53,624	(1,466,077)
61 Community Services	770,915	-	1,290	(769,625)
72 Debt Service - Interest on Long Term Debt	23,015,948	-	-	(23,015,948)
73 Debt Service - Bond Issuance Cost & Fees	11,029	-	-	(11,029)
81 Facilities Acquisition and Construction	702,243	-	423	(701,820)
97 Payments to Tax Increment Fund	750,000	-	-	(750,000)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 156,317,101	\$ 5,781,987	\$ 11,627,538	(138,907,576)

Data  
Control  
Codes

## General Revenues:

## Taxes:

MT	Property Taxes, Levied for General Purposes	84,370,396
DT	Property Taxes, Levied for Debt Service	15,289,556
SF	State Aid - Formula Grants	26,135,711
GC	Grants & Contributions not Restricted	5,485,261
IE	Investment Earnings	1,255,926
MI	Miscellaneous Local and Intermediate Revenue	978,540
SI	Special Item - Lease of Mineral Rights	443,001
TR	Total General Revenues and Special Items	133,958,391
CN	Change in Net Assets	(4,949,185)
NB	Net Assets--Beginning	13,681,248
NE	Net Assets--Ending	\$ 8,732,063

The accompanying notes are an integral part of this statement.

KELLER INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2004

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Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 28,347,797	\$ 2,439,286	\$ 32,825,272
1220 Property Taxes - Delinquent	2,159,079	440,641	-
1230 Allowance for Uncollectible Taxes (credit)	(539,769)	(110,160)	-
1240 Due from Other Governments	11,285,685	1,479,896	9,987
1250 Accrued Interest	700	-	-
1260 Due from Other Funds	483,018	58,288	-
1290 Other Receivables	47,694	-	-
1300 Inventories	197,409	-	-
1410 Deferred Expenditures	3,200	-	-
1000 Total Assets	<u>\$ 41,984,813</u>	<u>\$ 4,307,951</u>	<u>\$ 32,835,259</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
2110 Accounts Payable	\$ 1,559,506	\$ -	\$ 3,069,397
2150 Payroll Deductions and Withholdings Payable	44,986	-	-
2160 Accrued Wages Payable	3,800,964	-	412
2170 Due to Other Funds	3,329,446	-	-
2300 Deferred Revenues	1,619,310	330,481	-
2000 Total Liabilities	<u>\$ 10,354,212</u>	<u>\$ 330,481</u>	<u>\$ 3,069,809</u>
Fund Balances:			
Reserved For:			
3410 Investments in Inventory	\$ 197,409	\$ -	\$ -
3420 Retirement of Long-Term Debt	-	3,977,470	-
3450 Food Service	-	-	-
3470 Capital Acquisition Program	-	-	29,765,450
Unreserved Designated For:			
3590 Budgetary Contingencies	11,677,131	-	-
Unreserved and Undesignated:			
3600 Reported in the General Fund	19,756,061	-	-
3610 Reported in Special Revenue Funds	-	-	-
3000 Total Fund Balances	<u>\$ 31,630,601</u>	<u>\$ 3,977,470</u>	<u>\$ 29,765,450</u>
4000 Total Liabilities and Fund Balances	<u>\$ 41,984,813</u>	<u>\$ 4,307,951</u>	<u>\$ 32,835,259</u>

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Other Funds	Total Governmental Funds
\$ 1,849,184	\$ 65,461,539
-	2,599,720
-	(649,929)
527,289	13,302,857
-	700
1,718	543,024
5,721	53,415
290,912	488,321
-	3,200
<u>\$ 2,674,824</u>	<u>\$ 81,802,847</u>
\$ 722,578	\$ 5,351,481
-	44,986
106,125	3,907,501
483,018	3,812,464
-	1,949,791
<u>\$ 1,311,721</u>	<u>\$ 15,066,223</u>
\$ 290,912	\$ 488,321
-	3,977,470
1,001,892	1,001,892
-	29,765,450
-	11,677,131
-	19,756,061
70,299	70,299
<u>\$ 1,363,103</u>	<u>\$ 66,736,624</u>
<u>\$ 2,674,824</u>	<u>\$ 81,802,847</u>

KELLER INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
AUGUST 31, 2004

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 66,736,624</b>
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase net assets.	8,153,411
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in fund financial statements.	443,872,918
3 Accumulated depreciation has not been recorded in the fund financial statements.	(67,772,040)
4 Bonds payable, leases payable, and contractual obligations have not been included in the fund financial statements.	(399,478,518)
5 Accreted interest on capital appreciation bonds was not capitalized in the fund financial statements.	(43,778,204)
6 Bond issuance costs were not capitalized in the fund financial statements.	141,993
7 Revenue reported as deferred revenue in the fund financial statements was recognized as revenue in the government wide financial statements.	1,949,791
8 Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(303,835)
9 Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.	(790,077)
<b>19 Net Assets of Governmental Activities</b>	<b>\$ 8,732,063</b>

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KELLER INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2004

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Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 86,621,599	\$ 15,340,826	\$ 605,297
5800 State Program Revenues	30,966,387	5,566,193	-
5900 Federal Program Revenues	3,736	-	-
5020 Total Revenues	117,591,722	20,907,019	605,297
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	71,220,553	-	-
0012 Instructional Resources & Media Services	2,358,245	-	-
0013 Curriculum & Instructional Staff Development	812,297	-	-
0021 Instructional Leadership	1,050,085	-	-
0023 School Leadership	6,990,132	-	-
0031 Guidance, Counseling & Evaluation Services	4,001,868	-	-
0032 Social Work Services	-	-	-
0033 Health Services	778,724	-	-
0034 Student (Pupil) Transportation	3,004,979	-	-
0035 Food Services	-	-	-
0036 Cocurricular/Extracurricular Activities	3,397,697	-	-
0041 General Administration	3,676,826	-	-
0051 Plant Maintenance and Operations	14,647,171	-	-
0052 Security and Monitoring Services	214,075	-	-
0053 Data Processing Services	1,501,322	-	-
0061 Community Services	584,502	-	-
Debt Service:			
0071 Debt Service - Principal on long-term debt	560,000	1,636,853	-
0072 Debt Service - Interest on long-term debt	61,050	19,031,855	-
0073 Debt Service - Bond Issuance Cost and Fees	5,529	5,500	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	113,823	-	32,276,436
Intergovernmental:			
0097 Payments to Tax Increment Fund	750,000	-	-
6030 Total Expenditures	115,728,878	20,674,208	32,276,436
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	1,862,844	232,811	(31,671,139)
<b>SPECIAL ITEMS:</b>			
7918 Special Item - Lease of Mineral Rights	443,001	-	-
1200 Net Change in Fund Balances	2,305,845	232,811	(31,671,139)
0100 Fund Balance - September 1 (Beginning)	29,324,756	3,744,659	61,436,589
3000 Fund Balance - August 31 (Ending)	\$ 31,630,601	\$ 3,977,470	\$ 29,765,450

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Other Funds	Total Governmental Funds
\$ 4,654,365	\$ 107,222,087
2,027,674	38,560,254
4,684,520	4,688,256
11,366,559	150,470,597
4,693,166	75,913,719
22,716	2,380,961
180,525	992,822
60,763	1,110,848
44,074	7,034,206
90,783	4,092,651
42	42
12,118	790,842
-	3,004,979
6,137,001	6,137,001
3,287	3,400,984
15,277	3,692,103
97,100	14,744,271
-	214,075
6,115	1,507,437
613	585,115
-	2,196,853
-	19,092,905
-	11,029
423	32,390,682
-	750,000
11,364,003	180,043,525
2,556	(29,572,928)
-	443,001
2,556	(29,129,927)
1,360,547	95,866,551
\$ 1,363,103	\$ 66,736,624



KELLER 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, 2004

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ (29,129,927)</b>
The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net effect of this consolidation is to increase net assets.	1,395,476
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2004 capital outlays is to increase net assets.	31,865,847
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.	(7,758,576)
Current year long-term debt principal payments on capital leases, bonds payable, contractual obligations, and payments of accreted interest on capital appreciation bonds are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government wide financial statements.	3,263,065
Current year accretion on capital appreciation bonds is not reflected in the fund financial statements, but is shown as an increase in accreted interest on the government-wide financial statements.	(4,976,396)
Current year amortization of bond issuance costs is not reflected in the fund financial statements, but is shown as reductions to the bond issuance cost asset in the government-wide financial statements.	(15,777)
Revenues from property taxes are deferred in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed net of an allowance for uncollectable accounts in the government-wide financial statements.	425,658
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(21,472)
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.	2,917
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ (4,949,185)</b>

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KELLER INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
AUGUST 31, 2004

	Governmental Activities -
	Internal Service Fund
<hr/>	
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 6,006,347
Due from Other Funds	<u>3,269,440</u>
Total Assets	<u>9,275,787</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	<u>1,122,376</u>
Total Liabilities	<u>1,122,376</u>
NET ASSETS	
Unrestricted Net Assets	<u>8,153,411</u>
Total Net Assets	<u><u>\$ 8,153,411</u></u>

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The accompanying notes are an integral part of this statement.

KELLER INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2004

	DRAFT	Governmental Activities -
		Internal Service Fund
OPERATING REVENUES:	DEC 1 4 2004	
Charges for Services	TO BE USED ONLY FOR MANAGEMENT DISCUSSION PURPOSES. ENGAGEMENT IS INCOMPLETE. THE DRAFT IS SUBJECT TO FINAL REVIEW AND POSSIBLE REVISION.	\$ 7,226,623
Total Operating Revenues		<u>7,226,623</u>
OPERATING EXPENSES:		
Payroll Costs		7,217
Professional and Contracted Services		78,132
Supplies and Materials		5,678,839
Other Operating Costs		<u>95,620</u>
Total Operating Expenses		<u>5,859,808</u>
Operating Income		<u>1,366,815</u>
NONOPERATING REVENUES (EXPENSES):		
Earnings from Temporary Deposits & Investments		<u>28,661</u>
Total Nonoperating Revenue (Expenses)		<u>28,661</u>
Change in Net Assets		1,395,476
Total Net Assets - September 1 (Beginning)		<u>6,757,935</u>
Total Net Assets - August 31 (Ending)		<u><u>\$ 8,153,411</u></u>

The accompanying notes are an integral part of this statement.

KELLER INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2004

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Quasi-External Activities	\$ 8,640,372
Cash Payments for Insurance Claims	(5,799,426)
Cash Payments for Other Operating Expenses	(180,969)
Net Cash Provided by Operating Activities	<u>2,659,977</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>28,661</u>
Net Increase in Cash and Cash Equivalents	2,688,638
Cash and Cash Equivalents at Beginning of the Year:	<u>3,317,709</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 6,006,347</u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided By Operating Activities:</u>	
Operating Income:	\$ 1,366,815
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease in Due From Other Funds	1,413,749
Decrease in Accounts Payable	(120,587)
Net Cash Provided by Operating Activities	<u>\$ 2,659,977</u>

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TO ALL KELLER INDEPENDENT SCHOOL DISTRICT MANAGEMENT  
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KELLER INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
AUGUST 31, 2004

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 1,312,701
Other Receivables	2,884
Total Assets	<u>\$ 1,315,585</u>
LIABILITIES	
Accounts Payable	\$ 113,741
Due to Student Groups	1,201,844
Total Liabilities	<u>\$ 1,315,585</u>

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**KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS**

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FINAL REVIEW AND POSSIBLE REVISION.**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

The Keller Independent School District (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 that are elected by registered voters of the District. The District prepares its basic financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement of Auditing Standards* No. 69 of the American Institute of Certified Public Accountants. Additionally, the District complies with the requirements of the appropriate version of the Texas Education Agency (TEA) *Financial Accountability System Resource Guide* (FASRG) and the requirements of contracts and grants of agencies from which it receives funds. The following is a summary of the more significant accounting policies of the District.

**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" as amended by GASB 39 "Determining Whether Certain Organizations are Component Units". There are no component units included within the reporting entity and the District is not included in any other governmental 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 Keller Independent School District non-fiduciary 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 the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as *general revenues*.

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 emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS

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**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – continued**

**B. Government-Wide and Fund Financial Statements - continued**

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating.

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

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 amounts.

**KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS**

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**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – continued**

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

The Proprietary Fund Types and Fiduciary Funds 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 the operation of these funds are included on the fund Statement of Net Assets. Net assets are segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

**D. Fund Accounting**

The District reports the following major governmental funds:

**The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. Major program revenues include local property taxes, state funding under the Foundation School Program, and interest earnings. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal or state government, food service, debt service, and capital projects.

**Debt Service Funds** – The debt service fund is utilized to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs arising from general obligation bonds.

**Capital Projects Funds** – The capital project fund is utilized to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived from proceeds of General Obligation Bonds and interest earned on such monies and local sources designated for such purposes.

Additionally, the District reports the following non major fund types:

**Governmental Funds:**

**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.



**KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS**

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**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – continued**

**D. Fund Accounting - continued**

Proprietary Funds:

Internal Service Funds – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District's Internal Service Fund is a Worker's Compensation and Health Insurance fund.

Fiduciary Funds:

Agency Funds – 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**

The District's cash is comprised of demand accounts and imprest funds. All daily receipts are deposited to the demand accounts until the funds are invested under the terms of the District's depository contract. The District considers cash equivalents to be all highly liquid investments with initial maturities of ninety days or less from the date of purchase.

**F. Temporary Investments**

In accordance with GASB Statement No. 31, the District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at the time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

**G. Inventory**

Inventories on the balance sheet consist of material and supplies and are recorded at first-in, first-out (FIFO) cost. The District follows the consumption method of accounting whereby supplies and materials are recorded as expenditures when utilized.

**KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS**

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**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – continued**

DEC 14 2004

**H. Compensated Absences**

Any district employee who is professionally certified and has at least five years of service to the district is paid for all leave days upon termination of employment with the district. Leave days are earned at a rate of five days per year. The leave days accrue with no limit. A resigning employee shall receive \$30 per day, a retiring employee shall receive \$35 per day at the time of retirement provided he or she qualifies for retirement benefits from the Teacher Retirement System of Texas.

The accrual for accumulated unpaid sick leave benefits has been recorded in the government-wide financial statements.

**I. Account Code Reporting**

In accordance with the Texas Education Code, the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure prescribed by the TEA in the Resource Guide. Mandatory codes are recorded in the order provided in that section.

**J. Accounting Estimates**

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

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula becomes available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimate as of August 31, 2004 will change.

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KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS

DRAFT

DEC 14 2004

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**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – continued**

**K. Property Taxes**

Property taxes are levied by October 1 on the assessed value listed as of 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 on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

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 upon historical experience in collecting property taxes. The District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**L. Capital Assets**

Capital assets, which include land, buildings and furniture and equipment, are reported in the applicable governmental or business-type activities columns 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.

KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS

DRAFT

DEC 14 2004

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**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – continued**

**L. Capital Assets - continued**

Buildings and 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	50
Building Improvements	5-25
Vehicles	5-10
Office equipment	3-20
Computer equipment	5

**M. 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 recognized 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.

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

For the year ended August 31, 2004 the District over expended budgeted amounts at the functional levels in the Food Service Special Revenue Fund.

**KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS**

DRAFT

DEC 14 2004

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**NOTE 3. BONDED DEBT PAYABLE**

Bonded debt payable as of August 31, 2004 is as follows:

Description	Interest Rate Payable	Amount of Original Issue	Amount Outstanding 9/01/03	Issued Current Year	Refunded Current Year	Retired Current Year	Amount Outstanding 8/31/04
Refunding and School Building Bonds Series 1992 & 1992A	5.625-6.25	\$29,245,000	\$2,975,000	\$ -	\$ -	\$ 955,000	\$ 2,020,000
Refunding and School Building Bonds Series 1993 & 1993A	3.50-6.25	31,065,000	545,000	-	-	20,000	525,000
Unlimited Tax School Building Bonds Series 1995	5.10-6.40	5,799,387	222,120	-	-	-	222,120
Unlimited Tax School Building and Refunding Bonds Series 1996A	3.60-5.90	59,539,931	53,444,931	-	-	-	53,444,931
Unlimited Tax School Building and Refunding Bonds Series 1997A	3.85-6.00	29,698,013	26,868,013	-	-	140,000	26,728,013
Unlimited Tax School Building and Refunding Bonds Series 1998	4.20-5.00	90,610,038	90,040,020	-	-	396,853	89,643,167
Unlimited Tax School Building and Refunding Bonds Series 1999	4.00-4.90	30,190,000	30,190,000	-	-	-	30,190,000
Unlimited Tax School Building and Refunding Bonds Series 2000	4.90-6.00	83,961,810	72,071,810	-	-	-	72,071,810
Unlimited Tax School Building and Refunding Bonds Series 2001	5.25-5.5	117,068,480	117,068,480	-	-	-	117,068,480

**KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS**

DRAFT

DEC 14 2004

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**NOTE 3. BONDED DEBT PAYABLE – continued**

Description	Interest Rate Payable	Amount of Original Issue	Amount Outstanding 9/01/03	Issued Current Year	Refunded Current Year	Retired Current Year	Amount Outstanding 8/31/04
Unlimited Tax Refunding Bonds Series 2002	3.00-4.20	7,184,997	<u>7,094,997</u>	-	-	125,000	6,969,997
Total bonded debt payable			<u>\$400,520,371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,636,853</u>	<u>\$398,883,518</u>

The debt service requirements on the above bonds are as follows:

Due Fiscal Year Ending August 31	Principal	Interest	Total
2005	\$ 3,770,498	\$ 18,961,856	\$ 22,732,354
2006	4,563,597	20,736,238	25,299,835
2007	6,685,592	21,163,130	27,848,722
2008	8,820,592	20,703,226	29,523,818
2009	8,839,995	21,040,425	29,880,420
2010-2014	47,214,303	119,623,162	166,837,465
2015-2019	54,537,167	108,724,038	163,261,205
2020-2024	87,241,774	74,625,084	161,866,858
2025-2029	127,885,000	33,916,738	161,801,738
2030-2034	<u>49,325,000</u>	<u>3,562,112</u>	<u>52,887,112</u>
	<u>\$ 398,883,518</u>	<u>\$ 443,056,009</u>	<u>\$ 841,939,527</u>

Bonded debt payable is collateralized by revenue from the District's tax collections.

In prior years, the District issued \$80,090,316 in Refunding and School Building Bonds to defease \$80,713,994 in School Building Bonds then outstanding. Of the \$80,713,994 of bonds originally defeased, \$39,552,108 remain outstanding at August 31, 2004.

KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS

DRAFT

DEC 14 2004

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**NOTE 4. CAPITAL LEASES**

The District has entered into a financing agreement involving equipment pursuant to Section 4 of Article 2358 A.2 of the Texas Education Code, which has been classified as a capital lease and has an interest rate of 6%. The current servicing of the capital leases is accounted for in the General Fund.

The following is a schedule by year of the future minimum lease payments under capital leases together with the present value of net minimum lease payments as of August 31, 2004:

Year Ending <u>August 31, _____</u>	
2005	<u>\$ 621,853</u>
Minimum lease payments	621,853
Less amount representing interest	<u>26,853</u>
Present value of net minimum lease payments	<u>\$ 595,000</u>

Included in Fixed Assets is \$6,695,000 for computers related to capital leases and \$6,695,000 in accumulated depreciation.

**NOTE 5. ACCUMULATED UNPAID SICK LEAVE BENEFITS**

Professional certified employees who have completed five years of continuous service in the District and who leave the system shall be paid for each day of unused accumulated sick leave. A summary of changes in the accumulated sick leave follows:

Balance, September 1, 2003	\$ 282,363
New entrants and salary increments	75,565
Payments to participants	<u>( 54,093)</u>
Balance, August 31, 2004	<u>\$ 303,835</u>

**KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS**

DRAFT

DEC 14 2004

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**NOTE 6. CHANGES IN LONG-TERM LIABILITIES**

Long-term activity for the year ended August 31, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
Bonds and Notes Payable					
General Obligation Bonds	\$400,520,371	\$ -	\$1,636,853	\$398,883,518	\$ 3,770,498
Accreted Interest	39,868,020	4,976,396	1,066,212	43,778,204	1,081,013
Capital Leases	1,155,000	-	560,000	595,000	595,000
Compensated Absences	<u>282,363</u>	<u>75,565</u>	<u>54,093</u>	<u>303,835</u>	<u>-</u>
Total Governmental Activities					
Long-term Liabilities	<u>\$441,825,754</u>	<u>\$ 5,051,961</u>	<u>\$3,317,158</u>	<u>\$443,560,557</u>	<u>\$ 5,446,511</u>

**NOTE 7. CAPITAL ASSET ACTIVITY**

Capital asset activity for the district for the year ended August 31, 2004 was as follows:

Primary government:

	<u>Balance 9/01/03</u>	<u>Additions (Transfers)</u>	<u>Deletions</u>	<u>Balance 8/31/04</u>
Capital assets, not being Depreciated				
Land	\$ 19,945,041	\$ 5,298	\$ -	\$ 19,950,339
Construction in progress	<u>12,166,961</u>	<u>( 7,654,662)</u>	<u>-</u>	<u>4,512,299</u>
Total Capital Assets, not being Depreciated	<u>32,112,002</u>	<u>( 7,649,364)</u>	<u>-</u>	<u>24,462,638</u>
Capital Assets, being depreciated				
Buildings and improvements	367,752,615	39,336,143	-	407,088,758
Furniture and equipment	<u>12,142,454</u>	<u>179,068</u>	<u>-</u>	<u>12,321,522</u>
Total Capital Assets, being depreciated	<u>379,895,069</u>	<u>39,515,211</u>	<u>-</u>	<u>419,410,280</u>
Less Accumulated depreciation on:				
Buildings and improvements	51,011,177	7,352,122	-	58,363,299
Furniture and Equipment	<u>9,002,287</u>	<u>406,454</u>	<u>-</u>	<u>9,408,741</u>
Total Capital Assets, being depreciated, net	<u>319,881,605</u>	<u>31,756,635</u>	<u>-</u>	<u>351,638,240</u>
Governmental activities capital assets, net	<u>\$351,993,607</u>	<u>\$ 24,107,271</u>	<u>\$ -</u>	<u>\$376,100,878</u>



**KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS**

DEC 14 2004

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DISCUSSION PURPOSES. ENGAGEMENT IS  
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FINAL REVIEW AND POSSIBLE REVISION.

**NOTE 7. CAPITAL ASSET ACTIVITY – continued**

Depreciation expense of the governmental activities was charged to functions/programs as follows:

Instruction	\$ 5,598,212
Instructional resources & media services	367,232
Curriculum and staff development	4,633
Instructional leadership	9,206
School leadership	189,095
Guidance, counseling and evaluation services	78,793
Health services	32,499
Student (pupil) transportation	11,590
Food services	777,728
Cocurricular/extracurricular activities	231,151
General administration	124,954
Plant maintenance and operations	57,250
Data processing services	12,049
Community Services	185,800
Facilities acquisition and construction	<u>78,384</u>
Total Depreciation Expense	<u>\$ 7,758,576</u>

**NOTE 8. DEPOSITS AND INVESTMENTS**

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with its agent bank, approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The District's investment policies and types of investments are governed by the Public Funds Investment Act (PFIA). The District's management believes that it complied with the requirements of the PFIA.

At August 31, 2004, the carrying amount of the District's cash on deposit was (\$807,553) and the bank balance was \$108,357. Of the bank balance, \$100,000 was covered by FDIC insurance and \$8,357 was covered by pledged collateral held by the depository bank's agent bank. During the fiscal year ended August 31, 2004, the District's combined deposits were fully insured by federal depository insurance or by pledged collateral held by the District's agent bank in the District's name.

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

A. Depository: Bank of America

**KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS**

DRAFT

DEC 14 2004

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**NOTE 8. DEPOSITS AND INVESTMENTS - continued**

- B. Security pledged as of the date of the highest combined balance on deposit was \$533,192.
- C. Largest cash, savings, and time deposit combined account balance amounted to \$433,192 and occurred during the month of February 2004.
- D. Total amount of FDIC coverage at the time of largest combined balance was \$100,000.

Cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

- Category 1 Deposits, which are insured or collateralized with securities, held by the entity or by its agent in the entity's name.
- Category 2 Deposits, which are collateralized with securities, held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3 Deposits which are not collateralized.

Based on these three levels of risk, all of the District's cash deposits are classified as Categories 1 and 2.

**Temporary Investments**

Statutes authorize the District to invest in obligations of the U. S. Treasury or the State of Texas, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds and other investments specifically allowed by Chapter 2256 Public Funds Investments and Chapter 2257 Collateral for Public Funds of the Government Code.

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 investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS

DRAFT

DEC 14 2004

NOTE 8. DEPOSITS AND INVESTMENTS – continued

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Temporary Investments – continued

Similar to cash deposits, investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

- Category 1 Investments that are insured, registered or held by the entity or by its agent in the entity's name.
- Category 2 Investments that are uninsured and unregistered held by the counter-party's trust department or agent in the entity's name.
- Category 3 Uninsured and unregistered investments held by the counter-party, its trust department or its agent, but not in the entity's name.

The District's investments at August 31, 2003, are shown below:

	Carrying Amount	Fair Value	Category
Money market savings	\$ 390,564	\$ 390,564	2
TexPool	54,939,100	54,939,100	*
LOGIC	14,733	14,733	*
TexSTAR	18,243,743	18,243,743	*

\*Investments are Mutual funds for state and local governments which are considered unclassified as to credit risk.

NOTE 9. RETIREMENT PLAN

*Plan Description.* The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67 and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701-2698, 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.

*Funding Policy.* State law provides a state contribution rate of 6.0% and a member contribution rate of 6.4% for fiscal years 2002, 2003 and 2004. In certain instances, the reporting district is required to make all or a portion of the state's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each

**KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS**

**DRAFT**

DEC 14 2004

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**NOTE 9. RETIREMENT PLAN – continued**

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 the particular action, the time required to amortize TRS'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. State contributions to TRS made on behalf of the District's employees and reflected in the District's financial statements as both revenue and expenditures for the years ended August 31, 2002, 2003 and 2004 were \$3,666,103, \$4,410,726 and \$4,915,344 respectively. The District paid additional state contributions for the years ended August 31, 2002, 2003 and 2004 in the amount of \$493,941, \$616,813 and \$828,164, respectively, on a portion of the employees' salaries that exceeded the statutory minimum.

**NOTE 10. 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; and natural disasters for which the District carries commercial insurance.

Effective January 1994, the District discontinued its participation in the Texas Association of School Boards (TASB) workers' compensation risk pool and established a self-insurance plan for workers' compensation benefits for employees. The District's retention of risk is \$200,000 per occurrence with an aggregate stop-loss limit of \$1,000,000 over a three year period. Claims incurred by the employees of the District are handled by a third party administrator who is responsible for estimating losses to be incurred by the District and ultimately paid to the claimant.

Effective December 2002, the District established a self-funded health insurance plan. The District and employees share the cost of employee coverage. Employees, at their option, can authorize payroll withholdings to pay contributions or premiums for dependents. The plan is authorized by Article 3.51-2, Texas Insurance Code and is documented by a contractual agreement. The District's retention of risk is \$125,000 per employee with an aggregate stop-loss limit of approximately \$2,900,000 at August 31, 2004.

Settled claims have not exceeded the aggregate coverage in any of the past three fiscal years. Insurance coverage has not been reduced for the year from the prior year. Accrued claims payable of \$1,122,376 as of August 31, 2004, includes provisions for claims reported but not paid and claims incurred but not reported. The provision for reported claims is determined by estimating the amount that will ultimately be paid each claimant and is calculated and provided by the District's third party administrator. The District estimates the provision for claims incurred but not yet reported. Accrued claims payable have not been discounted to their present value as the District expects such claims to be paid within the following fiscal year. The District believes that any discount of the claims payable would not be material to the overall financial statements.

**KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS**

**DRAFT**

DEC 14 2004

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DISCUSSION PURPOSES. ENGAGEMENT IS  
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FINAL REVIEW AND POSSIBLE REVISION.

**NOTE 10. RISK MANAGEMENT**

Changes in the fund's claims liability amount for the year ended August 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Liability, beginning of year	\$ 1,242,963	\$ 610,033
Current year claims and changes in estimates	5,678,839	3,602,789
Claim payments	( 5,799,426)	( 2,969,859)
Liability, end of year	<u>\$ 1,122,376</u>	<u>\$ 1,242,963</u>

**NOTE 11. LITIGATION**

The District is a party to various legal actions, none of which is believed by the administration or its legal counsel to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying basic financial statements for such contingencies.

**NOTE 12. COMMITMENTS**

In a prior year, the District entered into an agreement with Stock Transportation, Inc. (Stock) for the outsourcing of student transportation, whereby the District sold its existing fleet of school buses to Stock for a price of \$1,021,000 and Stock agreed to lease the Districts' transportation facilities for \$1 per annum for the term of the agreement.

The initial agreement was renewed for a period of five years on August 1, 2004 and ending July 31, 2009.

The District has also entered into operating leases for office equipment which expire between October 2006 and May 2009.

The District's financial commitment for the fiscal years ending August 31, are as follows:

2005	\$ 3,219,462
2006	3,157,707
2007	2,977,764
2008	2,937,795
2009	<u>2,827,520</u>
	<u>\$15,120,248</u>

**KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS**

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DEC 14 2004

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**NOTE 13. DUE FROM STATE AGENCIES**

The District participates in a 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, 2004, 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>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Other Local Governments</u>	<u>Total</u>
General	\$ 11,218,996	\$ -	\$ 66,689	\$ 11,285,685
Special Revenue	58,467	468,822		527,289
Debt Service	1,479,896	-	-	1,479,896
Capital Projects	-	-	9,987	9,987
Total	<u>\$ 12,757,359</u>	<u>\$ 468,822</u>	<u>\$ 76,676</u>	<u>\$ 13,302,857</u>

**NOTE 14. DEFERRED REVENUE**

Deferred revenue at year-end consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Net Tax Revenue	<u>\$1,619,310</u>	<u>\$ 330,481</u>	<u>\$1,949,791</u>

**NOTE 15. INTERFUND BALANCES AND ACTIVITIES**

Interfund balances at August 31, 2004 consisted of the following individual fund balances:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	ESEA Title I	\$ 12,470	Reclass of deficit pooled cash
General Fund	IDEA-B Formula	149,005	Reclass of deficit pooled cash
General Fund	IDEA-B Preschool	2,705	Reclass of deficit pooled cash
General Fund	Vocational Education	2,389	Reclass of deficit pooled cash

**KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS**

**DRAFT**

DEC 14 2004

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**NOTE 15. INTERFUND BALANCES AND ACTIVITIES - continued**

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	ESEA Title II	\$ 49,971	Reclass of deficit pooled cash
General Fund	Language Enhancement	40,049	Reclass of deficit pooled cash
General Fund	Early Childhood	1,489	Reclass of deficit pooled cash
General Fund	Student Success	45,968	Reclass of deficit pooled cash
General Fund	Technology	35,114	Reclass of deficit pooled cash
General Fund	TIF	101,960	Reclass of deficit pooled cash
General Fund	Employee Insurance	41,898	Reclass of deficit pooled cash
Student Success	General Fund	1,718	Reimbursement of expenditures
Debt Service	General Fund	58,288	Tax revenues owed
Internal Service	General Fund	<u>3,269,440</u>	Insurance premiums owed
		<u>\$ 3,812,464</u>	

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

**NOTE 16. DESIGNATIONS OF FUND BALANCE**

The District has the following designations of fund balance as of August 31, 2004:

Student Transportation	\$ 1,025,000
Budgetary Contingencies	<u>10,652,131</u>
	<u>\$11,677,131</u>

**NOTE 17. NEW ACCOUNTING PRONOUNCEMENTS**

The Government Accounting Standards Board ("GASB") has issued Statement No. 39 "Determining Whether Certain Organizations are Component Units" ("GASB 39" which is effective for periods beginning after June 15, 2003. GASB 39 requires state and local governments to report legally separate, tax exempt organizations as discrete component units if they meet the following criteria:

- The economic resources raised and held by the affiliated organization is almost entirely for the benefit of the District.
- The District is entitled to or has the ability to access the funds raised by the affiliated organization.
- The funds held by the affiliated organization are considered significant to the District.

The District has determined that no organizations meet the criteria of GASB 39.

**KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS**

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**NOTE 17. NEW ACCOUNTING PRONOUNCEMENTS - continued**

GASB has issued Statement No. 40 "Deposit and Investment Risk Disclosures (GASB 40)" which will be effective for the District in the fiscal year ending August 31, 2005. GASB 40 will require the District to disclose additional investment risks relating to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As of August 31, 2004, the District plans to include the additional disclosure requirements in the fiscal year 2005.

GASB has issued Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries (GASB 42)" which will be effective for the District in the fiscal year ending August 31, 2005. GASB 42 will require the District to report the effects of capital asset impairments in its financial statements when they occur rather than as a part of ongoing depreciation expense for the capital asset or upon disposal of the capital asset.



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## **REQUIRED SUPPLEMENTARY INFORMATION**

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EXHIBIT G-1

DEC 14 2004

KELLER INDEPENDENT SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2004

TO BE USED ONLY FOR MANAGEMENT  
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Data		Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive or (Negative)
Control Codes		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 85,547,477	\$ 86,213,340	\$ 86,621,599	\$ 408,259
5800	State Program Revenues	26,159,427	31,236,375	30,966,387	(269,988)
5900	Federal Program Revenues	20,000	20,000	3,736	(16,264)
5020	Total Revenues	111,726,904	117,469,715	117,591,722	122,007
EXPENDITURES:					
Current:					
0011	Instruction	72,365,592	76,038,214	71,220,553	4,817,661
0012	Instructional Resources & Media Services	2,337,416	2,460,835	2,358,245	102,590
0013	Curriculum & Instructional Staff Development	758,684	826,473	812,297	14,176
0021	Instructional Leadership	1,208,301	1,207,539	1,050,085	157,454
0023	School Leadership	6,667,149	7,173,120	6,990,132	182,988
0031	Guidance, Counseling & Evaluation Services	3,731,869	4,009,310	4,001,868	7,442
0033	Health Services	840,198	882,993	778,724	104,269
0034	Student (Pupil) Transportation	2,962,321	3,014,241	3,004,979	9,262
0036	Cocurricular/Extracurricular Activities	3,208,170	3,491,909	3,397,697	94,212
0041	General Administration	3,812,091	3,895,431	3,676,826	218,605
0051	Plant Maintenance and Operations	14,460,587	14,791,835	14,647,171	144,664
0052	Security and Monitoring Services	310,400	290,490	214,075	76,415
0053	Data Processing Services	1,460,952	1,554,159	1,501,322	52,837
0061	Community Services	705,248	784,455	584,502	199,953
0071	Debt Service - Principal on long-term debt	560,000	560,000	560,000	-
0072	Debt Service - Interest on long-term debt	61,050	61,050	61,050	-
0073	Debt Service - Bond Issuance Cost and Fees	6,250	6,250	5,529	721
0081	Facilities Acquisition and Construction	50,000	137,318	113,823	23,495
0097	Payments to Tax Increment Fund	750,000	750,000	750,000	-
6030	Total Expenditures	116,256,278	121,935,622	115,728,878	6,206,744
SPECIAL ITEMS:					
7918	Special Item - Lease of Mineral Rights	-	-	443,001	443,001
1200	Net Change in Fund Balances	(4,529,374)	(4,465,907)	2,305,845	6,771,752
0100	Fund Balance - September 1 (Beginning)	29,324,756	29,324,756	29,324,756	-
3000	Fund Balance - August 31 (Ending)	\$ 24,795,382	\$ 24,858,849	\$ 31,630,601	\$ 6,771,752

**KELLER INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**DRAFT**

DEC 14 2004

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**BUDGETARY DATA**

The Board of Trustees adopts an "appropriated budget" on a GAAP basis for the General Fund, Food Service Fund which is included in the Special Revenue funds and Debt Service 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 appears in Exhibit G-1 and the other two budgets are in Exhibit I-3 and I-4.

The following procedures are followed in establishing the budgetary data:

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 day's public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through 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 is made before the fact, is reflected in the official minutes of the Board, and is not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. Significant amendments were made to the following functional areas:

<u>Function</u>	<u>Increase (Decrease)</u>
Instruction	\$ 3,672,622
School Leadership	\$ 505,971
Guidance, Counseling, & Evaluation Services	\$ 277,441
Plant Maintenance and Operations	\$ 331,248

4. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.
5. The Texas Education Agency requires these budgets to be filed with the Texas Education Agency. The budget should not exceed expenditures in any functional expenditure category under TEA requirements. The original and final amended versions of these budgets are used in this report.

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## COMBINING STATEMENTS

# DRAFT

KELLER INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
AUGUST 31, 2004

DEC 14 2004

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Data		204	211		
Control		ESEA Title IV	ESEA I, A	IDEA - Part B	IDEA - Part B
Codes		Safe & Drug	Improving	Formula	Preschool
		Free Schools	Basic Program		
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ 3,111	\$ -	\$ 3,853
1240	Due from Other Governments	-	22,614	299,762	3,259
1260	Due from Other Funds	-	-	-	-
1290	Other Receivables	-	-	-	-
1300	Inventories	-	-	-	-
1000	Total Assets	<u>\$ -</u>	<u>\$ 25,725</u>	<u>\$ 299,762</u>	<u>\$ 7,112</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
2110	Accounts Payable	\$ -	\$ 5,362	\$ 138,688	\$ 3,668
2160	Accrued Wages Payable	-	7,893	12,069	739
2170	Due to Other Funds	-	12,470	149,005	2,705
2000	Total Liabilities	<u>-</u>	<u>25,725</u>	<u>299,762</u>	<u>7,112</u>
Fund Balances:					
Reserved For:					
3410	Investments in Inventory	-	-	-	-
3450	Food Service	-	-	-	-
Unreserved and Undesignated:					
3610	Reported in Special Revenue Funds	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 25,725</u>	<u>\$ 299,762</u>	<u>\$ 7,112</u>

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EXHIBIT H-1 (Cont'd)

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240 National Breakfast and Lunch Program	244 Vocational Ed Basic Grant	255 ESEA II,A Training and Recruiting	262 Enhancing Education - Technology	263 English Language Acquisition	263 Title V, Pt.A Innovative Programs	390 (LEP) Early Childhood Summer Prog.	393 Texas Successful Schools Prog.
\$ 1,502,459	\$ 2,389	\$ 45,476	\$ -	\$ 42,791	\$ -	\$ 4,260	\$ 5,049
126,830	-	16,275	-	82	-	-	-
-	-	-	-	-	-	-	-
5,721	-	-	-	-	-	-	-
290,912	-	-	-	-	-	-	-
<u>\$ 1,925,922</u>	<u>\$ 2,389</u>	<u>\$ 61,751</u>	<u>\$ -</u>	<u>\$ 42,873</u>	<u>\$ -</u>	<u>\$ 4,260</u>	<u>\$ 5,049</u>
\$ 551,888	\$ -	\$ 7,586	\$ -	\$ 2,824	\$ -	\$ -	\$ -
81,230	-	4,194	-	-	-	-	-
-	2,389	49,971	-	40,049	-	1,489	-
<u>633,118</u>	<u>2,389</u>	<u>61,751</u>	<u>-</u>	<u>42,873</u>	<u>-</u>	<u>1,489</u>	<u>-</u>
290,912	-	-	-	-	-	-	-
1,001,892	-	-	-	-	-	-	-
-	-	-	-	-	-	2,771	5,049
<u>1,292,804</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,771</u>	<u>5,049</u>
<u>\$ 1,925,922</u>	<u>\$ 2,389</u>	<u>\$ 61,751</u>	<u>\$ -</u>	<u>\$ 42,873</u>	<u>\$ -</u>	<u>\$ 4,260</u>	<u>\$ 5,049</u>

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KELLER INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2004

DEC 14 2004

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 Technology Telecom

Data Control Codes		397 Advanced Placement Incentives	404 Student Success Initiative		
				Allotment	Infrastruct. Fund
	ASSETS				
1110	Cash and Cash Equivalents	\$ 36,246	\$ 22,791	\$ 38,069	\$ 137,096
1240	Due from Other Governments	-	21,459	-	-
1260	Due from Other Funds	-	1,718	-	-
1290	Other Receivables	-	-	-	-
1300	Inventories	-	-	-	-
1000	Total Assets	<u>\$ 36,246</u>	<u>\$ 45,968</u>	<u>\$ 38,069</u>	<u>\$ 137,096</u>
	LIABILITIES AND FUND BALANCES				
	Liabilities:				
2110	Accounts Payable	\$ -	\$ -	\$ 2,955	\$ 9,607
2160	Accrued Wages Payable	-	-	-	-
2170	Due to Other Funds	-	45,968	35,114	101,960
2000	Total Liabilities	<u>-</u>	<u>45,968</u>	<u>38,069</u>	<u>111,567</u>
	Fund Balances:				
	Reserved For:				
3410	Investments in Inventory	-	-	-	-
3450	Food Service	-	-	-	-
	Unreserved and Undesignated:				
3610	Reported in Special Revenue Funds	36,246	-	-	25,529
3000	Total Fund Balances	<u>36,246</u>	<u>-</u>	<u>-</u>	<u>25,529</u>
4000	Total Liabilities and Fund Balances	<u>\$ 36,246</u>	<u>\$ 45,968</u>	<u>\$ 38,069</u>	<u>\$ 137,096</u>

418 Employee Health Insurance	429 Auto License Fee reading Program	Total Nonmajor Governmental Funds
\$ 4,890	\$ 704	\$ 1,849,184
37,008	-	527,289
-	-	1,718
-	-	5,721
-	-	290,912
<u>\$ 41,898</u>	<u>\$ 704</u>	<u>\$ 2,674,824</u>

\$ -	\$ -	\$ 722,578
-	-	106,125
41,898	-	483,018
<u>41,898</u>	<u>-</u>	<u>1,311,721</u>

-	-	290,912
-	-	1,001,892
-	704	70,299
-	704	1,363,103
<u>\$ 41,898</u>	<u>\$ 704</u>	<u>\$ 2,674,824</u>

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DISCUSSION PURPOSES. ENGAGEMENT IS  
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FINAL REVIEW AND POSSIBLE REVISION.



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KELLER INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2004

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Data		204	211	224	225
Control		ESEA Title IV	ESEA I, A	IDEA - Part B	IDEA - Part B
Codes		Safe & Drug Free Schools	Improving Basic Program	Formula	Preschool
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800	State Program Revenues	-	-	-	-
5900	Federal Program Revenues	56,406	352,281	2,501,199	36,320
5020	Total Revenues	56,406	352,281	2,501,199	36,320
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	-	350,663	2,449,133	36,320
0012	Instructional Resources & Media Services	-	-	-	-
0013	Curriculum & Instructional Staff Development	-	-	-	-
0021	Instructional Leadership	-	1,618	52,066	-
0023	School Leadership	-	-	-	-
0031	Guidance, Counseling & Evaluation Services	56,406	-	-	-
0032	Social Work Services	-	-	-	-
0033	Health Services	-	-	-	-
0035	Food Services	-	-	-	-
0036	Cocurricular/Extracurricular Activities	-	-	-	-
0041	General Administration	-	-	-	-
0051	Plant Maintenance and Operations	-	-	-	-
0053	Data Processing Services	-	-	-	-
0061	Community Services	-	-	-	-
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	-	-	-
6030	Total Expenditures	56,406	352,281	2,501,199	36,320
1200	Net Change in Fund Balance	-	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

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EXHIBIT H-2 (Cont'd)

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TO BE USED ONLY FOR MANAGEMENT DISCUSSION PURPOSES. INCOMPLETE. THE DRAFT IS SUBJECT TO REVIEW AND POSSIBLE REVISION.

240 National Breakfast and Lunch Program	244 Vocational Ed Basic Grant	255 ESEA II,A Training and Recruiting	262 Enhancing Education - Technology	269 English Language Acquisition	269 Engagement Innovative Programs	390 Early Childhood Summer Prog.	393 Texas Successful Schools Prog.
\$ 4,654,294	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
160,188	-	-	-	-	-	-	-
1,247,430	82,220	262,612	10,508	48,385	87,159	-	-
6,061,912	82,220	262,612	10,508	48,385	87,159	-	-
-	78,579	125,472	10,508	5,000	87,159	-	-
-	-	-	-	-	-	-	-
-	-	137,140	-	43,385	-	-	-
-	3,175	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	466	-	-	-	-	-	-
-	-	-	-	-	-	-	-
6,076,012	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
6,076,012	82,220	262,612	10,508	48,385	87,159	-	-
(14,100)	-	-	-	-	-	-	-
1,306,904	-	-	-	-	-	2,771	5,049
\$ 1,292,804	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,771	\$ 5,049

DEC 14 2004

KELLER INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2004

TO BE USED ONLY FOR MANAGEMENT  
 DISCUSSION PURPOSES. ENGAGEMENT  
 INCOMPLETE. THE DRAFT IS SUBJECT  
 TO REVIEW AND POSSIBLE REVISION

Data Control Codes		397 Advanced Placement Incentives	404 Student Success Initiative	411 Technology Allotment	413 Telecom Infrastruct. Fund
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ 71	\$ -
5800	State Program Revenues	43,407	214,588	580,877	-
5900	Federal Program Revenues	-	-	-	-
5020	Total Revenues	<u>43,407</u>	<u>214,588</u>	<u>580,948</u>	<u>-</u>
EXPENDITURES:					
Current:					
0011	Instruction	19,186	212,870	580,948	9,608
0012	Instructional Resources & Media Services	-	-	-	-
0013	Curriculum & Instructional Staff Development	-	-	-	-
0021	Instructional Leadership	-	-	-	-
0023	School Leadership	-	-	-	-
0031	Guidance, Counseling & Evaluation Services	-	-	-	-
0032	Social Work Services	-	-	-	-
0033	Health Services	-	-	-	-
0035	Food Services	-	-	-	-
0036	Cocurricular/Extracurricular Activities	-	-	-	-
0041	General Administration	-	-	-	-
0051	Plant Maintenance and Operations	-	-	-	-
0053	Data Processing Services	-	-	-	-
0061	Community Services	-	-	-	-
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	-	-	-
6030	Total Expenditures	<u>19,186</u>	<u>212,870</u>	<u>580,948</u>	<u>9,608</u>
1200	Net Change in Fund Balance	24,221	1,718	-	(9,608)
0100	Fund Balance - September 1 (Beginning)	<u>12,025</u>	<u>(1,718)</u>	<u>-</u>	<u>35,137</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 36,246</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,529</u>

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418 Employee Health Insurance	429 Auto License Fee reading Program	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 4,654,365
1,028,214	400	2,027,674
-	-	4,684,520
<u>1,028,214</u>	<u>400</u>	<u>11,366,559</u>
727,720	-	4,693,166
22,641	75	22,716
-	-	180,525
3,904	-	60,763
44,074	-	44,074
33,911	-	90,783
42	-	42
12,118	-	12,118
60,989	-	6,137,001
3,287	-	3,287
15,277	-	15,277
97,100	-	97,100
6,115	-	6,115
613	-	613
423	-	423
<u>1,028,214</u>	<u>75</u>	<u>11,364,003</u>
-	325	2,556
-	<u>379</u>	<u>1,360,547</u>
<u>\$ -</u>	<u>\$ 704</u>	<u>\$ 1,363,103</u>

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1. BE USED ONLY FOR MANAGEMENT  
2. ENGAGEMENT IS  
3. SUBJECT TO  
4. DIVISION.

## REQUIRED TEA SCHEDULES

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KELLER INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED AUGUST 31, 2004

DEC 14 2004

TO BE USED ONLY FOR MANAGING  
SCHOOL PURPOSES, ENGAGEMENT  
AND POSSIBLE REVISIONS  
THE DRAFT IS SUBJECT TO  
REVISIONS

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
1995 and prior years	Various	Various	\$ Various
1996	1.10500	0.39500	1,712,083,799
1997	1.13000	0.37000	1,933,070,712
1998	1.15000	0.35000	2,069,268,689
1999	1.17500	0.33500	2,378,877,844
2000	1.24500	0.23000	2,769,928,956
2001	1.27320	0.24950	3,456,116,638
2002	1.27300	0.25590	4,368,831,855
2003	1.39260	0.25930	5,188,548,506
2004 (School year under audit)	1.42130	0.25490	5,897,543,422
1000 TOTALS			

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EXHIBIT I-1

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DISCUSSION PURPOSES. ENGAGEMENT IS  
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REVISION AND POSSIBLE REVISION.

(10) Beginning Balance 9/1/2003	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2004
\$ 106,615	\$ -	\$ 4,346	\$ 2,409	\$ (1,770)	\$ 98,090
36,044	-	657	235	(1,323)	33,829
29,164	-	995	326	(1,266)	26,577
55,340	-	7,890	2,401	(5,129)	39,920
97,527	-	79,228	22,588	60,796	56,507
133,932	-	128,874	23,808	149,873	131,123
169,631	-	162,912	31,925	190,536	165,330
354,683	-	283,430	56,975	286,902	301,180
1,049,242	-	437,580	81,477	(55,051)	475,134
-	97,875,022	82,990,223	14,883,706	1,270,937	1,272,030
<u>\$ 2,032,178</u>	<u>\$ 97,875,022</u>	<u>\$ 84,096,135</u>	<u>\$ 15,105,850</u>	<u>\$ 1,894,505</u>	<u>\$ 2,599,720</u>

KELLER INDEPENDENT SCHOOL DISTRICT  
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET DEC 1 4 2004  
GENERAL FUND AS OF AUGUST 31, 2004

**UNAUDITED**

TO BE USED ONLY FOR MANAGEMENT  
DISCUSSION PURPOSES. ENGAGEMENT IS  
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FINAL REVIEW AND POSSIBLE REVISION.

1	Total General Fund Balance as of 8/31/04 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 31,632,586
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$ 197,409	
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)	11,677,131	
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	-	
5	Estimate of one month's average cash disbursements during the regular school session (9/1/04-5/31/05).	10,433,192	
6	Estimate of delayed payments from state sources (58xx) including August payment delays	-	
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount.	-	
8	Estimate of delayed payments from federal sources (59xx)	-	
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	-	
10	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)		<u>22,307,732</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)		<u>\$ 9,324,854</u>

Explanation of need for and/or projected use of net positive Undesignated Unreserved General Fund Balance:

One of the stated board goals is the maintain a fund balance equal to three months of expenditures. The \$31,632,586 accomplishes this goal.



KELLER INDEPENDENT SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
CHILD NUTRITION PROGRAM  
FOR THE YEAR ENDED AUGUST 31, 2004

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 4,865,850	\$ 5,065,850	\$ 4,654,294	\$ (411,556)
5800	State Program Revenues	45,000	160,397	160,188	(209)
5900	Federal Program Revenues	1,290,107	1,290,107	1,247,430	(42,677)
5020	Total Revenues	6,200,957	6,516,354	6,061,912	(454,442)
EXPENDITURES:					
0035	Food Services	5,595,160	5,911,225	6,076,012	(164,787)
6030	Total Expenditures	5,595,160	5,911,225	6,076,012	(164,787)
1200	Net Change in Fund Balances	605,797	605,129	(14,100)	(619,229)
0100	Fund Balance - September 1 (Beginning)	1,306,904	1,306,904	1,306,904	-
3000	Fund Balance - August 31 (Ending)	\$ 1,912,701	\$ 1,912,033	\$ 1,292,804	\$ (619,229)

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FINAL REVIEW AND POSSIBLE REVISION.

KELLER INDEPENDENT SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED AUGUST 31, 2004

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 15,167,872	\$ 15,167,872	\$ 15,340,826	\$ 172,954
5800	State Program Revenues	5,536,100	5,536,100	5,566,193	30,093
5020	Total Revenues	20,703,972	20,703,972	20,907,019	203,047
EXPENDITURES:					
0071	Debt Service - Principal on long-term debt	1,636,853	1,636,853	1,636,853	-
0072	Debt Service - Interest on long-term debt	19,031,855	19,031,855	19,031,855	-
0073	Debt Service - Bond Issuance Cost and Fees	14,000	14,000	5,500	8,500
6030	Total Expenditures	20,682,708	20,682,708	20,674,208	8,500
1200	Net Change in Fund Balances	21,264	21,264	232,811	211,547
0100	Fund Balance - September 1 (Beginning)	3,744,659	3,744,659	3,744,659	-
3000	Fund Balance - August 31 (Ending)	\$ 3,765,923	\$ 3,765,923	\$ 3,977,470	\$ 211,547

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## FEDERAL AWARDS SECTION

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DISCUSSION PURPOSES. ENGAGEMENT IS  
DISCOVERED. THE DRAFT IS SUBJECT TO  
FINAL REVIEW AND POSSIBLE REVISION.

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

Board of Trustees  
KELLER INDEPENDENT SCHOOL DISTRICT  
Keller, Texas

We have audited the financial statements of Keller Independent School District as of and for the year ended August 31, 2004, and have issued our report thereon dated December 3, 2004. 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 Keller Independent School District's financial statements are free of material misstatement, we performed tests of Keller Independent School District's 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*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Keller 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 considered to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Keller Independent School District in a separate letter dated December 3, 2004.

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TO BE USED ONLY FOR MANAGEMENT  
DISCUSSION PURPOSES. ENGAGEMENT IS  
INCOMPLETE. THE DRAFT IS SUBJECT TO  
FINAL REVIEW AND POSSIBLE REVISION.

Board of Trustees  
Keller Independent School District  
Page Two

This report is intended solely for the information of the Board of Trustees, management, the Texas Education Agency and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas  
December 3, 2004

DRAFT

DEC 14 2004

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

FOR MANAGEMENT DISCUSSION PURPOSES. ENGAGEMENT IS INCOMPLETE. THE DRAFT IS SUBJECT TO FINAL REVIEW AND POSSIBLE REVISION.

Board of Trustees  
KELLER INDEPENDENT SCHOOL DISTRICT  
Keller, Texas

### Compliance

We have audited the compliance of Keller 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, 2004. Keller Independent School 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 Keller Independent School District's management. Our responsibility is to express an opinion on Keller Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Keller 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 on Keller Independent School District's compliance with those requirements.

In our opinion, Keller 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, 2004.

### Internal Control Over Compliance

The management of Keller Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Keller Independent School District's internal control over compliance with requirements

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DEC 14 2004

Board of Trustees  
Keller Independent School District  
Page Two

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DISCUSSION PURPOSES. ENGAGEMENT IS  
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FINAL REVIEW AND POSSIBLE REVISION.

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 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.

This report is intended solely for the information of the Board of Trustees, management, the Texas Education Agency and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas  
December 3, 2004

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**KELLER INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2004**

**SECTION I – SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

An unqualified opinion was issued on the financial statements.

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ Yes ☒ None reported

An unqualified opinion was issued on compliance for major programs.

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) or Circular A-133? ☐ Yes ☒ No

Identification of major programs:

84.010A  
84.027

Title I, Part A  
IDEA- Part B Formula

- Dollar threshold used to distinguish between type A and type B programs? \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No



**KELLER INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2004**

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**04-01 BUDGET**

**Condition:** The District overexpended budgeted amounts at functional levels in the food service special revenue fund.

**Criteria:** Controls should be in place that provide assurance that the budget is appropriately amended by the School Board before funds are expended in excess of the budget at the functional level.

**Effect:** Funds were expended in excess of budgeted amounts at the legal level of control and in total, which is not in compliance with TEA guidelines.

**Recommendation:** Implement procedures to ensure budgeted amounts are not overexpended at the legal level of control.

**Management's Response:** Function 35 was overspent due to the final adjustments to the inventory and expense accounts.

Please contact Kent Morrison, Associate Superintendent of Finance, at 817-744-1000 for any additional information

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

NONE

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DISCUSSION PURPOSES. ENGAGEMENT IS  
NOT COMPLETE. THE DRAFT IS SUBJECT TO  
FINAL REVIEW AND POSSIBLE REVISION.

**KELLER INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF PRIOR AUDIT FINDINGS  
AUGUST 31, 2004**

**FINANCIAL STATEMENT FINDINGS**

NONE

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KELLER INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
AUGUST 31, 2004

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TO BE USED ONLY FOR MANAGEMENT  
DISCUSSION PURPOSES. ENGAGEMENT IS  
INCOMPLETE. THE DRAFT IS SUBJECT TO  
FINAL REVIEW AND POSSIBLE REVISION.

<u>Finding Number</u>	<u>Corrective Action Plan</u>
-----------------------	-------------------------------

04-01	BUDGET
-------	--------

Function 35 was overspent due to the final adjustments to the inventory and expense accounts. Efforts are being made to better anticipate and budget for these items.

Please contact Kent Morrison, Associate Superintendent of Finance, at 817-744-1000 for any additional information.

# DRAFT

EXHIBIT J-1

DEC 14 2004

## KELLER INDEPENDENT SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2004

TO BE USED ONLY FOR MANAGEMENT  
DISCUSSION PURPOSES. ENGAGEMENT IS  
INCOMPLETE. THE DRAFT IS SUBJECT TO  
FINAL REVIEW AND POSSIBLE REVISION

	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
<u>Passed Through State Department of Education</u>			
ESEA Title I Part A - Improving Basic Programs	84.010A	04610101220907	\$ 352,281
IDEA - Part B, Formula	84.027	04660001220907	2,501,199
Vocational Education - Basic Grant	84.048	0442000622090711	82,220
IDEA - Part B, Preschool	84.173	04661001220907	36,320
ESEA Title IV - Safe and Drug-Free Schools	84.186A	04691001220907	56,406
Title V, Part A - Innovative Programs	84.298	04685001220907	87,159
Enhancing Education Through Technology	84.318X	04630001220907	10,508
English Lang. Acquisitions and Lang. Enhancement	84.365	04671001220907	48,385
ESEA Title II, Part A, Teacher & Principal Training	84.367	04694501220907	262,612
Total Passed Through State Department of Education			3,437,090
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<b>3,437,090</b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
<u>Passed Through State Department of Education</u>			
National School Breakfast & Lunch Program*	10.555	71300401	919,366
School Breakfast Program*	10.553	71400401	133,286
USDA Donated Commodities*	10.559	99-220-904	194,778
Total Passed Through State Department of Education			1,247,430
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<b>1,247,430</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 4,684,520</b>

\*Clustered Programs as required by Compliance Supplement March, 2003

Note 1: MAC reimbursements of \$3,736, which are recorded as federal revenue in the general fund, are not considered federal awards for the purposes of this schedule.

Note 2: The schedule of expenditures of federal awards is presented using the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.