

Keller Independent School District

Keller, Texas



Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2013

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Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2013

Prepared by the Finance Department

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Kristin Williams, C.P.A.

Chief Financial Officer
Director of Finance

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INTRODUCTORY SECTION

**KELLER INDEPENDENT SCHOOL DISTRICT
CERTIFICATE OF BOARD**

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
6 0

for the year ended August 31, 2013 at a meeting of the Board of Trustees of such school district on the 16th day of January, 2014.

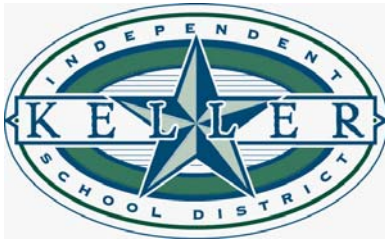


Signature of Board Secretary



Signature of Board President

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



OFFICE OF THE SUPERINTENDENT

KELLER INDEPENDENT SCHOOL DISTRICT

350 KELLER PARKWAY

KELLER, TEXAS 76248

PHONE: 817-744-1000

FAX: 817-744-1261

January 16, 2014

To the Board of Trustees and Taxpayers of the Keller Independent School District:

The Texas Education Code requires that all school districts file a set of financial statements with the Texas Education Agency (TEA) within 150 days of the close of each fiscal year. The financial statements must be presented in conformity with generally accepted accounting principles (GAAP) and audited by a firm of licensed certified public accountants in accordance with generally accepted auditing standards. Pursuant to this requirement, we hereby issue the Comprehensive Annual Financial Report of the Keller Independent School District (the District) for the fiscal year ended August 31, 2013.

This report consists of management's representations concerning the finances of the District. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. In order to provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed to protect the District's assets from loss, theft or misuse. Additionally, the internal control framework is designed to compile sufficient reliable information for the preparation of the District's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the costs of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable assurance rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The financial statements of the District have been audited by Weaver, L.L.P, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the District for the fiscal year ended August 31, 2013, are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The district includes all funds of its governmental operations that are controlled by or dependent upon the district as determined on a basis of financial accountability. Financial accountability includes appointment of the organization's governing body, imposition of will, and fiscal dependency. 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". The accompanying financial statements include only those funds of the district, as there are no other organizations for which it has financial accountability.

The district is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act as amended in 1996 by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements for the administration of federal awards. The results of the district's single audit for the fiscal year ended August 31, 2013, provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

These reports are available in the Single Audit Section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

KISD management is directly responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of "reasonable assurance" recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived from its implementation; and (2) the valuation of cost and benefit requires estimates and judgments by management. KISD management believes that the internal controls adequately meet these objectives.

The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board of Trustees. Every school district in Texas is required by law to prepare and file a budget with the Texas Education Agency. Activities of the general, child nutrition (special revenue) and debt service funds are included in the district's budget. Budgets for Special Revenue funds (other than the Child Nutrition Fund) and Capital Projects Fund are prepared on a project basis, based on grant regulations or applicable bond ordinances. Budgetary control (the level at which expenditures cannot legally exceed appropriations) is maintained at the functional category level within each fund. These functional categories are defined by the Texas Education Agency and identify the purpose of transactions. The district also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year end. However, encumbrances outstanding at year-end are generally re-appropriated as part of the following year's budget.

As demonstrated by the statements and schedules included in the financial section of this report, the district continues to meet its responsibility for sound financial management.

Governing Body

The Board of Trustees consists of seven members who serve, without compensation, a three year term in office. On a rotating basis, two or three places are filled during annual elections held the second Saturday of May. Vacancies may be filled by appointment until the next election. Candidates must be qualified voters of the District.

Regular meetings are usually scheduled on the second Thursday of each month and are held at the Keller ISD Education Center. Special meetings and work sessions are scheduled as needed and announced in compliance with public notice requirements.

The Board has final control over local school matters limited only by the state legislature, by the courts, and by the will of the people as expressed in school Board elections. Board decisions are based on a majority vote of those present.

In general, the Board adopts policies, sets direction for curriculum, employs the Superintendent, and oversees the operations of the District and its schools. Besides general Board business, Trustees are charged with numerous statutory regulations including calling trustee and other school elections and canvassing the results, organizing the Board and electing its officers. The Board is also responsible for setting the tax rate, setting salary schedules, acting as a board of appeals in personnel and student matters, confirming recommendations for textbook adoptions and adopting and amending the annual budget.

The Board solicits and evaluates community input and support concerning actual policies.

Economic Conditions and Outlook

The financial statements are best understood when it is considered within the perspective of the environment in which the District operates.

The Keller Independent School District, strategically situated in the northeast section of Tarrant County, lies within one of the fastest growing areas in Texas. Keller's 51 square miles lies 17 miles due north of downtown Fort Worth. As Keller ISD approaches build out, enrollment growth is slowing. Until the 2011-2012 year, enrollment was increasing in excess of 1,000 students per year. The enrollment increase in 2011-12 was only 231 students, the increase for 2012-13 was 350 students, and the projected increase for 2013-14 is 369. Keller ISD is expected to remain the largest district in Northeast Tarrant County through build out and the fourth largest district in Tarrant County as a whole. The district enrollment is expected to increase by approximately 1,700 students during the next five years and will exceed 35,000 by the fall of 2018.

Area Development

The residential growth of the District has been on pace with the that of the Fort Worth/Dallas Metroplex, and has been aided by the District's close proximity to both the Dallas/Forth Worth International Airport and Fort Worth's Alliance Airport. Though most of the District's growth has been in residential housing, many businesses are opening to support the growing population. Many of the residents of the new housing developments are employed by the Alliance Industrial Park businesses surrounding and utilizing the Fort Worth's Alliance Airport.

Alliance Town Center.

The Alliance Town Center was built to support the needs of the fast growing area in northeast Tarrant County. Phase I included 600,000 SF of retail, cinema, bookstore and offices centered on a public square. Developed by Trademark Property Company and Hillwood, Alliance Town Center now includes the HCA medical campus, Monterra Village, and over 40 companies including banks, restaurants, and retail stores. Covering 500 acres, Alliance Town Center is poised to become one of the largest retail anchored mixed-use developments in Texas.

Housing. Major housing developments that contribute to the fast growth of the District are slowing but are still at a greater pace than national housing start data. Keller ISD is currently ranked fourth in the DFW Metroplex, with 844 annual closings and seventh with 813 projected housing starts in the 2013 fiscal year. The DFW Metroplex ranks second in the nation with 20,384 annual housing starts, behind only Houston. Foreclosures in the district have declined 52% since 12/31/11. Approximately 887 vacant developed lots and 2,491 lots for future development remain in the District's top fifteen developments, with a total of 4,500 VDL and future lots throughout the entire district. At this time, the West Fork Ranch development leads with 132 vacant developed lots and 1,176 lots for future development. In addition to existing developments, two large single family developments are planned for the near future, although start times are currently undetermined. Pine Meadows will be located in the Heritage Elementary zone with 186 total lots and Steadman Farms, with 358 lots will be located in the Woodland Springs Elementary zone.

Contributing to the growth of the area are multi-family units that could contribute approximately 15,000 units in the future to KISD. No more than 3,200 units, however, are scheduled to be completed in any quarter through 2014. Of these multi-family units some will be upscale lifestyle apartments that will have minimal effect on the District's student population but will increase taxable property values. The Mansions at Timberland (in the Caprock Elementary zone) will consist of 294 units and will be ready to rent in the second quarter of 2014. Sagestone Apartments (Heritage Elementary zone) will have 306 units and will be ready to rent in the fourth quarter of 2013. The apartment vacancy rate in Keller ISD is currently under 6%, which has led to a record high average monthly rent of \$861, a 3.4% increase over the previous year.

Employment. According to Forbes Magazine, Texas has added one new job for every three people from 2000 through 2013, while the U.S. added only one job for every 7 people. In just the last 12 months, Texas has created more than 270,000 non-farm jobs. The state's unemployment rate has been at or below the national rate for 81 consecutive months. At the end of the 2013 fiscal year, the unemployment rate in Keller was 4.9%, as opposed to 5.8% for Tarrant County, 6.05% for Texas, and a national rate of 7%.

EDUCATION

KELLER INDEPENDENT SCHOOL DISTRICT

The Keller Independent School District (KISD) has grown from an enrollment of 13,692 students in 1997-1998 to a peak enrollment of 33,367 in 2012-2013, an increase of 144% in the last fifteen years. However, most of the enrollment increases occurred prior to the 2010-11 fiscal year. Between the 2011 and 2013 fiscal years, enrollment growth was only 1.77 % . The district projects enrollment at 33,766 for the 2013-14 school year, an increase of 1.2% from the prior year.

The Texas Education Agency and Southern Association of Colleges and Schools provide the district's K-12 education accreditation. The district employs 3,581 teachers and support personnel to serve the district's 39 campuses. KISD serves as the district's fourth largest employer behind AMR Corporation (American Airlines), Bell Helicopter and Fidelity Investments. Students from Keller, Fort Worth, Watauga, Southlake, Colleyville, Hurst, North Richland Hills, Westlake, and Haltom City attend classes at twenty-two elementary schools (PK-4), five intermediate schools (5-6), one intermediate/middle school (5-8), five middle schools (7-8), four high schools (9-12), one Early Learning Center and one alternative school. Besides the 39 regular schools, the district utilizes 19 portable buildings, which provide approximately 40 additional classrooms.

The oldest campus in KISD is Keller Middle School (formerly Keller High School) which was built in 1962. Of the district's 39 campuses, one intermediate and two elementary campuses were added in the 1970's. One high school, one middle school and two elementary schools were built in the 1980's. During the 1990's, one high school, one intermediate and five elementary schools were added. The time frame between 2000 and 2009 were the busiest for KISD in terms of construction as one high school, three middle schools, three intermediates and twelve elementary campuses were constructed. Since 2010, a fourth high school, a hybrid middle/intermediate campus, one elementary campus and an early learning center have been opened. Upgrades and wing additions have expanded all campuses constructed five or more years ago. In addition, KISD has an administration building (1949), a Business Operations facility and Bus Barn (1974), and alternative campus (1968) and a Natatorium (2003).

Keller ISD delivers educational services by following an aligned curriculum. All courses and programs are facilitated through an electronic curriculum that aligns with state standards. Course offerings for PK-12 include the four basic areas of English (reading and writing), math, science and social studies, along with a full range of offerings in the visual and performing arts, foreign languages, Pre-Advanced Placement (AP) courses, and a multitude of other challenging opportunities. High school students can complete coursework through the Texas State Virtual School Network and through dual credit courses where students receive both high school and college credit.

Special programs that ensure success for all students include Special Education, Dyslexia, 504, Advanced Academics, Homebound, English as a Second Language, Bilingual programs for Spanish and Vietnamese students, and Career and Technical Education (CTE).

Student services incorporate health-related support programs, guidance and library/media services, bullying prevention programs, credit recovery, drop-out services and early interventions in support of academic and behavioral success. KISD also provides parent education with tailored sessions for dyslexic, ESL and bilingual parents. A parent drug education program is required for parents of students in University Interscholastic League (UIL) programs, athletics and fine arts. Also provided by KISD are voluntary student drug testing programs, and cyber-safety and digital citizenship lessons for students.

Through its Career and Technology Education program, KISD provides opportunities for students to explore career possibilities and master skills that are in high demand in business and industry, such as arts and communication, health and medicine, science, engineering and technology, and social, personal and public services. Technology education students in middle school can gain skills in aerodynamics, CAD/construction, desktop publishing, electronics and controls, engineering structures, robotics and more. Middle school students have the opportunity to enroll in the Gateway to Technology class. This cutting-edge engineering program addresses the interest and energy of middle school students, while incorporating national standards in mathematics, science and technology.

Students who are enrolled in Health Science Technology Education on the high school campuses start as student interns, rotating through virtually every department at Baylor Regional Medical Center at Grapevine Hospital. As second year students they advance to clinics and doctor offices in our community. Another innovative program is Ready, Set, Teach. It is offered on the high school campuses to students interested in the teaching profession. Students work in elementary and middle schools to learn effective teaching methods.

These are just a few of the many classes offered by Keller ISD which afford students a head start in life after high school. As a result of collegiate partnerships, Tech Prep degree plans are in place to provide students with opportunities to receive degrees in various technical fields while still in high school. Other students may earn college credit for courses taken in high school.

Keller ISD has implemented a modified “Pay for Ride” transportation system. All regular education students in the district who live 2 miles or more from their campus are provided free transportation to their school. Regular education students living under two mile from their campus are eligible to apply for busing for a fee of \$75 per semester. These riders are accommodated on a space available basis. Bilingual or Pre-K students attending these programs at a campus other than their home campus receive free transportation between these campuses. Free transportation is also provided for all Special Education students. Students who are assigned to special education transportation are transported from Admission, Review and Dismissal specified pickup points without regard for minimum distance from school.

MAJOR INITIATIVES

FOCUS & DIRECTION

KELLER ISD – Intentionally Exceptional!

OUR VISION

KISD – an exceptional district in which to learn, work and live.

MISSION STATEMENT

The community of Keller ISD will educate our students to achieve their highest standards of performance by engaging them in exceptional opportunities.

VALUES

- ★ We hold ourselves accountable for providing exceptional educational opportunities.
- ★ We inspire educational excellence through collaborative relationships.
- ★ We provide approachable responsive customer service.
- ★ We cultivate life-long learning for all.
- ★ We embrace diversity.
- ★ We embrace change and innovation.
- ★ We make data-driven decisions.
- ★ We have a positive attitude toward the future.
- ★

DISTRICT STRATEGIC GOALS:

Goal 1.1:

Address student needs through innovative educational strategies.

Goal 1.2:

Initiate and support individualized student engagement and learning.

Goal 1.3:

Align instructional processes and educational resources to meet rigorous standards.

Goal 1.4:

Utilize familiar and accessible technologies to transform the teaching/learning process.

Goal 2.1:

Enhance student, parent and community outreach opportunities.

Goal 2.2:

Implement effective communication practices throughout the district.

Goal 2.3:

Enhance relationships with students.

Goal 3.1:

Embed mission, motive, vision, and values in all operational processes.

Goal 3.2:

Improve methods to provide exceptional customer service.

Goal 3.3:

Create a student interactive decision-making process.

Goal 3.4:

Prioritize technology funding to equalize, automate, and innovate district programs and facilities.

Goal 3.5:

Ensure all facilities are environmentally friendly.

Goal 3.6:

Ensure operational initiatives are sustainable.

Goal 4.1:

Employ qualified, diverse staff.

Goal 4.2:

Provide an attractive salary and benefits package for all staff.

Goal 4.3:

Create high-quality, innovative professional development plans.

Goal 4.4:

Expand initiatives to create a positive work environment.

Goal 4.5:

Develop a succession management process for all key leadership positions.

Goal 5.1:

Educate the public on school finance.

Goal 5.2:

Identify added measures for fiscal soundness.

Goal 5.3:

Manage fiscal resources to accommodate growth.

Goal 5.4:

Actively pursue supplemental funding.

Goal 5.5:

Maintain financial efficiency at all levels.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Capital Projects On November 4, 2008, voters approved a bond program to finance facility needs through 2013. On April 28, 2009, the district issued \$142,299,951 of unlimited tax school building bonds. KISD opened a fourth high school in August of 2009 and a hybrid intermediate/middle school and Early Learning Center in August 2010. Ridgeview Elementary School was opened in August, 2011. A bond election will be required for the construction costs of any future campuses. All other projects in the bond program are complete.

Keller ISD continues to retire existing debt at a steady pace. The district was able to refund bonds in 2013 to reduce total debt service payments over the next 20 years (see Note 2 in the footnotes to the Financial Statements). Although enrollment has slowed, District personnel continually work with the community through the Citizens' Bond Oversight Committee to review the facility needs of the district. This Board-appointed committee makes recommendations to the Board of Trustees for needs that will be addressed through additional debt issuance, while minimizing the financial impact on the taxpayer. In addition, the district has commissioned a facility needs study to determine the necessity for new campuses and building renovations/repairs. As new construction slows and significantly fewer bonds are issued, the district's annual debt requirements will decrease as well. This would eventually lead to decreases in the debt service portion of the tax rate.

Performance Improvement System Keller ISD uses the Baldrige Framework for Performance Excellence. The superintendent and senior leaders selected the Model for Performance Excellence and Continuous Improvement in 2008. Senior leaders meet weekly to guide the system in the implementation of the Baldrige Initiative. The Baldrige Performance Criteria served as the foundation for a strategic planning effort in October 2009. Ongoing systems to embed continuous improvement practices into the daily work of employees include the refinement of the appraisal system, the interactive learning plan for administrators at monthly meetings and the expansion of a trained cadre of teachers to share the models on campuses. The Board of Trustees policy contains a statement adopting the Baldrige framework for continuous improvement. Their actions, the planning at the district and campus level and all performance appraisals are aligned to support the district's goals.

Accountability The academic year of 2011-2012 introduced the new state assessment program State of Texas Assessments of Academic Readiness (STAAR). STAAR replaced the TAKS testing for grades 3 through grade 10 beginning in 2012-2013. Students in grade 11 continued to test under the TAKS methodology. Students in grades 9 and 10 are tested using end of course examinations.

The Texas Education Agency has developed a new accountability system based on the STAAR tests as well as other indicators. Keller ISD Met Standard for the 2013 school year.

The grade 3 through 8 STAAR test results and grade 9-10 End of Course examination results compared to the state test results are as follows:

		State	KISD
Grade 3	Reading	81%	91%
	Math	70%	79%
Grade 4	Reading	72%	85%
	Math	69%	77%
	Writing	70%	79%
Grade 5	Reading	77%	88%
	Math	74%	83%
	Science	73%	81%
Grade 6	Reading	72%	88%
	Math	74%	87%
Grade 7	Reading	78%	93%
	Math	72%	87%
	Writing	71%	88%
Grade 8	Reading	83%	93%
	Math	76%	81%
	Science	75%	86%
	Social Studies	64%	76%

	Biology	Algebra I	World Geography	English I Reading	English I Writing
State	84%	78%	75%	69%	55%
Keller ISD	95%	91%	90%	89%	77%

	Chemistry	Geometry	World History	English II Reading	English II Writing
State	84%	85%	71%	79%	92%
Keller ISD	93%	93%	84%	55%	70%
	Physics	Algebra II	US History	English III Reading	English III Writing
State	82%	97%	72%	83%	58%
Keller ISD	100%	100%	58%	75%	100%

Students in the 11th grade were tested using TAKS examinations with the following results compared to the state results for the same tests.

		State	KISD
Grade 11	English Language Arts	95%	99%
	Math	89%	95%
	Social Studies	98%	100%
	Science	95%	99%

Keller ISD SAT and ACT scores outpace the state and national average.

2013 SAT SCORES

	Critical Reading	Writing	Math	Composite
District	517	496	531	1546
State	471	456	496	1422
Nation	491	480	503	

The District's SAT scores for 2013 were between 35-46 points higher than state scores and between 16-28 points higher than the nation for all subjects tested.

2013 ACT SCORES

	English	Math	Reading	Science	Composite
District	22.1	23.1	23.0	22.6	22.8
State	19.8	21.5	21	20.9	20.9
Nation	20.2	20.9	21.1	20.7	20.9

The District's composite ACT score was 22.8 as compared to a state average of 20.9 and national average of 20.9.

District Student and Staff Accomplishments:

Project Lead The Way Certification – CHS and FRHS Banner Presentations

In June, both Central High School and Fossil Ridge High School received national certification for its *Project Lead The Way* (PLTW) programs after extensive application processes.

PLTW, a nonprofit organization and the nation's leading provider of STEM (science, technology, engineering, and mathematics) education programs, offers a rigorous world-class curriculum that allows students to apply what they are learning in math and science class to real-life engineering and technology projects.

The national PLTW recognition program distinguishes schools for successfully demonstrating a commitment to PLTW's national standards. Additionally, certification as a PLTW school provides students with the opportunity to apply for college credit or receive college-level recognition at PLTW affiliate universities when they successfully complete select PLTW courses in high school. PLTW has more than 40 affiliate college and university partners.

GFOA & ASBO Finance Awards

The Government Finance Officers Association of the United States and Canada (GFOA) recently awarded Keller ISD with The Certificate of Achievement for Excellence in Financial Reporting for fiscal year ending August 2012. Keller ISD has received this honor for the past five years.

The purpose of the GFOA is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and best practices. The Certificate of Achievement for Excellence in Financial Reporting awards program encourages and assists state and local governments to go beyond the minimum requirements of generally accepted accounting principles to prepare comprehensive annual financial reports that illustrate the spirit of transparency and full disclosure.

In addition, Keller ISD was also awarded the Certificate of Excellence in Financial Reporting by the Association of School Business Officials (ASBO) for its Comprehensive Annual Financial Report (CAFR) for fiscal year ending August 2012. This is the fifth consecutive year the district has received this prestigious award. ASBO is a professional association that provides programs and services to promote the highest standards of school business management practices, professional growth, and the effective use of educational resources. Its Certificate of Excellence in Financial Reporting (COE) awards program reviews the accounting practices and reporting procedures used by school districts in their Comprehensive Annual Financial Reports (CAFRs), and enhances the award winners' credibility among stakeholders.

State High School Marching Band Achievements

Keller ISD sent three bands to the State Marching Band Finals for the first time in district history.

Bands from Central High, Fossil Ridge High, and Keller High competed on November 6 at the Alamodome in San Antonio after finishing in the top four at the Area Competition in October. All three bands put forth exceptional performances.

Keller High fell just short of the finals, finishing 11th in the preliminary round. Fossil Ridge High came in 27th place and Central High finished 30th. Of the 38 Class 5A bands that competed at the State competition, Keller ISD had the most bands out of any district its size.

In addition, Timber Creek High, which also had a strong showing at the Area Competition, was named as a State alternate for the first time in the school's history.

TASBO Award of Merit for Purchasing Operations with Recognized Status

Keller ISD has been honored with the Award of Merit for Purchasing Operations with Recognized Status by the Texas Association of School Business Officials (TASBO) for the 4th year in a row. This award recognizes school districts statewide that are committed to following professional standards in the acquisition of goods and services.

In determining Award of Merit designees, TASBO reviewed various procedures and practices including: organization, policies and procedures, contract operations, staff training and certification, warehousing, use of technology, communication and management of co-operative programs.

Gold Leadership Circle Award

For the 2nd year in a row Keller ISD has earned a GOLD Leadership Circle Award by scoring 20 of twenty possible points from the Texas Comptroller's office. This award will be added to the Texas Transparency website.

The Comptroller of Public Accounts launched the Texas Comptroller Leadership Circle program in December 2009 to recognize local governments across Texas that are striving to meet a high standard for financial transparency online. They spotlight those local governments that are opening their books to the public; providing clear, consistent pictures of spending; and, sharing information in a user-friendly format that lets taxpayers easily drill down for more information.

American Diabetes Association District Fundraising Recognition

Keller ISD has been recognized by the American Diabetes Association for being the No. 1 fundraising district in North Texas, as well as placing among the Top Five in the nation after having raised over \$35,000 at the March 31, 2012 Walk. This outstanding effort is a direct result of the hard work and dedication of Keller High School Nurses Debbie Gregor and Debbie Hooker, along with each and every one of the KISD nurses who come together every year to help support this cause. This year's School Walk for Diabetes will be held on Saturday, April 13 from 9 -11:30 a.m. at the KISD Athletics Stadium.

KISD Athletic Association Donation Recognition

The Keller ISD Athletic Association is proud to announce that their marketing and fundraising efforts will allow them to contribute \$10,000 to KISD's Substance Abuse Awareness Program, under the direction of Marcene Weatherall - Coordinator of Drug/Alcohol Abuse Prevention.

The Keller ISD Athletic Association is a tax-exempt organization that was formed a little over one year ago. It is designed to support KISD's 7-12th grade athletic programs in the way of equipment, facility improvements, scoreboards, substance abuse awareness, character development, scholarships, and grant requests for KISD athletic programs.

‘National School Bus Safety Week’ Art Contest Recognition – Durham School Services

Durham School Services, KISD’s transportation partner, held an art contest in October in honor of ‘National School Bus Safety Week.’ A total of 64 students from Bear Creek Intermediate, South Keller Intermediate, and Trinity Meadows Intermediate participated in the contest. After a gallery walk that included 130 Durham employees, three winners – all of whom are from Bear Creek Intermediate School – were selected for their talented drawings. The winners will each be awarded a Visa gift card and their artwork is currently on display in the training rooms at KISD’s Maintenance & Operations Facility.

KISD High School Swimming and Wrestling State Achievements

Keller High School, Timber Creek High School, and Central High School sent 31 athletes to the 2013 Class 5A State Swimming & Diving Meet in Austin on Saturday, February 23.

Keller High swimmer Laura Norman and Timber Creek High swimmer Aaron Greene both took home State Championships.

Norman collected a pair of state titles, winning both the girls 100-yard Backstroke and the 200 Individual Medley events. In the 100 Back, Norman won with a time of 55.79 seconds; while in the 200 IM, she finished the race with a 2:04.46. Greene's win in the boys 100 Back marked the first ever State Championship for the Timber Creek High School Swimming and Diving Team. He finished the race with a time of 49.27 seconds. In addition, Fossil Ridge High School, Keller High School, and Central High School sent 11 wrestlers to the 2013 Class 5A State Wrestling Meet in Austin on Saturday, February 23. FRHS wrestlers Paige Garcia and Dammion Heard both came home as State Champions in their respective divisions.

Garcia claimed the state title in the girls 215-pound division by a 6-4 decision in the championship round, leaving Garcia with a perfect 28-0 record on the season. Heard earned his state title in the boys 113-pound division with an 8-3 decision in the championship round, finishing a perfect 46-0 on the season.

John Gann – 2013 Healthy Schools Hero Inspiring Nominee Recognition

John Gann, Keller ISD’s Director of Maintenance and Grounds, has been honored by the Facility Masters Achieving Excellence organization as a 2013 Healthy Schools Hero Inspiring Nominee for his leadership in playground safety.

“When John looks at a playground he evaluates all types of hazards. He doesn’t like surfaces from ground up recycled tires. He uses certified clean wood chips not treated with chemicals. He is particularly attentive to equipment design so it is sized right for the specific age group. He has worked with architects to make sure platforms and other features are the appropriate height. He also knows that children will often do things on play equipment that designers don’t anticipate.”

The Healthy Schools Hero Program was created to mark the anniversary of the tragic March 1937 Texas School Explosion, which changed the way school districts view safety today, including chemical hazards, pest control, playground dangers, and indoor air quality. The program recognizes individuals whose extraordinary sense of responsibility and leadership is dedicated to protecting students and staff from dangerous and unhealthy school conditions.

MATHCOUNTS and TMSCA State Achievements

MATHCOUNTS

Six students from Parkwood Hill Intermediate School and Hillwood Middle School earned a place in the MATHCOUNTS State Competition, held in Austin on March 22-23. The MATHCOUNTS competition program provides the extra incentive and the perfect atmosphere for students to push themselves to achieve more in mathematics. Consisting of fun and creative problems that promote critical-thinking and problem-solving skills, the MATHCOUNTS competitions have written and oral rounds, as well as individual and team components.

TMSCA

Thirteen students from Bear Creek Intermediate School and Keller Middle School earned a place at the Texas Math and Science Coaches Association (TMSCA) State Competition in San Antonio on April 6. TMSCA is an organization formed by Texas math and science teachers to promote excellence in math and science through individual and team competition, including *Number Sense*, *Calculator Applications*, *Mathematics*, and *Science* challenges, as well as to prepare students for UIL competition.

TMEA State Achievement

Keller ISD is proud to announce that 20 students were selected as 2012 Texas All-State Musicians by the Texas Music Educators Association (TMEA). Over 55,000 students initially entered the All-State competitive process, with only one-half of one percent actually earning a place in the All-State group. All-State performances were held in February as part of the annual TMEA Convention, where over 24,000 people from Texas and beyond attended over 290 workshops, 65 concerts and visited over 1,000 exhibit booths.

Keller-Hudson Innovation Grant Recipients

This spring, the M.R. and Evelyn Hudson Foundation once again generously provided \$40,000 for the annual Keller-Hudson Innovation Grants program. The application process was open to all Keller ISD employees who were asked to submit their innovative dreams for Keller ISD. This year’s applications had the opportunity to be reviewed by all District employees who then voted on their favorite projects. A panel of educators across the country also weighed in with input to select the final recipients of this year’s awards.

Name	Campus	Project Title	Grant Amount
Diana Colby	Early Learning Center	Build-a-Bear Cub Library/Learning Center	\$8,384
Kelly Guidry	Trinity Meadows IS	Building on Rachel's Challenge – Bringing Rachel's Dream to KISD	\$5,200
Sarah Hibbitts	Ridgeview ES	LEGO My Learning and Let Me Soar	\$3,500
Lucy Kubo	Keller High School	Return of the YAK – Young Adult Keller Book Festival 2014	\$15,000
Sha Olive	Keller High School	Living the Dream to Learn!	\$6,816
Pat Ritchie	Hillwood Middle	TiPi Talking Texas Style	\$1,800

TCHS National Powerlifting Champion Recognition

Timber Creek High School Senior Heather Heath recently placed 1st at the USA Women's National Powerlifting Meet, breaking the national bench press record at 281 lbs. In addition, she was selected as one of eight members of the Women's USA World Powerlifting Team.

Heather's great success this year placed her 1st at the Regional Meet, holding the bench press record at 255 lbs.; 2nd at the State Meet, holding the bench press record at 265 lbs.; and finally, 1st at the USA Texas State Powerlifting Meet, holding the bench press record at 281 lbs., as well as being named 'Outstanding Lifter of the Meet' for both men and women. Heather is coached by TCHS Math teacher and Powerlifting Coach Allen Grimes.

CTE National Achievements

High school students involved in Keller ISD's Career and Technology Education organizations have boasted a number of outstanding achievements this school year. The following students' performances in their respective State Competitions allowed them to advance to their National Leadership Competitions around the country:

BPA National Leadership Conference (May 7-11 in Orlando, FL) Keller High School:

Lauren Lawson	Lindsay Laird	Julie Choi
Emily Ramsey	Hallie Hillebrand	Lauren Bowman

Coached by Melanie Rodges and Lora Folger.

DECA International Competition and Conference (April 23-27 in Anaheim, CA) Keller High School:

Jacquie Penton	Amanda Boyer	Kristina Tubera
Gabriella Blount	Danielle Wasser	

Coached by Deannise Allen-Carson.

FBLA National Leadership Conference (June 24-29 in Anaheim, CA) Central High School:

Marc Fernandez	Christian Carreon	Christian De Lara
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Coached by Ashley Long.

FBLA National Leadership Conference (June 24-29 in Anaheim, CA) Timber Creek High School:

Bishop Turon	Zachary Greiner	Ankush Patel
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Coached by Theresa Dyvig.

FCCLA National Leadership Conference (July 1-6 in Nashville, TN) Keller High School:

Kayla Gollihar	Kaitlin White
Brianna Fill	Bethany Marchalk

Coached by Rebecca Morrow and Clarissa Marchalk.

HOSA National Leadership Conference (June 25-29 in Nashville, TN) Central High School:

McKenna Lewis

Coached by Kelley Kirby. 3

HOSA National Leadership Conference (June 25-29 in Nashville, TN) Fossil Ridge High School:

Paridhi Sheth	Kimmy Vu
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Coached by Havery Saraber.

National Automotive Technology Competition (April 2-3 in New York, NY) Keller High School:

Trussel Colton

Coached by Olin Harrison (BISD).

SkillsUSA National Leadership and Skills Conference (June 24-28 in Kansas City, KS) Fossil Ridge High School:

Ryma Mahoach

Jake Wangner

Coached by Manuel Vasquez.

Special Olympics State Achievement

Keller ISD has been a proud participant in the Special Olympics since 1991. The Special Olympics program allows student-athletes to participate in sports during the fall, winter and spring seasons, as well as the opportunity to learn the concept of true teamwork.

This year, KISD had 33 athletes compete in Bowling, 66 in Track and Field, and 54 in Basketball. Keller ISD advanced 48 outstanding athletes – 22 in Basketball and 26 in Track and Field – to the State Special Olympics Track Meet and Basketball Tournament hosted by the University of Texas at Arlington over Memorial Day Weekend.

Award Breakdown

1st place – Gold Medals = 29

2nd place – Silver Medals = 10

3rd place – Bronze Medals = 29

4th place ribbons = 8

5th place ribbons = 6

6th place ribbons = 1

7th place ribbons = 4

8th place ribbons = 1

Participation ribbons = 1 ***Total of 89 awards**

KISD Education Foundation / Durham School Services Check Presentations

Durham School Services recently held their annual Garage Sale, with proceeds benefitting the Keller ISD Education Foundation. Durham is pleased to present the Education Foundation with a check for \$800 that will go towards the Foundation's mission to support the enhancement of the academic environment within KISD.

In addition, in an effort to support KISD's mission of student and teacher excellence, the Keller ISD Education Foundation is honored to present a check to Keller ISD for its 2012-2013 school year donations in the amount of \$42,033, which will be used to award the district's grant recipients and scholarships applicants.

TASBO Certifications

KISD Purchasing Specialist Teresa Hilario has successfully completed the requirements to earn the Certified Texas School Business Specialist (CTSBS) designation by the Texas Association of School Business Officials (TASBO).

In addition, KISD Instructional Resources Specialist Cherie Crews and KISD Staff Accountant Susie Wing have both successfully completed the requirements to earn the Certified Texas School Business Official (CTSBO) designation by the Texas Association of School Business Officials (TASBO).

TASBO certification is earned through a combination of specified coursework, school business experience, and training in the area of specialization. Certified individuals must earn 60 hours of continuing education every three years to maintain their certification.

TASBO is dedicated to serving as the recognized source of accurate, objective school business and operations information, educating its diverse membership and constituency in professional best practices, and promoting high standards of conduct and professional ethics in the industry.

GFOA Distinguished Budget Presentation Award Recognition

The Government Finance Officers Association of the United States and Canada (GFOA) recently awarded Keller ISD with the Distinguished Budget Presentation Award for the 2012-13 annual budget. This award is the highest form of recognition in governmental budgeting and represents a significant achievement by Keller ISD.

The GFOA's Distinguished Budget Presentation Award is the only national awards program in governmental budgeting. Award recipients have pioneered efforts to improve the quality of budgeting and provide an excellent example for other governments throughout North America. Keller ISD is one of only 1,328 entities to have received this Award. In order to receive the budget award, Keller ISD had to satisfy nationally recognized guidelines for effective budget presentation.

Keller ISD has earned the Distinguished Budget Presentation Award for the past five consecutive years. GFOA promotes the professional management of governments for the public benefit by identifying and developing financial policies and best practices.

Diversity Inc. Recognition - Sodexo

Sodexo has been honored by *Diversity Inc.* as the #1 company on its 2013 Top 50 Companies for Diversity list for an unprecedented second time in four years. They were recognized for:

- Executive-level commitment and accountability
- 55,000 management and frontline employees trained last year
- Employees Business Resource Groups contributions
- Support of 130+ diversity and inclusion events
- Sodexo leaders sit on boards of 20 multicultural organizations
- This is all in addition to also being included on seven of Diversity Inc.'s Specialty Lists.

The survey, now in its 14th year, leads to a detailed, empirically driven ranking based on four key areas of diversity management: CEO Commitment, Human Capital, Corporate & Organizational Communications, and Supplier Diversity. A total of 893 companies participated in the survey this year. *Diversity Inc.* is both an online and printed publication, and is considered the leading source of information on diversity management.

Leadership Development Academy & AP Cohort Recognition

The Keller ISD Leadership Development Academy is a selected group of campus employees aspiring to become educational leaders. This amazing group of educators engaged in a year-long professional development opportunity. Facilitated by the Leadership Function, and with cooperation from other district functions and campus principals, the LDA participated in training sessions in areas such as instructional leadership, campus management, continuous improvement, and communication.

The Keller ISD AP Cohort is a group of assistant principals and counselors who volunteered to work with the Leadership Function to create and design a district-wide anti-bullying and anti-harassment initiative, aptly named "Reaching Out with Character and Kindness," or R.O.C.K. for short. This group of individuals worked diligently to create anti-bullying reporting processes, employee/student training modules, informational brochures, and community outreach opportunities. In addition, they received support from students at SKI, KHS, HMS, TMI and TSMS, staff from multiple campuses including TMI and KHS, as well as the KISD Media Services Department.

Keller ISD is very proud of the progress the members of these two outstanding groups have made. Their dedication and commitment to leadership development has added great value to this district.

TASSP 'Outstanding Middle School Principal of the Year' Recognition

Indian Springs Middle School Principal Sandy Troudt has been selected to represent the Texas Association of Secondary School Principals (TASSP) as the 'Outstanding Middle School Principal of the Year' for Region 11.

TASSP recognizes outstanding principals and assistant principals from the twenty regional education service centers in the state.

"I am truly touched and humbled by this incredible honor," Ms. Troudt said. *"To not only have an organization that I trust, rely on, and believe in present me with this award, but to know that my nomination was driven by the very people I work with each and every day makes this that much more special as well."*

As a Region 11 winner, Ms. Troudt is eligible to compete for the state title of Texas Principal of the Year for middle schools. School administrators are nominated and chosen by their peers within their regions. Nominations are based upon exemplary performance and outstanding leadership. Sandy Troudt, a three-year principal, has headed the leadership team at Indian Springs Middle School since 2010.

KISD Director of Health Services named American Diabetes Association Administrator of the Year

American Diabetes Association named our Cindy Parsons the Health Services Administrator of the Year for North Texas. The award is given to school personnel who have shown continued dedication and support of the ADA mission.

OTHER INFORMATION

The Texas Education Code requires an annual audit of all public schools. This audit must be on an organization-wide basis and included all fund types and account groups that are accounting responsibility of the District. The audit is performed by a certified public accountant selected by the District's Board of Trustees. The auditor's opinion has been performed by a certified public accountant selected by the District's Board of trustees. The auditor's opinion has been included in the report.

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the finance department. We would like to express our sincere appreciation to all other District administrative staff which assisted and contributed to the preparation of this report. We would also like to express appreciation to the Board of Trustees for their interest and support in the financial operations of the District. Finally, we would like to thank the residents of the District for their support of our public schools, and the teachers and principals who provide the excellent standard of educational services for which the District has become known.

Respectfully submitted,



Randy Reid, ED.D
Superintendent



R. Mark Youngs, RTSBA
Chief Financial Officer



Kristin Williams, C.P.A.
Director of Finance



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Keller Independent School District
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2012

Executive Director/CEO

Association of School Business Officials International



*The Certificate of Excellence in Financial Reporting Award
is presented to*

Keller Independent School District

*For Its Comprehensive Annual Financial Report (CAFR)
For the Fiscal Year Ended August 31, 2012*

The CAFR has been reviewed and met or exceeded
ASBO International's Certificate of Excellence standards



A handwritten signature in black ink, reading "Ron McCulley".

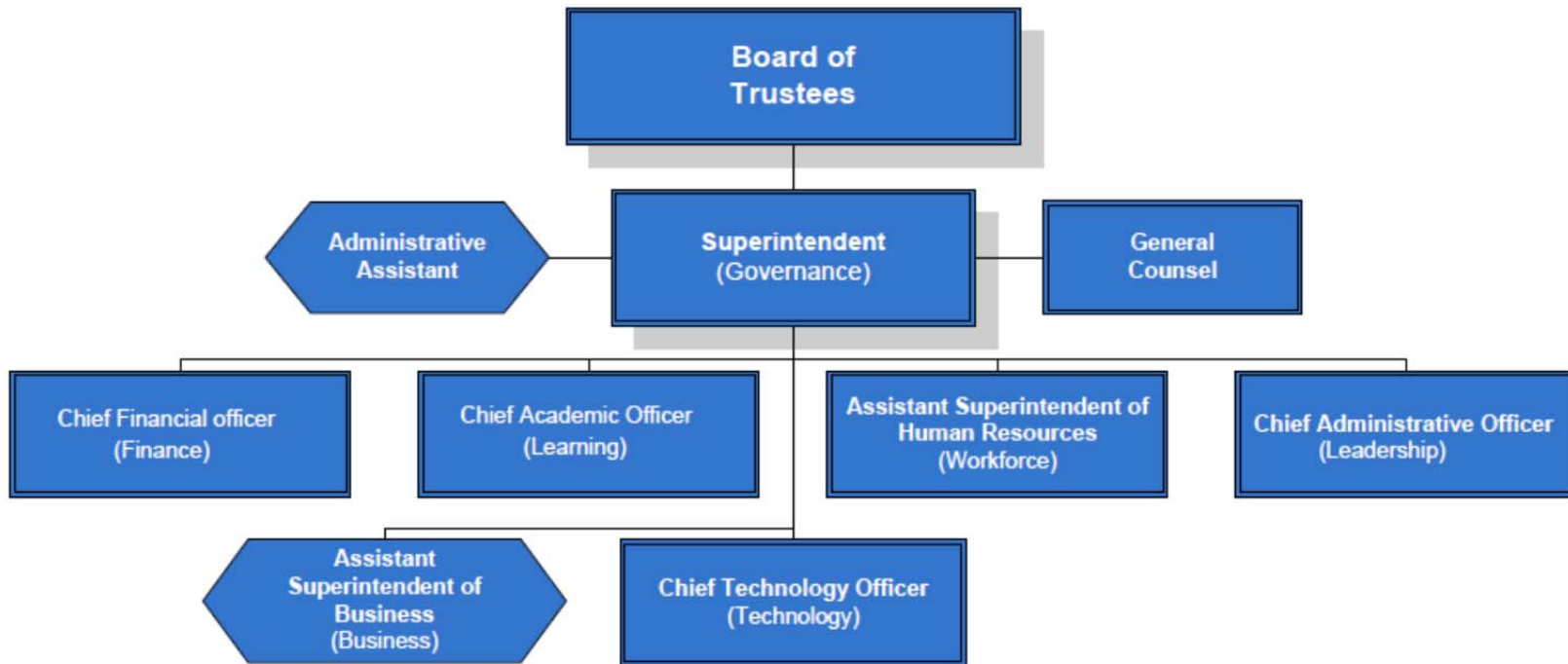
Ron McCulley, CPPB, RSBO
President

A handwritten signature in black ink, reading "John D. Musso".

John D. Musso, CAE, RSBA
Executive Director

Keller ISD

Organizational Chart



KELLER INDEPENDENT SCHOOL DISTRICT
School Board and Administrators

Board of Trustees

Jim Stitt.....	President
Craig Allen.....	Vice President
Cindy Lotton	Secretary
Ruthie Keys.....	Member
Brad Schofield.....	Member
Karina Davis.....	Member
Vacant.....	Member

Administration

Dr. Randy Reid.....	Superintendent of Schools
Amanda Bigbee.....	In-house Counsel
R. Mark Youngs.....	Chief Financial Officer
Charles Carroll.....	Chief Academic Officer
Penny Benz.....	Assistant Superintendent, Human Resources
Cecil McDaniel.....	Chief Administrative Officer
Joe Griffin.....	Chief Technology Officer
Vacant.....	Assistant Superintendent, Business Operations

Principals

David Hinson.....	Central High School
David Hadley.....	Fossil Ridge High School
Jeff Bradley.....	Keller High School
Todd Tunnell.....	Timber Creek High School
Kenneth Anderson.....	Keller Learning Center
Todd Lacey.....	Fossil Hill Middle School
Kathleen Eckert	Hillwood Middle School
Sandy Troutt.....	Indian Springs Middle School
Sandra Chapa.....	Keller Middle School
Carrie Jackson.....	Timberview Middle School
Kimberly Buckhalton.....	Trinity Springs Middle School
Tedna Taylor.....	Bear Creek Intermediate
Dinando Bazile.....	Chisholm Trail Intermediate
Bradley Tyler.....	Parkwood Hill Intermediate
Patricia McKeel.....	South Keller Intermediate
Susan Mackey.....	Trinity Meadows Intermediate
Tony Johnson.....	Basswood Elementary
Lisa Young.....	Bette Perot Elementary
Stacy Blevins.....	Bluebonnet Elementary
Angie Nayfa.....	Caprock Elementary
Anne Seaberry.....	Eagle Ridge Elementary
Laura Lockhart.....	Florence Elementary
Heather Varon.....	Freedom Elementary
David Rische.....	Friendship Elementary

Christy Johnson.....	Heritage Elementary
Melanie Graham.....	Hidden Lakes Elementary
Mark Basham.....	Independence Elementary
Kristen Erickson.....	Keller-Harvel Elementary
Janet Travis.....	Liberty Elementary
Steve Hurst.....	Lone Star Elementary
Dr. Jackie Green-August.....	North Riverside Elementary
Leslee Shepherd.....	Park Glen Elementary
Doreen Krebs.....	Parkview Elementary
Rebecca Wilder.....	Ridgeview Elementary
Anna Renfro.....	Shady Grove Elementary
Amy Erb.....	Whitley Road Elementary
Cheryl Hudson.....	Willis Lane Elementary
Linda Lammers.....	Woodland Springs Elementary
Dawn Bailey.....	Keller Early Learning Center

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Keller Independent School District
Keller, Texas

Report on the Financial Statements

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 (the District) as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 - 12 and 52 - 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, the required TEA schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements, the required TEA schedules on pages 63 - 66 and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards

Board of Trustees
Keller Independent School District

Page 3

generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the required TEA schedules on pages 63 – 66 and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

Fort Worth, Texas
January 16, 2014

Keller Independent School District

Management's Discussion and Analysis

Year Ended August 31, 2013

This section is the Keller Independent School District (District) management discussion and analysis of the annual financial report for the period ending August 31, 2013. It should be read in conjunction with the transmittal letter and the District's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The District had approximately \$300 million in expenses related to governmental activities; of which \$37.3 million of these expenses were offset by program-specific charges for services or grants and contributions. General revenues of \$275 million partially offset the costs of these programs, resulting in an \$11.2 million increase in net position. Expenses for governmental activities increased by approximately \$17 million, or 6.07%, from the previous year. This increase in expenses was due to a variety of factors. All district employees received a pay increase for the first time in several years, at a cost of approximately \$5 million. Secondly, the district received additional federal funding, resulting in \$3.4 million of additional expenses. Capital expenses increased by \$1.4 due to a legal settlement received by the district for the purpose of repairing and replacing roofs damaged by hail. The remaining increased expenses occurred in the general fund and were due to additional staff, assuming a larger amount of employee health insurance premium costs, and increases in property and casualty insurance, utilities, etc.
- General revenues accounted for \$275,254,070, or 88.1% of all fiscal year 2013 revenues. Program-specific revenues in the form of charges for services and grants and contributions accounted for \$37,317,319 or 11.9% of total fiscal year 2013 revenues. The 2013 charges for services and grants and contributions represent an (\$4,912,994) or (11.6%) decrease from 2012, even though the district received additional federal funding of approximately \$3.4 million in 2013. The reduction in revenues was due primarily to a decrease in state funding of \$4.7 million and one-time revenue of approximately \$3 million earned in 2012 from a legal settlement.
- At August 31, 2013, the District's assets exceeded its liabilities by \$25,248,992 (Total Net Position). Unrestricted Net Position totaled \$49,135,714.
- At the close of the fiscal year the combined governmental fund balance was \$134,255,873, a decrease of (\$934,940) from the prior year. This decrease occurred mainly in the General Fund, due mostly to the budgeted use of fund balance to fund pay increases, additional staff, and new initiatives. The General Fund unassigned fund balance decreased by (\$9,688,182). Assignments of fund balance total \$3.5 million and include athletic turf (\$880,000), student transportation (\$1,025,000), the athletic long term plan (\$1,111,000) and the fine arts long term plan (\$522,000). In addition, fund balance equal to 20% of the 2014 general fund expenditure budget has been committed, as per Board policy.
- The District's total long term liabilities decreased by (\$18,083,451), or (2.37%), from the previous fiscal year. The key factors in this increase were debt maturities and two bond refunding issues that occurred during fiscal year 2013.
- General Fund expenditures increased by \$18.7 million or 9.4% from the prior year. The 2012-2013 general fund budget was adopted to include a deficit of (\$12,116,219). The Keller ISD Board of Trustees intended that a portion of the general fund's significant reserves be used to provide pay increases for all district employees for the first time in several years. Reserves were also dedicated in the budget to offset a portion of employees' health insurance premiums, to fund additional staff and new initiatives.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The *statement of activities* presents information for all of the current year's revenue and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows for future fiscal periods.

Both of the District's *government-wide financial statements* distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (*governmental activities*) as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements can be found on pages 13-14 of this report.

Fund Financial Statements- A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The *fund financial statements* provide detailed information about the District's most significant funds and not the District as a whole.

All of the funds of the District can be divided into three categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

Governmental fund- Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The basic governmental fund financial statements can be found on pages 15-20 of this report.

Proprietary fund- Proprietary funds offer *short* and *long-term* financial information about the activities the government operates *like businesses*. There are two types of proprietary funds – *enterprise funds* and *internal service funds*. The *enterprise funds* report the same functions presented as *business-type activities* in the *government-wide financial statements*. The district has no enterprise funds. *Internal service funds* are an accounting tool used to accumulate and allocate costs internally among various functions. The District uses *internal service funds* to report activities for its self-funded insurance programs (Workers Compensation and Health Insurance).

The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Fiduciary fund- Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District’s own programs. The District is the trustee, or fiduciary, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The basic fiduciary fund financial statement can be found on page 24 of this report.

Notes to the Financial Statements- The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-51 of this report.

Other information – In addition to the basic financial statements and accompanying notes, this report also includes certain *required supplementary information* that further explains and supports the financial statements. Required supplementary information can be found on pages 52-53 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining statements can be found on pages 54-62.

The Texas Education Agency (TEA) requires that certain reports are included in this report and those statements and schedules can be found on pages 63-66.

Government-wide Financial Statements

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of Keller ISD, assets exceeded liabilities by \$25,248,992.

**Table A-1
Net Position**

	Governmental Activities		Percent Change 2012 to 2013
	2012	2013	
Current and other assets	\$ 158,497,060	\$ 169,223,121	6.77%
Capital assets (net)	634,115,342	627,697,479	(1.01%)
Total assets	\$ 792,612,402	\$ 796,920,600	.54%
Current liabilities	\$ 14,691,402	\$ 24,821,714	68.95%
Long-term liabilities	763,933,345	746,849,894	(2.24%)
Total liabilities	\$ 778,624,747	\$ 771,671,608	(.89%)
Net Position:			
Invested in capital assets, net of related debt	\$ (43,992,374)	\$ (31,475,706)	28.45%
Restricted for Food Service	4,604,517	4,690,227	1.86%
Restricted for Debt Service	2,808,188	2,498,757	(11.02%)
Restricted for Employee Health Claims	400,000	400,000	0.00%
Unrestricted Net Position	50,167,324	49,135,714	(0.02%)
Total Net Position	\$ 13,987,655	\$ 25,248,992	80.51%

Investment in capital assets (e.g., land, buildings, furniture, and equipment) less any related debt used to acquire those assets that is still outstanding is \$(31,475,706). The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. The increase in Total Net Position is due primarily to the reduction of long-term debt through annual principal payments and two bond refunds. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Governmental Activities

Governmental activities increased the District's net position by \$11,261,337. The total cost of all *governmental activities* this year was \$301,310,052. The amount that our taxpayers paid for these activities was \$174,616,270 or 57.95%.

**Table A-2
Changes in the District's Net Position**

	Governmental Activities		Percentage Change 2012 to 2013
	2012	2013	
Revenues:			
Program Revenues:			
Charges for services	\$18,068,929	\$16,841,696	(6.79%)
Operating grants & contributions	24,161,384	20,475,623	(15.25%)
General Revenues:			
Property taxes	170,418,927	174,616,270	2.46%
State grants	88,208,113	83,578,692	(5.25%)
Investment earnings	436,411	503,704	15.42%
Other	4,400,916	16,555,404	276.18%
Total Governmental Revenues	305,694,680	312,571,389	2.25%
Expenses:			
Instruction	149,547,022	158,093,657	5.72%
Instructional Resources & Media Services	3,506,194	3,669,131	4.65%
Curriculum & Instructional Staff Development	2,754,701	2,899,611	5.26%
Instructional Leadership	2,091,486	2,465,543	17.88%
School Leadership	14,317,804	15,324,170	7.03%
Guidance, Counseling & Evaluation Services	10,056,213	10,963,668	9.02%
Health and Social Work Services	3,255,217	3,510,236	7.83%
Student (pupil) Transportation	5,448,661	5,687,815	4.39%
Food Services	12,085,660	12,452,594	3.04%
Co-Curricular/Extracurricular Activities	7,985,415	8,838,689	10.68%
General Administration	8,082,486	6,178,573	(23.56%)
Plant Maintenance & Operations	18,625,453	20,029,457	7.54%
Security and Monitoring Services	1,299,191	1,591,648	22.51%
Data Processing Services	5,227,588	4,960,996	(5.10%)
Community Services	1,541,352	1,023,234	(33.61%)
Debt Service-interest on long-term debt	33,103,972	38,588,692	16.57%
Shared services agreement	3,410,020	3,059,151	(10.29%)
Non-operating expenses	1,734,802	1,973,187	13.74%
Total Governmental Expenses	284,073,237	301,310,052	6.07%
Increase (Decrease) in Net Position	21,621,443	11,261,337	(47.92%)
Beginning Net Position	(7,633,788)	13,987,655	283.23%
Ending Net Position	\$13,987,655	\$25,248,992	80.51%

Property tax revenues are the single largest source of general income for the district. Property values increased 0.92% in 2013 from the previous year. Construction of new homes in the District's 51 square miles is now beginning to moderate after several years of rampant growth. The following graphs depict the District's sources of revenue for the years 2013 and 2012 as a percentage of total revenues.

Table A-3

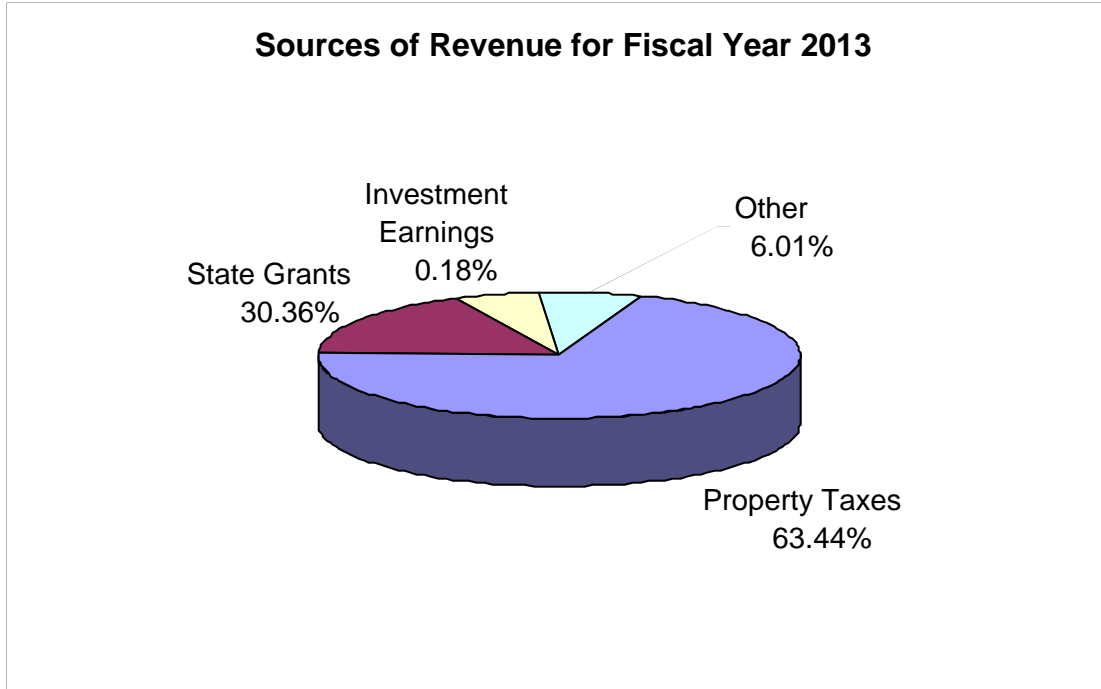


Table A-4

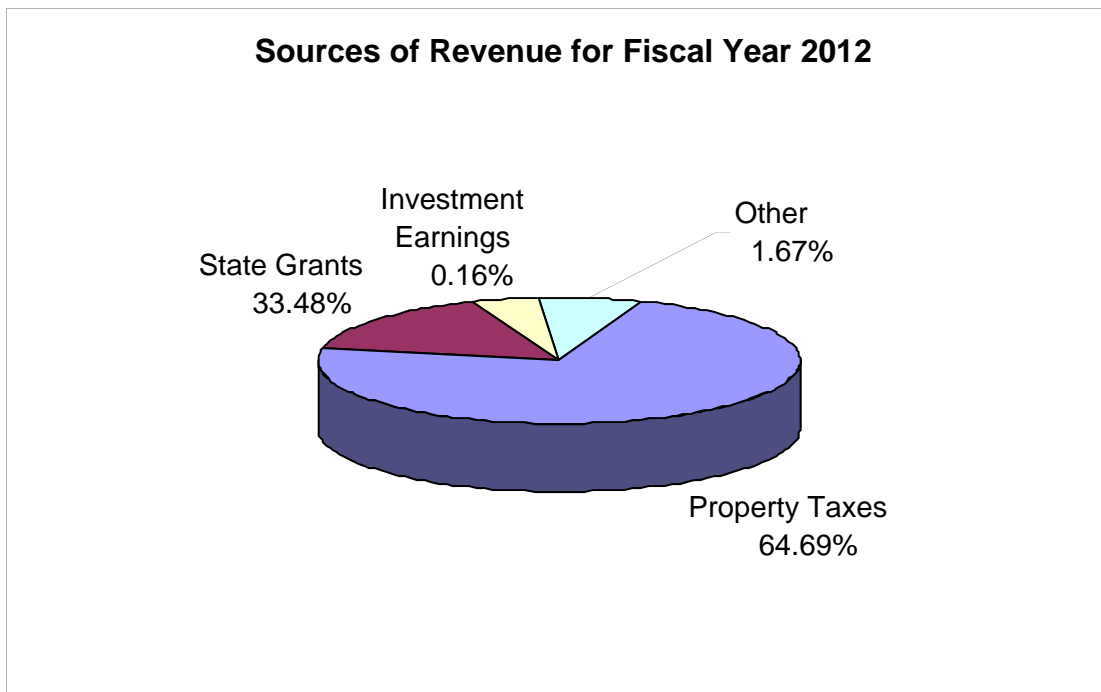


Table A-5 represents the cost of the District's largest programs as well as each program's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. The cost of all *governmental* activities this year was \$301,310,052.

**Table A-5
Costs of Services**

Major Function	Total Cost of Services			Net Cost of Services		
	2012	2013	Percent Change 2012 to 2013	2012	2013	Percent Change 2012 to 2013
Instruction, Curriculum, and Media Services	\$155,807,917	\$164,662,399	5.68%	\$135,607,951	\$149,617,664	10.33%
Instructional and School Leadership	16,409,290	17,789,712	8.41%	15,711,846	16,878,154	7.42%
Student Support Services, Child Nutrition, and Co- Curricular Activities	38,831,166	41,453,002	6.75%	22,337,267	23,186,093	3.80%
General Administration	8,082,486	6,178,573	(23.56%)	7,793,848	5,784,905	(25.78%)
Plant Maintenance, Security, and Data Processing	25,152,232	26,582,101	5.68%	23,654,666	24,602,233	4.01%
Community Services	1,541,352	1,023,234	(33.61%)	1,392,682	812,277	(41.67%)
Debt Service	33,103,972	38,588,693	16.57%	32,051,283	38,204,041	19.20%
Shared services agreement	3,410,020	3,059,151	(10.29%)	3,291,088	2,934,179	(10.84%)
Non-operating expenses	1,734,802	1,973,187	13.74%	2,293	1,973,187	5952.64%
Total Expenses	\$284,073,237	\$301,310,052	6.07%	\$241,842,924	\$263,992,733	9.16%

Total net expenses increased 9.16% in 2013 from the previous year. Net expenses in the Instruction function increased by a little over 10% due to hiring of additional teachers and a 3% of mid-point pay raise. The General Administration function decreased by over (25%) because the prior year expenses contained a large one-time allocation from the Internal Service Fund. Otherwise, expenditures in this function remained fairly consistent with the prior year. The same factors caused the (41.67%) decrease in the Community Services function.

Debt Service net expenses increased by 19.20% due to the payment of debt and the refunding of two bond issues in 2013. The Shared Services Agreement function reflects a net decrease of almost (11.0%), caused by paying a \$200,000 expenditure from federal funds rather than the general fund. The non-operating expenses consist mainly of a payment for the district's Tax Increment Zone. Since the district is reimbursed for this payment, the net effect to the district is zero. This payment is now reflected differently in Table A-5 to more accurately reflect the inflows and outflows of the function. Thus, for fiscal year 2013 only, the table reflects a large percentage increase in this function.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$134,255,873, a decrease of (\$934,940). The decrease occurred mainly in the general fund as general fund balance was designated in the 2013 budget to be used for various items mentioned above. However, this decrease in the general fund balance was mostly offset by an increase in the fund balance of the Capital Projects funds. This increase was due to the receipt of funds from a legal settlement to be used to repair and replace district roofs damaged in a hail storm. The fund balances of the Federally Funded Grant fund, the Debt Service fund and the Non-Major Governmental Funds all decreased slightly – (\$73,937), (\$486,194) and (\$4,740) respectively.

The general fund balance has an unassigned fund balance of \$27,599,602. The remainder of fund balance in the general fund and in all other funds is reserved and unavailable for new spending, and has been restricted, committed or assigned as per GASB 54. Non-spendable fund balance in the general fund consists of inventory (\$190,417) and deferred expenditures (\$1,030,092). Non-spendable fund balance in all other funds consists of deferred expenditures – (\$3,560) in the Debt Service fund, (\$28,813) in the Capital Projects fund and (\$103,815) in the Non-Major Governmental funds. Fund balance is restricted to pay debt service (\$3,403,122), for food service (\$4,690,227) and for grant funds (\$136,234). Commitments of fund balance include (\$44,018,458) for the capital acquisition program, (\$3,551,222) for the campus activity fund, and (\$45,962,311) in the general fund for budgetary contingencies as per Board policy. Fund balance is assigned for repurchase of bus equipment (\$1,025,000), for athletic field turf (\$880,000), and for the fine arts and athletic long term plans (\$1,551,200).

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$27,599,602, while the total fund balance was \$78,320,422. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to the total fund expenditures. Unassigned fund balance represents 12.70% of the total general fund expenditures, while total fund balance represents 36.03% of that same amount. It is important to note that in addition to the unassigned amount of fund balance, KISD Board policy requires that an amount equal to 17-20% of the subsequent year's budget expenditures be committed within fund balance for budgetary contingencies. This amount at 8/31/13 was \$45,962,311, and may be used at the discretion of the Board of Trustees.

During the current fiscal year, the fund balance of the District's general fund decreased by (\$4,659,527), compared to an increase in the prior year of \$18,840,815. KISD adopted a deficit budget for 2013 in the amount of (\$12,116,219). With a healthy general fund balance and an improved economic outlook, the Board of Trustees approved a deficit budget to restore some of the budget reductions made in the prior two years, fund new initiatives, and provide a 3% of mid-point pay increase for all district employees for the first time in three years. Budgeted expenditures for 2013 were approximately \$15 million higher than 2011-2012 actual expenditures (an increase of 8.03%). The following factors contributed to the less than expected use of the general fund balance in 2013:

- The District received \$2.42 million more than expected in state Foundation and Per Capita revenue. The additional amount consisted of funds resulting from a property value audit, settle-up payments from the state, and adjustments for enrollment fluctuations. Another \$600,000 in unexpected revenue was received by the district from various sources.
- Savings were realized within the general fund expenditures due to mostly to position vacancies and managed spending on the part of district administrators.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. In accordance with Board Policy CE (Local), the district submits amendments during the course of the budget year to the Board of Trustees for approval. These amendments are presented when a functional category or revenue object is increased.

In addition, at the end of every fiscal year, school districts across the state also make their year-end amended budgets to ensure all functional categories will have favorable balances. If unfavorable functional balances (outside the acceptable variance) are reported in the audit at the close of the fiscal year, the result is a letter issued by the Texas Education Agency stipulating the legal requirements for budgeting. The district did not exceed functional budget in any category in the general fund in the 2012-13 fiscal year.

1. *VariANCES of original expenditure budget compared to amended budget.* The amended expenditure budget increased \$8,766,530 from the original budget. Major budget amendments contributing to this increase include: (1) \$7.1 million for TRS on Behalf, (2) \$700,000 for prior year encumbrances, (3) \$540,000 for a competition expenses at the state or national level, and (4) \$348,000 for roofing repair and replacement projects.
2. *VariANCES of amended budget to actual expenditures.* Significant variations of amended budget to actual expenditures occurred in only two functions in 2012-13. In the Curriculum/Staff Development function (13), expenditures were only 77% of the amended budget. This was mainly due to some key positions that were not filled or were filled for only part of the year. Security/Safety (function 52) expenditures ended the year only 82.5% of the amendment budget for that function. Security equipment maintenance costs

were significantly less than in previous years, some security services were obtained at a more advantageous rate than in the past, and some planned capital equipment purchases could not be obtained within the fiscal year and were deferred until 2013-14. All of these circumstances contributed to significant savings within this function.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013 the District had invested approximately \$628 million in a broad range of capital assets, including land, equipment, and buildings. (See Table A-6) This amount represents a net decrease of (\$6.4) million or (1.01%) percent from the prior year.

**Table A-6
District's Capital Assets**

	Governmental Activities		Percent Change 2012 to 2013
	2012	2013	
Land	\$36,685,377	\$36,934,440	6.79%
Buildings & improvements	735,531,794	738,717,184	0.43%
Furniture & equipment	21,847,082	21,378,184	(2.15%)
Construction in progress	1,913,374	7,949,570	315.47%
Total Assets	795,977,627	804,979,378	1.13%
Less: accumulated depreciation	(161,862,285)	(177,281,899)	9.53%
Net Capital Assets	\$634,115,342	\$627,697,479	(1.01%)

More detailed information about the District's fixed assets is presented in Note 5 in the Notes to the Financial Statements.

Long-Term Debt

At the end of August 31, 2013 the District had total bonded debt outstanding of \$681,493,165, a decrease of (\$18,593,847), or a (2.66%) decrease from the previous year. The District also had accreted interest of \$41,918,711, a decrease of (\$3,444,748), or a (7.60%) decrease from the previous year.

**Table A-7
District's Long-Term Debt**

	Governmental Activities		Percent Change 2012 to 2013
	2012	2013	
Bonds and Notes Payable			
General Obligation Bonds	\$700,087,012	\$681,493,165	(2.66%)
Premium on bonds	26,822,617	40,146,943	49.68%
Accreted Interest	45,363,459	41,918,711	(7.60%)
Total Bonds and Notes Payable	772,273,088	763,558,819	(1.13%)
Other Liabilities			
Compensated Absences	704,357	710,727	0.90%
Deferred loss on bond refunding	(9,044,100)	(18,419,652)	103.66%
Total Other Liabilities	(8,339,743)	(17,708,925)	112.34%
Total long-term debt	\$763,933,345	\$745,849,894	(2.37%)

More detailed information about the District's debt is presented in Note 4 in the Notes to the Financial Statements.

Bond Ratings

The bonds have a primary rating of “AAA” by Moody’s Investors Service, Inc. (“Moody’s”) and “AAA” by Standard & Poor’s Ratings Services, (“S&P”) by virtue of the guarantee of the Permanent School Fund of the State of Texas (“PSF Guarantee”). The underlying or secondary ratings for the District are “Aa2” by Moody’s and “AA+” by S&P.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

General fund revenues are budgeted to increase from 2012-2013 actual revenue by approximately \$4 million, or 2.0%. \$3.3 million of this increase is attributable to an increase in state funding resulting from the 83rd legislative session. Property taxes are expected to remain fairly constant. The district also expects to receive close to \$1 million in additional federal revenue within the general fund, specifically revenue derived from the Student Health and Related Services (SHARS) program. This program reimburses the district for certain costs of educating Medicaid-eligible special education students. The district recently implemented this program and expects this source of revenue to increase significantly over the next few years.

In the 2012 fiscal year, the district implemented expenditure reductions of approximately \$12 million in response to the anticipated state revenue reductions. In combination with the budgeted expenditure reductions, the district received funding for the 2012 year only under the EduJobs program of \$4.8 million, which ultimately allowed the district to adopt a budget for 2011-12 with an anticipated surplus to the general fund of \$6.9 million.

The budget process for 2012-13 was undertaken with the knowledge that state funding would be reduced even further in this second year of the biennium. However, the surplus to the general fund balance provided for in the 2011-12 budget, along with higher than expected property tax revenues, allowed the district to reinstate many of the budget cuts enacted in the previous year. The final result was that the Board of Trustees adopted a budget for 2012-13 with a deficit of (\$12,116,219), to be funded from the general fund balance.

During the 2013-14 budget process, the Keller ISD Board of Trustees decided to continue forward with the reinstatement of critical programs and/or the implementation of necessary new programs. Prior to the 2012-13 budget, district teachers, counselors, librarians, nurses, speech therapists and diagnosticians had not received a salary increase since the 2010-11 fiscal year. Paraprofessionals had not received a salary increase since the 2009-10 year and the last salary increase for administrators was in 2008-09. For the 2012-13 budget, the Board of Trustees authorized a 3% of mid-point raise for all staff and, in an effort to approach market salary levels, the Board of Trustees again authorized raises in the 2013-14 budget at a cost of approximately \$5.1 million. In an effort to help employees with the rising cost of health care costs, the Board also appropriated \$1.4 million in 2013-14 to offset a portion of the increase in employee health insurance premiums.

The 2013-14 general fund budget also includes other new appropriations of \$744,873 for maintenance and grounds personnel costs and equipment, \$700,000 for the lease of new teacher laptops and another \$245,000 for new technology initiatives, and \$145,000 for additional security specialists and security equipment.

The recognized sign of fiscal health for a school district is an appropriate undesignated, unreserved fund balance for the General Fund (operating fund). The District's current goal is to maintain the fund balance of the General Fund at 17-20% of operating expenses. The value of having an appropriate fund balance level can be expressed as follows:

1. Contingency fund for unexpected costs
2. Cash flow for operational resources at the beginning of the year prior to the tax collection season
3. Viewed as sign of fiscal stability and health by bond rating agencies.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Finance Department at 350 Keller Parkway, Keller, Texas 76248, or visit the Keller ISD website at www.kellerisd.net.

BASIC FINANCIAL STATEMENTS

**KELLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2013**

<u>Data Control Codes</u>		<u>Governmental Activities</u>
ASSETS		
1110	Cash and cash equivalents	\$ 89,564,388
1110	Restricted cash	400,000
1220	Property taxes receivable (delinquent)	2,638,452
1230	Allowance for uncollectible taxes	(659,612)
1240	Due from other governments	4,652,293
1290	Other receivables	4,004,266
1300	Inventories, at cost	190,417
1410	Prepaid items	1,266,639
1420	Capitalized bond and other debt issuance costs	7,215,108
	Capital Assets	
1510	Land	36,934,440
1520	Buildings, net	573,631,568
1530	Furniture and equipment, net	9,181,901
1580	Construction in progress	7,949,570
1910	Long-term investments	<u>59,951,170</u>
1000	Total assets	796,920,600
LIABILITIES		
2110	Accounts payable	9,395,869
2140	Interest payable	1,441,508
2150	Payroll deductions and withholdings payable	197,764
2160	Accrued wages payable	796,139
2180	Due to other governments	3,052
2210	Accrued expenses	1,008,629
2300	Unearned revenues	11,978,753
	Noncurrent liabilities	
2210	Accrued expenses	1,000,000
2501	Due within one year	28,787,388
2502	Due in more than one year	<u>717,062,506</u>
2000	Total liabilities	771,671,608
NET POSITION		
3200	Net investment in capital assets	(31,475,706)
3840	Restricted for food service	4,690,227
3850	Restricted for debt service	2,498,757
3490	Restricted for employee health claims	400,000
3900	Unrestricted net position	<u>49,135,714</u>
3000	Total net position	<u>\$ 25,248,992</u>

**KELLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2013**

Data Control Codes		Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Operating Grants & Contributions	Governmental Activities
Primary Government					
GOVERNMENTAL ACTIVITIES					
0011	Instruction	\$ 158,093,657	\$ 5,153,446	\$ 8,679,645	\$ (144,260,566)
0012	Instructional resources and media services	3,669,131	103,893	363,816	(3,201,422)
0013	Curriculum and instructional staff development	2,899,611	89,283	654,652	(2,155,676)
0021	Instructional leadership	2,465,543	75,705	162,728	(2,227,110)
0023	School leadership	15,324,170	469,161	203,964	(14,651,045)
0031	Guidance, counseling, and evaluation services	10,963,668	410,717	2,826,516	(7,726,435)
0032	Social services	204,112	6,989	2,092	(195,031)
0033	Health services	3,306,124	91,614	50,413	(3,164,097)
0034	Student (pupil) services	5,687,815	195,915	61,316	(5,430,584)
0035	Food services	12,452,594	7,442,377	4,953,318	(56,899)
0036	Cocurricular/extracurricular activities	8,838,689	909,624	1,316,018	(6,613,047)
0041	General administration	6,178,573	183,971	209,697	(5,784,905)
0051	Plant maintenance and operations	20,029,457	1,372,248	260,943	(18,396,266)
0052	Security and monitoring services	1,591,648	54,277	90,736	(1,446,635)
0053	Data processing services	4,960,996	150,317	51,347	(4,759,332)
0061	Community services	1,023,234	35,978	174,979	(812,277)
0072	Debt service - interest on long term debt	38,586,772	-	384,652	(38,202,120)
0073	Debt service - fees	1,920	-	-	(1,920)
0093	Shared services agreement	3,059,151	96,181	28,791	(2,934,179)
0097	Payments to tax increment fund	1,973,187	-	-	(1,973,187)
	[TP] TOTAL PRIMARY GOVERNMENT	<u>\$ 301,310,052</u>	<u>\$ 16,841,696</u>	<u>\$ 20,475,623</u>	<u>\$ (263,992,733)</u>

<u>Data Control Codes</u>		General Revenues	
		Taxes	
MT		Property taxes, levied for general purposes	117,999,604
DT		Property taxes, levied for debt service	56,616,666
SF		State grants, unrestricted	83,578,692
IE		Investment earnings	503,704
MI		Insurance recovery and legal settlement	15,064,441
MI		Miscellaneous local and intermediate	1,490,963
TR		Total general revenues	<u>275,254,070</u>
CN		Change in net position	11,261,337
NB		Net position -- beginning	<u>13,987,655</u>
NE		Net position -- ending	<u>\$ 25,248,992</u>

**KELLER INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2013**

<u>Data Control Codes</u>	<u>10 General Fund</u>	<u>20 Federally Funded Grant Fund</u>
ASSETS		
1110	\$ 25,501,365	\$ 5,269,961
1220	1,913,753	-
1230	(468,496)	-
1240	54,622	4,476,809
1260	4,339,457	-
1290	2,117,221	192,876
1300	190,417	-
1410	1,030,092	95,859
1910	59,951,170	-
1000	<u>\$ 94,629,601</u>	<u>\$ 10,035,505</u>
LIABILITIES and FUND BALANCES		
Liabilities		
2110	3,097,752	632,761
2150	197,764	-
2160	722,946	73,193
2170	149,777	4,308,375
2180	-	-
2210	185,226	21,931
2300	11,955,714	309,018
2000	<u>16,309,179</u>	<u>5,345,278</u>
FUND BALANCES		
Nonspendable		
3410	190,417	-
3440	1,030,092	-
Restricted for		
3420	-	-
3450	-	4,690,227
3490	-	-
Committed for		
3470	-	-
3545	-	-
3590	45,962,311	-
Assigned for		
3590	3,538,000	-
Unassigned		
3600	27,599,602	-
3000	<u>78,320,422</u>	<u>4,690,227</u>
4000	<u>\$ 94,629,601</u>	<u>\$ 10,035,505</u>

Exhibit C-1

50 Debt Service Fund	60 Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 6,045,984	\$ 47,185,782	\$ 3,914,570	\$ 87,917,662
724,699	-	-	2,638,452
(191,116)	-	-	(659,612)
-	-	120,862	4,652,293
126,747	-	-	4,466,204
-	-	17,089	2,327,186
-	-	-	190,417
3,560	28,813	103,815	1,262,139
-	-	-	59,951,170
<u>\$ 6,709,874</u>	<u>\$ 47,214,595</u>	<u>\$ 4,156,336</u>	<u>\$ 162,745,911</u>
-	2,636,026	328,970	6,695,509
-	-	-	197,764
-	-	-	796,139
-	4	30,632	4,488,788
-	-	3,052	3,052
-	531,294	2,411	740,862
3,303,192	-	-	15,567,924
<u>3,303,192</u>	<u>3,167,324</u>	<u>365,065</u>	<u>28,490,038</u>
-	-	-	190,417
3,560	28,813	103,815	1,166,280
3,403,122	-	-	3,403,122
-	-	-	4,690,227
-	-	136,234	136,234
-	44,018,458	-	44,018,458
-	-	3,551,222	3,551,222
-	-	-	45,962,311
-	-	-	3,538,000
-	-	-	27,599,602
<u>3,406,682</u>	<u>44,047,271</u>	<u>3,791,271</u>	<u>134,255,873</u>
<u>\$ 6,709,874</u>	<u>\$ 47,214,595</u>	<u>\$ 4,156,336</u>	<u>\$ 162,745,911</u>

**KELLER INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2013**

Total fund balances - governmental funds	\$	134,255,873
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 funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.		782,763
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.		804,979,378
Accumulated depreciation has not been recorded in the fund financial statements.		(177,281,899)
Bonds payable have not been included in the fund financial statements.		(681,493,165)
Accreted interest on capital appreciation bonds is not capitalized in the fund financial statements.		(41,918,711)
Bond issue costs are not capitalized in the fund financial statements.		7,215,108
Premiums on the issuance of bonds are not capitalized in the fund financial statements.		(40,146,943)
Deferred loss on bond refunding has not been reflected in the fund financial statements.		18,419,652
Property tax and other revenue are reported as unearned revenue in the fund financial statements but is recognized as revenue in the government-wide financial statements.		3,589,171
Accrued liabilities for compensated absences and a legal settlement have not been reflected in the fund financial statements.		(1,710,727)
Interest is accrued on outstanding debt in the government-wide financial statements whereas in the fund financial statements interest expenditures are reported when due.		(1,441,508)
Net position of governmental activities	\$	<u>25,248,992</u>

KELLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2013

Data Control Codes	10 General Fund	20 Federally Funded Grant Fund
REVENUES		
5700 Total local and intermediate sources	\$ 121,132,398	\$ 7,461,105
5800 State program revenues	90,958,923	564,993
5900 Federal program revenues	598,641	12,091,415
5020 Total revenues	<u>212,689,962</u>	<u>20,117,513</u>
EXPENDITURES		
Current		
0011 Instruction	137,181,022	3,763,339
0012 Instructional resources and media services	3,003,067	265
0013 Curriculum and instructional staff development	1,827,345	465,512
0021 Instructional leadership	1,970,633	140,523
0023 School leadership	13,603,614	11,682
0031 Guidance, counseling and evaluation services	7,488,510	2,729,397
0032 Social work services	202,973	-
0033 Health services	2,659,587	-
0034 Student (pupil) transportation	5,685,113	2,702
0035 Food services	-	12,180,513
0036 Cocurricular/extracurricular activities	6,877,682	-
0041 General administration	5,332,388	-
0051 Facilities maintenance and operations	19,154,666	-
0052 Security and monitoring services	1,573,179	-
0053 Data processing services	4,348,035	-
0061 Community services	660,173	148,095
Debt Service		
0071 Debt Service - Principal on long term debt	-	-
0072 Debt Service - Interest on long term debt	-	-
0073 Debt Service - Bond issuance cost and fees	-	-
Capital Outlay		
0081 Facilities acquisition and construction	1,015,164	483,422
Intergovernmental		
0093 Shared services agreement	2,793,151	266,000
0095 Juvenile Justice Alternative Education Program	-	-
0097 Payments to tax increment fund	1,973,187	-
6030 Total expenditures	<u>217,349,489</u>	<u>20,191,450</u>
1100 Excess (deficiency) of revenues over (under) expenditures	<u>(4,659,527)</u>	<u>(73,937)</u>
Other Financing Sources (Uses)		
7911 Issuance of bonds	-	-
7916 Premium or discount on issuance of bonds	-	-
8949 Payment to refunded bond escrow agent	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>
1200 Net change in fund balance	(4,659,527)	(73,937)
0100 Fund balance - September 1 (beginning)	82,979,949	4,764,164
3000 Fund balance - August 31 (ending)	<u>\$ 78,320,422</u>	<u>\$ 4,690,227</u>

50 Debt Service Fund	60 Capital Project Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 56,582,160	\$ 15,245,772	\$ 4,244,538	\$ 204,665,973
384,652	7,930	1,454,002	93,370,500
-	-	-	12,690,056
<u>56,966,812</u>	<u>15,253,702</u>	<u>5,698,540</u>	<u>310,726,529</u>
-	42,263	3,576,846	144,563,470
-	-	342,087	3,345,419
-	-	172,855	2,465,712
-	-	1,256	2,112,412
-	2,750	53,487	13,671,533
-	-	6,958	10,224,865
-	-	-	202,973
-	-	23,655	2,683,242
-	-	-	5,687,815
-	-	89	12,180,602
-	-	1,280,659	8,158,341
-	109,181	142,246	5,583,815
-	370,128	6,578	19,531,372
-	44,225	76,647	1,694,051
-	42,312	-	4,390,347
-	-	19,917	828,185
14,508,842	-	-	14,508,842
42,948,531	-	-	42,948,531
950,783	-	-	950,783
-	10,353,385	-	11,851,971
-	-	-	3,059,151
-	-	-	-
-	-	-	1,973,187
<u>58,408,156</u>	<u>10,964,244</u>	<u>5,703,280</u>	<u>312,616,619</u>
<u>(1,441,344)</u>	<u>4,289,458</u>	<u>(4,740)</u>	<u>(1,890,090)</u>
85,419,998	-	-	85,419,998
15,269,804	-	-	15,269,804
(99,734,652)	-	-	(99,734,652)
<u>955,150</u>	<u>-</u>	<u>-</u>	<u>955,150</u>
(486,194)	4,289,458	(4,740)	(934,940)
3,892,876	39,757,813	3,796,011	135,190,813
<u>\$ 3,406,682</u>	<u>\$ 44,047,271</u>	<u>\$ 3,791,271</u>	<u>\$ 134,255,873</u>

**KELLER INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2013**

Total net change in fund balances - governmental funds	\$ (934,940)
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and catering, to appropriate functions in other funds. The net income of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net position.	(1,088,664)
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2013 capital outlays is to increase net position.	11,529,022
Depreciation is not recognized as an expenditure 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 position.	(17,791,006)
Loss on disposal of assets is not recognized in the governmental funds since no current financial resources are used. The net effect of this is to decrease net position.	(155,879)
Current year long term debt principal payments are expenditures in the fund financial statements, whereas they are reported as reductions of bonds payable in the government-wide financial statements. The effect of current year principal paid on bonds payable increased net position.	14,508,845
The current year issuance of bonds are shown as an other resource in the fund financial statements but are shown as an increase in long term debt in the government-wide financial statements.	(85,419,998)
Current year payments to bond refunding escrow agent are shown as other uses in the fund financial statements but are shown as reductions in long term debt and as a deferred loss on bond refunding in the government-wide financial statements.	89,505,000
Current year accretion on capital appreciation bonds is not recorded in the fund financial statements, but is shown as an increase in the accreted interest on the government-wide financial statements.	3,444,748
Bond issuance costs are expended in full when paid on the fund financial statements, whereas they are amortized to expense over the life of the related bonds payable on the government-wide financial statements.	948,860
Current year amortization of bond issue costs is not reflected in the fund financial statements, but is shown as a reduction to the bond issue costs asset in the government-wide financial statements.	(396,894)
Premiums associated with bonds payable are reported as revenue on the fund financial statements when bonds are issued. Amounts are reported net of amortization on the government-wide financial statements.	(15,269,804)
The current year amortization of the premium on bonds payable is not recorded in the fund financial statements, but is shown as a reduction of the premium in the government-wide financial statements.	1,945,478
Current year amortization of the deferred loss on the issuance of refunding bonds is not reflected in the fund financial statements, but is shown as a reduction of the loss in the government-wide financial statements.	(854,100)
Property taxes and other revenues 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 uncollectible accounts in the government-wide statements.	1,844,861
Compensated absences are recognized when the related obligation matures and is expected to be liquidated with expendable available financial resources. Therefore additions to the accrual for compensated absences are not reported in the fund financial statements. The net effect of the current year increase in compensated absences was to decrease net position.	(6,370)
Other accrued liabilities that will not be liquidated with available resources, such as legal settlements are not reported in the fund financial statements. The net effect of the current year increase in such liabilities was a decrease in net positions.	(1,000,000)
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.	222,526
Current year deferred loss on refunding associated with bonds payable is reported net of amortization on the government wide financial statements	10,229,652
Change in Net Position of Governmental Activities	\$ 11,261,337

The Notes to Financial Statements are an integral part of this statement.

**KELLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2013**

	Governmental Activities -
	Total Internal Service Funds
ASSETS	
Current assets	
Cash and temporary investments	\$ 1,646,726
Accounts receivable	1,677,080
Due from other funds	23,030
Deferred expenditures	4,500
Cash - restricted	400,000
	400,000
Total assets	3,751,336
LIABILITIES	
Current liabilities	
Accounts and claims payable	2,700,360
Due to other funds	446
Accrued expenses	267,767
	267,767
Total liabilities	2,968,573
NET POSITION	
Restricted for employee health claims	400,000
Unrestricted net position	382,763
	382,763
Total net position	\$ 782,763

KELLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED AUGUST 31, 2013

	Governmental Activities -
	Internal Service Funds
Operating Revenues	
Local and intermediate sources	\$ 18,550,508
Total operating revenues	18,550,508
Operating Expenses	
Payroll costs	109,710
Professional and contracted services	2,131,969
Claim settlement costs	17,406,716
Other operating costs	296
Total operating expenses	19,648,691
Operating loss	(1,098,183)
Nonoperating Revenues	
State on-behalf revenue	4,925
Earnings from temporary deposits and investments	4,594
Total nonoperating revenues	9,519
Change in net position	(1,088,664)
Total net position - September 1 (beginning)	1,871,427
Total net position - August 31 (ending)	\$ 782,763

**KELLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED AUGUST 31, 2013**

	<u>Governmental Activities - Internal Service Funds</u>
Cash flows from operating activities	
Cash received from assessments - other funds	\$ 18,899,622
Cash payments to employees for services	(109,710)
Cash payments for insurance claims	(20,605,426)
Cash payments for other operating expenses	(296)
	<u>(1,815,810)</u>
Cash flows from investing activities	
Interest and dividends on investments	4,594
Net cash provided by investing activities	<u>4,594</u>
Net change in cash and cash equivalents	(1,811,216)
Cash and cash equivalents at beginning of the year	<u>3,457,942</u>
Cash and cash equivalents at end of the year	<u>\$ 1,646,726</u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (1,098,183)
Adjustments to reconcile operating loss to net cash used in operating activities	
State on-behalf revenue	4,925
Change in assets and liabilities	
Increase in due from other funds	349,114
Increase in accounts receivable	(1,677,080)
Increase in deferred expenditures	(4,500)
Increase in accounts payable	521,476
Increase in due to other funds	70
Decrease in accrued expenditures	88,368
	<u>88,368</u>
Net cash used in operating activities	<u>\$ (1,815,810)</u>

**KELLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES ·
FIDUCIARY FUNDS
AUGUST 31, 2013**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 398,770
Accounts receivable	89
	89
Total assets	\$ 398,859
LIABILITIES	
Accounts payable	\$ 45,181
Due to other governments	97
Due to student groups	353,581
	353,581
Total liabilities	\$ 398,859

KELLER INDEPENDENT SCHOOL DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The Keller Independent School District (the District) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the Board) that is 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 is elected by the public and 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 GASB in its *Statement No. 14, The Financial Reporting Entity*, as amended by GASB Statements No. 14, 39 and 61. 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 Position and the Statement of Activities are government-wide financial statements. They report information on all of the District's non-fiduciary activities with most of the interfund activities removed. Net position is segregated into net investments in capital assets, restricted net position, and unrestricted net position. Governmental activities include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenues.

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.

Interfund activities between governmental funds and between governmental and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary fund Statement of Revenues, Expenses, and Changes in Net position. All interfund transactions between governmental funds are eliminated on the government-wide statements as prescribed by GASB Statement No. 34.

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Government-Wide and Fund Financial Statements – Continued

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.

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

Measurement focus is the accounting convention, which determines when revenues and expenditures are recognized in the accounts and reported in the financial statements.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurements made, regardless of the measurement focus applied.

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 (with the exception of Agency Funds which are custodial in nature thus do not have a measurement focus). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned 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.

Proprietary Funds and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting, except for Agency Funds, which are custodial in nature and therefore do not have a measurement focus. 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.

D. Fund Accounting

The District's accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. District resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Fund Accounting – Continued

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.

Federally Funded Grant Funds – All funds which receive Federal financial assistance are accounted for in this fund. Some State financial assistance is included in this major fund as well. Sometimes unused balances must be returned to the grantor at the close of specified project periods. Also included in this fund is the Child Nutrition Fund, which is partially funded by state and local revenue.

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.

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.

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Fund Accounting – Continued

Fiduciary Funds:

Agency Funds – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are Student Activity funds and Employee Activity funds.

Additionally, the District reports the following nonmajor fund types:

Governmental Funds:

Special Revenue Funds – The District accounts for resources restricted to, or assigned for, specific purposes by the District or local grantor. Sometimes unused balances must be returned to the grantor at the close of specified project periods.

E. Budgets and Budgetary Accounting

The District facilitates budgeting and budgetary control by preparing annual budgets for the General Fund, Child Nutrition Program Fund and Debt Service Fund and appropriately amending the budgets as circumstances dictate; the annual budgets as amended are an integral part of the accounting system, providing appropriate budgetary control over revenues, expenditures and transfers through comparison of actual data and encumbrances to budgetary data.

The Superintendent of Schools is designated as the budget officer of the District and is responsible for preparing, or causing to be prepared, a budget for the next succeeding fiscal year.

The budget is required to be prepared no later than August 20 at a meeting of the Board of Trustees called for the purpose of adopting such budget after ten days public notice of the meeting has been given.

The Board of Trustees may approve amendments to the budget, which are required when a change is made to any one of the functional expenditure categories or revenue object accounts defined by the TEA. Such amendments must be reflected in the official minutes of the Board, and may not, by law, occur after August 31. Therefore, the legal level of budgetary control is at the function level within each budgeted fund. Management may transfer appropriations between objects, sub-objects, organizations, programs, and projects without approval from the Board of Trustees, as long as appropriations are not increased at the function level.

TEA requires the budgets to be filed with the TEA through regular submissions to the Public Education Information Management System (PEIMS). The budget should not be exceeded in any functional expenditure category under TEA requirements. The final amended versions of these budgets are used in this report.

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. Budgets and Budgetary Accounting – Continued

Unused appropriations lapse at the end of each fiscal year; however, the District increases the subsequent year appropriations by an amount equal to outstanding encumbrances.

Budgets for the General, Child Nutrition and Debt Service Funds are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP).

F. 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.

G. 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.

H. Inventory

Inventories on the balance sheet consist of material and supplies and are recorded at first-in, first-out (FIFO) cost. Inventories are recorded as expenditures when consumed. In the governmental funds, a non spendable fund balance indicates that these funds are unavailable as current expendable financial resources.

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I. Compensated Absences

Any District employee who is professionally certified and has at least five years of service to the District is paid for all local sick days upon termination of employment with the District. Local sick leave days are earned at a rate of five days per year. The leave days shall accrue with no limit. A resigning employee shall receive \$35 per day, if he or she completes their contract. 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.

J. 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.

K. 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 in the financial statements. 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, 2013 will change.

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

L. 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.

The District expects to receive all significant receivables within one year of August 31, 2013.

M. Capital Assets

Capital assets, which include land, buildings and furniture and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings 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

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

N. Long-Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium, discount or deferred loss on refundings. 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O. Interfund Transactions

During the course of normal operations, it is necessary for the District to enter into transactions among its various funds. These transactions consist of one or more of the following types:

- Reimbursements to a fund, which are generally reflected through the allocation of pooled cash accounts, for expenditures or expenses initially made from it that are properly applicable to another fund. All interfund receivable / payable balances at August 31, 2013 were the result of these types of reimbursements and are expected to be repaid within one year.
- Transfers of equity balances from one fund to another.
- Transfers in and out, as appropriate, which are shown as other financing sources or uses in the fund financial statements.
- All other outstanding balances between funds are reported as “due to/from other funds” in the fund financial statements.

P. Restricted Resources

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Q. Prepaid Items

Prepaid items indicate payments made by the District in the current year to provide services occurring in the subsequent fiscal year. The District uses the consumption approach when recording prepaid items. The consumption approach provides for the initial reporting of the item as an asset while recognition of the expenditure is deferred until the period that the item is actually used or “consumed”.

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

NOTE 2. BONDED DEBT PAYABLE

Bonded debt payable as of August 31, 2013 is as follows:

Description	Interest Rate Payable	Amount of Original Issue	Amount Outstanding 9/1/2012	Issued Current Year	Refunded Current Year	Retired Current Year	Amount Outstanding 8/31/2013
Refunding and School Building Bonds Series 1992 & 1992A Final maturity 2013	5.625-6.25	\$ 29,245,000	\$ 163,664	\$ -	\$ -	\$ 163,664	\$ -
Refunding and School Building Bonds Series 1993 & 1993A Final maturity 2014	3.50-6.25	31,065,000	315,000	-	-	197,346	117,654
Unlimited Tax School Building and Refunding Bonds Series 1996A Final maturity 2021	3.60-5.90	59,539,931	13,864,646	-	-	701,389	13,163,257
Unlimited Tax School Building and Refunding Bonds Series 1997A Final maturity 2027	3.85-6.00	29,698,013	4,019,995	-	-	-	4,019,995
Unlimited Tax School Building and Refunding Bonds Series 1999 Final maturity 2031	4.00-4.90	30,190,000	130,002	-	-	45,000	85,002
Unlimited Tax School Building and Refunding Bonds Series 2001 Final maturity 2022	5.25-5.5	117,068,480	1,436,523	-	-	1,436,523	-
Unlimited Tax Refunding Bonds Series 2002 Final maturity 2013	3.00-4.20	7,184,997	315,000	-	-	315,000	-
Unlimited Tax Refunding Bonds Series 2005 Final maturity 2030	4.75-5.00	98,339,961	91,664,961	-	-	1,979,961	89,685,000
Unlimited Tax Building and Refunding Bonds Series 2005A Final maturity 2025	4.00-5.00	117,165,000	112,545,000	-	89,505,000	1,075,000	21,965,000

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

NOTE 2. BONDED DEBT PAYABLE – CONTINUED

Description	Interest Rate Payable	Amount of Original Issue	Amount Outstanding 9/1/2012	Issued Current Year	Refunded Current Year	Retired Current Year	Amount Outstanding 8/31/2013
Unlimited Tax School Refunding Bonds Series 2006 Final maturity 2029	4.00-5.00	89,844,973	88,049,973	-	-	310,000	87,739,973
Unlimited Tax School Refunding Bonds Series 2006A Final maturity 2029	4.00-4.60	64,749,980	63,935,745	-	-	4,653	63,931,092
Unlimited Tax School Refunding Bonds Series 2007 Final maturity 2028	4.00-5.00	136,470,000	133,470,000	-	-	-	133,470,000
Unlimited Tax School Building Bonds Series 2009 Final maturity 2035	4.39-5.00	142,299,951	137,594,951	-	-	6,285,000	131,309,951
Unlimited Tax Refunding Bonds Series 2009 Final maturity 2023	3.00-4.625	11,199,999	10,360,000	-	-	1,515,000	8,845,000
Unlimited Tax Refunding Bonds Series 2009A Final maturity 2031	3.50-4.50	22,419,992	22,366,552	-	-	5,309	22,361,243
Unlimited Tax Refunding Bonds Series 2010 Final maturity 2030	2.00-4.125	8,389,999	7,840,000	-	-	140,000	7,700,000
Unlimited Tax Refunding Bonds Series 2011 Final maturity 2028	2.00-4.00	9,370,000	9,305,000	-	-	335,000	8,970,000
Unlimited Tax Refunding Bonds Series 2012 Final maturity 2031	3.50	-	2,710,000	-	-	-	2,710,000
Unlimited Tax Refunding Bonds Series 2012A Final maturity 2036	2.00-3.00	-	-	4,339,998	-	-	4,339,998
Unlimited Tax Refunding Bonds Series 2013 Final maturity 2025	1.50-5.00	-	-	81,080,000	-	-	81,080,000
Total bonded debt payable		<u>\$ 1,004,241,276</u>	<u>\$ 700,087,012</u>	<u>\$ 85,419,998</u>	<u>\$ 89,505,000</u>	<u>\$ 14,508,845</u>	<u>\$ 681,493,165</u>

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

NOTE 2. BONDED DEBT PAYABLE – CONTINUED

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

<u>Due Fiscal Year Ending August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 23,634,769	\$ 35,440,475	\$ 59,075,244
2015	15,100,068	40,356,896	55,456,964
2016	12,047,087	41,405,163	53,452,250
2017	15,682,170	38,855,699	54,537,869
2018	20,514,816	35,191,510	55,706,326
2019-2023	137,009,255	153,586,965	290,596,220
2024-2028	217,280,000	88,623,362	305,903,362
2029-2033	210,355,000	32,875,682	243,230,682
2034-2036	29,870,000	1,665,400	31,535,400
	<u>\$ 681,493,165</u>	<u>\$ 468,001,152</u>	<u>\$ 1,149,494,317</u>

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

On September 13, 2012 the District issued \$4,339,998 in unlimited tax refunding bonds, with interest rates between 2.00% and 3.00% to advance refund \$4,340,000 of series 2005 Bonds with original maturities between 2016 and 2026 and interest rates of 5.00%. The refunding was undertaken to reduce the District's total debt service payments over the next 20 years by approximately \$835,354 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$739,035.

On February 28, 2013 the District issued \$81,080,000 in unlimited tax refunding bonds, with interest rates between 1.50% and 5.00% to advance refund \$85,165,000 of Series 2005 bonds with original maturities between 2014 and 2030 and interest rates between 4.00% and 5.00%. The refunding was undertaken to reduce the District's total debt service payments over the next 20 years by approximately \$9,580,824 and to obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$8,925,183. As part of this refunding, the District issued \$3,665,000 in unlimited tax refunding bonds to defease \$4,495,000 in bonds then outstanding. Of the \$4,495,000 in bonds originally defeased, \$830,000 remains outstanding at August 31, 2013.

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

NOTE 3. 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, 2012	\$	704,357
New entrants and salary increments		32,042
Payments to participants		<u>(25,672)</u>
 Balance, August 31, 2013	 \$	 <u>710,727</u>

NOTE 4. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 700,087,012	\$ 85,419,998	\$ 104,013,845	\$ 681,493,165	\$ 23,634,769
Accreted interest	45,363,459	4,036,819	7,481,567	41,918,711	4,036,819
Premium on bonds	26,822,617	15,269,804	1,945,478	40,146,943	1,945,476
Deferred loss on bond refunding	(9,044,100)	(10,229,652)	(854,100)	(18,419,652)	(854,100)
Compensated absences	<u>704,357</u>	<u>32,042</u>	<u>25,672</u>	<u>710,727</u>	<u>24,424</u>
 Total governmental activities long-term liabilities	 <u>\$ 763,933,345</u>	 <u>\$ 94,529,011</u>	 <u>\$ 112,612,462</u>	 <u>\$ 745,849,894</u>	 <u>\$ 28,787,388</u>

The General Fund has been used to liquidate the liability for compensated absences.

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

NOTE 5. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2013 was as follows:

Primary Government:

	Balance 9/1/2012	Additions (Transfers)	Deletions	Balance 8/31/2013
Capital assets, not being depreciated				
Land	\$ 36,685,377	\$ 249,063	\$ -	\$ 36,934,440
Construction in progress	1,913,374	6,036,196	-	7,949,570
	<u>38,598,751</u>	<u>6,285,259</u>	<u>-</u>	<u>44,884,010</u>
Total capital assets, not being depreciated	38,598,751	6,285,259	-	44,884,010
Capital assets, being depreciated				
Buildings and improvements	735,531,794	3,185,390	-	738,717,184
Furniture and equipment	21,847,082	2,058,373	(2,527,271)	21,378,184
	<u>757,378,876</u>	<u>5,243,763</u>	<u>(2,527,271)</u>	<u>760,095,368</u>
Total capital assets, being depreciated	757,378,876	5,243,763	(2,527,271)	760,095,368
Less accumulated depreciation on				
Buildings and improvements	149,665,786	15,419,830	-	165,085,616
Furniture and equipment	12,196,499	2,371,176	(2,371,392)	12,196,283
	<u>161,862,285</u>	<u>17,791,006</u>	<u>(2,371,392)</u>	<u>177,281,899</u>
Accumulated depreciation	161,862,285	17,791,006	(2,371,392)	177,281,899
Total capital assets, being depreciated, net	<u>595,516,591</u>	<u>(12,547,243)</u>	<u>(155,879)</u>	<u>582,813,469</u>
Governmental activities capital assets, net	<u>\$ 634,115,342</u>	<u>\$ (6,261,984)</u>	<u>\$ (155,879)</u>	<u>\$ 627,697,479</u>

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

NOTE 5. CAPITAL ASSET ACTIVITY – CONTINUED

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

Instruction	\$ 12,530,157
Instructional resources and media services	220,326
Curriculum and staff development	23,959
Instructional leadership	35,746
School leadership	1,278,125
Guidance, counseling and evaluation services	675,218
Social services	894
Health services	224,902
Food services	149,181
Co-curricular/extracurricular activities	534,468
General administration	86,826
Plant maintenance and operations	1,002,325
Security and monitoring services	207,632
Data processing services	602,086
Community services	<u>219,161</u>
 Total depreciation expense	 <u><u>\$ 17,791,006</u></u>

NOTE 6. 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 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, (9) and bid solicitation preferences for certificates of deposit. Statutes and the District's investment policy authorized the District to invest in the following investments as summarized in the table on the following page:

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

NOTE 6. DEPOSITS AND INVESTMENTS – CONTINUED

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	10 years	none	none
U.S. Agency obligations	10 years	none	none
State of Texas securities	10 years	none	none
Collateralized mortgage obligations	10 years	none	none
Certificates of deposit	none	none	none
Repurchase agreements	90 days	none	none
Securities lending program	1 year	none	none
Banker's acceptance	270 days	none	none
Commercial paper	270 days	none	none
No-load mutual funds	2 years	15%	none
Guaranteed investment contracts	5 years	none	none
Public funds investment pool	n/a	none	none

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.

Cash and investments as of August 31, 2013 are classified in the accompanying financial statements as follows:

Primary government	\$ 149,915,558
Fiduciary funds	398,770
	<u>\$ 150,314,328</u>

Cash and investments as of August 31, 2013 consist of the following:

Deposits with financial institutions	\$ (914,624)
Investments	151,228,952
	<u>\$ 150,314,328</u>

Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The District has no formal policy related to interest rate risk.

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

NOTE 6. DEPOSITS AND INVESTMENTS – CONTINUED

As of August 31, 2013, the District had the following investments, classified as cash and investments and restricted cash in the financial statements:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>	<u>Minimum Legal Rating</u>	<u>Rating as of August 31, 2013</u>
TexPool	\$ 2,637,682	56 days	AAA	AAAm
TexSTAR	3,625,944	49 days	AAA	AAAm
LOGIC	85,014,156	57 days	AAA	AAAm
Federal agency notes	<u>59,951,170</u>	n/a	AAA	AAA
	<u>\$ 151,228,952</u>			

As of August 31, 2013 the District did not invest in any securities which are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented above is the minimum rating required by (where applicable) the Public Funds Investment Act, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. As of August 31, 2013, other than external investment pools, the District did not have 5% or more of its investment with one issuer.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

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

NOTE 6. DEPOSITS AND INVESTMENTS – CONTINUED

On the date of the highest cash balance, the District's deposits with financial institutions were not fully covered 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
- B. Security pledged as of the date of the highest combined balance on deposit was \$1,090,060.
- C. Largest cash, savings and time deposit combined account balance amounted to \$4,799,401 and occurred during the month of September 2013.
- D. Total amount of FDIC coverage at the time of largest combined balance was \$250,000.

Investment in State Investment Pools

The District is a voluntary participant in various investment pools. These pools included the following: TexPool, TexSTAR and LOGIC.

The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

TexSTAR is a local government investment pool created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity, and competitive yield. TexSTAR is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. Together these organizations bring to the TexSTAR program the power partnership of two leaders in financial services with a proven track record in local government investment pool management. The fair value of the position in TexSTAR is the same as the value of TexSTAR shares.

LOGIC is governed by a 6-member board and is an AAA rated investment program tailored to the investment needs of local governments within the state of Texas. LOGIC assists governments across Texas make the most of taxpayer dollars. Local officials can improve the return on their invested balances by pooling their money with other entities to achieve economies of scale in a conservative fund in full compliance with the Texas Public Funds Investment Act. The fair value of the position in LOGIC is the same as the value of LOGIC shares.

KELLER INDEPENDENT SCHOOL DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 7. 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, under the TRS Publications heading.

Funding Policy. State law provides a state contribution rate of 6.4% for fiscal year 2013, 6.0% for fiscal years 2012 and 6.644% for fiscal year 2011. The member contribution rate was 6.4% for fiscal years 2013, 2012 and 2011. In certain instances, the reporting district is required to make all or a portion of the state's 6.4% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of 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, 2011, 2012 and 2013 were \$8,422,215, \$5,778,008, and \$7,490,187 respectively. The District paid additional state contributions for the years ended August 31, 2011, 2012 and 2013 in the amount of \$1,579,393, \$2,485,324, and \$2,144,872 respectively, on a portion of the employees' salaries that exceeded the statutory minimum.

Retiree Health Plan

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

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

NOTE 7. RETIREMENT PLAN – CONTINUED

Retiree Health Plan – Continued

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions respectively. The state of Texas and active public school employee contribution rates were 1.0% and 0.65% of the public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal year 2013. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2011, 2012 and 2013 the State's contributions to TRS-Care were \$1,573,382, \$565,367, and \$(107,833), respectively, the active member contributions were \$1,002,711, \$958,628, and \$1,016,670, respectively and the District's contributions were \$945,042, \$811,154, and \$889,889, respectively which equaled the required contributions for those years.

Prescription Drug Coverage. The Medicare Prescription Drug, Improvement, and Modernization act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2011, 2012 and 2013, the subsidy payments received by TRS-Care on behalf of the District were \$373,501, \$390,107, and \$425,002, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements.

NOTE 8. 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 \$400,000 per occurrence with an aggregate stop-loss limit of \$2,000,000. Claims incurred by 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 \$165,000 per employee with an aggregate stop-loss limit of approximately \$1,000,000 as of January 1, 2014. The District's aggregate attachment point is \$20,203,801 for the 2014 calendar year.

Settled claims have not exceeded the aggregate coverage in any of the past three fiscal

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

NOTE 8. RISK MANAGEMENT – CONTINUED

years. Insurance coverage has not been reduced for the year from the prior year. Accrued claims payable of \$2,678,172 as of August 31, 2013, 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.

Changes in the fund's claims liability amount for the year ended August 31, 2013 and 2012 are as follows:

	2013	2012
Liability, beginning of year	\$ 2,168,219	\$ 1,639,923
Current year claims and changes in estimates	14,378,668	12,901,963
Claim payments	(13,868,715)	(12,373,667)
Liability, end of year	\$ 2,678,172	\$ 2,168,219

NOTE 9. LITIGATION

The District is a party to various legal actions, one of which is believed by the administration and its legal counsel to have a material effect on the financial condition of the District and therefore, has been accrued as a noncurrent liability in the government wide financial statements in the amount of \$1,000,000. No other provisions for losses have been recorded in the accompanying basic financial statements for any other contingencies.

Additionally, during the fiscal year ended August 31, 2013 the District received \$15,064,441 resulting from an insurance recovery and related legal settlement.

NOTE 10. COMMITMENTS

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

The initial agreement was renewed for a period of five years beginning August 1, 2004 and ending July 31, 2009, with the option to renew for two additional years. That option was exercised for the year 2009-2010 and on August 1, 2010 a new agreement was entered into for the period of August 1, 2010 through July 31, 2014.

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

NOTE 10. COMMITMENTS – CONTINUED

As of August 31, 2013, the District has entered into long-term construction projects with an aggregate unexpended balance of \$9,709,567.

The District has also entered into operating leases for office equipment and for management technology services. The expenditures under these leases for the year ended August 31, 2013 totaled \$2,669,661.

A schedule of future minimum lease payments that have remaining lease terms in excess of one year is as follows:

Year Ending August 31,	
2014	\$ 3,105,413
2015	3,105,413
2016	3,047,351
2017	2,381,535
2018	1,771,620
2019 and thereafter	<u>2,509,795</u>
Total	<u><u>\$ 15,921,127</u></u>

NOTE 11. 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, 2013, 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.

Fund	Entitlements	Federal Grants	Total
General	\$ 54,622	\$ -	\$ 54,622
Nonmajor governmental funds	120,862	-	120,862
Federally funded grants	<u>-</u>	<u>4,476,809</u>	<u>4,476,809</u>
Total	<u><u>\$ 175,484</u></u>	<u><u>\$ 4,476,809</u></u>	<u><u>\$ 4,652,293</u></u>

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

NOTE 12. UNEARNED REVENUE

Unearned revenue at August 31, 2013 consisted of the following:

	General Fund	Federally Funded Grant Fund	Debt Service Fund	Total
Net tax revenue	\$ 1,278,300	\$ -	\$ 513,254	\$ 1,791,554
Funds received in advance of expenditures or service	10,677,414	309,018	2,789,938	13,776,370
Total	<u>\$11,955,714</u>	<u>\$ 309,018</u>	<u>\$3,303,192</u>	<u>\$15,567,924</u>

NOTE 13. INTERFUND BALANCES AND ACTIVITIES

Interfund balances at August 31, 2013 consisted of the following individual fund balances:

Due To Fund	Due From Fund	Amount	Purpose
Debt Service Fund	General Fund	126,747	Reimbursement of revenue
Internal Service Fund	General Fund	23,030	Reclassification of revenue
General Fund	Internal Service Fund	446	Reclassification of revenue
General Fund	Federally Funded	4,308,375	Reimbursement of expenditures
General Fund	Nonmajor Fund	30,632	Reimbursement of expenditures
General Fund	Capital Projects Fund	4	Reimbursement of revenue
		<u>\$ 4,489,234</u>	

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

NOTE 14. RECONCILIATION TO BASIC FINANCIAL STATEMENTS

The following is a reconciliation of expenditures of federal awards per Exhibit K-1 to amounts reported on Exhibit C-3.

Total expenditures of federal awards per K-1	\$ 12,091,415
School Health and Related Services (SHARS)	345,406
E-rate revenue reported in general fund	<u>253,235</u>
Total reported on and reconciled to exhibit C-3	<u>\$ 12,690,056</u>

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

NOTE 15. INTERFUND TRANSFERS

All interfund transfers between various funds are approved supplements to the operations of those funds. There were no individual fund operating transfers for fiscal year 2013.

NOTE 16. OTHER RECEIVABLES

Other receivables recorded in the fund level financial statements consisted of the following at August 31, 2013:

	General Fund	Federally Funded Grants	Non-Major Governmental Funds	Total
Services rendered	\$ 1,863,986	\$ 192,876	\$ 17,089	\$2,073,951
E-rate receivable	253,235	-	-	253,235
Total	<u>\$ 2,117,221</u>	<u>\$ 192,876</u>	<u>\$ 17,089</u>	<u>\$2,327,186</u>

NOTE 17. CLASSIFICATION OF FUND BALANCE

Fund Balance Classifications

In accordance with Governmental Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

1. Nonspendable Fund Balance – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements. Examples include inventories, long-term receivables, endowment principal, and/or prepaid items.
2. Spendable Fund Balance
 - a. Restricted Fund Balance – includes amounts that can be spent only for the specific purposes as imposed by law, or imposed by creditors, grantors, contributors, or other governments' laws and regulations. Examples include federal and state grant programs, retirement of long-term debt, and construction.
 - i. The proceeds of specific revenue sources which are restricted to expenditures for specified purposes as designated by grantors, contributors, or governmental entities over state or local program grants.
 - ii. The aggregate fund balance in the debt service fund is legally restricted for payment of bonded indebtedness and is not available for other purposes until all bonded indebtedness is liquidated.

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

NOTE 17. CLASSIFICATION OF FUND BALANCE – CONTINUED

Fund Balance Classifications – Continued

- b. Committed Fund Balance – includes amounts that can be used only for the specific purposes as determined by the governing body by formal action recorded in the minutes of the governing body. Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally.

Examples include, but specifically not limited to, Board action regarding construction, claims, and judgments, retirement of loans/notes payable, capital expenditures, and self-insurance. The District’s Board must take action to commit funds, modify a commitment or rescind a commitment for a specific purpose prior to the end of the fiscal year, but the amount of the commitment may be determined after the end of the fiscal year.

- i. The fund balance of the capital projects fund reflects an amount committed for construction and major renovation projects, and it usually represents unexpended proceeds from the sale of school building bonds, which primarily have restricted uses.
 - ii. Campus activity funds are considered committed by the governing body through adoption of board policy pertaining to the usage of these funds.
 - iii. The District’s Board of Trustees voted to commit fund balance equal to 20% of the 2013 general fund expenditure budget for budgetary contingencies.
- c. Assigned Fund Balance – comprises amounts intended to be used by the District for specific purposes. Pursuant to GASB 54, this intent can be expressed by an official or body to which the governing body delegates that authority. That authority has not been delegated to any official or body. The Board of Trustees is the only governing body that can assign fund balance for specific purposes by formal action recorded in the official minutes. Examples take on the similar appearance as those enumerated for committed fund balance, but may also include the appropriation of existing fund balance to eliminate a deficit in next year’s budget.

Assigned for:

Student transportation	\$ 1,025,000
Athletic field, turf, track, other	880,000
Fine arts - ten year plan	522,000
Athletic - ten year plan	<u>1,111,000</u>
Total	<u><u>\$ 3,538,000</u></u>

Unassigned Fund Balance – is the residual classification of the General Fund and includes all amounts not contained in other classifications. Only the general fund will have unassigned amounts. If other governmental funds incur expenditures for specified purposes that exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

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

NOTE 18. INSTRUCTIONAL MATERIALS ALLOTMENT

In May 2011, Senate Rule 6, repealed the technology allotment used by Texas schools and created an Instructional Materials Allotment (IMA) for the purchase of instructional materials, technology equipment, and technology related services. Under the IMA instructional material purchases must be made through TEA's online registration system. Instructional materials acquired through the IMA totaling \$1,361,946 are recorded as revenues and expenditures in the State Instructional Materials Fund.

Ownership of textbooks previously purchased by the state and utilized by the District was transferred to the District. The majority of these textbooks were sold or otherwise disposed of in accordance with TEA guidelines. At August 31, 2013, the remainder of the textbooks, in possession of the District, have minimal value and are not otherwise reflected elsewhere in these statements.

NOTE 19. NEW ACCOUNTING PRONOUNCEMENTS

The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will be effective for periods beginning after December 15, 2012. The statement reclassifies certain items that were previously reported as assets and liabilities, as deferred outflows or inflows of resources, and recognizes these items as outflows or inflows of resources. This Statement applies to all state and local governmental entities. The District will evaluate the impact of the standard on its financial statements and will take the necessary steps to implement it.

The GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which will be effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting of state and local governmental pension plans with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement applies to all state and governmental entities and amends Statements 25 and 50. The District will evaluate the impact the financial statements and will take the necessary steps to implement it.

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which will be effective for periods beginning after June 15, 2014. The objective is to improve accounting and financial reporting of state and local governmental pension plans. This Statement applies to all state and governmental entities and replaces Statements 27 and 50. The District will evaluate the impact of the standard on its financial statements and will take the necessary steps to implement it.

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

NOTE 19. NEW ACCOUNTING PRONOUNCEMENTS – CONTINUED

The GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which will be effective for periods beginning after June 15, 2013. This Statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The District will evaluate the impact of the standard on its financial statements and will take the necessary steps to implement it.

REQUIRED SUPPLEMENTARY INFORMATION

**KELLER INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED AUGUST 31, 2013**

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES					
5700	Total Local and Intermediate Sources	\$ 121,061,656	\$ 121,061,656	\$ 121,132,398	\$ 70,742
5800	State Program Revenues	81,156,567	88,246,316	90,958,923	2,712,607
5900	Federal Program Revenues	425,000	425,000	598,641	173,641
5020	Total Revenues	202,643,223	209,732,972	212,689,962	2,956,990
EXPENDITURES					
Current					
0011	Instruction	134,088,630	139,457,296	137,181,022	2,276,274
0012	Instructional Resources & Media Services	2,962,237	3,058,109	3,003,067	55,042
0013	Curriculum & Instructional Staff Development	2,693,762	2,360,111	1,827,345	532,766
0021	Instructional Leadership	2,233,460	2,137,306	1,970,633	166,673
0023	School Leadership	12,806,048	13,671,735	13,603,614	68,121
0031	Guidance, Counseling & Evaluation Services	8,444,492	8,462,663	7,488,510	974,153
0032	Social Services	198,229	222,605	202,973	19,632
0033	Health Services	2,737,553	2,757,837	2,659,587	98,250
0034	Student (Pupil) Transportation	5,483,354	5,928,906	5,685,113	243,793
0036	Cocurricular/Extracurricular Activities	6,469,974	7,221,114	6,877,682	343,432
0041	General Administration	5,487,607	5,481,286	5,332,388	148,898
0051	Plant Maintenance and Operations	18,780,709	19,600,461	19,154,666	445,795
0052	Security and Monitoring Services	2,022,319	1,906,775	1,573,179	333,596
0053	Data Processing Services	4,083,836	4,431,715	4,348,035	83,680
0061	Community Services	776,199	738,207	660,173	78,034
Capital Outlay					
0081	Facilities Acquisition and Construction	129,500	1,119,299	1,015,164	104,135
Intergovernmental					
0093	Shared services agreement	3,347,053	2,995,053	2,793,151	201,902
0095	Juvenile justice alternative education program	2,307	2,307	-	2,307
0097	Payments to Tax Increment Fund	2,012,173	1,973,187	1,973,187	-
6030	Total Expenditures	214,759,442	223,525,972	217,349,489	6,176,483
1100	Excess (deficiency) of revenues over (under) expenditures	(12,116,219)	(13,793,000)	(4,659,527)	9,133,473
1200	Net Change in Fund Balances	(12,116,219)	(13,793,000)	(4,659,527)	9,133,473
0100	Fund Balances - September 1 (Beginning)	82,979,949	82,979,949	82,979,949	-
3000	Fund Balance - August 31 (Ending)	\$ 70,863,730	\$ 69,186,949	\$ 78,320,422	\$ 9,133,473

**KELLER INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2012**

BUDGETARY DATA

The Board of Trustees adopts an “appropriated budget” on a GAAP basis for the General Fund, Child Nutrition Fund, which is included in the Federally Funded Grant funds, and the 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 J-2 and J-3.

The following procedures are followed in establishing the budgetary data:

1. Prior to August 20th the District prepares a budget for the next succeeding fiscal year beginning September 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through 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 approved 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:

Function	Increase (Decrease)
Instruction	\$ 5,368,666
Facilities Acquisition and Construction	989,799
School Leadership	865,687
Plant Maintenance and Operations	819,752
Cocurricular/Extracurricular	751,140
Community Education	(550,660)
Curriculum/Staff Development	(475,848)

4. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.
5. The TEA requires these budgets to be filed with the 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 included in this report.

COMBINING STATEMENTS AND SCHEDULES

FEDERALLY FUNDED GRANT FUNDS

**KELLER INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET -
FEDERALLY FUNDED GRANT FUNDS
AUGUST 31, 2013**

Data Control Codes	ASSETS	211 ESEA Title I, Part A Improving Basic Program	224 IDEA Part B Formula	225 IDEA Part B Preschool
1110	Cash and temporary investments	\$ -	\$ -	\$ -
1240	Due from other governments	397,867	3,582,714	10,461
1290	Other receivables	-	-	-
1400	Prepaid items	19,580	59,466	143
1000	Total assets	<u>\$ 417,447</u>	<u>\$ 3,642,180</u>	<u>\$ 10,604</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
2110	Accounts payable	128,809	6,750	5,023
2160	Accrued wages payable	-	-	-
2170	Due to other funds	269,650	3,635,343	5,581
2210	Accrued expenditures	18,988	87	-
2300	Unearned revenue	-	-	-
2000	Total liabilities	<u>417,447</u>	<u>3,642,180</u>	<u>10,604</u>
FUND BALANCES				
Restricted for				
3450	Food service	-	-	-
3000	Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total liabilities and fund balances	<u>\$ 417,447</u>	<u>\$ 3,642,180</u>	<u>\$ 10,604</u>

240 National Breakfast and Lunch Program	244 Vocational Education Basic Grant	255 ESEA Title II, Part A Training and Recruitment	263 Title III, Part A English Lanaguage Acquisition	289 Fed Fund Special Revenue	Total Federally Funded Grant Fund
\$ 5,269,961	\$ -	\$ -	\$ -	\$ -	\$ 5,269,961
83,195	1,698	251,913	148,961	-	4,476,809
192,876	-	-	-	-	192,876
-	3,397	6,256	7,017	-	95,859
<u>\$ 5,546,032</u>	<u>\$ 5,095</u>	<u>\$ 258,169</u>	<u>\$ 155,978</u>	<u>\$ -</u>	<u>\$ 10,035,505</u>
470,109	1,549	16,059	4,462	-	\$ 632,761
73,193	-	-	-	-	73,193
2,756	3,546	241,339	150,160	-	4,308,375
729	-	771	1,356	-	21,931
309,018	-	-	-	-	309,018
<u>855,805</u>	<u>5,095</u>	<u>258,169</u>	<u>155,978</u>	<u>-</u>	<u>5,345,278</u>
4,690,227	-	-	-	-	4,690,227
<u>4,690,227</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,690,227</u>
<u>\$ 5,546,032</u>	<u>\$ 5,095</u>	<u>\$ 258,169</u>	<u>\$ 155,978</u>	<u>\$ -</u>	<u>\$ 10,035,505</u>

**KELLER INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - FEDERALLY FUNDED GRANT FUNDS
YEAR ENDED AUGUST 31, 2013**

<u>Data Control Codes</u>	211 ESEA Title I, Part A Improving Basic Program	224 IDEA Part B Formula	225 IDEA Part B Preschool
REVENUES			
5700	Total local and intermediate sources	\$ -	\$ -
5800	State program revenues	31,556	477
5900	Federal program revenues	1,563,473	54,556
5020	Total Revenues	<u>1,595,029</u>	<u>55,033</u>
EXPENDITURES			
Current			
0011	Instruction	1,338,333	38,215
0012	Instructional resources and media services	265	-
0013	Curriculum and instructional staff development	126,469	11,029
0021	Instructional leadership	129	-
0023	School leadership	9,772	-
0031	Guidance, counseling and evaluation services	3,260	5,789
0033	Health services	-	-
0034	Student (pupil) transportation services	1,142	-
0035	Food services	-	-
0061	Community services	115,659	-
0081	Facilities acquisition and construction	-	-
0093	Shared services arrangement	-	-
6030	Total expenditures	<u>1,595,029</u>	<u>55,033</u>
1200	Net change in fund balance	-	-
0100	Fund balance - September 1 (beginning)	-	-
3000	Fund balance - August 31 (ending)	<u>\$ -</u>	<u>\$ -</u>

240 National Breakfast and Lunch Program	244 Vocational Education Basic Grant	255 ESEA Title II, Part A Training and Recruitment	263 ESEA Title III, Part A English Language Acquisition	289 Fed Fund Special Revenue	Total Federally Funded Grant Fund
\$ 7,461,105	\$ -	\$ -	\$ -	\$ -	\$ 7,461,105
334,015	-	2,777	4,443	-	564,993
<u>4,794,878</u>	<u>215,469</u>	<u>326,675</u>	<u>230,191</u>	<u>10,038</u>	<u>12,091,415</u>
<u>12,589,998</u>	<u>215,469</u>	<u>329,452</u>	<u>234,634</u>	<u>10,038</u>	<u>20,117,513</u>
-	182,968	122,470	117,019	10,038	3,763,339
-	-	-	-	-	265
-	30,341	206,982	84,960	-	465,512
-	250	-	219	-	140,523
-	1,910	-	-	-	11,682
-	-	-	-	-	2,729,397
-	-	-	-	-	-
-	-	-	-	-	2,702
12,180,513	-	-	-	-	12,180,513
-	-	-	32,436	-	148,095
483,422	-	-	-	-	483,422
-	-	-	-	-	266,000
<u>12,663,935</u>	<u>215,469</u>	<u>329,452</u>	<u>234,634</u>	<u>10,038</u>	<u>20,191,450</u>
(73,937)	-	-	-	-	(73,937)
<u>4,764,164</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,764,164</u>
<u>\$ 4,690,227</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,690,227</u>

NONMAJOR GOVERNMENTAL FUNDS

**KELLER INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2013**

Data Control Codes		385 Students with Visual Impairment	393 Texas Sucessful Schools Program	397 Advanced Placement Incentives
	ASSETS			
1110	Cash and temporary investments	\$ -	\$ 5,049	\$ 26,490
1240	Due from other governments	-	-	-
1290	Other receivables	-	-	-
1400	Prepaid items	-	-	-
1000	Total assets	<u>\$ -</u>	<u>\$ 5,049</u>	<u>\$ 26,490</u>
	LIABILITIES AND FUND BALANCES			
2110	Accounts payable	\$ -	\$ -	\$ 1,893
2170	Due to other funds	-	-	-
2180	Due to other governments	-	-	-
2210	Accrued expenditures	-	-	-
2000	Total liabilities	<u>-</u>	<u>-</u>	<u>1,893</u>
	FUND BALANCES			
	Nonspendable			
3440	Prepaid items	-	-	-
	Restricted for			
3490	Grant funds	-	5,049	24,597
	Committed			
	Campus activity fund	-	-	-
3000	Total fund balances	<u>-</u>	<u>5,049</u>	<u>24,597</u>
4000	Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 5,049</u>	<u>\$ 26,490</u>

404 Carl D. Perkins Accelerated Reading	410 Instructional Materials Allotment	429 Other State Special Revenue Funds	461 Campus Activity Funds	480 Miscellaneous Local Grants	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 2,259	\$ 3,776,408	104,364	\$ 3,914,570
20,446	100,416	-	-	-	120,862
-	-	-	17,089	-	17,089
-	93,875	-	9,940	-	103,815
<u>\$ 20,446</u>	<u>\$ 194,291</u>	<u>\$ 2,259</u>	<u>\$ 3,803,437</u>	<u>\$ 104,364</u>	<u>\$ 4,156,336</u>
\$ -	\$ 89,275	\$ -	\$ 236,812	\$ 990	\$ 328,970
20,446	10,186	-	-	-	30,632
-	-	-	3,052	-	3,052
-	-	-	2,411	-	2,411
<u>20,446</u>	<u>99,461</u>	<u>-</u>	<u>242,275</u>	<u>990</u>	<u>365,065</u>
-	93,875	-	9,940	-	103,815
-	955	2,259	-	103,374	136,234
-	-	-	3,551,222	-	3,551,222
-	94,830	2,259	3,561,162	103,374	3,791,271
<u>\$ 20,446</u>	<u>\$ 194,291</u>	<u>\$ 2,259</u>	<u>\$ 3,803,437</u>	<u>\$ 104,364</u>	<u>\$ 4,156,336</u>

**KELLER INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2013**

<u>Data Control Codes</u>		<u>385 Students with Visual Impairment</u>	<u>393 Texas Successful Schools Program</u>	<u>397 Advanced Placement Incentives</u>	<u>404 Carl D. Perkins Accelerated Reading</u>
REVENUES					
5700	Total local and intermediate sources	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	22,980	-	-	62,100
5020	Total revenues	<u>22,980</u>	<u>-</u>	<u>-</u>	<u>62,100</u>
EXPENDITURES					
Current					
0011	Instruction	22,980	-	3,677	62,100
0012	Instructional resources and media services	-	-	-	-
0013	Curriculum and instructional staff development	-	-	15,541	-
0021	Instructional leadership	-	-	-	-
0023	School leadership	-	-	-	-
0031	Guidance, counseling and evaluation services	-	-	-	-
0033	Health services	-	-	-	-
0035	Food services	-	-	-	-
0036	Cocurricular/extracurricular activities	-	-	-	-
0041	General administration	-	-	-	-
0051	Facilities maintenance and operations	-	-	-	-
0052	Security and monitoring services	-	-	-	-
0061	Community services	-	-	-	-
0081	Facilities acquisition and construction	-	-	-	-
6030	Total expenditures	<u>22,980</u>	<u>-</u>	<u>19,218</u>	<u>62,100</u>
1200	Net change in fund balances	-	-	(19,218)	-
0100	Fund balances - September 1 (beginning)	-	5,049	43,815	-
3000	Fund balances - August 31 (ending)	<u>\$ -</u>	<u>\$ 5,049</u>	<u>\$ 24,597</u>	<u>\$ -</u>

Exhibit H-4

410 Instructional Materials Allotment	429 Other State Special Revenue Funds	461 Campus Activity Funds	480 Miscellaneous Local Grants	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 4,139,638	\$ 104,900	\$ 4,244,538
1,366,721	321	1,880	-	1,454,002
<u>1,366,721</u>	<u>321</u>	<u>4,141,518</u>	<u>104,900</u>	<u>5,698,540</u>
1,152,545	-	2,248,190	87,354	3,576,846
-	422	326,388	15,277	342,087
119,346	-	28,049	9,919	172,855
-	-	-	1,256	1,256
-	-	51,532	1,955	53,487
-	-	6,958	-	6,958
-	-	23,655	-	23,655
-	-	89	-	89
-	-	1,277,738	2,921	1,280,659
-	-	142,246	-	142,246
-	-	6,578	-	6,578
-	-	76,647	-	76,647
-	-	19,354	563	19,917
-	-	-	-	-
<u>1,271,891</u>	<u>422</u>	<u>4,207,424</u>	<u>119,245</u>	<u>5,703,280</u>
94,830	(101)	(65,906)	(14,345)	(4,740)
-	2,360	3,627,068	117,719	3,796,011
<u>\$ 94,830</u>	<u>\$ 2,259</u>	<u>\$ 3,561,162</u>	<u>\$ 103,374</u>	<u>\$ 3,791,271</u>

AGENCY FUNDS

**KELLER INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
AUGUST 31, 2013**

	<u>Balance September 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance August 31, 2013</u>
STUDENT ACTIVITY ACCOUNT				
Assets				
Cash and cash equivalents	\$ 243,648	\$ 1,189,476	\$ 1,130,504	\$ 302,620
Accounts receivable	-	-	-	-
Total assets	<u>\$ 243,648</u>	<u>\$ 1,189,476</u>	<u>\$ 1,130,504</u>	<u>\$ 302,620</u>
Liabilities				
Accounts payable	\$ 12,168	\$ 661,312	\$ 693,058	\$ 43,914
Due to other governments	35	35	97	97
Due to student groups	231,449	343	27,503	258,609
Total liabilities	<u>\$ 243,652</u>	<u>\$ 661,690</u>	<u>\$ 720,658</u>	<u>\$ 302,620</u>
EMPLOYEE ACTIVITIES				
Assets				
Cash and cash equivalents	\$ 137,931	\$ 429,061	\$ 470,842	\$ 96,150
Accounts receivable	118	89	118	89
Total assets	<u>\$ 138,049</u>	<u>\$ 429,150</u>	<u>\$ 470,960</u>	<u>\$ 96,239</u>
Liabilities				
Accounts payable	\$ 2,624	\$ 104,142	\$ 102,785	\$ 1,267
Due to student groups	135,421	40,449	-	94,972
Total liabilities	<u>\$ 138,045</u>	<u>\$ 144,591</u>	<u>\$ 102,785</u>	<u>\$ 96,239</u>
TOTAL AGENCY FUNDS				
Assets				
Cash and cash equivalents	\$ 381,579	\$ 1,618,537	\$ 1,601,346	\$ 398,770
Accounts receivable	118	89	118	89
Total assets	<u>\$ 381,697</u>	<u>\$ 1,618,626</u>	<u>\$ 1,601,464</u>	<u>\$ 398,859</u>
Liabilities				
Accounts payable	\$ 14,792	\$ 765,454	\$ 795,843	\$ 45,181
Due to other governments	35	35	97	97
Due to student groups	366,870	40,792	27,503	353,581
Total liabilities	<u>\$ 381,697</u>	<u>\$ 806,281</u>	<u>\$ 823,443</u>	<u>\$ 398,859</u>

REQUIRED TEA SCHEDULES

**KELLER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
YEAR ENDED AUGUST 31, 2013**

<u>Years Ended August 31,</u>	1	2	3	10
	<u>Tax Rates</u>		<u>Assessed or Appraised Valuation</u>	<u>Delinquent Balance by Year September 1</u>
	<u>Maintenance</u>	<u>Debt Service</u>		
2004 and prior	Various	Various	Various	394,237
2005	1.434	0.264	6,259,451,106	86,479
2006	1.434	0.282	6,932,158,654	94,938
2007	1.311	0.297	8,014,015,193	105,846
2008	1.040	0.317	9,482,514,598	175,686
2009	1.040	0.377	10,212,543,961	241,571
2010	1.040	0.446	10,518,985,594	304,732
2011	1.040	0.491	10,838,009,000	410,116
2012	1.040	0.500	11,200,638,123	922,872
2013 (current)	1.040	0.500	11,303,854,760	-
Totals				<u>\$ 2,736,477</u>

Taxes Paid Into Tax Increment Zone Under Chapter 311, Tax Code

Exhibit J-1

20	31	32	30	40	50
Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Total Collections	Adjustments	Delinquent Balance by Year August 31, 2013
\$ -	\$ 679	\$ 131	\$ 810	\$ (1,267)	\$ 392,160
-	790	145	935	(113)	85,431
-	11,399	2,244	13,643	(140)	81,155
-	19,620	4,443	24,063	(134)	81,649
-	54,260	16,560	70,820	9,663	114,529
-	85,869	31,119	116,988	67,438	192,021
-	117,195	50,292	167,487	74,375	211,620
-	156,659	73,901	230,560	78,437	257,993
-	404,418	194,432	598,850	28,626	352,648
<u>171,779,167</u>	<u>116,411,810</u>	<u>55,967,214</u>	<u>172,379,024</u>	<u>1,469,103</u>	<u>869,246</u>
<u>\$ 171,779,167</u>	<u>\$ 117,262,699</u>	<u>\$ 56,340,481</u>	<u>\$ 173,603,180</u>	<u>\$ 1,725,988</u>	<u>\$ 2,638,452</u>
<u>\$ 1,973,187</u>					

**KELLER INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION FUND
FOR THE YEAR ENDED AUGUST 31, 2013**

<u>Data Control Codes</u>		<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive or (Negative)</u>
		<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	
	REVENUES				
5700	Total local and intermediate sources	\$ 8,233,580	\$ 8,233,580	\$ 7,461,105	\$ (772,475)
5800	State program revenues	74,026	250,208	334,015	83,807
5900	Federal program revenues	<u>4,727,622</u>	<u>4,727,622</u>	<u>4,794,878</u>	<u>67,256</u>
5020	Total revenues	<u>13,035,228</u>	<u>13,211,410</u>	<u>12,589,998</u>	<u>(621,412)</u>
	EXPENDITURES				
0035	Food service	12,035,228	13,033,758	12,180,513	853,245
0081	Facilities acquisition and construction	-	<u>1,368,250</u>	<u>483,422</u>	<u>884,828</u>
6030	Total expenditures	<u>12,035,228</u>	<u>14,402,008</u>	<u>12,663,935</u>	<u>1,738,073</u>
1200	Net changes in fund balances	1,000,000	(1,190,598)	(73,937)	1,116,661
0100	Fund balance - September 1 (beginning)	<u>4,764,164</u>	<u>4,764,164</u>	<u>4,764,164</u>	<u>-</u>
3000	Fund balance - August 31 (ending)	<u>\$ 5,764,164</u>	<u>\$ 3,573,566</u>	<u>\$ 4,690,227</u>	<u>\$ 1,116,661</u>

**KELLER INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2013**

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES				
5700	Total local and intermediate sources	\$ 56,094,208	\$ 56,094,208	\$ 56,582,160	\$ 487,952
5800	State program revenues	316,288	316,288	384,652	68,364
5020	Total revenues	56,410,496	56,410,496	56,966,812	556,316
	EXPENDITURES				
	Current:				
0071	Debt service	58,327,028	58,327,028	58,408,156	(81,128)
6030	Total expenditures	58,327,028	58,327,028	58,408,156	(81,128)
	Excess (deficiency) of revenues over (under) expenditures	(1,916,532)	(1,916,532)	(1,441,344)	475,188
	OTHER FINANCING SOURCES (USES)				
7911	Issuance of bonds	-	-	85,419,998	85,419,998
7916	Premium or discount on issuance of bonds	-	-	15,269,804	15,269,804
8949	Payment to refunded bond escrow agent	-	-	(99,734,652)	(99,734,652)
7080	Total other financing sources (uses)	-	-	955,150	955,150
1200	Net change in fund balance	(1,916,532)	(1,916,532)	(486,194)	1,430,338
0100	Fund balance - September 1 (beginning)	3,893,876	3,893,876	3,892,876	-
3000	Fund balance - August 31 (ending)	\$ 1,977,344	\$ 1,977,344	\$ 3,406,682	\$ 1,430,338

STATISTICAL SECTION

Statistical Section

This section of the District's comprehensive annual financial report presents information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

Contents

Financial Trends

Schedules 1 - 7

These schedules contain trend information to help the reader understand how the District's financial performance and well being has changed over time.

Revenue Capacity

Schedules 8 - 11

These schedules contain information to help the reader access the District's ability to generate its own source of revenues.

Debt Capacity

Schedules 12 - 15

These schedules present information to help the reader assess the affordability of the District's current level of outstanding debt and the District's ability to issue additional debt in the future.

Demographic and Economic Information

Schedules 16 - 17

These schedules offer demographic and economic indicators to help the reader understand the socioeconomic environment within which the District's financial activities take place and to provide information that facilitates comparisons of financial statement information over time and among governments.

Operating Information

Schedules 18 - 19

These schedules contain operational and structural data to help the readers understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

Keller Independent School District
Net Position by Component, Last Ten Fiscal Years
(accrual basis of accounting)

TABLE I

	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Governmental activities						
Net investment in capital assets	\$ (9,928,901)	\$ (9,337,639)	\$ (8,902,401)	\$ (17,947,640)	\$ (19,985,969)	\$ (33,180,143)
Restricted	4,519,766	4,785,795	2,723,568	2,008,006	2,324,821	8,467,449
Unrestricted	14,141,198	9,265,669	13,535,733	18,942,594	16,612,108	15,707,608
Total primary government net position	<u>\$ 8,732,063</u>	<u>\$ 4,713,825</u>	<u>\$ 7,356,900</u>	<u>\$ 3,002,960</u>	<u>\$ (1,049,040)</u>	<u>\$ (9,005,086)</u>

	Fiscal Year			
	2010	2011	2012	2013
Governmental activities				
Net investment in capital assets	\$ (39,790,063)	\$ (38,159,556)	\$ (43,992,374)	\$ (31,475,706)
Restricted	6,575,067	6,749,910	7,812,705	7,588,984
Unrestricted	12,395,863	23,775,858	50,167,324	49,135,714
Total primary government net position	<u>\$ (20,819,133)</u>	<u>\$ (7,633,788)</u>	<u>\$ 13,987,655</u>	<u>\$ 25,248,992</u>

Keller Independent School District
Expenses, Program Revenues, and Net (Expense)/Revenue
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
Expenses				
Governmental activities				
Instruction	\$ 80,692,773	\$ 87,845,637	\$ 98,587,392	\$111,942,019
Instructional Resources and Media Services	2,721,286	3,124,067	3,393,890	3,507,020
Curriculum and Staff Development	997,670	1,314,983	1,597,141	2,421,519
Instructional Leadership	1,108,848	1,241,687	2,010,123	2,262,844
School Leadership	7,142,795	7,840,229	9,143,670	11,505,689
Guidance, Counseling and Evaluation Services	4,131,299	4,868,569	5,624,412	7,131,813
Social Work Services	42	86,133	150,658	203,993
Health Services	809,888	909,400	1,141,184	1,704,416
Student (Pupil) Transportation	3,016,569	3,477,959	3,896,874	4,178,437
Food Services	6,819,696	7,644,770	8,808,647	8,386,864
Cocurricular/Extracurricular Activities	3,618,896	4,113,254	5,396,992	5,944,813
General Administration	3,790,150	4,011,754	4,275,140	4,686,385
Plant Maintenance and Operations	14,483,278	15,892,561	19,844,895	20,113,567
Security and Monitoring Services	214,075	272,817	328,584	504,895
Data Processing Services	1,519,701	1,656,886	1,963,295	2,149,616
Community Services	770,915	597,578	612,526	440,227
Debt Service - Interest on Long Term Debt	23,026,977	24,377,448	28,420,994	29,834,899
Facilities Acquisition and Construction	702,243	530,778	3,897,189	8,506,584
Shared Services Agreement	-	-	-	-
Juvenile Justice Alternative Ed Program	-	-	-	-
Payments to Tax Increment Fund	750,000	859,641	1,116,700	1,501,599
Total Primary Government Expenses	156,317,101	170,666,151	200,210,306	226,927,199
Program Revenues				
Charges for services				
Instruction	444,481	417,531	6,272,892	6,780,489
Instructional Resources and Media Services	-	-	-	-
Curriculum and Staff Development	193,476	184,144	228,808	-
Instructional Leadership	-	-	-	-
School Leadership	-	-	-	-
Guidance, Counseling and Evaluation Services	-	-	-	-
Social Work Services	-	-	-	-
Health Services	-	-	-	-
Transportation	-	-	-	101,745
Food Services	4,653,640	5,006,506	5,642,148	6,206,636
Cocurricular/Extracurricular Activities	322,574	385,114	667,486	436,407
General Administration	-	-	-	-
Plant Maintenance and Operations	167,816	219,411	-	-
Security and Monitoring Services	-	-	-	-
Data Processing Services	-	-	-	-
Community Services	-	-	-	390,294
Facilities Acquisition and Construction	-	-	-	-
Shared services agreement	-	-	-	-
Payments to Juvenile Justice Alternative Educ	-	-	-	-
Payments to tax increment fund	-	-	-	-
Operating Grants and Contributions	11,627,538	11,427,919	14,247,778	15,612,510
Total Primary Government Program Revenues	17,409,525	17,640,625	27,059,112	29,528,081
Net (Expense)/Revenue				
Total Primary Government Net Expense	\$ (138,907,576)	\$ (153,025,526)	\$ (173,151,194)	\$ (197,399,118)

TABLE II

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 130,853,347	\$ 147,615,180	\$ 160,197,180	\$ 159,641,776	\$ 149,547,022	\$ 158,093,657
3,791,403	4,548,868	3,261,124	3,743,225	3,506,194	3,669,131
3,245,795	3,490,394	3,497,953	2,889,302	2,754,701	2,899,611
2,392,807	2,459,408	2,310,199	2,269,740	2,091,486	2,465,543
12,661,163	13,325,500	13,594,932	14,478,924	14,317,804	15,324,170
7,815,695	8,822,213	9,129,293	10,101,315	10,056,213	10,963,668
224,136	283,831	262,992	279,278	156,066	204,112
1,927,807	2,110,792	2,252,365	2,458,895	3,099,151	3,306,124
5,105,905	6,035,224	6,222,185	6,808,740	5,448,661	5,687,815
9,713,959	10,407,692	10,538,803	10,974,335	12,085,660	12,452,594
6,643,550	7,298,740	8,057,423	8,771,031	7,985,415	8,838,689
4,988,376	6,271,204	5,837,704	5,584,569	8,082,486	6,178,573
22,487,313	18,653,300	21,065,268	14,671,718	18,625,453	20,029,457
756,555	1,154,381	1,468,225	1,675,711	1,299,191	1,591,648
4,053,626	3,639,516	3,379,340	4,380,257	5,227,588	4,960,996
472,403	801,894	1,086,051	1,075,017	1,541,352	1,023,234
32,158,191	31,561,209	39,427,642	41,249,450	33,103,972	38,588,692
3,466,383	-	-	-	-	-
-	3,811,277	3,945,201	3,329,680	3,410,020	3,059,151
-	5,500	-	-	2,375	-
1,097,395	1,831,416	1,925,666	1,750,904	1,732,427	1,973,187
<u>253,855,809</u>	<u>274,127,539</u>	<u>297,459,546</u>	<u>296,133,867</u>	<u>284,073,237</u>	<u>301,310,052</u>
5,304,345	5,657,131	6,315,099	6,309,615	4,795,456	5,153,446
126,865	142,871	119,037	164,173	108,282	103,893
67,640	69,490	94,857	113,478	73,913	89,283
98,478	93,844	103,019	105,594	64,515	75,705
522,364	559,767	600,663	627,088	414,131	469,161
334,565	344,598	411,113	444,807	335,308	410,717
4,521	5,153	5,016	13,266	5,153	6,989
17,488	90,105	99,258	107,640	75,805	91,614
38,860	60,974	42,653	-	182,176	195,915
7,068,398	7,368,464	7,499,282	8,038,128	7,704,516	7,442,377
585,666	667,347	727,064	380,766	839,066	909,624
69,176	160,056	170,883	259,481	170,378	183,971
1,014,592	833,404	825,571	917,800	1,238,443	1,372,248
632	4,426	6,176	72,715	34,634	54,277
67,981	60,163	59,782	174,991	151,902	150,317
497,538	500,131	548,056	646,909	29,857	35,978
69,691	40,245	-	-	-	-
-	-	-	158,544	112,888	96,181
-	-	-	-	79	-
-	-	-	83,370	1,732,427	-
14,532,569	13,532,702	22,629,116	31,969,236	24,161,384	20,475,623
<u>30,421,369</u>	<u>30,190,871</u>	<u>40,256,645</u>	<u>50,587,601</u>	<u>42,230,313</u>	<u>37,317,319</u>
<u>\$ (223,434,440)</u>	<u>\$ (243,936,668)</u>	<u>\$ (257,202,901)</u>	<u>\$ (245,546,266)</u>	<u>\$ (241,842,924)</u>	<u>\$ (263,992,733)</u>

Keller Independent School District
General Revenues and Total Change in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
Net (Expense)/Revenue				
Total primary government net expense	\$ (138,907,576)	\$ (153,025,526)	\$ (173,151,194)	\$ (197,399,118)
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes				
Property Taxes, Levied for General Purposes	84,370,396	95,493,554	106,402,811	110,256,743
Property Taxes, Levied for Debt Service	15,289,556	17,731,285	21,151,865	25,190,201
State Aid - Formula Grants	26,135,711	26,548,589	28,187,060	41,701,262
Grants and Contributions not Restricted	5,485,261	5,280,471	5,096,212	4,840,601
Investment Earnings	1,255,926	2,902,864	7,951,970	11,012,544
Miscellaneous Local and Intermediate Revenue	978,540	1,050,795	1,304,089	43,827
Special Item - Gain on Sale of Capital Assets	-	-	5,699,992	-
Special Item - Lease of Mineral Rights	443,001	-	-	-
Total Primary Government	<u>133,958,391</u>	<u>149,007,558</u>	<u>175,793,999</u>	<u>193,045,178</u>
Change in Net Position				
Total Primary Government	<u>\$ (4,949,185)</u>	<u>\$ (4,017,968)</u>	<u>\$ 2,642,805</u>	<u>\$ (4,353,940)</u>

TABLE III

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ (223,434,440)	\$ (243,936,668)	\$ (257,202,901)	\$ (245,222,381)	\$ (241,842,924)	\$ (263,992,733)
99,265,515	108,794,551	113,892,990	111,315,561	114,660,445	117,999,604
30,153,606	39,240,626	48,657,348	53,168,610	55,758,482	56,616,666
75,667,541	78,938,143	78,839,121	92,872,674	88,208,113	83,578,692
4,247,899	4,685,515	4,686,451	-	-	-
10,047,879	4,110,151	583,181	364,742	436,411	503,704
-	211,636	1,706,719	686,139	4,400,916	16,555,404
-	-	-	-	-	-
-	-	-	-	-	-
<u>219,382,440</u>	<u>235,980,622</u>	<u>248,365,810</u>	<u>258,407,726</u>	<u>263,464,367</u>	<u>275,254,070</u>
<u>\$ (4,052,000)</u>	<u>\$ (7,956,046)</u>	<u>\$ (8,837,091)</u>	<u>\$ 13,185,345</u>	<u>\$ 21,621,443</u>	<u>\$ 11,261,337</u>

Keller Independent School District
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
General Fund				
Nonspendable	\$ -	\$ -	\$ -	\$ -
Assigned	-	-	-	-
Committed	-	-	-	-
Unassigned	-	-	-	-
Reserved	197,409	293,048	141,901	1,340,066
Unreserved	31,433,192	36,106,748	42,038,447	46,336,853
Total General Fund	\$ 31,630,601	\$ 36,399,796	\$ 42,180,348	\$ 47,676,919
All Other Governmental Funds				
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted	35,035,724	117,592,326	56,939,101	170,167,059
Committed	70,299	65,728	1,666,753	2,023,295
Total All Other Governmental Funds	\$ 35,106,023	\$ 117,658,054	\$ 58,605,854	\$ 172,190,354
Total Governmental Funds	\$ 66,736,624	\$ 154,057,850	\$ 100,786,202	\$ 219,867,273

TABLE IV

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ -	\$ -	\$ -	\$ 478,717	\$ 507,277	\$ 1,220,509
-	-	-	2,135,000	2,233,000	3,538,000
-	-	-	39,821,169	42,951,888	45,962,311
-	-	-	21,704,248	37,287,784	27,599,602
1,449,859	1,532,963	1,734,879	-	-	-
46,355,894	44,972,848	50,591,988	-	-	-
<u>\$ 47,805,753</u>	<u>\$ 46,505,811</u>	<u>\$ 52,326,867</u>	<u>\$ 64,139,134</u>	<u>\$ 82,979,949</u>	<u>\$ 78,320,422</u>
\$ -	\$ -	\$ -	\$ 3,820,273	\$ 203,371	\$ 136,188
92,983,867	159,330,604	84,315,947	7,653,724	8,662,864	8,229,583
2,106,586	2,358,333	2,971,732	47,466,171	43,344,629	47,569,680
<u>\$ 95,090,453</u>	<u>\$ 161,688,937</u>	<u>\$ 87,287,679</u>	<u>\$ 58,940,168</u>	<u>\$ 52,210,864</u>	<u>\$ 55,935,451</u>
<u>\$ 142,896,206</u>	<u>\$ 208,194,748</u>	<u>\$ 139,614,546</u>	<u>\$ 123,079,302</u>	<u>\$ 135,190,813</u>	<u>\$ 134,255,873</u>

Keller Independent School District
Governmental Funds Revenues
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
Distributed by TEA	\$ 1,247,429	\$ 1,437,444	\$ 1,640,373	\$ 1,985,730
Distributed by other State of Texas Government Agencies	3,737	10,293	1,677	9,477
Distributed directly from the Federal Government	3,437,090	2,968,088	3,894,030	3,497,039
Total federal sources	4,688,256	4,415,825	5,536,080	5,492,246
State sources:				
Per capita and foundation school program act revenues	31,331,810	31,613,794	33,405,420	48,147,830
Program revenues distributed by TEA	1,284,485	1,223,344	1,297,241	1,431,086
Revenues from State of Texas Government Agencies	5,943,959	6,004,016	7,292,309	7,083,211
Total state sources	38,560,254	38,841,154	41,994,970	56,662,127
Local and intermediate sources:				
Real and personal property taxes	100,119,263	113,592,771	132,482,334	134,740,395
Tuition and fees	444,481	416,720	438,801	466,045
Other revenues	1,706,623	4,130,942	8,654,769	17,281,608
Cocurricular, enterprising services or activities	4,946,798	5,391,620	7,515,731	6,643,043
Intermediate sources	4,922	50	413	1,757
Total local and intermediate sources	107,222,087	123,532,103	149,092,048	159,132,848
Total revenues	\$ 150,470,597	\$ 166,789,082	\$ 196,623,098	\$ 221,287,221

TABLE V

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 2,388,359	\$ 2,901,556	\$ 3,500,740	\$ 19,511,673	\$ 11,831,059	\$ 7,296,537
33,815	33,808	-	3,423,621	4,404,830	5,140,284
3,913,060	6,794,383	17,567,415	679,717	198,346	253,235
<u>6,335,234</u>	<u>9,729,747</u>	<u>21,068,155</u>	<u>23,615,011</u>	<u>16,434,235</u>	<u>12,690,056</u>
82,130,671	81,074,303	78,839,121	93,111,147	88,298,739	83,578,692
1,239,341	1,772,973	1,631,654	1,749,313	10,509,894	9,791,808
7,488,381	7,612,709	8,600,792	9,409,975	51,501	-
<u>90,858,393</u>	<u>90,459,985</u>	<u>89,071,567</u>	<u>104,270,435</u>	<u>98,860,134</u>	<u>93,370,500</u>
130,365,048	146,468,671	161,844,911	165,451,751	172,484,714	174,381,741
389,982	347,508	316,339	353,426	198,843	131,243
15,326,676	11,268,146	8,210,040	6,279,085	9,626,893	24,715,810
7,506,213	8,077,074	8,172,591	9,298,060	8,360,630	5,437,179
-	-	-	-	-	-
<u>153,587,919</u>	<u>166,161,399</u>	<u>178,543,881</u>	<u>181,382,322</u>	<u>190,671,080</u>	<u>204,665,973</u>
<u>\$ 250,781,546</u>	<u>\$ 266,351,131</u>	<u>\$ 288,683,603</u>	<u>\$ 309,267,768</u>	<u>\$ 305,965,449</u>	<u>\$ 310,726,529</u>

Keller Independent School District
Governmental Funds Expenditures and Debt Service Ratio
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
Instruction	\$ 75,913,719	\$ 81,246,374	\$ 91,164,573	\$ 104,424,666
Instructional Resources and Media Services	2,380,961	2,704,874	2,936,748	3,304,523
Curriculum and Instructional Staff Development	992,822	1,309,945	1,575,360	2,414,188
Instructional Leadership	1,110,848	1,225,140	1,983,745	2,254,022
School Leadership	7,034,206	7,587,537	8,824,912	10,281,519
Guidance, Counseling and Evaluation Services	4,092,651	4,752,876	5,466,104	6,483,117
Social Work Services	42	86,133	150,658	203,993
Health Services	790,842	865,369	1,102,324	1,532,247
Student (Pupil) Transportation	3,004,979	3,447,528	3,866,442	4,176,311
Food Services	6,137,001	6,783,121	7,852,329	8,253,263
Cocurricular/Extracurricular Activities	3,400,984	3,878,412	5,144,197	5,730,968
General Administration	3,692,103	3,880,480	4,110,583	4,645,167
Facilities Maintenance and Operations	14,744,271	15,917,171	19,985,810	19,715,511
Security and Monitoring Services	214,075	396,791	325,805	500,381
Data Processing Services	1,507,437	1,645,511	1,715,718	2,237,898
Community Services	585,115	411,647	429,011	438,107
Debt Service				
Principal	2,196,853	5,630,498	4,913,597	8,197,688
Interest	19,092,905	18,962,414	23,269,220	28,227,427
Bond Issuance Cost and Fees	11,029	2,161,419	2,462,538	2,025,772
Facilities Acquisition and Construction	32,390,682	18,865,241	69,660,220	30,876,722
Shared Services Agreement	-	-	-	-
Juvenile Justice Alternative Education Program	-	-	-	-
Payments to Tax Increment Fund	750,000	859,641	1,116,700	1,501,599
Total Expenditures	\$ 180,043,525	\$ 182,618,122	\$ 258,056,594	\$ 247,425,089
Debt Service as a Percentage of Noncapital Expenditures	14.42%	15.02%	14.96%	16.82%

TABLE VI

Fiscal Year

2008		2009		2010		2011		2012		2013	
\$	123,238,031	\$	137,966,424	\$	143,731,660	\$	147,728,382	\$	137,478,868	\$	144,563,470
	3,609,718		4,023,598		3,073,705		3,509,334		3,178,713		3,345,419
	3,234,342		3,307,415		3,398,086		2,868,473		2,130,562		2,465,712
	2,388,084		2,330,351		2,293,997		2,226,975		1,886,237		2,112,412
	11,626,540		12,607,682		12,614,563		13,210,075		12,555,229		13,671,533
	7,247,584		8,359,238		8,699,241		9,471,451		9,271,339		10,224,865
	224,177		268,954		263,532		278,615		155,656		202,973
	1,767,584		1,999,997		2,106,395		2,262,925		2,287,508		2,683,242
	5,106,034		5,719,227		6,223,306		6,807,858		5,447,852		5,687,815
	9,679,025		9,862,758		10,601,047		10,893,263		11,502,826		12,180,602
	6,415,289		6,495,765		7,311,068		8,269,409		7,015,477		8,158,341
	5,006,260		5,615,508		5,220,506		5,480,294		7,432,120		5,583,815
	22,382,711		18,104,552		18,753,283		19,377,794		17,722,083		19,531,372
	752,179		979,151		1,220,503		1,542,978		1,080,540		1,694,051
	4,070,647		2,331,712		1,852,169		3,675,083		4,590,653		4,390,347
	469,717		765,056		895,726		852,899		691,259		828,185
	9,751,128		10,030,963		9,650,999		12,756,706		12,694,742		14,508,842
	31,661,335		34,443,024		41,994,683		42,447,453		44,192,957		42,948,531
	-		1,509,659		464,129		167,667		87,034		950,783
	78,024,833		77,956,170		71,488,717		27,066,197		7,392,685		11,851,971
	-		3,811,277		3,945,201		3,329,680		3,410,020		3,059,151
	-		5,500		-		-		2,375		-
	1,097,395		1,831,416		1,925,666		1,750,904		1,732,427		1,973,187
\$	327,752,613	\$	350,325,397	\$	357,728,182	\$	325,974,415	\$	293,939,162	\$	312,616,619
	16.58%		16.33%		18.04%		18.47%		19.85%		19.10%

Keller Independent School District
Other Financing Sources and Uses and Net Change in Fund Balances
Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2004	2005	2006	2007
Excess of Revenues Over (Under) Expenditures	\$ (29,572,928)	\$ (15,829,040)	\$ (61,433,496)	\$ (26,137,868)
Other Financing Sources (Uses)				
General Long-term Debt Issued	-	215,504,961	89,844,973	201,219,980
Sale of Real or Personal Property	-	-	6,838,452	-
Transfers In	-	-	2,412,851	4,819,805
Premium or Discount on Issuance of Bonds	-	15,009,082	2,966,015	9,059,177
Prepaid Interest	-	910,450	357,441	947,569
Lease of Mineral Rights	443,001	-	-	-
Other Resources	-	-	2,009	-
Transfers Out	-	-	(2,412,851)	(4,819,805)
Payment to Bond Refunding Escrow Agent	-	(128,274,227)	(91,847,042)	(66,007,787)
Other (Uses)	-	-	-	-
Total Other Financing Sources (Uses)	<u>443,001</u>	<u>103,150,266</u>	<u>8,161,848</u>	<u>145,218,939</u>
Net Change in Fund Balances	<u>\$ (29,129,927)</u>	<u>\$ 87,321,226</u>	<u>\$ (53,271,648)</u>	<u>\$ 119,081,071</u>

TABLE VII

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ (76,971,067)	\$ (83,974,266)	\$ (69,044,579)	\$ (16,706,647)	\$ 12,026,287	\$ (1,890,090)
-	153,419,950	30,809,991	9,445,000	2,710,000	85,419,998
-	-	-	-	-	-
7,093,543	6,198,732	-	-	-	-
-	7,084,810	1,159,821	530,449	200,974	15,269,804
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(7,093,543)	(6,198,732)	-	-	-	-
-	(11,231,952)	(31,505,435)	(9,804,046)	(2,825,750)	(99,734,652)
-	-	-	-	-	-
-	149,272,808	464,377	171,403	85,224	955,150
<u>\$ (76,971,067)</u>	<u>\$ 65,298,542</u>	<u>\$ (68,580,202)</u>	<u>\$ (16,535,244)</u>	<u>\$ 12,111,511</u>	<u>\$ (934,940)</u>

**Keller Independent School District
Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years**

TABLE VIII

Fiscal Year	Assessed Value		Less: Tax-Exempt Property	Total Taxable Assessed ^a Value	Total Direct Tax Rate ^b	Estimated Actual Taxable ^c Value	Taxable Assessed Value as a Percentage of Actual Taxable Value
	Real Property	Personal Property					
2004	6,132,198,140	335,053,310	904,659,781	5,562,591,669	1.6762	6,467,251,450	86.01%
2005	6,827,042,441	373,099,995	940,691,330	6,259,451,106	1.6975	7,200,142,436	86.94%
2006	7,548,914,822	385,852,182	1,002,608,350	6,932,158,654	1.7158	7,934,767,004	87.36%
2007	8,686,272,201	411,634,404	1,083,891,412	8,014,015,193	1.6080	9,097,906,605	88.09%
2008	10,166,073,644	461,656,910	1,145,215,956	9,482,514,598	1.3574	10,627,730,554	89.22%
2009	10,833,000,112	510,021,252	1,130,477,403	10,212,543,961	1.4169	11,343,021,364	90.03%
2010	11,251,605,888	571,747,425	1,304,367,719	10,518,985,594	1.4863	11,823,353,313	88.97%
2011	11,695,681,740	703,851,758	1,561,524,498	10,838,009,000	1.5306	12,399,533,498	87.41%
2012	12,079,424,023	665,686,946	1,544,472,846	11,200,638,123	1.5400	12,745,110,969	87.88%
2013	12,222,225,208	732,942,046	1,651,312,494	11,303,854,760	1.5400	12,955,167,254	87.25%

Source: Tarrant County Tax Appraisal District

Notes:

^aMarket valule less exemptions

^bPer \$100 of assessed valuation

^cMarket value

**Keller Independent School District
Property Tax Rates for Direct and Overlapping Governments
Last Ten Fiscal Years**

TABLE IX

(rate per \$100 of assessed value)

Fiscal Year	District Direct Rates			Overlapping Government Rates ^a				
	Operating	Debt Service	Total	Tarrant County	Tarrant Co. Hospital District	Tarrant County College	City of Colleyville	City of Fort Worth
2004	1.4213	0.2549	1.6762	0.27250	0.23240	0.13938	0.34740	0.86500
2005	1.4336	0.2639	1.6975	0.27250	0.23540	0.13938	0.34740	0.86500
2006	1.4336	0.2822	1.7158	0.27250	0.23540	0.13938	0.34740	0.86000
2007	1.3111	0.2969	1.6080	0.27250	0.23540	0.13938	0.34740	0.86000
2008	1.0400	0.3174	1.3574	0.26650	0.23040	0.13938	0.35590	0.85500
2009	1.0400	0.3769	1.4169	0.26400	0.22790	0.13796	0.35590	0.85500
2010	1.0400	0.4463	1.4863	0.26400	0.22790	0.13767	0.35590	0.85500
2011	1.0400	0.4906	1.5306	0.26400	0.22790	0.13764	0.35590	0.85500
2012	1.0400	0.5000	1.5400	0.26400	0.22790	0.14897	0.35590	0.85500
2013	1.0400	0.5000	1.5400	0.26400	0.22790	0.14897	0.35590	0.85500

Fiscal Year	Overlapping Government Rates ^a				
	City of Haltom City	City of Keller	City of North Richland Hills	City of Southlake	City of Watauga
2004	0.52095	0.43800	0.57000	0.46200	0.58076
2005	0.54173	0.44413	0.57000	0.46200	0.58076
2006	0.55760	0.44413	0.57000	0.46200	0.58076
2007	0.55760	0.43219	0.57000	0.46200	0.58076
2008	0.59830	0.43219	0.57000	0.46200	0.58076
2009	0.59830	0.43219	0.57000	0.46200	0.58076
2010	0.59830	0.44219	0.57000	0.46200	0.58076
2011	0.64637	0.44219	0.57000	0.46200	0.58076
2012	0.65174	0.44219	0.57000	0.46200	0.58900
2013	0.65174	0.44219	0.61000	0.46200	0.59122

Note:

^aIncludes levies for operating and debt service costs

**Keller Independent School District
Principal Property Taxpayers
Current Year and Ten Years Ago**

TABLE X

<u>Taxpayer</u>	<u>2013</u>			<u>2004</u>		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Taxable Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Taxable Value</u>
FMR Texas LP	\$ 129,645,077	1	1.1469%	\$ 101,597,793	1	1.7227%
Kroger Co	109,359,229	2	0.9675%	41,795,757	4	0.7087%
Alliance Town Center LP	65,002,200	3	0.5750%			
Wal-Mart Stores Texas LP	64,066,207	4	0.5668%	38,990,870	5	0.6611%
Fidelity Investments Inc	41,552,790	5	0.3676%			
Oncor Electric Delivery Co LLC	40,613,188	6	0.3593%	34,301,563	6	0.5816%
North Beach TX Partners LLC	37,900,000	7	0.3353%			
SC Dominion SPE LLC	32,680,000	8	0.2891%			
Hillwood Monterra Lp	30,556,922	9	0.2703%			
Sw Fossil Creek Apt LP	29,000,000	10	0.2565%	22,009,600	7	0.3732%
Corning Cable Systems LLC	-		-	45,150,247	3	0.7656%
Albertson's Inc.	-		-	20,671,930	9	0.3505%
Amlı residential Property	-		-	20,797,495	8	0.3526%
Regency Conversions, Inc	-		-	58,207,745	2	0.9870%
Pr Town Center, Lp	-		-	18,900,000	10	0.3205%
Subtotal	\$ 580,375,613		5.1343%	\$ 402,423,000		6.8236%
All other taxpayers	10,723,479,147		94.8657%	5,495,120,422		93.1764%
	<u>\$ 11,303,854,760</u>		<u>100.0000%</u>	<u>\$ 5,897,543,422</u>		<u>100.0000%</u>

Source: Tarrant Appraisal District

**Keller Independent School District
Property Tax Levies and Collections
Last Ten Fiscal Years**

TABLE XI

Fiscal Year	Taxes Levied for the Fiscal year	Current Tax Collections	Percent of Levy Collected	Total Tax Revenues Current and Delinquent	Total Tax Revenues as a % of Current Levy	Outstanding Delinquent Taxes	Outstanding Delinquent Taxes as a % of Tax Levy
2004	\$ 99,145,959	\$ 97,873,929	98.72%	\$ 99,201,985	100.06%	\$ 2,599,720	2.62%
2005	112,524,886	111,436,784	99.03%	113,425,644	100.80%	2,189,212	1.95%
2006	127,412,793	126,233,010	99.07%	127,498,039	100.07%	2,482,717	1.95%
2007	135,001,309	133,308,212	98.75%	134,817,490	99.86%	3,558,364	2.64%
2008	127,758,173	126,471,104	98.99%	129,094,185	101.05%	2,297,129	1.80%
2009	147,374,611	145,996,374	99.06%	147,146,445	99.85%	2,536,648	1.72%
2010	162,025,597	160,286,383	98.93%	161,200,416	99.49%	3,221,169	1.99%
2011	165,224,552	163,908,760	99.20%	165,218,029	100.00%	3,289,762	1.99%
2012	170,061,879	169,139,007	99.46%	171,372,351	100.77%	2,736,477	1.61%
2013	171,779,167	172,379,024	100.35%	172,379,024	100.35%	2,638,452	1.54%

Source: Tarrant County Tax Office

Notes: This schedule includes operating and debt service tax revenues.

**Keller Independent School District
Outstanding Debt by Type
Last Ten Fiscal Years**

TABLE XII

Governmental Activities

Fiscal Year	Bonds Payable	Total Primary Government	Percentage of Personal Income^a	Estimated Population	Per Capita^a	Ratio of Net Bonded Debt to Estimated Actual Property Value^b
2004	\$ 398,883,518	\$ 398,883,518	0.39%	33,112	12,471	16.21
2005	489,492,981	489,492,981	0.46%	34,224	15,303	14.71
2006	484,579,357	484,579,357	0.44%	36,328	13,649	16.37
2007	612,851,650	612,851,650	0.48%	37,700	16,360	14.85
2008	603,100,522	603,100,522	0.43%	38,701	19,105	17.76
2009	735,369,508	735,369,508	0.53%	39,450	20,939	16.04
2010	725,718,509	725,718,509	0.49%	39,675	19,331	17.26
2011	712,856,767	712,856,767	0.47%	40,604	37,522	17.58
2012	700,087,012	700,087,012	0.40%	40,790	43,019	20.20
2013	681,493,165	681,493,165	0.35%	41,923	46,905	19.01

Notes:

^aSee Schedule 15 for personal income, per capita and population data.

^bSee Schedule VIII for estimated actual property value.

**Keller Independent School District
Direct and Overlapping Governmental Activities Debt
As of August 31, 2013**

TABLE XIII

<u>Governmental Unit</u>	<u>Total Tax Supported Debt as of 03/07/12^a</u>	<u>Estimated Percentage Applicable^b</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
City of Colleyville	\$ 12,900,000	9.06%	\$ 1,168,740
City of Fort Worth	855,090,000	10.09%	86,278,581
City of Haltom City	63,180,000	4.49%	2,836,782
City of Hurst	62,375,000	1.29%	804,638
City of Keller	92,286,893	97.96%	90,404,241
City of North Richland Hills	116,915,000	11.52%	13,468,608
City of Southlake	155,255,000	4.99%	7,747,225
City of Watauga	23,325,000	38.95%	9,085,088
Town of Westlake	30,212,000	53.94%	16,296,353
Tarrant County	301,585,000	9.07%	27,353,760
Tarrant Co. Hospital District	25,375,000	9.07%	2,301,513
Tarrant Co. College District	15,485,000	9.07%	1,404,490
Subtotal, Overlapping Debt			\$ 259,150,015
District Direct Debt			<u>681,493,165</u>
Total Direct and Overlapping Debt			<u><u>\$ 940,643,180</u></u>
Ratio of Total Direct and Overlapping Debt to Assessed Valuation			<u><u>8.33%</u></u>
Per Capita Overlapping Debt			<u><u>\$ 6,098</u></u>

a Each Individual Governmental Unit provided data

**Keller Independent School District
 Legal Debt Margin Information
 Last Ten Fiscal Years**

	Fiscal Year			
	2004	2005	2006	2007
Assessed value ^a	\$ 5,562,591,669	\$ 6,259,451,106	\$ 6,932,158,654	\$ 8,014,015,193
Debt Limit ^b	556,259,167	625,945,111	693,215,865	801,401,519
Amount of debt applicable to debt limit:				
Total bonded debt	398,883,518	489,492,981	484,579,357	612,851,650
Less: Reserve for debt service	<u>3,977,470</u>	<u>4,608,114</u>	<u>4,608,114</u>	<u>4,741,309</u>
Total net debt applicable to limit	<u>394,906,048</u>	<u>484,884,867</u>	<u>479,971,243</u>	<u>608,110,341</u>
Legal debt margin	<u>\$ 161,353,119</u>	<u>\$ 141,060,244</u>	<u>\$ 213,244,622</u>	<u>\$ 193,291,178</u>
Total net debt applicable to the limit as a percentage of debt limit.	70.99%	77.46%	69.24%	75.88%

Notes:

^aMarket value less exemptions

^bThis percentage is in accordance with the recommendations of the Texas Education Agency as stated in the Texas Education Code, Bulletin 721, Sec. 20.04.

TABLE XIV

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 9,482,514,598	\$ 10,212,543,961	\$ 10,518,985,594	\$ 10,838,009,000	\$ 11,200,638,123	\$ 11,303,854,760
948,251,460	1,021,254,396	1,051,898,559	1,083,800,900	1,120,063,812	1,130,385,476
603,100,522	735,369,508	725,718,509	712,856,767	700,087,012	681,493,165
5,066,051	6,689,998	5,167,382	3,820,031	3,892,876	3,406,682
<u>598,034,471</u>	<u>728,679,510</u>	<u>720,551,127</u>	<u>709,036,736</u>	<u>696,194,136</u>	<u>678,086,483</u>
<u>\$ 350,216,989</u>	<u>\$ 292,574,886</u>	<u>\$ 331,347,432</u>	<u>\$ 374,764,164</u>	<u>\$ 423,869,676</u>	<u>\$ 452,298,993</u>
63.07%	71.35%	68.50%	65.42%	62.16%	59.99%

**Keller Independent School District
Demographic and Economic Statistics
Last Ten Calendar Years**

TABLE XV

<u>Calendar Year</u>	<u>Population^a</u>	<u>Personal Income^b</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate^c</u>
2004	33,112	\$ 1,059,120,432	\$ 31,986	4.10%
2005	34,224	1,094,688,864	\$ 31,986	3.40%
2006	36,328	1,289,716,656	\$ 35,502	3.20%
2007	37,700	1,412,242,000	\$ 37,460	3.40%
2008	38,701	1,221,674,467	\$ 31,567	4.10%
2009	39,450	1,385,484,000	\$ 35,120	5.70%
2010	39,675	1,489,439,175	\$ 37,541	6.50%
2011	40,604	1,523,543,288	\$ 37,522	8.50%
2012	40,790	1,754,745,010	\$ 43,019	7.30%
2013	41,923	1,966,398,315	\$ 46,905	6.40%

Notes:

All information above is for the Keller municipal area.

Sources:

^aU.S. Census Bureau, North Central Texas Council of Governments

^bU.S. Department of Commerce, Bureau Of Economic Analysis.

^cTexas Workforce Commission

**Keller Independent School District
Principal Employers
Current Year and Ten Years Ago**

TABLE XVI

<u>Employer</u>	2013			2004	
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Employment</u>	<u>Employees</u>	<u>Rank</u>
AMR Corporation	24,890	1	49.77%	N/A	
Bell Helicopter	3,825	2	7.65%	N/A	
Fidelity Investments	3,700	3	7.40%	N/A	
Keller ISD	3,794	4	7.59%	N/A	
ATC Logistics	3,315	5	6.63%	N/A	
BNSF Railway	3,250	6	6.50%	N/A	
Sabre Holdings	2,532	7	5.06%	N/A	
Dallas/Fort Worth Airport	1,600	8	3.20%	N/A	
Healthmarkets	1,600	9	3.20%	N/A	
Gaylord Texan Resort	1,500	10	3.00%	N/A	
	<u>50,006</u>		<u>100%</u>	<u>N/A</u>	

Source: City of Keller

Note: Information for principal employers within the District was not available for 2004.

Keller Independent School District
 Full-Time-Equivalent District Employees by Type
 All Funds
 Last Ten Fiscal Years

TABLE XVII

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Percentage Change 2004-2013
Supervisory											
Instructional administrators	6	7	7	12	15	14	15.5	15.5	12.5	12.5	108.3%
Noninstructional administrators	19	20	28	36	38	40	46.5	46.5	39.5	43.5	128.9%
Consultants/supervisors of instruction	3	6	8	14	13	12	19.5	19.5	9.5	8.5	183.3%
Principals	25	27	28	33	34	35	36	39	39	39	56.0%
Assistant Principals	36	41	45	52	63	66	62	65	66	66	83.3%
Total supervisory	89	101	116	147	163	167	180	186	167	170	90.4%
Instruction											
Elementary classroom teachers	723	810	866	960	1050	1092	1130	1120	1097	1117.33	54.5%
Secondary classroom teachers	536	588	641	705	732	752	822	884	798	787.44	46.9%
Other teachers (adult)	-	-	-	-	-	-	-	-	-	-	0.0%
Other professionals (instructional)	69	77	83	88	88	95	85	83	73	79	14.5%
Aides	244	264	283	320	297	260	301.75	303.5	277.5	283	16.0%
Total Instruction	1,572	1,739	1,873	2,073	2,167	2,199	2,339	2,391	2,246	2,267	44.2%
Student Services											
Guidance counselors	41	48	58	59	59	74.5	74.5	78.5	78	82	100.0%
Visiting teacher/social workers	1	1	1	3	1	1	2	2	2	2	100.0%
Psychologists	3	3	3	7	7	7	7	8	8	8	166.7%
Librarians	22	25	26	31	32	35	36	37	38	38	72.7%
Other professionals (noninstructional)	25	27	28	36	49	53	69.5	78	78.5	83.5	234.0%
Technicians	20	22	20	29	32	31	30	30	0	0	-100.0%
Total student services	112	126	136	165	180	202	219	234	205	214	90.6%
Support and Administration											
Clerical/secretarial	76	85	96	100	264	281	262	297	203.5	205.5	170.4%
Service workers	212	227	242	285	289	290	250	256	271	271	27.8%
Skilled crafts	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Unskilled Laborers	180	219	231	262	269	275	271	318	318	318	76.7%
Total support and administration	468	531	569	647	822	846	783	871	793	795	69.8%
Total	2,241	2,497	2,694	3,032	3,332	3,414	3,520	3,681	3,409	3,444	53.7%

Source: Keller Independent School District records.

**Keller Independent School District
Operating Statistics,
Last Ten Fiscal Years**

TABLE XVIII

Fiscal Year	Peak Enrollment	Operating Expenditures	Cost per Pupil	Teaching Staff	Pupil-Teacher Ratio	Percentage of Students Receiving Free or Reduced-Price Meals
2004	21,804	\$ 125,602,056	\$ 5,761	1,259	17.3	11.65%
2005	23,757	136,532,247	5,747	1,398	17.0	12.69%
2006	25,873	156,590,581	6,052	1,507	17.2	13.08%
2007	27,905	176,492,509	6,325	1,665	16.8	14.38%
2008	29,424	194,800,822	6,620	1,782	16.5	15.88%
2008	29,424	194,800,822	6,620	1,782	16.5	15.88%
2009	30,299	192,347,154	6,348	1,908	15.9	18.00%
2010	31,569	206,804,154	6,551	1,952	16.2	18.75%
2011	32,469	205,281,451	6,322	1,981	16.4	20.40%
2012	33,130	216,592,510	6,538	1,871	17.7	21.47%
2013	33,423	236,713,295	7,082	1,940	17.2	21.82%

Note: Expenditures for computing per pupil cost are a total of actual expenditures as prescribed by the Texas Education Agency's Financial Accountability System Resource Guide. These include the General and Special Revenue Funds, excluding objects of Debt Service, Capital Outlay and Intergovernmental Charges.

Source: Nonfinancial information from district records.

**Keller Independent School District
 Building Information
 Last Ten Fiscal Years**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>Schools</u>				
<u>Elementary</u>				
Buildings	13	15	16	18
Square feet	1,026,844	1,189,644	1,269,873	1,432,873
Capacity	9,726	11,248	11,948	13,470
Enrollment	8,745	9,720	10,795	11,853
<u>Middle</u>				
Buildings	8	8	8	10
Square feet	1,032,858	1,032,858	1,032,858	1,295,858
Capacity	8,831	8,831	8,831	10,710
Enrollment	5,162	5,545	5,929	6,435
<u>High</u>				
Buildings	4	4	4	4
Square feet	1,128,974	1,128,974	1,128,974	1,128,974
Capacity	7,207	7,207	7,500	7,500
Enrollment	5,896	6,491	7,149	7,617
<u>Administrative</u>				
Buildings	2	2	2	2
Square feet	84,566	84,566	84,566	84,566
<u>Athletics</u>				
Stadiums	9	9	11	11
Football/soccer/play fields	34	35	39	40
Running tracks	7	7	8	8
Baseball/softball	12	12	12	12
Natatorium	1	1	1	1

TABLE XIX

Fiscal Year					
<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
19	21	21	22	22	22
1,516,623	1,684,123	1,684,123	1,744,123	1,744,123	1,744,123
14,170	15,570	15,570	16,170	16,170	16,170
12,228	12,330	12,774	12,805	13,292	13,033
10	10	10	11	11	11
1,295,858	1,295,858	1,295,858	1,478,683	1,478,683	1,478,683
10,710	10,710	10,710	11,910	11,910	11,910
8,388	10,021	10,119	10,393	10,656	10,595
4	4	5	5	5	5
1,128,974	1,128,974	1,578,974	1,578,974	1,578,974	1,578,974
7,500	7,500	10,000	10,000	10,000	10,000
7,956	8,467	8,675	9,272	9,635	9,795
2	2	2	3	3	3
84,566	84,566	84,566	119,566	119,566	119,566
11	11	12	13	13	13
41	43	44	45	45	45
8	8	9	10	10	10
12	12	13	14	14	14
1	1	1	1	1	1

FEDERAL AWARDS SECTION



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Keller Independent School District
Keller, Texas

We have audited, in accordance with the 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, the 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, 2013, and the related notes to the financial statements, which collectively comprise Keller Independent School District's basic financial statements, and have issued our report thereon dated January 16, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Keller Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Keller Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Keller Independent School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keller Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 13-01.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
January 16, 2014



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-
133.

Board of Trustees
Keller Independent School District
Keller, Texas

Report on Compliance for Each Major Federal Program

We have audited Keller Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Keller Independent School District's major federal programs for the year ended August 31, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Keller Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Keller Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Keller Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013.

Report on Internal Control over Compliance

Management of Keller Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Keller Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Keller Independent School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
January 16, 2014

**KELLER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2013**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
<i>ESEA Title I, Part A Improving Basic Programs</i> ⁽¹⁾	84.010A	13610101220907	\$ 1,563,473
<i>ESEA Title IV, Part A - Safe and Drug Free School and Communities IDEA-B Formula</i> ⁽²⁾	84.186	09691001220907	-
<i>IDEA-B Formula</i> ⁽²⁾	84.027A	136600012209076600	4,896,135
<i>IDEA-B Preschool Grant</i> ⁽²⁾	84.173A	136610012209076610	54,556
<i>Carl D. Perkins Basic Formula Grant</i>	84.048A	13420006220907	215,469
<i>ESEA Title II, Part A Teacher/Principal Training/Recruiting</i>	84.367A	13694501220907	326,675
<i>ESEA Title III, Part A English Language Acquisition- Summer LEP</i>	84.369A	69551202	10,038
<i>ESEA Title III, Part A English Language Acquisition</i>	84.365A	13671001220907	230,191
Passed Through Education Service Center, Region XI:			
<i>Preschool Least Restrictive Environment Initiative*</i>	84.173	07661022712	-
Total U.S. Department of Education			<u>7,296,537</u>
Passed through State Department of Agriculture:			
<i>National School Breakfast Program</i> ⁽³⁾	10.553	71401201	584,071
<i>National School Lunch Program</i> ⁽³⁾	10.555	71301201	3,484,681
<i>National School Lunch Program - Non-cash Assistance</i> ⁽³⁾	10.555	71301201	726,126
Total U.S. Department of Agriculture			<u>4,794,878</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 12,091,415</u></u>

(1) Reported as Title I, Part A Cluster, as required by Compliance Supplement March 2013

(2) Reported as Special Education Cluster, as required by Compliance Supplement March 2013

(3) Reported as Child Nutrition Cluster, as required by Compliance Supplement March 2013

(4) SHARS not considered federal financial assistance subject to requirements in accordance with OMB Circular A-133

Note 1: The schedule 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 State, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: The District participates in numerous state and federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2013, may be impaired. In the opinion of the District, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying financial statements for such contingencies. Generally, unused balances are returned to the grantor at the close of specified project periods.

Note 3: Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the commodities received and disbursed. At August 31, 2013, the District had food commodities totaling \$726,126.

**KELLER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2013**

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
- Significant deficiencies 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
- Significant deficiencies 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:

84.010*	ESEA Title I, Part A Improving Basic Programs
10.553**	National School Breakfast Program
10.555**	National School Lunch Program
10.555**	National School Lunch Program – Non-cash Assistance

* Title I, Part A Cluster
** Child Nutrition Cluster

- Dollar threshold used to distinguish between type A and type B programs? \$362,742

Auditee qualified as low-risk auditee? Yes No

**KELLER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2013**

SECTION II – FINANCIAL STATEMENT FINDINGS

Other Matter

13-01 **Condition:** The District had uncollateralized cash in the amount of \$3,459,341 during August 2013.

Criteria: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The fair value of the pledged securities in the collateral pool must equal at least the bank balances less the FDIC insurance at all times.

Cause: A security purchase transaction did not clear the bank as anticipated, leaving a larger than expected cash balance.

Effect: The District was not in compliance with the PFIA.

Recommendation: The District should continue to closely monitor their cash balance and activity to ensure sufficient collateral is present at all times.

View of Responsible Officials: See Corrective Action Plan

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

**KELLER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2013**

There were no findings report in the prior year.

**KELLER INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2013**

Finding 13-01

Corrective Action:

The district currently has a procedure to monitor cash and ensure the proper collateralization is in place each and every day. On this particular day, August 15, 2013, a security in the amount of \$4 million matured, and the funds were placed in the district's depository account. These funds were to be used to purchase a new security on the same day, so the funds remained in the account to be available for the purchase later that day. This is normally a routine transaction which processes without issue.

Since the \$4 million were expected to be withdrawn from the account that same day to purchase the new security, district staff requested collateralization for the depository bank balance less the \$4 million by the 11:00 a.m. deadline required by our depository. However, the district's third party investment advisors did not deliver the security to be purchased later that day as promised. There was no notification to the district from either the investment advisors or the depository bank that the transaction did not take place that day. Although the purchase of the security settled the next morning, August 16, with an effective date of August 15, the funds remained, partially uncollateralized, in the district's account overnight.

The Director of finance is responsible for monitoring controls to ensure that the district's deposits are fully collateralized at all times during the year. The district immediately began working with the third party investment advisor to establish improved communication during these transactions. Revised procedures were implemented as of December 31, 2013.