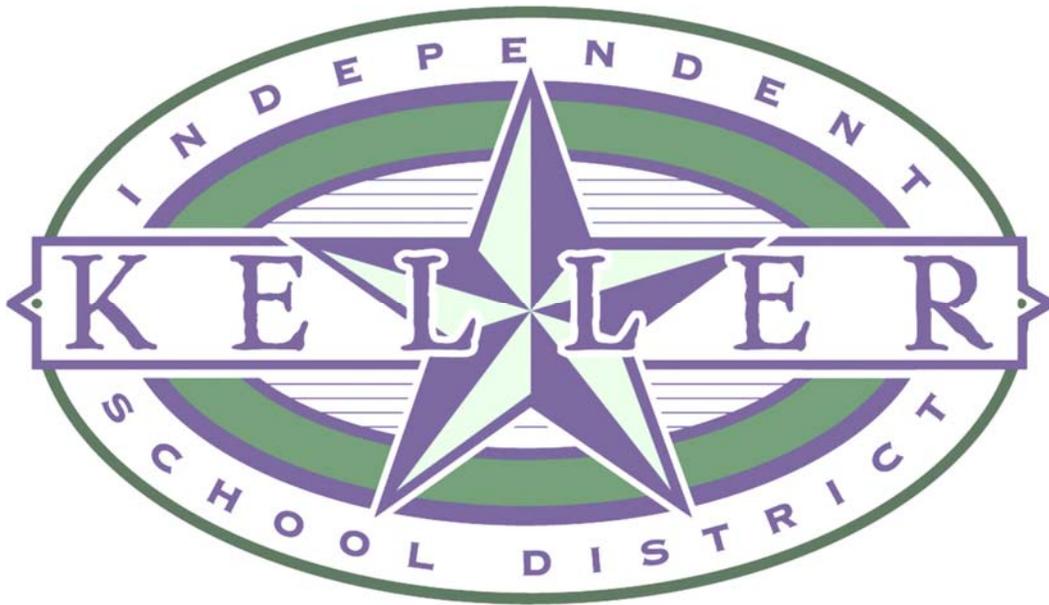


Keller Independent School District

Keller, Texas



Comprehensive
Annual
Financial Report

For the Ten Months Ended June 30, 2018

Keller
Independent School District

Keller, Texas



Comprehensive
Annual
Financial Report

For the Ten Months Ended June 30, 2018

Prepared by the Finance Department

R. Mark Youngs Chief Financial Officer
Kristin Williams, C.P.A. Director of Finance

Keller Independent School District
Comprehensive Annual Financial Report
For the Ten Months Ended June 30, 2018
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Introductory Section

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OFFICE OF THE SUPERINTENDENT

KELLER INDEPENDENT SCHOOL DISTRICT

350 KELLER PARKWAY
KELLER, TEXAS 76248
PHONE: 817-744-1000
FAX: 817-744-1261

November 12, 2018

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 ten-month fiscal year ended June 30, 2018. The District opted to change its fiscal year ending date from August 31 to June 30, resulting in a ten-month fiscal year in 2017-18.

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 and Tidwell, 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 June 30, 2018, 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. Based upon the audit, the independent auditors concluded that there was a reasonable basis for rendering an unmodified opinion that the district's financial statements for the period ended June 30, 2018 are presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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 also required to undergo an annual "Single Audit" designed to meet the special needs of federal grantor agencies. 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 period ended June 30, 2018, 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 may not 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 generally roll over to and are absorbed by 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 normally scheduled on the fourth Monday 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, and 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 is almost built out, enrollment growth has slowed. Until the 2011-2012 year, enrollment was increasing in excess of 1,000 students per year. For the 2015-16 school year, enrollment increased by only 561 students, by 480 students in 2016-17, and by 277 in 2017-18. Enrollment for the 2018-19 school year is projected to increase by 150. Even so, Keller ISD is expected to remain the largest district in Northeast Tarrant County and the fourth largest district in Tarrant County as a whole. The district enrollment is expected to increase by approximately 1,223 students during the next five years, reaching 36,160 by 2022-23 and approaching 37,000 by the fall of 2028.

Area Development

The residential growth of the District has been on pace with that of the Fort Worth/Dallas Metroplex, and has been aided by the District's close proximity to both the Dallas/Fort 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. In addition, the Alliance Town Center was built to support the needs of the fast growth portion of northeast Tarrant County and has become one of the largest retail anchored mixed-use developments in Texas.

Housing. Housing development growth in the District is slowing as the district builds out of available land and as the price points of new homes rise. There were 35,264 home starts in the DFW area as of June 2018, which was 4,010 more starts than the same period in 2017. Keller ISD had 5,510 home sales since June 2017, roughly 10% of which were new homes. The average 2017 sale price for a *new* home in KISD was \$394,484, which was an increase of 87%, or \$193,812 since 2010. The average sale price for an *existing* home in KISD in 2017 was \$338,450, which was an increase of 51%, or \$112,024.

Keller ISD is currently ranked 17th in the DFW Metroplex, with 614 annual closings, and annual housing starts of 578. Approximately 540 vacant developed lots and 1,534 lots for future development remain in the District. Groundwork is underway on approximately 470 lots in KISD. In addition, there are approximately 1,280 units of multi-family construction underway, with 3,600 future units planned. However, 110 of these units are in age-restricted communities that will produce no student yield.

Economic Conditions and Employment. According to the Texas Workforce Commission and Metrostudy, the Dallas-Fort Worth area created more than 110,000 new jobs between June 2017 and June 2018. This is second only to New York City in number of jobs added during that period. The job growth rate for DFW of 3.1% exceeded the national job growth rate of 1.5%. A number of corporate relocations and

expansions contributed to the job growth including, State Farm, Toyota North America, Liberty Mutual, Facebook and Kubota Tractor.

The state's unemployment rate has been at or below the national rate for ten consecutive years, according to the Texas Workforce Commission. As of June 2018, the unemployment rate in Keller was 3.3%, as opposed to 3.8% for the DFW metroplex, 4.2% for the state of Texas and 4.2% for the U.S. as a whole. The Dallas-Fort Worth metroplex is expected to remain a leader in job and population growth for the near future, due to its diverse economy.

EDUCATION

KELLER INDEPENDENT SCHOOL DISTRICT

The Texas Education Agency and Southern Association of Colleges and Schools provide the district's K-12 education accreditation. The district employs 4,227 teachers and support personnel to serve the district's 42 campuses. KISD serves as the district's fourth largest employer behind Bell Helicopter, BNSF Railway and Fidelity Investments. Students from Keller, Fort Worth, Watauga, Southlake, Colleyville, Hurst, North Richland Hills, Westlake, and Haltom City attend classes at twenty-three elementary schools (PK-4), four intermediate schools (5-6), three intermediate/middle schools (5-8), four middle schools (7-8), four high schools (9-12), two Early Learning Centers, a Center for Advanced Learning (KCAL) and one alternative school. Besides the 42 brick and mortar campuses, the district utilizes 20 portable buildings, which provide approximately 27 additional classrooms.

The oldest campus in KISD is Keller Middle School (formerly Keller High School) which was built in 1962. Of the district's 42 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, two hybrid middle/intermediate campuses, two elementary campuses and two early learning centers have been opened. One intermediate school was renovated to form the new Keller Center for Advanced Learning. 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 (1974), an alternative campus (1968) and a Natatorium (2003).

In 2013, the 83rd Texas Legislatures established the new Foundation High School Program as the default high school graduation program for all students entering high school beginning in 2014-2015. The State Board of Education in January 2014 adopted rules related to the new Foundation High School Program. The new Foundation High School Program is a more flexible graduation program that allows students to pursue their interests and will be in place for all students who enter high school. This graduation plan contains up to four parts:

- A 22-credit foundation program, which is the core of the new Texas high school diploma. These core subject areas include English, Math, Science, Social Studies, LOTE, Fine Arts, Physical Education as well as electives.
 - Five endorsement options that allow students to focus on a related series of courses. These endorsement areas and the career fields to which they relate are:
 - STEM - Science, Technology, Engineering and Math.
 - Public Services – Education and Training, Government, Health Science, Hospitality and Tourism, Human Services, Law Enforcement and Security and Military Science.
 - Business and Industry - Marketing, Finance, Agriculture, Architecture and Construction, Arts and Audio/Video Technology, Business Communications, Business Management and Administration, Transportation, and Distribution and Logistics.

- Arts and Humanities - English, Fine Arts, Social Studies and World Languages.
- Multidisciplinary Studies – Allows a student to select courses from the curriculum of each endorsement area and earn credits in a variety of advance courses from multiple content areas.

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. KISD's secondary schools offer students the opportunity to participate in College Board Advanced Placement (AP) and Pre-AP courses so that they may better prepare themselves for college. Because these classes are similar to college level classes, students are challenged to be more disciplined, structured and to perform at a higher academic level. Online learning opportunities are also provided to district students via the KISD Virtual Learning program, which is designed to address the needs of students by providing opportunities to complete foundation courses in CTE pathways, accelerate their completion of language acquisition courses, and prepare them for success in online coursework as they continue their education past high school.

Special programs that ensure success for all students include Special Education, Dyslexia, Student Intervention (including summer intervention), Advanced Academics, Homebound, English as a Second Language, Bilingual programs for Spanish and Vietnamese students, Advancement via Individual Determination (AVID) and Career and Technical Education (CTE). Section 504 services are also provided as part of the Individuals with Disabilities Education Act to ensure that students with physical or mental disabilities may receive different educational services in a special or regular educational setting, depending on the student's need.

Through its Career and Technology Education program, KISD provides competency-based applied learning which contributes to academic knowledge, higher order thinking skills, problem solving skills, work attitudes, general employability skills, and occupationally-specific skills needed for success in the workplace or in post-secondary education.

In August of 2016, the district opened its first career and technology education center – the Keller Center for Advanced Learning (KCAL). KCAL's focus is to prepare students for their post-secondary endeavors, by offering them the opportunity to take advanced level courses within their chosen endorsement. KCAL also provides for field-based experiences, such as job shadowing, internships and practicums, as well as offering opportunities for multiple types of professional certifications and licensures. In its inaugural year, KCAL offered courses in several programs of study, including Animation, Agricultural & Veterinary Studies, Architecture & Construction, Audio/Video Technology, Automotive Technology, Commercial Photography, Cosmetology, and Graphic Design. Beginning in the 2017-18 school year, program offerings were expanded to include Culinary Arts, Law Enforcement & Criminal Forensics, Health Sciences (including Clinical Rotations, CNA and EMT certification programs), STEM, and Information Technology (including certification programs in CISCO, Computer Maintenance, and Computer Programming). By providing a collaborative, innovative educational experience at KCAL, the district is committed to preparing its students to be highly competitive in a global society.

Other student services provided by the district include health-related support programs, guidance and library/media services, bullying prevention programs, credit recovery, dropout 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 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.

MAJOR INITIATIVES

KELLER ISD – Intentionally Exceptional!

OUR VISION

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

OUR MISSION

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

OUR PRIORITIES

- ★ Increase Student Achievement
- ★ Excellence in Student, Parent and Community Relations
- ★ Excellence in Processes and Systems
- ★ Employee Excellence and Organizational Improvement
- ★ Excellence in Financial Stewardship

WE VALUE

- ★ Relationships as the foundation for how we teach, learn, work and play together in a safe, engaging and caring way;
- ★ Care for our teachers because the impact of their work prepares students for the future;
- ★ Passionate teaching dedicated to content and craft that inspires others;

- ★ Exploration and the pursuit of one's passion that leads to personal growth
- ★ Communication and collaboration that strengthens our unity;
- ★ Respect for the diversity of our school community through a culture of understanding and personalized learning opportunities.

OUR CORE FUNCTIONS:

- ★ Business
- ★ Finance
- ★ Educational Support
- ★ Governance
- ★ Media Services
- ★ Technology
- ★ Workforce

PORTRAIT OF A GRADUATE

A Keller Independent School District graduate will be expected to:

Demonstrate success in college or further study and for employment in a global society

- Initiate independent learning
- Understand world issues and current events
- Understand and use effective learning techniques to acquire and apply knowledge

Demonstrate social awareness

- Develop and maintain positive relationships
- Know and appreciate cultural and linguistic diversity
- Exhibit an appreciation of the arts and humanities
- Commitment to service

Exhibit strong personal qualities

- Identify personal goals
- Demonstrate value of self
- Understand and engage in activities that promote intellectual, physical, and emotional balance
- Demonstrate integrity and take personal responsibility

Communicate effectively

- Express ideas and information confidently and effectively in a variety of modes of communication
- Work in collaboration with others

Use technology as a tool

- Select appropriate tools and procedures
- Use technology to access, analyze, organize, and process information

Exhibit creative thinking, critical thinking, and problem solving

- Explore ideas and issues for understanding
- Draw well-reasoned conclusions and solutions
- Analyze and evaluate thinking with a view to improve it



MAJOR INITIATIVES AND ACCOMPLISHMENTS

Keller ISD Visioning. Over the past year, Keller ISD underwent a Visioning process that defined the District's focus in the coming years and is built on the input from the KISD community. Nearly 3,000 individuals responded to the District's Visioning Questionnaire. The district then held four Educational Summits – one in each of the district's high school feeder patterns – and completed 120 in-depth interviews with representatives from six stakeholder groups (parents, students, administrators, teachers, former students and community members). Market research that focused on the district's population, economic, social and technological identity of KISD was then compiled. Common themes and insights from the interviews, questionnaire responses and market research were then analyzed to provide findings representative of the KISD community's voice.

The Visioning team then brought these findings before a group comprised of representatives from the six stakeholder groups during a student and adult Vision Alignment Workshop (VAW) for discussion and validation. Fueled by the voice of the community, members of the VAW worked to define a draft set of core values and specific strategies written in the form of problem statements that, when solved, demand innovation.

The Visioning Core Values were adopted by the Board of Trustees on May 17, 2018 and appear above.

A Strategy Audit team was then assembled with representatives from the six stakeholder groups to audit these strategies to see how other organizations (both educational and non-educational) address similar subjects. This audit research will serve as a catalyst as action, planning and implementation begins.

State Accountability. Beginning with the 2017-18 school year, all multi-campus school districts and charters receive an accountability rating based on an A–F scale.

Districts receive a grade or rating based on performance in three areas:

- **Student Achievement** measures what students know and can do by the end of the year. It includes results from state assessments across all subjects for all students, on both general and alternate assessments, College, Career, and Military Readiness (CCMR) indicators, like AP and ACT results, and graduation rates.
- **School Progress** measures how much better students are doing on the STAAR test this year versus last year, and how much better students are doing academically relative to schools with similar percentages of economically disadvantaged students.
- **Closing the Gaps** looks at performance among student groups, including various racial/ethnic groups, socioeconomic backgrounds and other factors.

Districts earn an A (90–100) for exemplary performance when they serve most students well, encouraging high academic achievement and/or appropriate academic growth for almost all students. *Most students will be prepared for eventual success in college, a career, or the military.*

Keller ISD received an overall rating of A for the 2017-18 school year.

- Student Achievement rating of A
- School Progress rating of B
- Closing the gaps rating of B

In addition, campuses that achieve the rating of Met Standard can also earn distinction designations in seven possible areas:

Academic Achievement in Reading/ELA
Academic Achievement in Mathematics
Academic Achievement in Science
Academic Achievement in Social Studies
Top 25% Student Progress
Top 25% Closing Performance Gaps
Postsecondary Readiness

All Keller ISD campuses met the Accountability Standard and 11 campuses received at least one Distinction Designation.

Change of Fiscal Year Ending Date. So that the fiscal year would more closely mirror the school year, Keller ISD opted to change its fiscal year ending date from August 31 to June 30. The 2017-18 fiscal year became the transition year, meaning that the year consisted of only ten months – September 1, 2017 through June 30, 2018. The 2018-19 fiscal year then would begin on July 1, 2018 and continue for twelve months to June 30, 2019. Many of the financial results in this Comprehensive Annual Financial Report were affected by the shortened year, and are described more fully in the Management’s Discussion and Analysis.

District Student and Staff Accomplishments:

Keller ISD Finance Awards

Keller ISD was recently awarded the Transparency Stars award for its continued progress toward achieving financial transparency. The Texas Comptroller's Leadership Circle program recognizes local governments across Texas that are striving to meet a high standard for financial transparency online. The district's efforts to provide citizens with clear, consistent pictures of spending and share information in a user-friendly format have paved the way for achieving greater financial transparency. This is the third year the Transparency Stars award has been offered and is now the highest award given to public entities for financial transparency. Prior to that, Keller ISD earned the Gold Leadership Circle award for three consecutive years and the Platinum Leadership Circle award for one year.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded Keller ISD with the Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report (CAFR) for fiscal year ending August 31, 2017. This award is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment – one which Keller ISD has received for the past eleven 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 that illustrate the spirit of transparency and full disclosure.

In addition, Keller ISD also received the Certificate of Excellence in Financial Reporting Award from the Association of School Business Officials (ASBO) for its Comprehensive Annual Finance Report (CAFR) for fiscal year ending August 31, 2017. This prestigious award, which KISD has also received for eleven consecutive years, represents a noteworthy achievement and reflects KISD's commitment to the highest standards of school system financial reporting.

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.

The FIRST (Financial Accountability Rating System of Texas) program, a financial accountability system for Texas school districts, was developed by the Texas Education Agency in response to Senate Bill 875 of the 76th Texas legislature in 1999. The primary goal of FIRST is to achieve quality performance in the management of school districts' financial resources, a goal made more significant due to the complexity of accounting associated with the Texas school finance system. For the 2017-18 fiscal year based on 2016-17 financial information, the District received a rating of "Passed/Meets Standard" under Texas' Schools FIRST financial accountability rating system, demonstrating the quality of KISD's sound fiscal management. Prior to the 2014-15 rating year, the Schools FIRST accountability rating system assigned one of four financial accountability ratings to Texas school districts, with the highest being "Superior Achievement". Prior to 2014-15, the district had achieved a "Superior" Rating for nine consecutive years.

TASBO Award of Merit for Purchasing and Operations

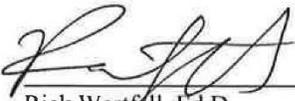
Keller ISD's Purchasing Department has earned the Award of Merit with Recognized Status from the Texas Association of School Business Officials (TASBO) for the ninth consecutive year. TASBO's Purchasing Award of Merit is presented to school districts that are committed to professional standards in the acquisition of goods and services. Independent reviews at TASBO considered various procedures and practices including organization, policies and procedures, contract operations, staff training and certifications, warehousing, use of technology, communication, and management of co-operative programs.

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 the 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 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,



Rick Westfall, Ed.D
Superintendent



R. Mark Youngs, MBA, 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, 2017

Christopher P. Morrill

Executive Director/CEO



**ASSOCIATION OF
SCHOOL BUSINESS OFFICIALS
INTERNATIONAL**

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

Keller Independent School District

**for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended August 31, 2017.**

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



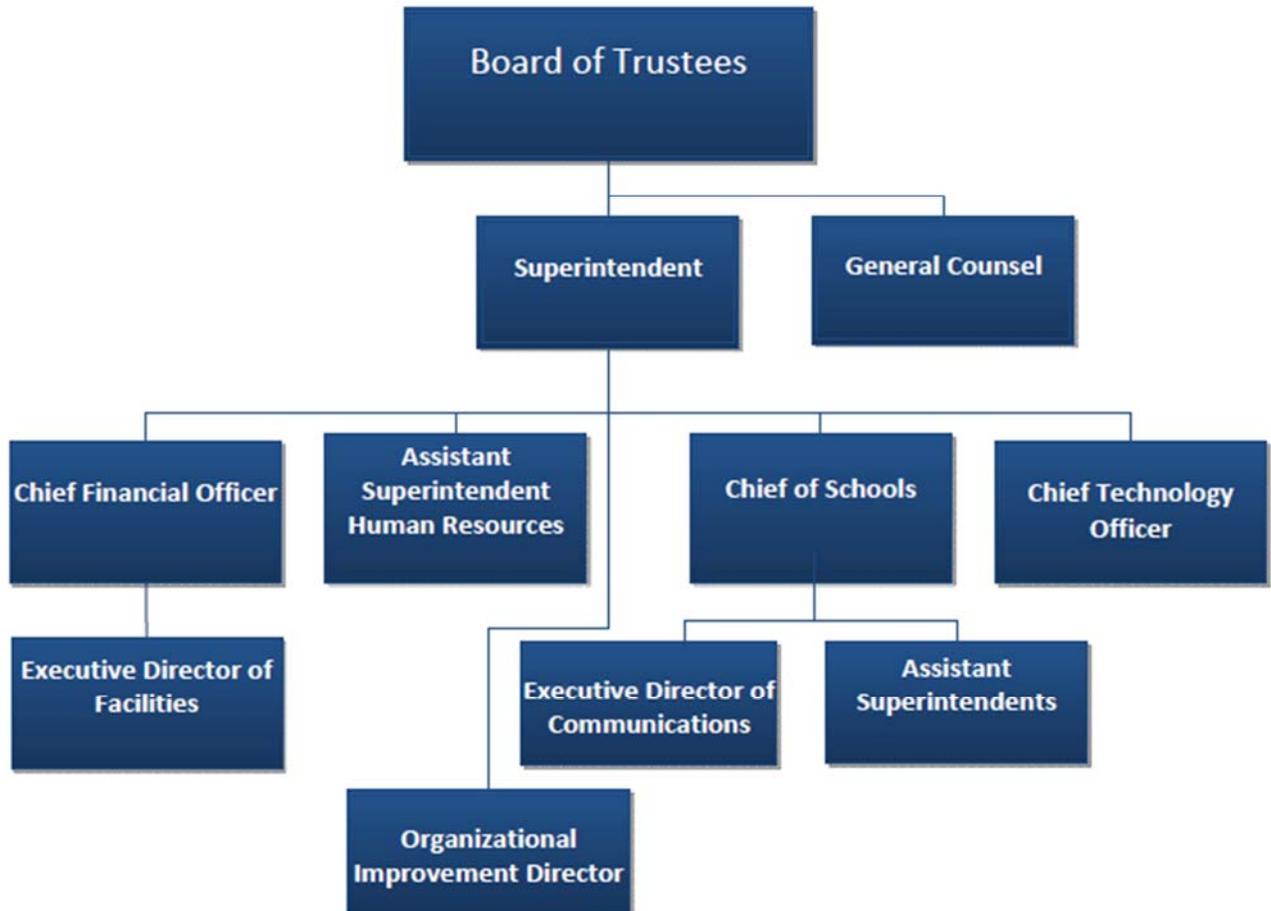
A handwritten signature in black ink that reads 'Charles E. Peterson, Jr.' The signature is written in a cursive style and is positioned above a horizontal line.

Charles E. Peterson, Jr., SFO, RSBA, MBA
President

A handwritten signature in black ink that reads 'John D. Musso'. The signature is written in a cursive style and is positioned above a horizontal line.

John D. Musso, CAE
Executive Director

Keller Independent School District 2017 – 2018 Organizational Chart



Keller Independent School District

School Board and Administrators

Board of Trustees

Cindy Lotton	President
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Dr. Kevin Hood	Area Superintendent
Cory Wilson.....	Area Superintendent
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Kevin Kinley.....	Director, Safety and Security
Dr. Gena Koster	Director, Special Education
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Vaughn Hamblen.....	Director, Systems Integration
David Smith	General Manager, Child Nutrition (Sodexo)
Vacant	General Manager, Transportation (Durham)

Financial Section

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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 ten months ended June 30, 2018, 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 June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the ten months ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Notes 8 and 19 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Beginning net position has been restated to reflect the change in accounting principle resulting from this statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the General Fund budgetary comparison information and notes to the required supplementary information, the schedule of the District's proportionate share of the net pension liability, the schedule of the District's pension contributions, the schedule of the District's proportionate share of the OPEB pension liability, the schedule of the District's OEPB contributions and the notes to the required supplementary information- District's pension and OPEB, 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 statement, compliance schedules – required by the Texas Education Agency, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulation (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the financial statements.

The combining statement, compliance schedules – required by the Texas Education Agency, 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 generally accepted in the United States of America. In our opinion, the combining statement, compliance schedules – required by the Texas Education Agency, 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.

Board of Trustees
Keller Independent School District

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 November 12, 2018, 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.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
November 12, 2018

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Management's Discussion and Analysis

This section is the Keller Independent School District (District) (Keller ISD) management discussion and analysis of the annual financial report for the period ending June 30, 2018. It should be read in conjunction with the transmittal letter and the District's financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The District had approximately \$253 million in expenses related to governmental activities, of which was offset by approximately \$6.3 million due to approximately \$17.3 million in specific charges for services and negative revenue of \$23,701,503 from grants and contributions as a result of the OPEB on behalf allocation program-specific charges for services or grants and contributions. General revenues of \$345 million offset the costs of these programs; resulting in an increase in net position of \$84,964,596. Expenses for governmental activities decreased by approximately (\$120.8) million, or (32.29%), from the previous year. This decrease in expenditures occurred because the district changed its fiscal year ending date from August 31 to June 30. To effect the change, the 2017-18 fiscal year was a transitional year consisting of only ten months – September 1 through June 30. A result of this change was that only February bond principal and interest payments were expended in the year. The August payments of \$44.9 million fell outside of the transitional fiscal year.

- General revenues accounted for \$344,618,163 or 101.9% of all fiscal year 2018 revenues. Program-specific revenues in the form of charges for services and grants and contributions accounted for \$(6,339,807) a reduction in revenue. This reduction was caused by the adoption of Governmental Accounting Standards Board Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which resulted in a current year negative allocation of \$55,304,611. The 2018 charges for services and grants and contributions represent an approximately (\$50.7) million decrease from 2017, which was mainly due to the negative allocation of OPEB on behalf contributions. General revenues increased by approximately \$6.8 million, or 2.01%. This increase was due to a reduction of (\$15.2) million in state foundation revenue offset by an increase of approximately \$24.1 million in property taxes.
- At June 30, 2018, the District's liabilities and deferred inflows of resources exceeded its assets and deferred outflow of resources by (\$113,083,773) (Total Net Position). The overall decrease in Total Net Position was significant, and was due to the adoption of GASB 75. To implement GASB 75, a prior period adjustment of (\$175,910,185) was made to restate prior year Net Position to (\$198,048,369). Therefore, the June 30, 2018 Total Net Position of \$(113,083,773) was an increase to the prior year, restated Net Position of \$84,964,596, or 42.9%.
- At the close of the fiscal period, the combined governmental fund balance was \$162,230,107, an increase of \$74,600,669 from the prior year. This increase occurred primarily in the Debt Service Fund and secondarily in the General Fund, both due to the ten-month fiscal year. The fund balance of the Debt Service fund increased because the normal August bond principal and interest payment fell outside of the transitional fiscal year, and the General fund balance increased because there were two less months of payroll and other expenditures. As a result, the General Fund unassigned fund balance increased by \$9,663,744. Fund balance equal to 17% of the 2019 general fund expenditure budget has been committed, as per Board policy.
- The District's total long-term liabilities increased by \$77,425,900, or 8.50%, from the previous fiscal year. The key factor in this increase was the adoption of GASB 75, which required recognition of a Net OPEB Liability of \$100,429,849.
- General Fund expenditures decreased by approximately (\$21.8) million, or (7.77%), from the prior year. Again, this was due to the fiscal year-end change and the increased savings generated by having two less months of expenditures and only one bond payment instead of two.

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 deferred outflows, and liabilities and deferred inflows, 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 21-22 of this report.

Fund Financial Statements- A fund is a grouping of related accounts that maintain control over resources that are 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 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 24-30 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 appear on pages 31-33 of this report.

Fiduciary fund- Fiduciary funds 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 appear on page 34 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 35-68 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 71-79 of this report.

The Texas Education Agency (TEA) requires that certain reports are included in this report and those statements and schedules appear on pages 88-91.

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, liabilities and deferred inflows of resources exceeded assets and deferred outflow of resources by (\$113,083,773).

**Table A-1
Net Position**

Governmental Activities			
	2017	2018	Percent Change 2017 to 2018
Current and other assets	\$ 77,043,325	\$ 156,743,989	103.45%
Capital assets (net)	743,967,208	730,376,844	-1.83%
Long term investments	21,700,000	21,700,000	0.00%
Total assets	842,710,533	908,820,833	7.84%
Deferred outflow of resources	66,689,859	58,822,790	-11.80%
Current liabilities	17,418,747	41,615,698	138.91%
Long-term liabilities	910,000,267	987,426,167	8.51%
Total liabilities	927,419,014	1,029,041,865	10.96%
Deferred inflow of resources	4,119,562	51,685,531	1154.64%
Net Position:			
Net investment in capital assets	\$ (14,625,004)	\$ (25,801,873)	76.42%
Restricted for grants and food service	2,117,408	3,175,508	49.97%
Restricted for debt service	18,790,116	64,742,002	244.55%
Restricted for employee health claims	526,000	587,000	11.60%
Unrestricted net position	(28,946,704)	(155,786,410)	438.18%
Total net position	\$ (22,138,184)	\$ (113,083,773)	410.81%

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 \$(25,801,873). The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. The decrease in Total Net Position is again attributed to both the implementation of GASB 75 and having only one debt principal and interest payment in the transitional fiscal year. The District's investment in its capital assets is reported net of related debt, but 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 \$84,964,596, after the restatement of beginning Net Position for GASB 75. The total cost of all *governmental activities* this year was \$253,313,760. The amount that our taxpayers paid for these activities was \$254,241,121 or 103.37%. However, \$44.9 million of the taxpayer funds was earmarked for a bond principal and interest payment that was made outside the 10-month transition year in August 2018.

Table A-2
Changes in District's Net Position

Governmental Activities			
	2017	2018	Percent Change 2017 to 2018
Revenues:			
Program Revenues:			
Charges for service	\$ 18,513,010	\$ 17,361,696	-6.22%
Operating grants & contributions	25,867,032	(23,701,503)	-191.63%
General revenues:			
Property taxes	230,136,039	254,241,121	10.47%
State grants	101,554,176	86,335,746	-14.99%
Investment earnings	1,603,406	1,890,242	17.89%
Other	4,544,060	2,151,054	-52.66%
Total government revenues	382,217,723	338,278,356	-11.50%
Expenses:			
Instruction	204,784,429	134,863,562	-34.14%
Instructional resources & media services	4,295,319	3,352,924	-21.94%
Curriculum & instructional staff development	5,508,074	2,635,056	-52.16%
Instructional leadership	3,697,518	1,902,578	-48.54%
School leadership	18,981,354	11,426,864	-39.80%
Guidance, counseling & evaluation services	15,278,414	6,810,827	-55.42%
Social services	191,823	122,603	-36.09%
Health services	4,927,856	3,479,593	-29.39%
Student (pupil) transportation	8,774,400	8,399,095	-4.28%
Food services	14,626,820	9,443,516	-35.44%
Co-curricular/extra-curricular activities	12,323,976	8,108,679	-34.20%
General administration	7,668,059	4,890,980	-36.22%
Plant maintenance and operations	27,353,038	21,614,420	-20.98%
Security and monitoring services	2,792,900	2,321,617	-16.87%
Data processing services	4,658,225	3,831,814	-17.74%
Community services	1,118,744	900,050	-19.55%
Debt service - interest on long-term debt/fees	32,800,765	24,748,166	-24.55%
Shared services agreement	283,581	241,570	-14.81%
Juvenile Justice Alternative Education Program	11,352	12,513	10.23%
Payments to tax increment fund	2,852,110	3,117,970	9.32%
Non-operating expenses	1,205,128	1,089,363	-9.61%
Total governmental expenses	374,133,885	253,313,760	-32.29%
Increase (decrease) in net position	8,083,838	84,964,596	951.04%
Beginning net position	(26,139,141)	(22,138,184)	-15.31%
Prior period adjustment	(4,082,881)	(175,910,185)	4208.48%
Beginning net position, as restated	(30,222,022)	(198,048,369)	555.31%
Ending net position	(22,138,184)	(113,083,773)	410.81%

Property tax revenues are the single largest source of general income for the district. Property values continue to increase with 10.5% in growth for 2018 and 12.35% growth in the previous year, even though construction of new homes in the District's 51 square miles is now moderating after several years of rampant growth. Values rose significantly in 2017-18, but at a lesser rate than in the previous year. The housing market has remained strong in North Texas for several years and property taxes have risen consistently. However, there are signs that growth may now be slowing. The following graphs depict the District's sources of revenue for the years 2017 and 2016 as a percentage of total revenues.

Table A-3

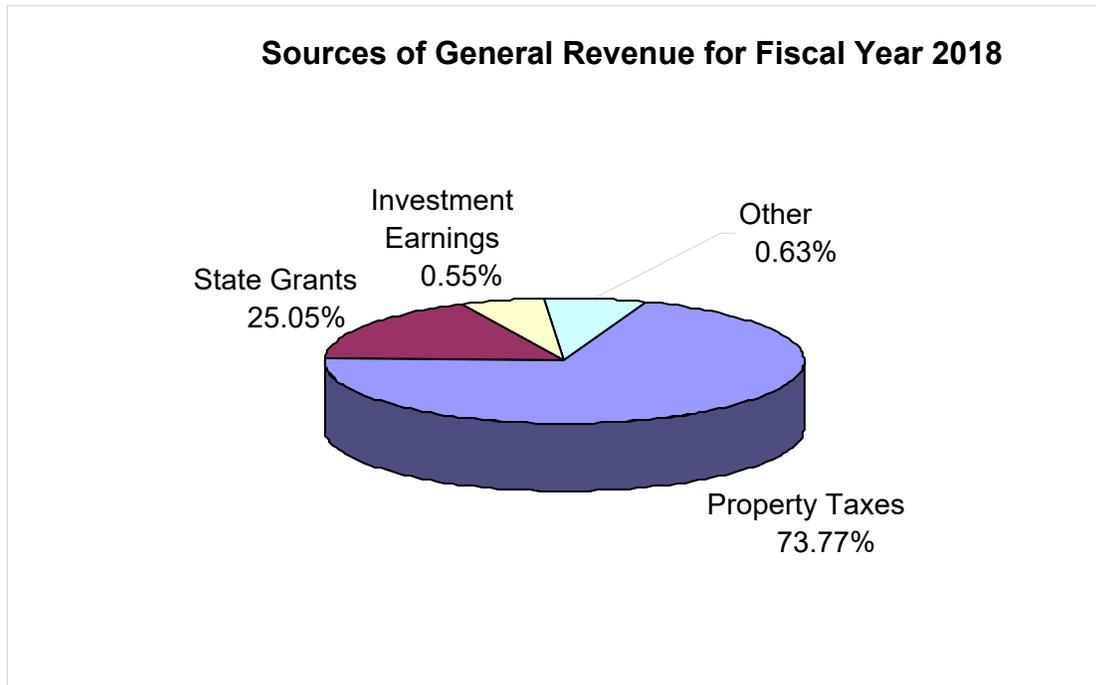


Table A-4

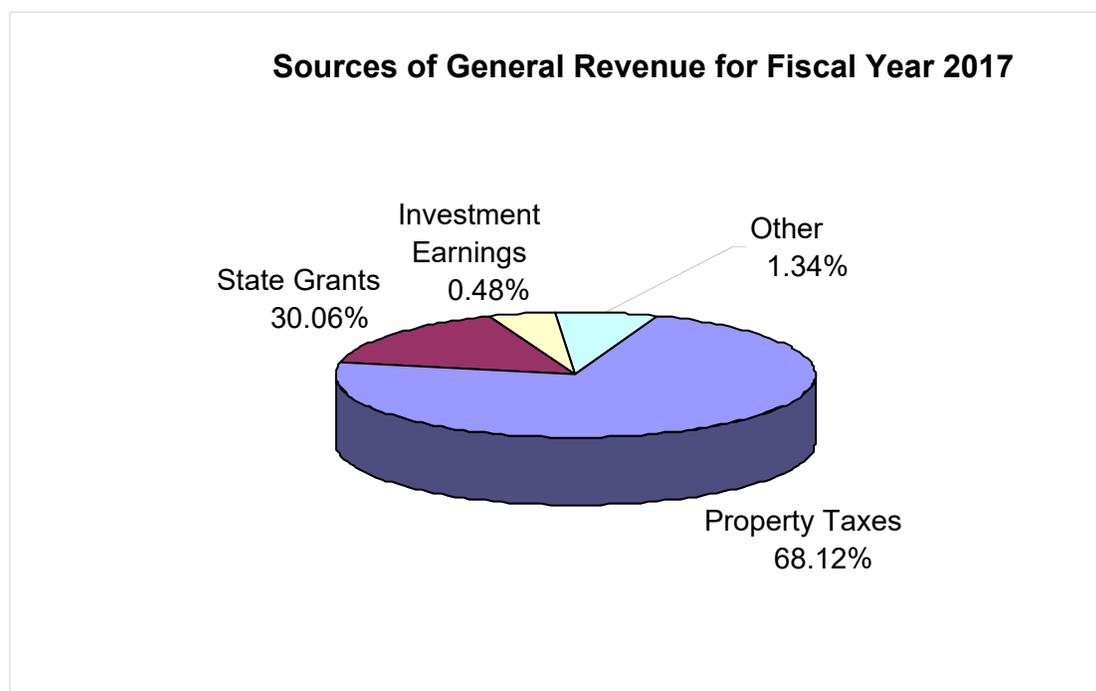


Table A-5 represents the cost of the District's largest programs as well as each program's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. The cost of all *governmental* activities this year was \$253,313,760.

**Table A-5
Costs of Services**

Major Function	Total Cost of Services			Net Cost of Services		
	2017	2018	Percent Change 2017 to 2018	2017	2018	Percent Change 2017 to 2018
Instruction, curriculum, and media services	\$ 214,587,822	\$ 140,851,542	-34.36%	\$ 200,891,617	\$ 144,342,782	-28.15%
Instructional and school leadership	22,678,872	13,329,442	-41.23%	21,502,829	13,022,285	-39.44%
Student support services, food service, and extra/co-curricular activities	56,123,289	36,364,313	-35.21%	31,537,661	42,573,313	34.99%
General administration	7,668,059	4,890,980	-36.22%	7,233,198	4,846,875	-32.99%
Plant maintenance, security and data processing	34,804,163	27,767,851	-20.22%	32,578,160	26,566,265	-18.45%
Community services	1,118,744	900,050	-19.55%	959,008	980,034	2.19%
Debt service	32,800,765	24,748,166	-24.55%	30,930,266	23,102,965	-25.31%
Shared services agreement	283,581	241,570	-14.81%	184,332	151,115	-18.02%
Non-operating expenses	4,068,590	4,219,846	3.72%	3,936,772	4,067,933	3.33%
Total expenses	\$ 374,133,885	\$ 253,313,760	-32.29%	\$ 329,753,843	\$ 259,653,567	-21.26%

Total net expenses decreased by (21.26%) in 2018 from the previous year. Debt Service decreased because only one bond principal and interest payment was made that year due to the short, transitional year, rather than the normal two payments. All other expenses except Non-Operating expenses decreased because only ten months of expenses were included in the 2017-18 fiscal year, rather than twelve months.

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 period, the District's governmental funds reported combined ending fund balances of \$162,230,107, an increase from the previous year of \$74,600,669 or 85.13%. This increase occurred mostly in the Debt Service and General funds, and was caused by the effects of a shortened, ten-month year. The total General Fund balance increased by \$14 million, or 29.33%, from the previous year. Although the 2017-18 fiscal year was a shortened, 10-month year due to the change of fiscal year end date, the district still realized most of its normal revenues due to the timing of property tax and state revenues. However, since the district only paid 10 months of payroll and other expenditures, a significant surplus of \$14 million was gained.

The fund balance of the Federally Funded Grant Fund increased in 2018 by \$1,185,478, or 62.06%. The increase occurred in the Child Nutrition fund, and again, was attributable to the timing of revenues in this fund within the ten-month year. The majority of normal revenues were collected as opposed to paying only 10 months of payroll and other expenditures.

The fund balance of the Debt Service Fund increased by approximately \$62.69 million, or 320.72%. Since the ten-month transitional year ran from September 1 to June 30, only the February 2018 bond principal and interest payments were made within the fiscal year. The August 2018 payment fell within the 2018-19 fiscal year which began on July 1, 2018.

The Capital Projects fund balance decreased by approximately (\$4.65) million as a result of bringing the 2014 bond program to completion. All projects were either complete or significantly completed by June 30, 2018. The State Funded Grant Fund balance increased by almost \$750,000, or 743.3%, due to a higher level of spending in the Instructional Material Allotment fund, and the Local Funds balance increased by \$572,189, or 13.48%, which was caused by both increased funding of the local Hudson Grant and deposits to the Campus Activity Fund.

The general fund balance has an unassigned fund balance of \$10,929,581. 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 (\$231,347) and prepaid expenditures (\$1,093,814). Non-spendable fund balance in all other funds consists of inventory in the Federally Funded Grant Fund (Child Nutrition) of (\$602,637), and of prepaid items - (\$6,044) in the Debt Service fund, (\$24,154) in the Capital Projects fund, \$498,652 in the State Funded Grant fund and (\$97,890) in the Local funds. Fund balance is restricted to pay debt service (\$82,234,220), for the capital acquisition program (\$9,266,078), and for food service (\$2,493,100). Grant funds are restricted in both the State Funded Grant Funds (\$352,223) and in the Local Funds (\$330,185). Commitments of fund balance include (\$4,387,325) in Local Funds for campus activity funds, and (\$49,682,857) in the general fund for budgetary contingencies as per Board policy. There are no assignments of fund balance.

The general fund is the primary operating fund of the District. At the end of the current fiscal period, unassigned fund balance of the general fund was \$10,929,581 while the total fund balance was \$61,937,599. 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 4.22% of the total general fund expenditures, while total fund balance represents 23.94% 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 budgeted expenditures be committed within fund balance for budgetary contingencies. This amount at 6/30/18 was \$49,682,857 and may be used at the discretion of the Board of Trustees.

During the current fiscal period, the fund balance of the District's general fund increased by \$14,046,766, compared to a decrease in the prior year of (\$5,923,637). With a healthy general fund balance and a strong economic outlook, the Board of Trustees had, in some past years, approved deficit budgets to restore some of the budget reductions made in prior years due to the recession, fund new initiatives, and provide minimal pay increases for all district employees. KISD adopted deficit budgets for both 2016 and 2017 in the amount of (\$9,047,586) and (\$5,656,326) respectively. However, for 2017-18, the Board of Trustees adopted a budget with an estimated surplus of \$19.9 million in recognition of the savings expected from a shortened, ten-month fiscal period.

General Fund Budgetary Highlights

Over the course of the ten month period, 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 expenditure category or revenue object is increased.

In addition, at the end of every fiscal year, school districts across the state also make amendments to 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. In 2017-18, the district did exceed the functional budget in function 11 (Instruction) of the general fund by (\$5.87) million, or (3.68%) of the adjusted budget, and in function 12 (Media Services) by (\$63,541), or (1.90%). The overages were a one-time payroll accrual issue resulting from teacher contracts not changing along with the fiscal year change. The district's budget was not exceeded in total; however, when the issue was discovered it was too late to amend the budget as per TEA regulations.

1. *Variances of original expenditure budget compared to amended budget.* The amended expenditure budget increased \$11,929,286 from the original budget. Major budget amendments contributing to this increase include (1) \$9.53 million for TRS on Behalf, (2) \$1.58 million for the Keller Center of Advanced Learning career and technology programs, and (3) \$530,000 for cybersecurity.
2. *Variances of amended budget to actual expenditures.* Variations of amended budget to actual expenditures were minimal in 2017-18, with an overall variation of 0.28%. The largest variance was 21.81% in the Community Services function, which was due to a position that went unfilled for most of the period. The next highest variations between amended budget and actual expenditures were 14.69% in function 13 (Curriculum and Instructional Development) and 13.32% in function 21 (Instructional Leadership). Both of these variances were due to savings in salaries and benefit expenses due to turnover or positions unfilled for part of the year. Variances in all other functions were less than 10%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018 the District had invested approximately \$730 million in a broad range of capital assets, including land, equipment, and buildings. (See Table A-6) This amount represents a net decrease of (\$13.59) million or (1.82%) percent from the prior year.

Table A-6
District's Capital Assets

	Governmental Activities		Percentage Change 2017 to 2018
	2017	2018	
Land	\$ 47,710,562	47,930,755	0.46%
Buildings and improvements	907,785,421	910,217,770	0.27%
Furniture and equipment	34,011,205	35,461,270	4.26%
Construction in progress	4,207,101	5,278,725	25.47%
Total Assets	993,714,289	998,888,520	0.52%
Less: accumulated depreciation	(249,747,081)	(268,511,676)	7.51%
Net Capital Assets	\$ 743,967,208	730,376,844	-1.83%

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

Long-Term Debt

As of June 30, 2018, the District had total bonded debt outstanding of \$703,663,522, a decrease of \$3,297,392, or (0.47%), from the previous year. The District also had accreted interest of \$19,531,920, a decrease of (\$5,157,932), or (20.89%), from the previous year.

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

	Governmental Activities		
	2017 (as restated)	2018	Percentage Change 2017 to 2018
Bonds and Notes Payable			
General Obligations Bonds	\$ 706,960,914	\$ 703,663,522	-0.47%
Premium on bonds	102,380,421	96,056,652	-6.18%
Accreted interest	24,689,852	19,531,920	-20.89%
Total Bonds and Notes Payable	834,031,187	819,252,094	-1.77%
Other Liabilities			
Compensated Absences	814,241	811,458	-0.34%
Net Pension Liability	71,445,260	63,258,197	-11.46%
Claims Payable	3,709,579	3,674,569	-0.94%
OPEB Liability	177,303,826	100,429,849	-43.36%
Total Other Liabilities	253,272,906	168,174,073	-33.60%
Total Long-Term Debt	\$ 1,087,304,093	\$ 987,426,167	-9.19%

Additional 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 in 2018-2019 are budgeted to increase from 2017-2018 actual revenues by approximately \$20 million, or 7.31%. However, the effect of TRS on Behalf revenue of \$9.5 million is included in the 2017-18 amended budget, but is not included in the 2018-19 adopted budget. If these expenses are removed from the equation, 2018-19 revenues are budgeted to increase from 2017-18 by approximately \$29.5, or 10.81 %. The district held a Tax Ratification Election on September 8, 2018, which was overwhelmingly approved by voters. The election was termed "Swap and Drop" and proposed an increase to the maintenance and operations tax rate by \$0.13 and a decrease to the debt service tax rate of (\$0.14), for a net drop in tax rate of (\$0.01). The 13 cents that was added to the M&O tax rate is the cause of the increase in the district's general fund revenue budget.

The total General Fund expenditure budget for 2018-19 is \$292,252,098. This is an increase of approximately \$33.51 million or 12.95% from actual 2017-18 expenditures. After removing the effects of TRS on Behalf expenses, the increase is actually \$43.0 million, or 16.62%. One cause of this significant increase in expenditures is a change in fiscal year that the district implemented in 2017-18. The fiscal year will change from 9/1 through 8/31 to 7/1 through 6/30, beginning July 1, 2018. The result of this is that the 17-18 fiscal year encompassed only 10 months, and the budget was adopted for only those 10 months. The effect on expenditures was dramatic, but because the vast majority of district revenues are received prior to 6/30, or are subject to accrual, the effect on revenues was minimal.

The second reason for the increase in budgeted expenditures was the Tax Ratification Election discussed above, which allowed additional funds to address some needs of the district.

The budget was guided by the goal to provide the resources to comply with the requirements of House Bill 5 and Senate Bill 2, hiring and retaining qualified staff, and addressing the cost of health care. The budget also includes new items deemed necessary to support educational goals for the 2018-19 year, including:

Additional regular and special education teaching positions/stipends	\$ 494,450
4% pay increase for all staff	8,200,000
Increase in property/casualty insurance premiums	300,000
Increase in transportation costs for new routes to career/tech center	550,000
Safety and Security – equipment and services	211,500
Fine Arts – equipment, uniforms	344,000
Athletics – facilities maintenance, equipment and student travel to competitions	1,430,000
	\$11,529,950

The recognized sign of fiscal health for a school district is an appropriate 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. These funds are then committed within fund balance to be used at the discretion of the Board of Trustees. 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 a 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, 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

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Keller Independent School District
Statement of Net Position
June 30, 2018

Exhibit A-1

<u>Data Control Codes</u>		<u>Governmental Activities</u>
ASSETS		
1110	Cash and temporary investments	\$ 120,128,068
1220	Property taxes receivable (delinquent)	4,867,625
1230	Allowance for uncollectible taxes	(486,763)
1240	Due from other governments	28,261,873
1290	Other receivables	796,309
1300	Inventories, at cost	833,984
1410	Prepaid items	1,755,893
	Capital assets:	
1510	Land	47,930,755
1520	Buildings and improvements, net	663,135,997
1530	Furniture and equipment, net	14,031,367
1580	Construction in progress	5,278,725
1810	Restricted cash	587,000
1910	Long-term investments	21,700,000
	Total assets	<u>908,820,833</u>
DEFERRED OUTFLOW OF RESOURCES		
1700	Deferred loss on refunding	34,251,225
1705	Deferred outflows - pension	23,285,612
1705	Deferred outflows - OPEB	1,285,953
	Total deferred outflows of resources	<u>58,822,790</u>
LIABILITIES		
2110	Accounts payable	6,619,064
2140	Interest payable	18,850,398
2150	Payroll deductions and withholdings payable	2,275,215
2160	Accrued wages payable	12,882,335
2180	Due to other governments	489
2210	Accrued expenses	375,320
2300	Unearned revenues	612,877
	Noncurrent liabilities	
2210	Accrued expenses:	
2501	Due within one year	42,291,321
2502	Due in more than one year	781,446,800
2540	Net pension liability	63,258,197
2545	NET OPEB liability	100,429,849
	Total liabilities	<u>1,029,041,865</u>
DEFERRED INFLOW OF RESOURCES		
2605	Deferred inflows - pension	9,675,536
2606	Deferred inflows - OPEB	42,009,995
	Total deferred inflows of resources	<u>51,685,531</u>
NET POSITION		
3200	Net investment in capital assets	(25,801,873)
3820	Restricted for grants and Food Service	3,175,508
3850	Restricted for debt service	64,742,003
3890	Restricted for employee health claims	587,000
3900	Unrestricted net position	(155,786,411)
	Total net position	<u>\$ (113,083,773)</u>

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

Keller Independent School District
Statement of Activities
For the Ten Months Ended June 30, 2018

Exhibit B-1

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	\$ 134,863,562	\$ 5,802,481	\$ (8,313,375)	\$ (137,374,456)
	Instructional resources and				
0012	media services	3,352,924	110,701	(566,019)	(3,808,242)
	Curriculum and instructional staff				
0013	development	2,635,056	133,560	(658,588)	(3,160,084)
0021	Instructional leadership	1,902,578	101,157	(44,252)	(1,845,673)
0023	School leadership	11,426,864	514,068	(263,816)	(11,176,612)
	Guidance, counseling, and evaluation				
0031	services	6,810,827	346,228	(1,847,841)	(8,312,440)
0032	Social services	122,603	5,062	(14,337)	(131,878)
0033	Health services	3,479,593	102,137	(16,209)	(3,393,665)
0034	Student (pupil) services	8,399,095	270,696	(61,086)	(8,189,485)
0035	Food services	9,443,516	7,332,511	(11,039,032)	(13,150,037)
0036	Cocurricular/extracurricular activities	8,108,679	840,896	(2,128,025)	(9,395,808)
0041	General administration	4,890,980	193,088	(148,983)	(4,846,875)
0051	Plant maintenance and operations	21,614,420	1,243,459	(123,020)	(20,493,981)
0052	Security and monitoring services	2,321,617	68,410	(101,629)	(2,354,836)
0053	Data processing services	3,831,814	131,032	(16,666)	(3,717,448)
0061	Community services	900,050	24,825	(104,809)	(980,034)
0072	Debt service - interest on long term debt	24,748,166	-	1,645,201	(23,102,965)
0093	Shared services agreement	241,570	4,927	85,528	(151,115)
	Juvenile Justice Alternative				
0095	Education Program	12,513	405	46	(12,062)
0097	Payments to tax increment fund	3,117,970	100,826	11,419	(3,005,725)
0099	Other governmental charges	1,089,363	35,227	3,990	(1,050,146)
[TP]	TOTAL PRIMARY GOVERNMENT	<u>\$ 253,313,760</u>	<u>\$ 17,361,696</u>	<u>\$ (23,701,503)</u>	<u>\$ (259,653,567)</u>
	General revenues:				
	Taxes:				
MT	Property taxes, levied for general purposes			\$ 174,009,523	
DT	Property taxes, levied for debt service			80,231,598	
SF	State grants, unrestricted			86,335,746	
IE	Investment earnings			1,890,242	
MI	Miscellaneous local and intermediate			2,151,054	
TR	Total general revenues			<u>344,618,163</u>	
CN	Change in net position			84,964,596	
NB	Net position - beginning			(22,138,184)	
PA	Prior period adjustment - change in accounting principle			(175,910,185)	
NB	Net position - beginning, as restated			<u>(198,048,369)</u>	
NE	NET POSITION - ENDING			<u>\$ (113,083,773)</u>	

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

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Keller Independent School District

Balance Sheet

Governmental Funds

June 30, 2018

Data Control Codes		10 General Fund	20 Federally Funded Grant Fund
ASSETS			
1110	Cash and temporary investments	\$ 17,600,392	\$ 2,864,631
1220	Property taxes - delinquent	3,365,250	-
1230	Allowance for uncollectible taxes	(336,525)	-
1240	Due from other governments	26,068,868	2,166,903
1260	Due from other funds	13,889,018	-
1290	Other receivables	288,600	475,166
1300	Inventories, at cost	231,347	602,637
1410	Prepaid items	1,093,814	35,339
1910	Long-term investments	19,700,000	-
1000	Total assets	81,900,764	6,144,676
1700	DEFERRED OUTFLOWS OF RESOURCES	-	-
1000A	TOTAL ASSETS	<u>\$ 81,900,764</u>	<u>\$ 6,144,676</u>
LIABILITIES			
2110	Accounts payable	\$ 2,317,095	\$ 99,700
2150	Payroll deduction and withholdings payable	2,275,215	-
2160	Accrued wages payable	12,536,829	330,171
2170	Due to other funds	369,586	2,016,431
2180	Due to other governments	-	-
2210	Accrued expenditures	281,155	-
2300	Unearned revenue	10,240	602,637
2000	Total liabilities	17,790,120	3,048,939
DEFERRED INFLOWS OF RESOURCES			
2600	Deferred property taxes	2,173,045	-
FUND BALANCES			
Nonspendable:			
3410	Investments in inventory	231,347	602,637
3430	Prepaid items	1,093,814	-
Restricted for:			
3480	Retirement of long term debt	-	-
3470	Capital acquisition program	-	-
3450	Food service	-	2,493,100
3450	Grant funds	-	-
Committed for:			
3545	Campus activity fund	-	-
3545	Other purposes	49,682,857	-
Assigned for:			
3590	Other purposes	-	-
Unassigned:			
3600	Reported in general fund	10,929,581	-
3000	Total fund balances	61,937,599	3,095,737
4000	TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 81,900,764</u>	<u>\$ 6,144,676</u>

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

50 Debt Service Fund	60 Capital Projects Fund	30-42 State Funded Grant Funds	46-48 Local Funds	Total Governmental Funds
\$ 81,469,365	\$ 7,964,366	\$ 3,571,489	\$ 4,957,386	\$ 118,427,629
1,502,375	-	-	-	4,867,625
(150,238)	-	-	-	(486,763)
-	-	26,102	-	28,261,873
369,586	-	-	-	14,258,604
-	6,600	9,000	5,401	784,767
-	-	-	-	833,984
6,044	24,154	498,652	97,890	1,755,893
-	2,000,000	-	-	21,700,000
<u>83,197,132</u>	<u>9,995,120</u>	<u>4,105,243</u>	<u>5,060,677</u>	<u>190,403,612</u>
-	-	-	-	-
<u>\$ 83,197,132</u>	<u>\$ 9,995,120</u>	<u>\$ 4,105,243</u>	<u>\$ 5,060,677</u>	<u>\$ 190,403,612</u>
\$ -	\$ 704,658	\$ 3,253,629	\$ 229,886	\$ 6,604,968
-	-	-	-	2,275,215
-	225	739	14,371	12,882,335
-	-	-	-	2,386,017
-	-	-	489	489
-	5	-	531	281,691
-	-	-	-	612,877
<u>-</u>	<u>704,888</u>	<u>3,254,368</u>	<u>245,277</u>	<u>25,043,592</u>
956,868	-	-	-	3,129,913
-	-	-	-	833,984
6,044	24,154	498,652	97,890	1,720,554
82,234,220	-	-	-	82,234,220
-	9,266,078	-	-	9,266,078
-	-	-	-	2,493,100
-	-	352,223	330,185	682,408
-	-	-	4,387,325	4,387,325
-	-	-	-	49,682,857
-	-	-	-	-
-	-	-	-	10,929,581
<u>82,240,264</u>	<u>9,290,232</u>	<u>850,875</u>	<u>4,815,400</u>	<u>162,230,107</u>
<u>\$ 83,197,132</u>	<u>\$ 9,995,120</u>	<u>\$ 4,105,243</u>	<u>\$ 5,060,677</u>	<u>\$ 190,403,612</u>

Keller Independent School District**Exhibit C-2**

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
For the Ten Months Ended June 30, 2018

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 162,230,107
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 decrease net position.	(13,355,900)
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	998,888,520
Accumulated depreciation has not been recorded in the fund financial statements.	(268,511,676)
Bonds payable have not been included in the fund financial statements.	(703,663,522)
Net pension liability is not reported in the fund financial statements.	(63,258,197)
Net OPEB liability is not reported in the fund financial statements.	(100,429,849)
Accreted interest on capital appreciation bonds is not capitalized in the fund financial statements.	(19,531,920)
Premiums on the issuance of bonds are not capitalized in the fund financial statements.	(96,056,652)
Deferred loss on bond refunding has not been reflected in the fund financial statements.	34,251,225
Property tax and other revenue are reported as deferred inflows of resources in the fund financial statements but is recognized as revenue in the government-wide financial statements.	3,129,913
Deferred outflows of resources for pension related liabilities are recognized in the government-wide statements but are not recorded in the fund financial statements.	23,285,612
Deferred inflows of resources for pension related liabilities are recognized in the government-wide statements but are not recorded in the fund financial statements.	(9,675,536)
Deferred outflows of resources for OPEB related liabilities are recognized in the government-wide statements but are not recorded in the fund financial statements.	1,285,953
Deferred inflows of resources for OPEB related liabilities are recognized in the government-wide statements but are not recorded in the fund financial statements.	(42,009,995)
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(811,458)
Interest is accrued on outstanding debt in the government-wide financial statements whereas in the fund financial statements interest expenditures are reported when due.	(18,850,398)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ (113,083,773)</u></u>

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

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Keller Independent School District
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds
For the Ten Months Ended June 30, 2018

Data Control Codes		10 General Fund	20 Federally Funded Grant Fund
REVENUES			
5700	Total local and intermediate sources	\$ 177,136,048	\$ 7,124,704
5800	State program revenues	94,701,630	536,829
5900	Federal program revenues	947,491	12,035,164
5020	Total revenues	272,785,169	19,696,697
EXPENDITURES			
Current:			
0011	Instruction	165,373,713	2,350,611
0012	Instructional resources and media services	3,401,976	22,882
0013	Curriculum and instructional staff development	3,410,923	1,136,531
0021	Instructional leadership	3,118,374	15,078
0023	School leadership	15,878,964	11,187
0031	Guidance, counseling and evaluation services	8,972,083	2,735,754
0032	Social work services	156,362	-
0033	Health services	3,157,579	1,399
0034	Student (pupil) transportation	8,328,747	67,099
0035	Food services	1,771	11,763,578
0036	Cocurricular/extracurricular activities	8,179,640	-
0041	General administration	5,949,740	-
0051	Facilities maintenance and operations	21,799,753	-
0052	Security and monitoring services	2,114,350	-
0053	Data processing services	4,042,054	-
0061	Community services	602,482	165,530
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	30,046	-
Intergovernmental:			
0093	Shared services agreement	-	241,570
0095	Juvenile Justice Alternative Education Program	12,513	-
0097	Payments to tax increment fund	3,117,970	-
0099	Other governmental charges	1,089,363	-
6030	Total expenditures	258,738,403	18,511,219
1100	Excess (deficiency) of revenues over (under) expenditures	14,046,766	1,185,478
1200	Net change in fund balance	14,046,766	1,185,478
0100	Fund balance - September 1 (beginning)	47,890,833	1,910,259
3000	FUND BALANCE - JUNE 30 (ENDING)	\$ 61,937,599	\$ 3,095,737

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

Exhibit C-3

50 Debt Service Fund	60 Capital Project Fund	30-42 State Funded Grant Funds	46-48 Local Funds	Total Governmental Funds
\$ 80,882,584	\$ 1,228,512	\$ -	\$ 5,067,575	\$ 271,439,423
1,645,201	4,247	4,686,954	4,309	101,579,170
-	-	-	-	12,982,655
82,527,785	1,232,759	4,686,954	5,071,884	386,001,248
-	4,275	3,763,117	1,480,803	172,972,519
-	-	29	425,207	3,850,094
-	-	108,879	41,133	4,697,466
-	-	-	19,884	3,153,336
-	55,676	-	151,872	16,097,699
-	-	64,356	499,935	12,272,128
-	-	-	10,725	167,087
-	-	-	2,062	3,161,040
-	-	-	-	8,395,846
-	-	-	-	11,765,349
-	-	596	1,639,886	9,820,122
-	127,089	-	97,484	6,174,313
-	593,076	-	25,956	22,418,785
-	-	-	72,778	2,187,128
-	64,286	-	-	4,106,340
-	-	-	28,470	796,482
-	-	-	-	-
3,297,392	-	-	-	3,297,392
16,529,435	-	-	-	16,529,435
8,330	-	-	-	8,330
-	5,034,726	-	3,500	5,068,272
-	-	-	-	241,570
-	-	-	-	12,513
-	-	-	-	3,117,970
-	-	-	-	1,089,363
19,835,157	5,879,128	3,936,977	4,499,695	311,400,579
62,692,628	(4,646,369)	749,977	572,189	74,600,669
62,692,628	(4,646,369)	749,977	572,189	74,600,669
19,547,636	13,936,601	100,898	4,243,211	87,629,438
\$ 82,240,264	\$ 9,290,232	\$ 850,875	\$ 4,815,400	\$ 162,230,107

Keller Independent School District
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities
 For the Ten Months Ended June 30, 2018

Exhibit C-4

TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS	\$ 74,600,669
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 decrease net position.	(2,259,875)
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 2018 capital outlays is to increase net position.	5,261,012
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.	(18,847,484)
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.	(3,892)
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.	3,297,392
Current year change in accretion on capital appreciation bonds is not recorded in the fund financial statements, but is shown as a decrease in the accreted interest on the government-wide financial statements.	5,157,932
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.	6,323,769
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.	(2,561,297)
Changes in the net pension liability, and related deferred inflows and outflows are recognized in the government-wide financials, but are not reported in the fund financial statements. The effect of the change is a decrease to net position.	(3,960,636)
Changes in the net OPEB liability, and related deferred inflows and outflows are recognized in the government-wide financials, but are not reported in the fund financial statements. The effect of the change is a decrease to net position.	34,756,294
Property taxes are deferred in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed net of an allowance for uncollectible accounts in the government-wide statements.	328,733
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.	2,783
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.	(17,130,804)
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ 84,964,596</u></u>

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

Keller Independent School District
Statement of Net Position
Proprietary Funds
June 30, 2018

Exhibit D-1

	<u>Governmental Activities - Internal Service Funds</u>
ASSETS	
Current assets	
Cash and temporary investments	\$ 1,700,439
Accounts receivable	11,542
Cash - restricted	587,000
Total current assets	<u>2,298,981</u>
TOTAL ASSETS	2,298,981
LIABILITIES	
Current liabilities	
Accounts and claims payable	1,851,380
Due to other funds	11,872,587
Accrued expenses	93,629
Total current liabilities	<u>13,817,596</u>
Noncurrent liabilities	
Claims payable	1,837,285
Total noncurrent liabilities	<u>1,837,285</u>
TOTAL LIABILITIES	15,654,881
NET POSITION	
Restricted for employee health claims	587,000
Unrestricted net position	<u>(13,942,900)</u>
TOTAL NET POSITION	<u>\$ (13,355,900)</u>

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

Keller Independent School District

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds

For the Ten Months Ended June 30, 2018

Exhibit D-2

	<u>Governmental</u>
	<u>Internal</u>
	<u>Service</u>
	<u>Funds</u>
OPERATING REVENUES	
Local and intermediate sources	\$ 19,075,314
Total operating revenues	19,075,314
OPERATING EXPENSES	
Payroll costs	47,756
Professional and contracted services	2,385,117
Supplies	8,861
Claim settlement costs	18,911,472
Total operating expenses	21,353,206
Operating loss	(2,277,892)
NONOPERATING REVENUES	
State on-behalf revenue	1,951
Earnings from temporary deposits and investments	16,066
Total nonoperating revenues	18,017
Change in net position	(2,259,875)
Net position - September 1 (beginning)	(11,096,025)
TOTAL NET POSITION - JUNE 30 (ENDING)	<u>\$ (13,355,900)</u>

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

Keller Independent School District
Statement of Cash Flows
Proprietary Funds
For the Ten Months Ended June 30, 2018

Exhibit D-3

	<u>Governmental</u>
	<u>Internal</u>
	<u>Service</u>
	<u>Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 19,075,314
Cash payments to employees for services	(45,805)
Cash payments for insurance claims	(17,284,136)
	<hr/>
Net cash provided by operating activities	1,745,373
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends on investments	16,066
	<hr/>
Net cash provided by investing activities	16,066
	<hr/>
Net change in cash and cash equivalents	1,761,439
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	526,000
	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR,	
	<hr/>
	\$ 2,287,439
	<hr/>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	(2,277,892)
Adjustments to reconcile operating loss to net cash used in operating activities:	
State on-behalf revenue	1,951
Change in assets and liabilities:	
Decrease in accounts receivable	318,340
Decrease in due from other funds	1,887
Decrease in prepaid items	3,230
Decrease in accounts and claims payable	(33,591)
Increase in due to other funds	3,642,374
Increase in accrued expenditures	89,074
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<hr/>
	\$ 1,745,373
	<hr/>

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

Keller Independent School District
Statement of Assets and Liabilities
Fiduciary Fund
June 30, 2018

Exhibit E-1

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 927,661
Accounts receivable	2,695
Total assets	<u>\$ 930,356</u>
LIABILITIES	
Accounts payable	\$ 42,321
Due to other governments	198
Due to student groups	887,837
Total liabilities	<u>\$ 930,356</u>

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

Keller Independent School District

Notes to the 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 accounting principles generally accepted in the United States of America (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified by 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 GASB. There are no component units included within the reporting entity and the District is not included in any other governmental reporting entity.

House Bill 98 enacted by the 76th Legislature of the state of Texas allowed school districts to change their fiscal year-end from August 31 to June 30 beginning with the 2001-2002 fiscal year. The District elected to take advantage of this opportunity and chose to change its fiscal year beginning with the 2017-2018 reporting period. As such, the financial statements are presented for a ten-month period of September 1, 2017 through June 30, 2018.

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 investment 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 sources and other uses on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances 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.

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. Any remaining governmental funds are aggregated and reported as non-major funds.

Keller Independent School District

Notes to the Financial Statements

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/expenses 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 period 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, deferred outflows, current liabilities, deferred inflows and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

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

Keller Independent School District

Notes to the Financial Statements

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 balance/net position, revenues and expenditures/expenses. 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.

The District reports the following major governmental funds:

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 Fund – All funds that 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 Fund – 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 Fund – 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.

State Funded Grant Fund – Funds that receive assistance from the state are accounted for in this fund. Sometimes unused balances must be returned to the grantor at the close of specified project periods.

Local Fund – Includes funds that receive assistance from local grants or other locally generated sources. Sometimes unused balances must be returned to the grantor at the close of specified project periods.

The District also reported the following fund types:

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 Service Funds are a Worker's Compensation and Health Insurance fund.

Fiduciary Funds:

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

Keller Independent School District

Notes to the Financial Statements

D. New Accounting Standards Adopted

During the ten month period ended June 30, 2018, the District adopted Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – which supersedes GASB Statement No. 45.

The requirements of Statement No. 75 apply to the financial statements of all state and local government employers whose employees are provided postemployment benefits other than pensions that are administered through trusts or equivalent arrangements, and to the financial statements of state and local government in which the non-employer contributing entity (State) and District have a legal obligation to make contributions directly to such OPEB plan. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to the OPEB plan. Note disclosure and RSI requirements about the OPEB plan also are addressed. The adoption of Statement No. 75 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively. The calculation of OPEB contributions is unaffected by the change. However, the adoption has resulted in the restatement of the District's beginning net position for the fiscal year 2018 government-wide financial statements to reflect the reporting of net OPEB liability and deferred inflows of resources and deferred outflows of resources for its qualified OPEB plan and the recognition of OPEB expense in accordance with the provisions of the Statement.

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 June 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 June 30. 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.

Unused appropriations lapse at the end of each fiscal year; however, the District rolls outstanding encumbrances to the subsequent year and, for the most part, must be accommodated within the budget of the following year.

Keller Independent School District

Notes to the Financial Statements

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. Investments

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.

External investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or Net Asset Value (NAV).

Remaining investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The non-TRS pension trust fund investment is a fixed annuity contract and is reported at contract value (a cost-based measure).

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.

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.

Keller Independent School District

Notes to the 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 revenue from the Foundation School Program 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 June 30, 2018 will change.

L. Unearned revenue

Amounts reported as unearned revenue include funds received in advance of grant expenditures and amounts not yet earned on entitlements.

M. 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 portion of the District's property tax levy that was not collected until more than 60 days after the end of the current year and therefore not considered available has been reported as a deferred inflow of resources in the Governmental Funds Balance Sheet totaling \$2,173,045 and \$956,868 in the General Fund and Debt Service Fund, respectively.

N. 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 acquisition value at the date of donation.

Keller Independent School District

Notes to the Financial Statements

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

O. 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 are deferred and amortized over the life of the bonds using the straight line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. The deferred gain or loss on refunding will be recognized as a deferred outflow of resources or a deferred inflow of resources and amortized to interest expense over the life of the bond. Bond issuance costs are expensed in the current period.

In the fund financial statements, governmental fund types recognized bond premiums and discounts 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.

P. 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, reimbursement of revenue or reclassification of revenue initially made from it that are properly applicable to another fund. All interfund receivable/payable balances at June 30, 2018 were the result of these types of reimbursements and are expected to be repaid within one year.
- Transfers in and out, as appropriate, which are shown as other financing sources or uses in the fund financial statements.

Q. 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.

R. Prepaid Items

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

Keller Independent School District

Notes to the Financial Statements

S. Deferred Inflows and Deferred Outflows of Resources

The statement of net position includes a separate section, in addition to assets, for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position/fund balance that applies to a future period(s) and therefore will not be recognized as an expense/expenditure until that time. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources, represents an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as revenue until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension and OPEB activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and OPEB, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- District contributions after the measurement date are recognized in the subsequent year.
- Deferred charge/gain on refunding is amortized over the shorter of the life of the refunded or refunding debt.
- Property taxes are recognized in the period the amount becomes available.

T. Defined Benefit Pension Plan

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The Teacher Retirement System of Texas (TRS) administers the plan. The fiduciary net position of the TRS of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net pension liability reported by the District, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Keller Independent School District

Notes to the Financial Statements

Note 2. Bonded Debt Payable

Bonded debt payable as of June 30, 2018 is as follows:

Description	Interest Rate Payable	Amount of Original Issue	Amount Outstanding 9/1/2017	Issued Current Year	Refunded Current Year	Retired Current Year	Amount Outstanding 6/30/2018
Unlimited Tax School Building and Refunding Bonds Series 1996A							
Final maturity 2022	3.60-5.90	\$ 59,539,931	\$ 8,567,245	\$ -	\$ -	\$ -	\$ 8,567,245
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 Refunding Bonds Series 2006							
Final maturity 2029	4.00-5.00	89,844,973	1,839,973	-	-	-	1,839,973
Unlimited Tax School Building Bonds Series 2009							
Final maturity 2035	4.39-5.50	142,299,951	5,320,000	-	-	2,485,000	2,835,000
Unlimited Tax Refunding Bonds Series 2009							
Final maturity 2023	3.00-4.625	11,199,999	3,565,000	-	-	535,000	3,030,000
Unlimited Tax Refunding Bonds Series 2009A							
Final maturity 2032	3.50-4.50	22,419,992	22,331,857	-	-	-	22,331,857
Unlimited Tax Refunding Bonds Series 2010							
Final maturity 2030	2.00-4.125	8,389,999	6,790,000	-	-	255,000	6,535,000
Unlimited Tax Refunding Bonds Series 2011							
Final maturity 2029	2.00-4.00	9,370,000	6,460,000	-	-	-	6,460,000

Keller Independent School District

Notes to the Financial Statements

Description	Interest Rate Payable	Amount of Original Issue	Amount Outstanding 9/1/2017	Issued Current Year	Refunded Current Year	Retired Current Year	Amount Outstanding 6/30/2018
Unlimited Tax							
Refunding Bonds							
Series 2012							
Final maturity 2032	3.50	2,710,000	2,710,000	-	-	-	2,710,000
Unlimited Tax							
Refunding Bonds							
Series 2012A							
Final maturity 2036	2.00-3.00	4,339,998	4,305,000	-	-	-	4,305,000
Unlimited Tax							
Refunding Bonds							
Series 2013							
Final maturity 2031	1.50-5.00	81,080,000	78,015,000	-	-	-	78,015,000
Unlimited Tax							
Refunding Bonds							
Series 2014							
Final maturity 2025	2.46	43,350,000	33,330,000	-	-	-	33,330,000
Unlimited Tax							
Refunding Bonds							
Series 2014A							
Final maturity 2029	2.00-5.00	56,565,000	56,165,000	-	-	-	56,165,000
Unlimited Tax							
Building Bonds							
Series 2015							
Final maturity 2041	1.00-5.00	153,875,000	137,665,000	-	-	-	137,665,000
Unlimited Tax							
Refunding Bonds							
Series 2015							
Final maturity 2033	2.00-5.00	98,675,000	96,235,000	-	-	-	96,235,000
Unlimited Tax							
Refunding Bonds							
Series 2015A							
Final maturity 2035	4.00-5.00	116,577,588	114,831,844	-	-	22,392	114,809,452
Unlimited Tax							
Refunding Bonds							
Series 2016A							
Final maturity 2032	2.00-5.00	70,915,000	69,680,000	-	-	-	69,680,000
Unlimited Tax							
Refunding Bonds							
Series 2016B							
Final maturity 2032	2.00-3.00	56,020,000	55,130,000	-	-	-	55,130,000
Total bonded debt payable		\$ 1,056,870,444	\$ 706,960,914	\$ -	\$ -	\$ 3,297,392	\$ 703,663,522

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

Due Fiscal Year Ending June 30	Principal	Interest	Total
2019	\$ 26,650,673	\$ 36,999,677	\$ 63,650,350
2020	17,176,122	43,102,213	60,278,335
2021	24,322,656	35,542,457	59,865,113
2022	25,884,071	34,631,311	60,515,382
2023	34,200,000	26,771,807	60,971,807
2024-2028	191,165,000	108,991,683	300,156,683
2029-2033	234,160,000	60,612,069	294,772,069
2034-2038	83,585,000	24,187,250	107,772,250
2039-2041	66,520,000	4,060,800	70,580,800
	<u>\$ 703,663,522</u>	<u>\$ 374,899,267</u>	<u>\$ 1,078,562,789</u>

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

Keller Independent School District

Notes to the 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, 2017	\$ 814,241
New entrants and salary increments	28,997
Payments to participants	(31,780)
	<hr/>
Balance, June 30, 2018	<u>\$ 811,458</u>

Note 4. Changes in Long-term Liabilities

Long-term activity for the period ended June 30, 2018 was as follows:

	Beginning Balance, as restated	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds:	\$ 706,960,914	\$ -	\$ 3,297,392	\$ 703,663,522	\$ 26,650,673
Accreted interest	24,689,852	915,399	6,073,331	19,531,920	6,186,497
Premium on bonds	102,380,421	-	6,323,769	96,056,652	7,588,522
Compensated absences	814,241	28,997	31,780	811,458	28,344
Claims payable	3,709,579	20,168,865	20,203,875	3,674,569	1,837,285
Net pension liability	71,445,260	12,386,688	20,573,751	63,258,197	-
OPEB Liability	177,303,826	16,994	76,890,971	100,429,849	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total governmental activities long-term liabilities	<u>\$ 1,087,304,093</u>	<u>\$ 33,516,943</u>	<u>\$ 133,394,869</u>	<u>\$ 987,426,167</u>	<u>\$ 42,291,321</u>

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

Keller Independent School District

Notes to the Financial Statements

Note 5. Capital Asset Activity

Capital asset activity for the District for the period ended June 30, 2018 was as follows:

Primary government:

	Balance 9/1/2017	Additions	Transfers	Deletions	Balance 6/30/2018
Capital assets, not being depreciated:					
Land	\$ 47,710,562	\$ 220,193	\$ -	\$ -	\$ 47,930,755
Construction in progress	4,207,101	1,071,624	-	-	5,278,725
Total capital assets, not being depreciated	51,917,663	1,291,817	-	-	53,209,480
Capital assets, being depreciated:					
Buildings and improvements	907,785,421	2,432,349	-	-	910,217,770
Furniture and equipment	34,011,205	1,536,846	-	(86,781)	35,461,270
Total capital assets, being depreciated	941,796,626	3,969,195	-	(86,781)	945,679,040
Less accumulated depreciation on:					
Buildings and improvements	231,418,009	15,663,764	-	-	247,081,773
Furniture and equipment	18,329,072	3,183,720	-	(82,889)	21,429,903
Accumulated depreciation	249,747,081	18,847,484	-	(82,889)	268,511,676
Total capital assets, being depreciated, net	692,049,545	(14,878,289)	-	(3,892)	677,167,364
Governmental activities capital assets, net	\$ 743,967,208	\$ (13,586,472)	\$ -	\$ (3,892)	\$ 730,376,844

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

Instruction	\$ 13,812,966
Instructional resources and media services	194,331
Curriculum and staff development	31,303
Instructional leadership	42,567
School leadership	604,438
Guidance, counseling and evaluation services	217,185
Social services	390
Health services	1,286,564
Student transportation	3,249
Food services	270,723
Co-curricular/extracurricular activities	664,176
General administration	64,844
Plant maintenance and operations	955,067
Security and monitoring services	300,460
Data processing services	143,180
Community services	256,041
Total depreciation expense	\$ 18,847,484

Keller Independent School District

Notes to the Financial Statements

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 (PFIA)(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:

Maximum Authorized Maximum Investment Type	Maximum Percentage Maturity	Investment of Portfolio	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	none	none
Guaranteed investment contracts	5 years	none	none
Public funds investment pool	n/a	none	none

The PFIA also requires the District to have independent auditors perform test procedures related to investment practices. The District is in substantial compliance with the requirements of the PFIA and with local policies.

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Primary government	\$ 142,415,068
Fiduciary funds	927,661
	<hr/>
	\$ 143,342,729
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Keller Independent School District

Notes to the Financial Statements

Cash and investments as of June 30, 2018 consist of the following:

Cash and temporary investments	\$	121,642,729
Long term investments		21,700,000
		<hr/>
	\$	143,342,729
		<hr/> <hr/>

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.

As of June 30, 2018, 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 below 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

This is the risk of loss attributed to the magnitude of the District’s investment in a single issuer (i.e. lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single 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.

On the date of the highest cash balance, the District’s deposits with financial institutions were fully collateralized by federal depository insurance or by pledged collateral held by the District’s agent bank in the District’s name.

Keller Independent School District

Notes to the Financial Statements

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

- a. Depository: Frost Bank
- b. Security pledged as of the date of the highest combined balance on deposit was \$19,769,893
- c. Largest cash, savings and time deposit combined account balance amounted to \$11,920,000 and occurred during the month of November 2017
- 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 Prime, LOGIC and TexasCLASS.

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.

LOGIC is governed by a 6-member board and is an AAAM rated investment program tailored to the investment needs of local governments within the state of Texas. LOGIC assists governments across Texas to 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 PFIA. The fair value of the position in LOGIC is the same as the value of LOGIC shares.

Texas CLASS is a local government investment pool emphasizing safety, liquidity, convenience and competitive yield. Since 1996, Texas CLASS has provided Texas public entities a safe and competitive investment alternative. Texas CLASS invests only in securities allowed by the Texas Public Funds Investment Act. The pool is governed by a board of trustees, elected annually by its participants. Texas CLASS is rated 'AAAM' by Standard and Poor's Ratings Services. The 'AAAM' principal stability fund rating is the highest assigned to principal stability government investment pools and is a direct reflection of Texas CLASS's outstanding credit quality and management.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

Keller Independent School District

Notes to the Financial Statements

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The Texpool Prime and TexasCLASS investment pools are external investment pools measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool.

The LOGIC investment pool transacts at a net asset value of \$1.00 per share, has weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. LOGIC has a redemption notice period of one day and no maximum transaction amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

Investment Pools are measured at amortized cost or net asset value (NAV) and are exempt from fair value reporting and are, therefore, excluded from the fair value hierarchy.

U.S. government agency and municipal bonds are valued using pricing models maximizing the use of observable inputs for similar securities.

The District's fair value measurements, investment balances and weighted average maturity of such investments, excluding the non-TRS pension Trust Fund, are as follows:

	Investments				Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
	Value at June 30, 2018	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs			
Investments measured at amortized cost							
Investment pools							
TexPool Prime	\$ 2,077,891	n/a	n/a	n/a	1%	35	AAAm
TexasCLASS	55,780,608	n/a	n/a	n/a	39%	50	AAAm
Investments measured at net asset value (NAV)							
Investment pools							
LOGIC	64,276,940	n/a	n/a	n/a	44%	34	AAAm
Investments by fair value level							
FFCB	4,000,000	-	4,000,000	-	3%	279	AA+
FHLB	4,000,000	-	4,000,000	-	3%	629	AA+
FHLMC	9,700,000	-	9,700,000	-	7%	37	AA+
FNMA	4,000,000	-	4,000,000	-	3%	759	AA+
Total portfolio weighted average maturity	\$ 143,835,439	\$ -	\$ 21,700,000	\$ -	100%	87	

Keller Independent School District

Notes to the Financial Statements

Note 7. Defined Benefit Pension Plan

Plan Description

The District participates in and contributes to a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.texas.gov/TRS%20Documents/cafr_2017.pdf; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description, above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if because of the particular action, the time required to amortize TRS' 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.

Keller Independent School District

Notes to the Financial Statements

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 84th Texas Legislature, General Appropriation Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017. Rates for the plan are as follows.

	Contribution Rates	
	2017	2018
Member	7.2%	7.7%
Non-employer contributing entity (state)	6.8%	6.8%
Employers	6.8%	6.8%
<u>Employer #0767</u>	<u>2018</u>	
Employer contributions	\$ 5,630,778	
Member contributions	14,203,468	
NECE on-behalf contributions	9,726,197	

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior colleges and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to:

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Keller Independent School District

Notes to the Financial Statements

Actuarial Assumptions

The total pension liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	August 31, 2017
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	8.00%
Long term expected investment rate of return	8.00%
Inflation	2.5%
Salary increases including inflation	3.5% to 9.5%
Payroll growth rate	2.5%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions are primarily based on a study of actual experience for the four-year period ending August 31, 2014 and adopted on September 24, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

Keller Independent School District

Notes to the Financial Statements

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. developed	13.0%	5.1%	0.8%
Emerging markets	9.0%	5.9%	0.7%
Directional hedge funds	4.0%	3.2%	0.1%
Private equity	13.0%	7.0%	1.1%
Stable value			
U.S. treasuries	11.0%	0.7%	0.1%
Absolute return	0.0%	1.8%	0.0%
Stable value hedge funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real return			
Global inflation linked bonds	3.0%	0.9%	0.0%
Real assets	16.0%	5.1%	1.1%
Energy and natural resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk parity:			
Risk parity	5.0%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2017 Net Pension Liability.

	1% decrease in discount rate (7.0%)	Discount rate (8.0%)	1% increase in discount rate (9.0%)
District's proportionate share of the net pension liability	\$ 106,640,821	\$ 63,258,197	\$ 27,135,121

Keller Independent School District

Notes to the Financial Statements

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a liability of \$63,258,197 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 63,258,197
State's proportionate share that is associated with District	95,088,683
Total	<u>\$ 158,346,880</u>

The net pension liability was measured as of August 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017, the employer's proportion of the collective net pension liability was 0.19784%, which was an increase from 0.18907%, its proportion measured as of August 31, 2016.

Changes since the Prior Actuarial Valuation

There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the period ended June 30, 2018, the District recognized pension expense of \$7,765,510 and revenue of \$7,765,510 for support provided by the State.

Keller Independent School District

Notes to the Financial Statements

At June 30, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 925,496	\$ 3,411,431
Changes in actuarial assumptions	2,881,511	1,649,598
Differences between projected and actual investment earnings	-	4,610,119
Changes in proportion and difference between the employer's contributions and the proportionate share of the contributions	13,847,827	4,388
Contributions paid to TRS subsequent to the measurement dates	5,630,778	-
	<u>\$ 23,285,612</u>	<u>\$ 9,675,536</u>

Contributions paid to TRS subsequent to the measurement dates will be recognized in 2019 and are reported as deferred outflows of resources in the amount of \$5,630,778. The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expense Amount
2019	\$ 1,196,187
2020	5,234,122
2021	885,932
2022	(315,571)
2023	699,862
2024	278,766
	<u>\$ 7,979,298</u>

Note 8. Defined Other Post-Employment Benefit Plan

Plan Description

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

OPEB Plan Fiduciary Net Position

Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided

TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Keller Independent School District

Notes to the Financial Statements

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree*	\$ -	\$ 70	\$ 100
Retiree and spouse	20	175	255
Retiree* and children	41	132	182
Retiree and family	61	237	337
Surviving children only	28	62	82

* or surviving spouse

Contributions

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	2017	2018
Active employees	0.65%	0.65%
Non-employer contribution entity (state)	1.00%	1.25%
Employers/District	0.55%	0.75%
Federal/private funding remitted by Employers	1.00%	1.25%

Keller Independent School District

Notes to the Financial Statements

The contribution amounts for the District's fiscal period 2018 are as follows:

Employer #0767	2018
Employer contributions	\$ 1,199,416
Member contributions	1,198,818
NECE on-behalf contributions	1,975,922

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (*regardless of whether or not they participate in the TRS Care OPEB program*). When employers hire a TRS retiree, they are required to pay to TRS Care, a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$182.6 million in fiscal period 2018.

Keller Independent School District

Notes to the Financial Statements

Actuarial Assumptions

The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Rates of mortality	General inflation
Rates of retirement	Wage inflation
Rates of termination	Expected payroll growth
Rates of disability incidence	

Additional Actuarial Methods and Assumptions:

Valuation date	August 31, 2017
Actuarial cost method	Individual entry age normal
Inflation	2.50%
Discount rate	3.42%*
Aging factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims cost
Payroll growth rate	2.50%
Projected salary increases	3.50% to 9.50%**
Healthcare trend rates	4.50% to 12.00%***
Election rates	Normal retirement 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

*Source: Fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2017.

**Includes inflation at 2.50%

***Initial trend rates are 7.00% for non-Medicare retiree; 10.00% for Medicare retirees and 12.00% for prescriptions for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 10 years.

Other information - There was a significant plan change adopted in fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will be offered and all retirees will be required to contribute monthly premiums for coverage. Assumption changes made for the August 31, 2017 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017.

Keller Independent School District

Notes to the Financial Statements

Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 percent in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to *not be able to* make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of August 31, 2017.

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns
Global equity:			
U.S.	18.0%	4.6%	1.0%
Non-U.S. developed	13.0%	5.1%	0.8%
Emerging markets	9.0%	5.9%	0.7%
Directional hedge funds	4.0%	3.2%	0.1%
Private equity	13.0%	7.0%	1.1%
Stable value:			
U.S. treasuries	11.0%	0.7%	0.1%
Absolute return	0.0%	1.8%	0.0%
Stable value hedge funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real return:			
Global inflation linked bonds	3.0%	0.9%	0.0%
Real assets	16.0%	5.1%	1.1%
Energy and natural resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk parity:			
Risk parity	5.0%	6.7%	0.3%
Inflation expectation			2.2%
Alpha			1.0%
Totals	100.0%		8.7%

* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

Keller Independent School District

Notes to the Financial Statements

Discount Rate Sensitivity Analysis The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the Net OPEB Liability.

	<u>1% Decrease in discount rate (2.42%)</u>	<u>Discount rate (3.42%)</u>	<u>1% Increase in discount rate (4.42%)</u>
District's proportionate share of the net OPEB liability	\$ 118,532,154	\$ 100,429,849	\$ 85,879,678

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2018, the District reported a liability of \$100,429,849 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's Proportionate share of the collective net OPEB liability	\$ 100,429,849
State's proportionate share that is associated with District	<u>165,272,613</u>
Total	\$ 265,702,462

The Net OPEB Liability was measured as of August 31, 2017 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective Net OPEB Liability was .2309462%, which was the same proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation – The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period.

The following assumptions and other inputs which are specific to TRS-Care were updated during the year ended August 31, 2017:

1. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98 percent as of August 31, 2016 to 3.42 percent as of August 31, 2017. This change lowered the total OPEB liability.

Keller Independent School District

Notes to the Financial Statements

There were no changes in benefit terms that affected measurement of the total OPEB liability during the measurement period.

For the period ended June 30, 2018, the District recognized OPEB expense of \$90,060,905 and revenue of \$55,304,611 for support provided by the State.

At June 30, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 2,096,549
Changes in actuarial assumptions	-	39,913,446
Differences between projected and actual investment earnings	15,256	-
Changes in proportion and difference between the employer's contributions and the proportionate share of the contributions	462	-
Contributions paid subsequent to the measurement dates	<u>1,270,235</u>	<u>-</u>
	<u>\$ 1,285,953</u>	<u>\$ 42,009,995</u>

The deferred outflow of resources relating to District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the period ended June 30, 2019. The net amounts of the remaining balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended August 31:</u>	<u>Pension Expense Amount</u>
2019	\$ (5,541,194)
2020	(5,541,194)
2021	(5,541,194)
2022	(5,541,194)
2023	(5,545,008)
Thereafter	<u>(14,284,493)</u>
	<u>\$ (41,994,277)</u>

Statement of Activities – Operating Grants and Contributions – Districts participating in cost-sharing OPEB plan with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plan. The TRS-CARE plan is a cost-sharing plan with a special funding situation. Therefore, on-behalf expense activity of the NECE must be recorded in the District's Statement of Activities.

During the period ended June 30, 2018 the NECE amount was negative due to changes in benefits within the TRS-Care plan. The accrual for the proportionate share of that amount resulted in a negative on-behalf revenue and negative on-behalf expense. The negative revenue was required to be allocated among the District's functions within operating grants and contributions on the Statement of Activities.

Keller Independent School District
Notes to the Financial Statements

Following are the effects on operating grants and contributions on the Statement of Activities:

<u>Function</u>	<u>Operating Grants and Contributions</u>	<u>Negative On-Behalf Accruals</u>	<u>Operating Grants and Contributions (Excluding On-Behalf Accruals)</u>
11 Instruction	(\$8,313,375)	(\$18,067,184)	\$9,753,809
12 Instructional resources and media services	(566,019)	(1,230,111)	664,092
13 Curriculum and staff development	(658,588)	(1,431,288)	772,700
21 Instructional leadership	(44,252)	(96,172)	51,920
23 School leadership	(263,816)	(573,342)	309,526
31 Guidance, counseling and evaluation services	(1,847,841)	(4,015,851)	2,168,010
32 Social work services	(14,337)	(31,157)	16,820
33 Health services	(16,209)	(35,227)	19,018
34 Student (pupil) transportation	(61,086)	(132,756)	71,670
35 Food services	(11,039,032)	(23,990,758)	12,951,726
36 Extracurricular activities	(2,128,025)	(4,624,765)	2,496,740
41 General administration	(148,983)	(323,780)	174,797
51 Plant maintenance and operations	(123,020)	(267,355)	144,335
52 Security and monitoring services	(101,629)	(220,867)	119,238
53 Data processing services	(16,666)	(36,220)	19,554
61 Community services	(104,809)	(227,778)	122,969
Totals	(\$25,447,687)	(\$55,304,611)	\$29,856,924

Medicare Part D

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 offset certain prescription drug expenditures for eligible TRS-Care participants. For the periods ended August 31, 2016, August 31, 2017, and June 30, 2018, the subsidy payments received by the TRS-Care on behalf of the District were \$755,637, \$620,530 and \$640,783, respectively. These payments are recorded as equal revenues and expenditures in the governmental fund financial statements.

Note 9. 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 \$500,000 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.

Keller Independent School District

Notes to the Financial Statements

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 attachment point was \$807.07 per employee per month for the 2017 calendar year.

Settled claims have not exceeded the aggregate coverage in any of the past three fiscal periods. Insurance coverage has not been reduced for the year from the prior year. Accrued claims payable of \$3,674,569 as of June 30, 2018, 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 periods ended June 30, 2018 and August 31, 2017 are as follows:

	2018	2017
Liability, beginning of year	\$ 3,709,579	\$ 3,313,601
Current year claims and changes in estimates	20,168,865	21,783,348
Claim payments	(20,203,875)	(21,387,370)
Liability, end of year	<u>\$ 3,674,569</u>	<u>\$ 3,709,579</u>

Note 10. Litigation

From time to time, the District is a defendant in legal proceedings relating to its operations as a school district. Management determined the outcome of any other ongoing legal proceedings will not have a material adverse effect on the accompanying financial statements. Therefore, in the opinion of the District, there are neither significant contingent liabilities related to the period ended June 30, 2018 nor future costs that will have a material effect on the financial statements of the District.

Note 11. Commitments

In a prior year, the District entered into an agreement with 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 Durham 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. A third agreement was effective August 1, 2014 for a period of 5 years, with the option to renew for five additional years.

As of June 30, 2018, the District has entered into long-term construction projects with an aggregate unexpended balance of \$187,747.

Keller Independent School District

Notes to the Financial Statements

The District has also entered into operating leases for office equipment and for management technology services. The expenditures under these leases for the period ended June 30, 2018 totaled \$3,463,231.

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

Year Ending June 30,	
2019	\$ 4,009,105
2020	2,559,248
2021	1,637,317
2022	100,645
Total	<u>\$ 8,306,315</u>

Note 12. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. Amounts due from federal and state governments as of June 30, 2018, are summarized below. All federal grants shown below are passed through the TEA or the Texas Department of Agriculture and are reported on the combined financial statements as Due from Other Governments.

Fund	Entitlements	Federal Grants	Total
General	\$ 26,068,868	\$ -	\$ 26,068,868
State funded grants	26,102	-	26,102
Federally funded grants	-	2,166,903	2,166,903
Total	<u>\$ 26,094,970</u>	<u>\$ 2,166,903</u>	<u>\$ 28,261,873</u>

Keller Independent School District

Notes to the Financial Statements

Note 13. Interfund Balances and Activities

Interfund balances at June 30, 2018 consisted of the following individual fund balances:

Due to Fund	Due from Fund	Amount
Debt Service Fund	General Fund	369,586
General Fund	Federally Funded Grant Fund	2,016,431
General Fund	Internal Service Fund	11,872,587
		\$ 14,258,604

Interfund balances relate to reclassification of revenue and amounts paid by one fund, primarily the General Fund, on behalf of another fund to be repaid in the normal course of business. All amounts due are scheduled to be repaid within one year.

Note 14. Other Receivables

Other receivables recorded in the fund level financial statements consisted of the following at June 30, 2018:

	General Fund	Federally Funded Grants	Capital Projects Fund	State Funded Grants	Local Funds	Total
Services rendered	\$ 156,294	\$ 475,166	\$ 6,600	\$ 9,000	\$ 5,401	\$ 652,461
E-rate receivable	132,306	-	-	-	-	132,306
Total	\$ 288,600	\$ 475,166	\$ 6,600	\$ 9,000	\$ 5,401	\$ 784,767

Note 15. Classification of Fund Balance

Fund Balance Classifications

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

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.

- 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.
- 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 the Financial Statements

- The fund balance of the capital projects fund reflects an amount restricted for construction and major renovation projects, and it usually represents unexpended proceeds from the sale of school building bonds.

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.

- Campus activity funds are considered committed by the governing body through adoption of board policy pertaining to the usage of these funds.
- The District's Board of Trustees voted to commit fund balance equal to between 17% and 20% of the 2019 general fund expenditure budget for budgetary contingencies.

Assigned Fund Balance

Comprises amounts intended to be used by the District for specific purposes. 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 a 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. At June 30, 2018, there were no assignments of fund balance.

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.

Note 16. 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 \$4,581,929 are recorded as revenues 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 June 30, 2018, the remainder of the textbooks, in possession of the District, have minimal value and are not otherwise reflected elsewhere in these statements.

Keller Independent School District

Notes to the Financial Statements

Note 17. New Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

The District's management is reviewing the implementation process of these standards by gathering required information.

Note 18. Budget Overage

The budgetary comparison schedule for the General Fund indicates there are two areas with an excess of expenditures over appropriations for the period ended June 30, 2018. These areas include instruction and instructional resources and media services. Instruction expenditures were in excess of final budget in the amount of \$5,878,992 and instructional resources and media services expenditures were in excess of final budget in the amount of \$63,541. The expenditures are related to period-end salary accruals.

Note 19. Prior Period Adjustment – Change in Accounting Principle

As discussed in Note 1, the adoption of GASB 75 requires and has resulted in the restatement of the District's beginning net position for the fiscal period 2018 in the government-wide financial statements to reflect the beginning net OPEB liability, deferred inflows of resources and deferred outflows of resources for its qualified OPB plan.

The cumulative effect of the adoption of the statement is a decrease in net position as of September 1, 2017 of \$175,910,185.

	Governmental Activities
Beginning net position, as previously reported	(\$22,138,184)
Implementation of GASB 75 for OPEB	(175,910,185)
Beginning net position, restated	(\$198,048,369)

Adoption of the statement also resulted in an aggregate net OPEB liability of \$177,303,826 offset by aggregate deferred outflows of resources of \$1,393,641 at August 31, 2017.

A government recognizes beginning deferred outflows of resources for its OPEB contributions, if any, made subsequent to the measurement date of the beginning net OPEB liability. Since the measurement date of the OPEB plan was different than the District's fiscal year-end, the effects from the District's reported contributions to the plan subsequent to the respective measurement date of the plan were an increase in deferred outflows of resources and a decrease in net position. The beginning deferred outflows for OPEB includes contributions from September 1, 2016 through August 31, 2017, totaling \$1,393,641.

Refer to Note 8 for more information regarding the District's OPEB plan.

Required Supplementary Information

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Keller Independent School District
 Budgetary Comparison Schedule – General Fund
 For the Ten Months Ended June 30, 2018

Exhibit G-1

Data Control Codes		Budgeted Amounts		Actual	Variance With
		Original	Final	Amounts	Final Budget
				(GAAP Basis)	Positive or (Negative)
REVENUES					
5700	Total local and intermediate sources	\$ 177,942,633	\$ 177,942,633	\$ 177,136,048	\$ (806,585)
5800	State program revenues	88,326,462	97,857,159	94,701,630	(3,155,529)
5900	Federal program revenues	1,165,558	1,165,558	947,491	(218,067)
5020	Total revenues	267,434,653	276,965,350	272,785,169	(4,180,181)
EXPENDITURES					
Current:					
0011	Instruction	151,381,673	159,494,721	165,373,713	(5,878,992)
0012	Instructional resources and media services	3,217,466	3,338,435	3,401,976	(63,541)
0013	Curriculum and instructional staff development	4,296,847	3,998,510	3,410,923	587,587
0021	Instructional leadership	3,215,687	3,597,588	3,118,374	479,214
0023	School leadership	15,335,238	16,189,563	15,878,964	310,599
0031	Guidance counseling and evaluation services	9,486,380	9,715,300	8,972,083	743,217
0032	Social services	155,431	164,721	156,362	8,359
0033	Health services	3,121,123	3,248,278	3,157,579	90,699
0034	Student (pupil) transportation	8,173,230	8,580,430	8,328,747	251,683
0035	Food services	7,000	3,000	1,771	1,229
0036	Cocurricular/extracurricular activities	8,475,405	8,871,455	8,179,640	691,815
0041	General administration	6,187,099	6,394,032	5,949,740	444,292
0051	Plant maintenance and operations	23,776,944	24,083,959	21,799,753	2,284,206
0052	Security and monitoring services	2,122,855	2,434,406	2,114,350	320,056
0053	Data processing services	3,445,970	4,318,886	4,042,054	276,832
0061	Community services	887,142	770,571	602,482	168,089
Capital outlay:					
0081	Facilities acquisition and construction	-	30,772	30,046	726
Intergovernmental:					
0095	Juvenile Justice Alternative Education Programs	2,600	12,550	12,513	37
0097	Payments to tax increment fund	3,134,771	3,117,970	3,117,970	-
0099	Other intergovernmental charges	1,108,737	1,095,737	1,089,363	6,374
6030	Total expenditures	247,531,598	259,460,884	258,738,403	722,481
1100	Excess (deficiency) of revenues over (under) expenditures	19,903,055	17,504,466	14,046,766	(3,457,700)
1200	Net change in fund balances	19,903,055	17,504,466	14,046,766	(3,457,700)
0100	Fund balances - September 1 (beginning)	47,890,833	47,890,833	47,890,833	-
3000	FUND BALANCES - JUNE 30 (ENDING)	\$ 67,793,888	\$ 65,395,299	\$ 61,937,599	\$ (3,457,700)

The Notes to the Required Supplementary Information are an integral part of this statement.

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Keller Independent School District

Notes to the Required Supplementary Information 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 fund, 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 June 20th the District prepares a budget for the next succeeding fiscal period beginning July 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 July 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	\$ 8,113,048
School leadership	854,325
Data processing services	872,916
Student (pupil) transportation	407,200
Cocurricular/extracurricular activities	396,050
Instructional leadership	381,901
Security and monitoring services	311,551
Plant maintenance and operations	307,015

4. Budgeted amounts are as amended by the Board. All budget appropriations lapse at period 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.

Excess Expenditures

The budgetary comparison schedule for the General Fund indicates two areas with an excess of expenditures over appropriations for the period ended June 30, 2018. These areas include instruction and instructional resources and media services. Instruction expenditures were in excess of final budget in the amount of \$5,878,992 and instructional resources and media services expenditures were in excess of final budget in the amount of \$63,541. The expenditures are related to period-end salary accruals.

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Keller Independent School District

Exhibit G-2

Schedule of the District's Proportionate Share of the Net Pension Liability For the Ten Months Ended June 30, 2018

	2018	2017	2016	2015
District's proportion of the net Pension liability	0.197838821%	0.189066080%	0.191179500%	0.126594400%
District's proportionate share of net pension liability	\$ 63,258,197	\$ 71,445,260	\$ 67,579,409	\$ 33,815,115
State's proportionate share of the net pension liability associated with the District	95,088,683	113,063,023	107,396,378	88,871,869
TOTAL	\$ 158,346,880	\$ 184,508,283	\$ 174,975,787	\$ 122,686,984
District's covered-employee payroll	\$ 204,888,225	\$ 194,375,460	\$ 184,444,586	\$ 169,617,596
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	30.87%	36.76%	36.64%	19.94%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

Note 1: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered by the measurement date as of August 31, 2017.

Note 2: Only four years of data is presented in accordance with GASB 68 as the data for the years other than 2018, 2017, 2016 and 2015 is not available.

Keller Independent School District
 Schedule of the District's Contributions
 For the Ten Months Ended June 30, 2018

Exhibit G-3

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 3,544,262	\$ 4,209,448	\$ 3,841,258	\$ 3,597,578
Contribution in relation to the contractually required contribution	<u>(3,544,262)</u>	<u>(4,209,448)</u>	<u>(3,841,258)</u>	<u>(3,597,578)</u>
CONTRIBUTION DEFICIENCY (EXCESS)	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 184,484,467	\$ 204,888,225	\$ 194,375,460	\$ 184,444,586
Contributions as a percentage of covered-employee payroll	1.92%	2.05%	1.98%	1.95%

Note 2: Only four years of data is presented in accordance with GASB 68 as the data for the years other than 2018, 2017, 2016 and 2015 is not available.

Keller Independent School District**Exhibit G-4**

Schedule of the District's Proportionate Share of the Net OPEB
Liability of a Cost-Sharing Multiple-Employer OPEB Plan
Teacher Retirement System of Texas
Last Fiscal Year*

	<u>2018</u>
District's proportion of the net OPEB liability	0.2309462243%
District's proportionate share of net OPEB liability	\$ 100,429,849
State's proportionate share of the net OPEB liability associated with the District	<u>162,272,613</u>
Total	<u><u>\$ 262,702,462</u></u>
District's covered-employee payroll	\$ 204,888,225
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	49%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%

*Note: Only one year of data is presented in accordance with GASB Standard No. 75
as the data for the years other than 2018 is not available.

Keller Independent School District
 Schedule of the District's Contributions
 For the Ten Months Ended June 30, 2018

Exhibit G-5

	<u>2018</u>
Contractually required contribution	\$ 1,454,711
Contribution in relation to the contractually required contribution	<u>(1,454,711)</u>
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$ 184,484,467
Contributions as a percentage of covered-employee payroll	0.79%

* Note: Only one year of data is presented in accordance with GASB Standard No. 75 as the data for the years other than 2018 is not available.

Keller Independent School District

Notes to the Required Supplementary Information
District's Net Pension and OPEB Liability

Pension Liability

Pension Changes of Benefit Terms

Changes of Benefit Terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Changes of Assumptions

There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

Other Post-Employment Benefits

Other Post-Employment Benefits Changes of Benefit Terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Other Post-Employment Benefits Changes of Assumptions

The following changes to the actuarial assumptions or inputs that affected measurement of the total OPEB liability since the prior measurement period:

1. Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered the total OPEB liability.

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Combining Statement

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Agency Funds

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Keller Independent School District

Exhibit H-1

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the Ten Months Ended June 30, 2018

	Balance September 1, 2017	Additions	Deductions	Balance June 30, 2018
STUDENT ACTIVITY ACCOUNT				
Assets				
Cash	\$ 691,850	\$ 2,558,747	\$ 2,540,344	\$ 710,253
Accounts receivable	4,640	2,611	4,640	2,611
Total assets	<u>\$ 696,490</u>	<u>\$ 2,561,358</u>	<u>\$ 2,544,984</u>	<u>\$ 712,864</u>
Liabilities				
Accounts payable	\$ 39,259	\$ 1,424,807	\$ 1,424,518	\$ 38,970
Due to other governments	509	509	198	198
Due to student groups	656,722	3,854	20,828	673,696
Total liabilities	<u>\$ 696,490</u>	<u>\$ 1,429,170</u>	<u>\$ 1,445,544</u>	<u>\$ 712,864</u>
EMPLOYEE ACTIVITIES				
Assets				
Cash	\$ 151,271	\$ 356,515	\$ 290,378	\$ 217,408
Accounts receivable	-	84	-	84
Total assets	<u>\$ 151,271</u>	<u>\$ 356,599</u>	<u>\$ 290,378</u>	<u>\$ 217,492</u>
Liabilities				
Accounts payable	\$ 1,110	\$ 114,768	\$ 117,009	\$ 3,351
Due to student groups	150,161	30,978	94,958	214,141
Total liabilities	<u>\$ 151,271</u>	<u>\$ 145,746</u>	<u>\$ 211,967</u>	<u>\$ 217,492</u>
TOTAL AGENCY FUNDS				
Assets				
Cash	\$ 843,121	\$ 2,915,262	\$ 2,830,722	\$ 927,661
Accounts receivable	4,640	2,695	4,640	2,695
Total assets	<u>\$ 847,761</u>	<u>\$ 2,917,957</u>	<u>\$ 2,835,362</u>	<u>\$ 930,356</u>
Liabilities				
Accounts payable	\$ 40,369	\$ 1,539,575	\$ 1,541,527	\$ 42,321
Due to other governments	509	509	198	198
Due to student groups	806,883	34,832	115,786	887,837
Total liabilities	<u>\$ 847,761</u>	<u>\$ 1,574,916</u>	<u>\$ 1,657,511</u>	<u>\$ 930,356</u>

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Required TEA Schedules

Keller Independent School District
 Schedule of Delinquent Taxes Receivable
 For the Ten Months Ended June 30, 2018

Years Ended June 30,	1		2		3		10	
	Tax Rates				Assessed or Appraised Valuation	Delinquent Balance by Year September 1, 2017		
	Maintenance	Debt Service						
2009 and prior	Various	Various	Various	Various		\$	737,566	
2010	1.040	0.446	10,518,985,594				157,709	
2011	1.040	0.491	10,838,009,000				158,710	
2012	1.040	0.500	11,200,638,123				157,452	
2013	1.040	0.500	11,303,854,760				182,048	
2014	1.040	0.500	11,925,386,754				192,284	
2015	1.040	0.500	12,950,447,900				181,505	
2016	1.040	0.500	12,902,894,457				468,642	
2017	1.040	0.480	14,963,935,148				1,218,499	
2018 (current)	1.040	0.480	16,498,543,735				-	
Totals						\$	<u>3,454,415</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/Period June 30, 2018
\$ -	\$ 7,432	\$ 2,344	\$ 9,776	\$ (535)	\$ 727,255
-	3,834	1,645	5,479	(11)	152,219
-	3,669	1,731	5,400	950	154,260
-	6,089	2,927	9,016	(320)	148,116
-	36,595	17,594	54,189	14,238	142,097
-	43,554	20,940	64,494	55,338	183,128
-	50,227	24,148	74,375	56,546	163,676
-	215,182	103,453	318,635	72,456	222,463
-	506,868	233,939	740,807	(94,881)	382,811
244,073,351	171,671,753	79,233,113	250,904,866	9,423,115	2,591,600
<u>\$ 244,073,351</u>	<u>\$ 172,545,203</u>	<u>\$ 79,641,834</u>	<u>\$ 252,187,037</u>	<u>\$ 9,526,896</u>	<u>\$ 4,867,625</u>
	<u>\$ 3,117,970</u>				

Keller Independent School District
 Budgetary Comparison Schedule
 Child Nutrition Fund
 For the Ten Months Ended June 30, 2018

Exhibit J-2

Control Codes		Budgeted Amounts		Actual Amounts	Variance with
		Original	Final	(GAAP Basis)	Final Budget (Negative)
REVENUES					
5700	Total local and intermediate sources	\$ 7,821,283	\$ 7,821,283	7,124,704	\$ (696,579)
5800	State program revenues	322,953	322,953	343,101	20,148
5900	Federal program revenues	5,503,799	5,503,799	5,481,251	(22,548)
5020	Total revenues	13,648,035	13,648,035	12,949,056	(698,979)
EXPENDITURES					
0035	Food service	11,605,493	12,823,923	11,763,578	1,060,345
6030	Total expenditures	11,605,493	12,823,923	11,763,578	1,060,345
1200	Net changes in fund balances	2,042,542	824,112	1,185,478	361,366
0100	Fund balance - September 1 (beginning)	1,910,259	1,910,259	1,910,259	-
3000	FUND BALANCE - JUNE 30 (ENDING)	\$ 3,952,801	\$ 2,734,371	\$ 3,095,737	\$ 361,366

Keller Independent School District
 Budgetary Comparison Schedule
 Debt Service Fund
 For the Ten Months Ended June 30, 2018

Exhibit J-3

Data Control Codes		Budgeted Amounts		Actual	Variance With
		Original	Final	Amounts (GAAP Basis)	Final Budget Positive or (Negative)
REVENUES					
5700	Total local and intermediate sources	\$ 82,482,002	\$ 82,482,002	\$ 80,882,584	\$ (1,599,418)
5800	State program revenues	1,596,823	1,596,823	1,645,201	48,378
5020	Total revenues	84,078,825	84,078,825	82,527,785	(1,551,040)
EXPENDITURES					
Current:					
0071	Debt service	64,829,430	64,829,430	19,835,157	44,994,273
6030	Total expenditures	64,829,430	64,829,430	19,835,157	44,994,273
1200	Net change in fund balance	19,249,395	19,249,395	62,692,628	43,443,233
0100	Fund balance - September 1 (beginning)	19,547,636	19,547,636	19,547,636	-
3000	FUND BALANCE - JUNE 30 (ENDING)	\$ 38,797,031	\$ 38,797,031	\$ 82,240,264	\$ 43,443,233

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Statistical Section

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Statistical Section (Unaudited)

Keller Independent School District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

Financial Trends	These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.
Revenue Capacity	These schedules contain information to help the reader assess the government's most significant local revenue sources, the property tax.
Debt Capacity	These schedules present information to help the reader assess the affordability of the government's current level of outstanding debt and the government's ability to issue additional debt in the future.
Demographic & Economic Indicators	These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities takes place.
Operating Information	These schedules contain service and infrastructure data to help the reader understand how the information in the governments relates to the financial report services the government provides and the activities it performs

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

Table I

	Fiscal Year					2014
	2009	2010	2011	2012	2013 as restated	
Governmental activities						
Net investment in capital assets	\$ (33,180,143)	\$ (39,790,063)	\$ (38,159,556)	\$ (43,992,374)	\$ (31,475,706)	\$ (25,308,063)
Restricted	8,467,449	6,575,067	6,749,910	7,812,705	7,588,984	6,759,290
Unrestricted	15,707,608	12,395,863	23,775,858	50,167,324	41,920,606	39,809,055
Total primary government net position	\$ (9,005,086)	\$ (20,819,133)	\$ (7,633,788)	\$ 13,987,655	\$ 18,033,884	\$ 21,260,282

	Fiscal Year			
	2015	2016 as restated	2017 as restated	2018 ten month period
Governmental activities				
Net investment in capital assets	\$ (22,871,720)	\$ (20,615,977)	\$ (14,625,003)	\$ (25,801,873)
Restricted	3,889,959	10,109,546	21,433,525	68,504,510
Unrestricted	(10,832,736)	(19,715,591)	(28,946,706)	(155,786,410)
Total primary government net position	\$ (29,814,497)	\$ (30,222,022)	\$ (22,138,184)	\$ (113,083,773)

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

	Fiscal Period			
	2009	2010	2011	2012
Expenses				
Governmental activities				
Instruction	\$ 147,615,180	\$ 160,197,180	\$ 159,641,776	\$ 149,547,022
Instructional Resources and Media Services	4,548,868	3,261,124	3,743,225	3,506,194
Curriculum and Staff Development	3,490,394	3,497,953	2,889,302	2,754,701
Instructional Leadership	2,459,408	2,310,199	2,269,740	2,091,486
School Leadership	13,325,500	13,594,932	14,478,924	14,317,804
Guidance, Counseling and Evaluation Services	8,822,213	9,129,293	10,101,315	10,056,213
Social Work Services	283,831	262,992	279,278	156,066
Health Services	2,110,792	2,252,365	2,458,895	3,099,151
Student (Pupil) Transportation	6,035,224	6,222,185	6,808,740	5,448,661
Food Services	10,407,692	10,538,803	10,974,335	12,085,660
Cocurricular/Extracurricular Activities	7,298,740	8,057,423	8,771,031	7,985,415
General Administration	6,271,204	5,837,704	5,584,569	8,082,486
Plant Maintenance and Operations	18,653,300	21,065,268	14,671,718	18,625,453
Security and Monitoring Services	1,154,381	1,468,225	1,675,711	1,299,191
Data Processing Services	3,639,516	3,379,340	4,380,257	5,227,588
Community Services	801,894	1,086,051	1,075,017	1,541,352
Debt Service - Interest on Long Term Debt	31,561,209	39,427,642	41,249,450	33,103,972
Shared Services Agreement	3,811,277	3,945,201	3,329,680	3,410,020
Juvenile Justice Alternative Ed Program	5,500	-	-	2,375
Payments to Tax Increment Fund	1,831,416	1,925,666	1,750,904	1,732,427
Other governmental charges	-	-	-	-
Total Primary Government Expenses	274,127,539	297,459,546	296,133,867	284,073,237
Program Revenues				
Charges for services				
Instruction	5,657,131	6,315,099	6,309,615	4,795,456
Instructional Resources and Media Services	142,871	119,037	164,173	108,282
Curriculum and Staff Development	69,490	94,857	113,478	73,913
Instructional Leadership	93,844	103,019	105,594	64,515
School Leadership	559,767	600,663	627,088	414,131
Guidance, Counseling and Evaluation Services	344,598	411,113	444,807	335,308
Social Work Services	5,153	5,016	13,266	5,153
Health Services	90,105	99,258	107,640	75,805
Student (pupil) services	60,974	42,653	-	182,176
Food Services	7,368,464	7,499,282	8,038,128	7,704,516
Cocurricular/Extracurricular Activities	667,347	727,064	380,766	839,066
General Administration	160,056	170,883	259,481	170,378
Plant Maintenance and Operations	833,404	825,571	917,800	1,238,443
Security and Monitoring Services	4,426	6,176	72,715	34,634
Data Processing Services	60,163	59,782	174,991	151,902
Community Services	500,131	548,056	646,909	29,857
Facilities Acquisition and Construction	40,245	-	-	-
Shared services agreement	-	-	158,544	112,888
Payments to Juvenile Justice Alternative Ed	-	-	-	79
Payments to tax increment fund	-	-	83,370	1,732,427
Other governmental charges	-	-	-	-
Operating Grants and Contributions	13,532,702	22,629,116	31,969,236	24,161,384
Total Primary Government Program Revenues	30,190,871	40,256,645	50,587,601	42,230,313
Net (Expense)/Revenue				
Total Primary Government Net Expense	\$ (243,936,668)	\$ (257,202,901)	\$ (245,546,266)	\$ (241,842,924)

Table II

Fiscal Period					
2013	2014	2015	2016	2017	Ten Month Period 2018
\$ 158,093,657	\$ 169,674,602	\$ 185,202,372	\$ 192,543,062	\$ 204,784,429	\$ 134,863,562
3,669,131	3,976,459	4,064,395	4,101,419	4,295,319	3,352,924
2,899,611	4,289,446	4,928,683	5,011,692	5,508,074	2,635,056
2,465,543	2,945,318	2,855,696	3,067,583	3,697,518	1,902,578
15,324,170	17,083,843	17,247,461	17,975,838	18,981,354	11,426,864
10,963,668	12,199,237	13,527,953	14,350,156	15,278,414	6,810,827
204,112	149,486	186,794	186,441	191,823	122,603
3,306,124	3,543,211	3,224,463	4,520,733	4,927,856	3,479,593
5,687,815	6,807,163	6,686,403	7,680,726	8,774,400	8,399,095
12,452,594	13,247,466	13,580,453	13,460,964	14,626,820	9,443,516
8,838,689	10,013,525	10,579,801	10,986,247	12,323,976	8,108,679
6,178,573	5,772,175	6,904,386	7,385,418	7,668,059	4,890,980
20,029,457	21,774,504	23,417,979	25,475,399	27,353,038	21,614,420
1,591,648	2,053,138	2,301,600	2,453,664	2,792,900	2,321,617
4,960,996	5,203,488	5,241,972	5,279,989	4,658,225	3,831,814
1,023,234	1,012,650	964,285	1,008,673	1,118,744	900,050
38,588,692	29,753,356	40,665,465	33,855,378	32,800,765	24,748,166
3,059,151	3,425,122	2,887,489	261,892	283,581	241,570
-	-	9,804	-	11,352	12,513
1,973,187	2,055,966	2,294,948	2,679,362	2,852,110	3,117,970
-	1,068,490	1,153,257	1,095,381	1,205,128	1,089,363
<u>301,310,052</u>	<u>316,275,233</u>	<u>347,925,659</u>	<u>353,380,017</u>	<u>374,133,885</u>	<u>253,313,760</u>
5,153,446	6,214,788	5,399,497	\$ 5,754,413	\$ 5,934,808	\$ 5,802,481
103,893	129,162	108,058	110,959	112,249	110,701
89,283	139,535	172,978	142,202	148,717	133,560
75,705	100,677	89,771	93,248	110,724	101,157
469,161	599,345	496,425	537,111	545,697	514,068
410,717	525,376	463,205	386,825	391,960	346,228
6,989	5,869	5,786	5,826	5,799	5,062
91,614	107,422	92,965	100,410	106,261	102,137
195,915	269,584	212,425	248,380	275,808	270,696
7,442,377	7,276,413	7,283,932	7,693,450	7,967,621	7,332,511
909,624	985,275	874,016	887,247	961,000	840,896
183,971	199,923	197,638	214,944	225,478	193,088
1,372,248	1,376,577	1,222,925	1,339,813	1,400,085	1,243,459
54,277	74,694	61,028	70,149	71,300	68,410
150,317	182,898	157,278	163,674	137,390	131,032
35,978	35,358	50,374	22,365	22,728	24,825
-	-	-	-	-	-
96,181	135,645	91,555	4,913	5,135	4,927
-	-	310	-	358	405
-	-	72,619	86,658	89,892	100,826
-	81,422	-	-	-	35,227
<u>20,475,623</u>	<u>22,155,964</u>	<u>23,619,227</u>	<u>24,146,792</u>	<u>25,867,032</u>	<u>(23,701,503)</u>
<u>37,317,319</u>	<u>40,595,927</u>	<u>40,672,012</u>	<u>42,009,379</u>	<u>44,380,042</u>	<u>(6,339,807)</u>
<u>\$ (263,992,733)</u>	<u>\$ (275,679,306)</u>	<u>\$ (307,253,647)</u>	<u>\$ (311,370,638)</u>	<u>\$ (329,753,843)</u>	<u>\$ (259,653,567)</u>

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

	Fiscal Period			
	2009	2010	2011	2012
Net (Expense)/Revenue				
Total primary government net expense	\$ (223,434,440)	\$ (243,936,668)	\$ (257,202,901)	\$ (245,222,381)
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes				
Property Taxes, Levied for General Purposes	108,794,551	113,892,990	111,315,561	114,660,445
Property Taxes, Levied for Debt Service	39,240,626	48,657,348	53,168,610	55,758,482
State Aid - Formula Grants	78,938,143	78,839,121	92,872,674	88,208,113
Grants and Contributions not Restricted	4,685,515	4,686,451	-	-
Investment Earnings	4,110,151	583,181	364,742	436,411
Miscellaneous Local and Intermediate Revenue	211,636	1,706,719	686,139	4,400,916
Special Item - Gain on Sale of Capital Assets	-	-	-	-
Special Item - Lease of Mineral Rights	-	-	-	-
Total Primary Government	<u>235,980,622</u>	<u>248,365,810</u>	<u>258,407,726</u>	<u>263,464,367</u>
Change in Net Position				
Total Primary Government	<u>\$ 12,546,182</u>	<u>\$ 4,429,142</u>	<u>\$ 1,204,825</u>	<u>\$ 18,241,986</u>

Table III

Fiscal Period					
2013	2014	2015	2016	2017	Ten Month Period 2018
\$ (241,842,924)	\$ (275,679,306)	\$ (307,253,647)	\$ (311,370,638)	\$ (329,753,843)	\$ (259,653,567)
117,999,604	123,722,646	133,949,135	138,389,296	157,492,713	174,009,523
56,616,666	59,396,906	64,344,372	66,455,898	72,643,326	80,231,598
83,578,692	94,396,991	98,759,927	104,034,451	101,554,176	86,335,746
-	-	-	-	-	-
503,704	205,056	425,718	1,335,280	1,603,406	1,890,242
16,555,404	1,184,105	1,236,846	1,831,069	4,544,060	2,151,054
-	-	-	-	-	-
-	-	-	-	-	-
275,254,070	278,905,704	298,715,998	312,045,994	337,837,681	344,618,163
\$ 33,411,146	\$ 3,226,398	\$ (8,537,649)	\$ 675,356	\$ 8,083,838	\$ 84,964,596

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

	Fiscal Period			
	2009	2010	2011	2012
General Fund				
Nonspendable	\$ -	\$ -	\$ 478,717	\$ 507,277
Assigned	-	-	2,135,000	2,233,000
Committed	-	-	39,821,169	42,951,888
Unassigned	-	-	21,704,248	37,287,784
Reserved	1,532,963	1,734,879	-	-
Unreserved	44,972,848	50,591,988	-	-
Total General Fund	\$ 46,505,811	\$ 52,326,867	\$ 64,139,134	\$ 82,979,949
All Other Governmental Funds				
Nonspendable	\$ -	\$ -	\$ 3,820,273	\$ 203,371
Restricted	159,330,604	84,315,947	7,653,724	8,662,864
Committed	2,358,333	2,971,732	47,466,171	43,344,629
Total All Other Governmental Funds	\$ 161,688,937	\$ 87,287,679	\$ 58,940,168	\$ 52,210,864
Total Governmental Funds	\$ 208,194,748	\$ 139,614,546	\$ 123,079,302	\$ 135,190,813

Note: The District adopted the provisions of GASB 54 in 2011. Therefore, the fund balances beginning in 2011 conform with GASB 54.

Table IV

Fiscal Period					
2013	2014	2015	2016, as restated	2017	Ten Month Period 2018
\$ 1,220,509	\$ 2,035,489	\$ 1,351,973	\$ 1,373,721	\$ 1,450,479	\$ 1,325,161
3,538,000	5,611,000	4,049,750	1,698,788	-	-
45,962,311	49,904,046	51,554,002	50,361,656	45,174,517	49,682,857
27,599,602	18,869,538	9,661,367	380,305	1,265,837	10,929,581
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 78,320,422</u>	<u>\$ 76,420,073</u>	<u>\$ 66,617,092</u>	<u>\$ 53,814,470</u>	<u>\$ 47,890,833</u>	<u>\$ 61,937,599</u>
\$ 136,188	\$ 59,169	\$ 383,319	\$ 426,326	\$ 177,007	\$ 1,229,377
8,229,583	7,798,705	178,432,758	74,088,698	35,584,663	94,768,957
47,569,680	33,405,954	3,760,919	3,975,069	3,976,935	4,294,174
<u>\$ 55,935,451</u>	<u>\$ 41,263,828</u>	<u>\$ 182,576,996</u>	<u>\$ 78,490,093</u>	<u>\$ 39,738,605</u>	<u>\$ 100,292,508</u>
<u>\$ 134,255,873</u>	<u>\$ 117,683,901</u>	<u>\$ 249,194,088</u>	<u>\$ 132,304,563</u>	<u>\$ 87,629,438</u>	<u>\$ 162,230,107</u>

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

	Fiscal Period			
	2009	2010	2011	2012
Federal sources:				
Distributed by TEA	\$ 2,901,556	\$ 3,500,740	\$ 19,511,673	\$ 11,831,059
Distributed by other State of Texas Government Agencies	33,808	-	3,423,621	4,404,830
Distributed directly from the Federal Government	6,794,383	17,567,415	679,717	198,346
Total federal sources	<u>9,729,747</u>	<u>21,068,155</u>	<u>23,615,011</u>	<u>16,434,235</u>
State sources:				
Per capita and foundation school program act revenues	81,074,303	78,839,121	93,111,147	88,298,739
Program revenues distributed by TEA	1,772,973	1,631,654	1,749,313	10,509,894
Revenues from State of Texas Government Agencies	7,612,709	8,600,792	9,409,975	51,501
Total state sources	<u>90,459,985</u>	<u>89,071,567</u>	<u>104,270,435</u>	<u>98,860,134</u>
Local and intermediate sources:				
Real and personal property taxes	146,468,671	161,844,911	165,451,751	172,484,714
Tuition and fees	347,508	316,339	353,426	198,843
Other revenues	11,268,146	8,210,040	6,279,085	9,626,893
Cocurricular, enterprising services or activities	8,077,074	8,172,591	9,298,060	8,360,630
Intermediate sources	-	-	-	-
Total local and intermediate sources	<u>166,161,399</u>	<u>178,543,881</u>	<u>181,382,322</u>	<u>190,671,080</u>
Total revenues	<u>\$ 266,351,131</u>	<u>\$ 288,683,603</u>	<u>\$ 309,267,768</u>	<u>\$ 305,965,449</u>

Table V

Fiscal Period					
2013	2014	2015	2016	2017	Ten Month Period 2018
\$ 7,296,537	\$ 6,164,527	\$ 5,989,017	\$ 7,242,164	\$ 7,161,700	\$ 6,553,911
5,140,284	6,739,147	8,139,928	8,633,753	9,730,182	6,296,438
253,235	235,365	261,491	198,293	211,422	132,306
12,690,056	13,139,039	14,390,436	16,074,210	17,103,304	12,982,655
83,578,692	96,100,114	98,972,062	104,126,784	101,649,010	88,067,530
9,791,808	14,011,593	12,759,172	11,713,165	12,606,639	13,447,284
-	22,800	970	25,995	43,252	64,356
93,370,500	110,134,507	111,732,204	115,865,944	114,298,901	101,579,170
174,381,741	182,037,145	197,413,380	205,078,837	229,551,099	253,912,389
131,243	133,891	112,518	149,256	175,164	246,952
24,715,810	8,083,241	6,339,829	8,650,206	10,102,598	8,604,489
5,437,179	7,993,222	8,519,517	8,138,867	8,553,507	8,675,593
-	-	-	-	-	-
204,665,973	198,247,499	212,385,244	222,017,166	248,382,368	271,439,423
\$ 310,726,529	\$ 321,521,045	\$ 338,507,884	\$ 353,957,320	\$ 379,784,573	\$ 386,001,248

Keller Independent School District

Governmental Funds Expenditures and Debt Service Ratio

Last Ten Fiscal Periods

(modified accrual basis of accounting)

	Fiscal Period			
	2009	2010	2011	2012
Instruction	\$ 137,966,424	\$ 143,731,660	\$ 147,728,382	\$ 137,478,868
Instructional Resources and Media Services	4,023,598	3,073,705	3,509,334	3,178,713
Curriculum and Instructional Staff Development	3,307,415	3,398,086	2,868,473	2,130,562
Instructional Leadership	2,330,351	2,293,997	2,226,975	1,886,237
School Leadership	12,607,682	12,614,563	13,210,075	12,555,229
Guidance, Counseling and Evaluation Services	8,359,238	8,699,241	9,471,451	9,271,339
Social Work Services	268,954	263,532	278,615	155,656
Health Services	1,999,997	2,106,395	2,262,925	2,287,508
Student (Pupil) Transportation	5,719,227	6,223,306	6,807,858	5,447,852
Food Services	9,862,758	10,601,047	10,893,263	11,502,826
Cocurricular/Extracurricular Activities	6,495,765	7,311,068	8,269,409	7,015,477
General Administration	5,615,508	5,220,506	5,480,294	7,432,120
Facilities Maintenance and Operations	18,104,552	18,753,283	19,377,794	17,722,083
Security and Monitoring Services	979,151	1,220,503	1,542,978	1,080,540
Data Processing Services	2,331,712	1,852,169	3,675,083	4,590,653
Community Services	765,056	895,726	852,899	691,259
Debt Service				
Principal	10,030,963	9,650,999	12,756,706	12,694,742
Interest	34,443,024	41,994,683	42,447,453	44,192,957
Bond Issuance Cost and Fees	1,509,659	464,129	167,667	87,034
Facilities Acquisition and Construction	77,956,170	71,488,717	27,066,197	7,392,685
Shared Services Agreement	3,811,277	3,945,201	3,329,680	3,410,020
Juvenile Justice Alternative Education Program	5,500	-	-	2,375
Payments to Tax Increment Fund	1,831,416	1,925,666	1,750,904	1,732,427
Other governmental charges	-	-	-	-
Total Expenditures	\$ 350,325,397	\$ 357,728,182	\$ 325,974,415	\$ 293,939,162
 Debt Service as a Percentage of Noncapital Expenditures	 16.41%	 16.09%	 17.46%	 18.92%

Table VI

Fiscal Period					
2013	2014	2015	2016	2017	Ten Month Period 2018
\$ 144,563,470	\$ 156,612,149	\$ 176,132,985	\$ 173,991,768	\$ 181,295,806	\$ 172,972,519
3,345,419	3,619,137	3,810,470	3,803,914	3,962,790	3,850,094
2,465,712	3,654,330	4,837,526	4,860,782	5,271,019	4,697,466
2,112,412	2,446,534	2,774,756	2,938,823	3,540,550	3,153,336
13,671,533	15,186,047	15,768,172	16,711,207	17,552,941	16,097,699
10,224,865	11,431,030	12,625,002	13,631,399	14,314,729	12,272,128
202,973	148,189	182,939	180,126	184,001	167,087
2,683,242	2,743,828	2,964,515	3,117,838	3,383,307	3,161,040
5,687,815	6,807,163	6,686,403	7,706,062	8,770,502	8,395,846
12,180,602	12,899,687	13,749,031	13,696,544	14,221,227	11,765,349
8,158,341	9,827,485	10,210,050	10,476,096	11,455,275	9,820,122
5,583,815	5,113,321	6,406,375	6,834,724	7,333,075	6,174,313
19,531,372	21,029,781	23,500,150	24,775,021	26,197,867	22,418,785
1,694,051	2,709,758	3,759,373	3,331,315	2,457,156	2,187,128
4,390,347	4,891,652	5,540,617	5,064,464	4,428,534	4,106,340
828,185	767,228	1,503,077	712,357	789,662	796,482
14,508,842	23,934,768	23,278,028	20,642,572	21,744,471	3,297,392
42,948,531	35,136,159	41,058,833	43,595,799	42,011,645	16,529,435
950,783	226,588	6,744,314	1,224,732	10,261	8,330
11,851,971	12,582,876	13,343,717	105,979,279	53,030,920	5,068,272
3,059,151	3,425,122	2,887,489	261,892	283,581	241,570
-	-	9,804	-	11,352	12,513
1,973,187	2,055,966	2,294,948	2,679,362	2,852,110	3,117,970
-	1,068,490	1,153,257	1,095,381	1,205,128	1,089,363
<u>\$ 312,616,619</u>	<u>\$ 338,317,288</u>	<u>\$ 381,221,831</u>	<u>\$ 467,311,457</u>	<u>\$ 426,307,909</u>	<u>\$ 311,400,579</u>
19.81%	19.08%	18.20%	14.53%	17.00%	6.48%

Keller Independent School District

Other Financing Sources and Uses and Net Change in Fund Balances

Governmental Funds

Last Ten Fiscal Periods

(modified accrual basis of accounting)

	Fiscal Period			
	2009	2010	2011	2012
Excess of Revenues Over (Under) Expenditures	\$ (83,974,266)	\$ (69,044,579)	\$ (16,706,647)	\$ 12,026,287
Other Financing Sources (Uses)				
General Long-term Debt Issued	153,419,950	30,809,991	9,445,000	2,710,000
Transfers In	6,198,732	-	-	-
Premium or Discount on Issuance of Bonds	7,084,810	1,159,821	530,449	200,974
Transfers Out	(6,198,732)	-	-	-
Payment to Bond Refunding Escrow Agent	(11,231,952)	(31,505,435)	(9,804,046)	(2,825,750)
Other (Uses)	-	-	-	-
Total Other Financing Sources (Uses)	<u>145,218,939</u>	<u>-</u>	<u>149,272,808</u>	<u>464,377</u>
Net Change in Fund Balances	<u>\$ 119,081,071</u>	<u>\$ (76,971,067)</u>	<u>\$ 65,298,542</u>	<u>\$ (68,580,202)</u>

Table VII

Fiscal Period					
2013	2014	2015	2016	2017	Ten Month Period 2018
\$ (1,890,090)	\$ (16,796,243)	\$ (42,713,947)	\$ (113,354,137)	\$ (46,523,336)	\$ 74,600,669
85,419,998	45,650,000	425,692,588	126,935,000	-	-
-	-	3,285,775	-	-	-
15,269,804	3,645,068	66,744,576	25,527,395	-	-
-	-	(3,285,775)	-	-	-
(99,734,652)	(49,070,797)	(318,213,030)	(152,246,597)	-	-
-	-	-	331,695	1,848,211	-
171,403	85,224	955,150	547,493	1,848,211	-
\$ (16,535,244)	\$ 12,111,511	\$ (934,940)	\$ (112,806,644)	\$ (44,675,125)	\$ 74,600,669

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

Table VIII

Fiscal Period	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					
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%
2014	12,815,685,228	684,572,978	1,574,871,452	11,925,386,754	1.5400	13,500,258,206	88.33%
2015	13,816,512,116	693,171,025	1,559,235,241	12,950,447,900	1.5400	14,509,683,141	89.25%
2016	14,147,290,643	715,396,851	1,959,793,037	12,902,894,457	1.5400	14,862,687,494	86.81%
2017	16,295,187,107	785,317,276	2,116,569,235	14,963,935,148	1.5200	17,080,504,383	87.61%
2018	17,714,662,204	954,120,636	2,170,239,105	16,498,543,735	1.5200	18,668,872,840	88.37%

Source: Tarrant County Tax Appraisal District

- Notes: ^aMarket value less exemptions
^bPer \$100 of assessed valuation
^cMarket value

Keller Independent School District

Table IX

Property Tax Rates for Direct and Overlapping Governments

Last Ten Fiscal Periods

(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
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
2014	1.0400	0.5000	1.5400	0.26400	0.22790	0.14950	0.35590	0.85500
2015	1.0400	0.5000	1.5400	0.26400	0.22790	0.14950	0.35590	0.85500
2016	1.0400	0.5000	1.5400	0.26400	0.22790	0.14950	0.35590	0.85500
2017	1.0400	0.4800	1.5200	0.25400	0.22790	0.14473	0.33913	0.83500
2018	1.0400	0.4800	1.5200	0.24400	0.22443	0.14006	0.33383	0.80500

Fiscal Year	Overlapping Government Rates ^a				
	City of Haltom City	City of Keller	City of North Richland	City of Southlake	City of Watauga
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
2014	0.69999	0.43719	0.61000	0.46200	0.59122
2015	0.69999	0.43719	0.61000	0.46200	0.59122
2016	0.69999	0.43719	0.61000	0.46200	0.61872
2017	0.69999	0.43000	0.61000	0.46200	0.61841
2018	0.66818	0.42750	0.59000	0.49500	0.60179

Note:

^aIncludes levies for operating and debt service costs

Keller Independent School District
Principal Property Taxpayers
Current Period and Nine Years Ago

Table X

Taxpayer	2018			2009		
	Taxable Assessed Value	Rank	Percentage of Taxable Value	Taxable Assessed Value	Rank	Percentage of Taxable Value
Kroger Co	\$ 152,418,347	1	0.92%	\$ 72,589,200	2	0.71%
FMR Texas LP	132,388,948	2	0.80%	157,274,226	1	1.54%
Wal-Mart Stores Texas LP	103,508,520	3	0.63%	41,656,039	4	0.41%
ATC Investors LP	81,875,254	4	0.50%	54,861,592	3	0.54%
Hillwood Monterra LP	76,358,387	5	0.46%			
HCA Health Services of TX, Inc.	70,420,283	6	0.43%			-
Mansions at Timberland LP	59,000,000	7	0.36%			-
FAA DFW Associates LLC	55,200,000	8	0.33%			-
North Beach TX Partners LCC	49,800,000	9	0.30%			
BR Carroll Keller Crossing LLC	47,300,000	10	0.29%			-
Oncor Electric Delivery Co			-	40,596,468	5	0.40%
Inland Western Watauga LP			-	27,608,400	6	0.27%
Watercolor Partners LP			-	27,585,730	7	0.27%
5001 Enclave LLC ETAL			-	23,983,000	10	0.23%
Amstar/Southern Art House LP			-	25,000,000	9	0.24%
Tri County Electric Coop, Inc.			-	27,291,723	8	0.27%
Subtotal	828,269,739		5.02%	498,446,378		4.88%
All other taxpayers	15,670,273,996		94.98%	9,714,097,583		95.12%
	<u>\$ 16,498,543,735</u>		<u>100%</u>	<u>\$ 10,212,543,961</u>		<u>100%</u>

Source: Tarrant Appraisal District

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

Table XI

Fiscal Year	Tax Year	Original Levy	Adjustments	Adjusted Levy	Collected in First Period		Collected in Subsequent Period	Total Collections	
					Amount	Percentage of Original Levy		Amount	Percentage of Adjusted Levy
2009	2008	142,946,287	4,510,266	147,456,552	145,996,374	102.13%	1,294,910	147,291,284	99.89%
2010	2009	154,071,805	8,389,934	162,461,740	160,286,383	104.03%	1,808,527	162,094,911	99.77%
2011	2010	163,551,452	2,206,607	165,758,060	163,908,760	100.22%	1,457,685	165,366,445	99.76%
2012	2011	170,135,313	247,601	170,382,913	169,139,007	99.41%	834,410	169,973,416	99.76%
2013	2012	171,779,167	1,699,878	173,479,044	172,379,024	100.35%	535,862	172,914,886	99.67%
2014	2013	181,143,398	875,301	182,018,699	181,059,454	99.95%	57,318	181,116,772	99.50%
2015	2014	196,325,293	135,955	196,461,248	195,308,567	99.48%	41,507	195,350,075	99.55%
2016	2015	195,978,901	7,605,408	203,584,309	202,734,808	103.45%	444,331	203,179,139	99.85%
2017	2016	222,329,840	6,320,423	228,650,263	227,431,763	102.29%	130,693	227,562,456	99.55%
2018	2017	244,073,351	8,964,698	253,038,049	250,904,866	102.80%	1,273,780	252,178,646	99.66%

Source: Tarrant County Tax Office

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

Keller Independent School District

Table XII

Outstanding Debt by Type

Last Ten Fiscal Periods

Governmental Activities

Fiscal Year	Bonded Debt	Total Primary Government	Percentage of		Estimated Population	Per Capita ^a	Ratio of Net Bonded Debt to Estimated Actual Property Value ^b
			Personal Income ^a				
2009	812,210,202	812,210,202	58.62%		39,450	\$ 20,588	13.97
2010	801,400,945	801,400,945	51.12%		39,675	20,199	14.75
2011	787,273,317	787,273,317	44.74%		40,604	19,389	15.75
2012	763,228,988	763,228,988	39.89%		40,790	18,711	16.70
2013	745,139,167	745,139,167	39.94%		41,923	17,774	17.39
2014	735,787,755	735,787,755	38.91%		42,907	17,148	18.35
2015	901,631,722	901,631,722	47.68%		43,287	20,829	14.36
2016	867,851,273	867,851,273	46.81%		44,050	19,702	17.13
2017	834,031,187	834,031,187	35.09%		45,749	18,231	20.48
2018	819,252,095	819,252,095	33.36%		46,672	17,553	22.79

Notes:

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

^bSee Schedule VIII for estimated actual property value.

Note: 2018 was a ten month period

Keller Independent School District

Direct and Overlapping Governmental Activities Debt
As of June 30, 2018

Table XIII

Governmental Unit	Total Tax Supported Debt as of 06/30/18	Estimated Percentage Applicable ^b	Estimated Share of Direct and Overlapping Debt
City of Colleyville	\$ 5,665,000	10.36%	\$ 586,894
City of Fort Worth	785,165,949	10.18%	\$ 79,929,894
City of Haltom City	32,935,000	4.25%	\$ 1,399,738
City of Hurst	48,826,642	1.28%	\$ 624,981
City of Keller	44,955,353	98.02%	\$ 44,065,237
City of North Richland Hills	129,002,439	11.41%	\$ 14,719,178
City of Southlake	77,030,000	4.96%	\$ 3,820,688
City of Watauga	21,677,996	39.25%	\$ 8,508,613
Town of Westlake	34,666,000	51.31%	\$ 17,787,126
Tarrant County	294,500,000	9.40%	\$ 27,683,000
Tarrant Co. Hospital District	19,300,000	9.40%	\$ 1,814,200
Subtotal, Overlapping Debt			\$ 200,939,548
District Direct Debt			819,252,095
Total Direct and Overlapping Debt			\$ 1,020,191,643
Ratio of Total Direct and Overlapping Debt to Assessed Valuation			6.18%
Per Capita Overlapping Debt			\$ 4,305

a Data provided by Municipal Advisory of Texas (Texas MAC)

Method of calculation: The percentage of each of the governmental units listed above that falls within the borders of the school district is applied to the total tax-supported debt of that entity to determine the overlapping debt of the Keller Independent School District.

Keller Independent School District

Legal Debt Margin Information

Last Ten Fiscal Periods

	Fiscal Period			
	2009	2010	2011	2012
Assessed value ^a	\$ 10,212,543,961	\$ 10,518,985,594	\$ 10,838,009,000	\$ 11,200,638,123
Debt limit ^b	1,021,254,396	1,051,898,559	1,083,800,900	1,120,063,812
Amount of debt applicable to debt limit:				
Total bonded debt	735,369,508	725,718,509	712,856,767	700,087,012
Less: Reserve for debt service	6,689,998	5,167,382	3,820,031	3,892,876
Total net debt applicable to limit	<u>728,679,510</u>	<u>720,551,127</u>	<u>709,036,736</u>	<u>696,194,136</u>
Legal debt margin	<u>\$ 292,574,886</u>	<u>\$ 331,347,432</u>	<u>\$ 374,764,164</u>	<u>\$ 423,869,676</u>
Total net debt applicable to the limit as a percentage of debt limit	71.35%	68.50%	65.42%	62.16%

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 Period					
2013	2014	2015	2016	2017	Ten Month Period 2018
\$ 11,303,854,760	\$ 11,925,386,754	\$ 12,950,447,900	\$ 12,902,894,457	\$ 14,963,935,148	\$ 16,498,543,735
1,130,385,476	1,192,538,675	1,295,044,790	1,290,289,446	1,496,393,515	1,649,854,374
681,493,165	657,363,397	771,227,957	728,705,385	706,960,914	703,663,522
3,406,682	4,062,753	5,188,673	8,548,914	19,542,506	82,234,220
<u>678,086,483</u>	<u>653,300,644</u>	<u>766,039,284</u>	<u>720,156,471</u>	<u>687,418,408</u>	<u>621,429,302</u>
<u>\$ 452,298,993</u>	<u>\$ 539,238,031</u>	<u>\$ 529,005,506</u>	<u>\$ 570,132,975</u>	<u>\$ 808,975,107</u>	<u>\$ 1,028,425,072</u>
59.99%	54.78%	59.15%	55.81%	45.94%	37.67%

Keller Independent School District
Demographic and Economic Statistics
Last Ten Fiscal Periods

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>
2009	39,450	\$ 1,385,484,000	35,120	5.70%
2010	39,675	1,567,717,950	39,514	6.50%
2011	40,604	1,759,817,964	43,341	8.50%
2012	40,790	1,913,254,950	46,905	7.30%
2013	41,923	1,865,489,654	44,498	6.40%
2014	42,907	1,890,825,676	44,068	4.40%
2015	43,287	1,926,184,926	44,498	2.90%
2016	44,050	2,000,530,750	45,415	3.50%
2017	45,749	2,376,843,546	51,954	3.44%
2018	46,672	2,455,740,624	52,617	2.90%

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

Note: 2018 was a ten month period

Keller Independent School District
Principal Employers
Current Period and Nine Years Ago

Table XVI

Employer	2018			2009		
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
Fidelity Investments	5,400	1	13.02%	2,700	7	2.21%
Bell Helicopter	5,238	2	12.62%	5,000	4	4.08%
BNSF Railway	5,200	3	12.53%	3,100	6	2.53%
Keller ISD	4,227	4	10.19%	3,492	5	2.85%
Amazon	4,000	5	9.64%	-	-	-
AMR Corporation	4,000	6	9.64%	84,100	1	68.71%
Walmart	3,885	7	9.36%	-	-	-
Sabre Holdings	3,545	8	8.54%	8,800	3	7.19%
Genco	3,000	9	7.23%	-	-	-
ATC Logistics	3,000	10	7.23%	-	-	-
Gaylord Texas Resort	-	-	-	1,500	9	1.23%
DFW Airport	-	-	-	1,713	8	1.40%
GameStop	-	-	-	12,000	2	9.80%
	-	-	-	-	-	-
	-	-	-	-	-	-
	41,495		100%	122,405		100%

Source: North Central Council of Governments

Note: Data for only top 9 major employers available for 2009

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

Table XVII

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Percentage Change 2009-2018
Supervisory											
Instructional administrators	14	15.5	15.5	12.5	12.5	13.5	17	18	21	21	50.0%
Noninstructional administrators	40	46.5	46.5	39.5	43.5	49.5	57.8	60.25	66.25	71.25	78.1%
Consultants/supervisors of instruction	12	19.5	19.5	9.5	8.5	12	32	25	41	49	308.3%
Principals	35	36	39	39	39	39	39	40	42	42	20.0%
Assistant Principals	66	62	65	66	66	66	67	69	70	78	18.2%
Total supervisory	167.00	179.50	185.50	166.50	169.50	180.00	212.80	212.25	240.25	261.25	56.4%
Instruction											
Elementary classroom teachers	1092	1130	1120	1097	1117.33	1134.25	1200.5	1228.5	1260	1254	14.8%
Secondary classroom teachers	752	822	884	798	787.44	901.75	961.5	979.67	1060.81	1086.86	44.5%
Other teachers (adult)	-	-	-	-	-	-	-	-	-	-	0.0%
Other professionals (instructional)	95	85	83	73	79	81	85.5	89	80.4	80.4	-15.4%
Aides	260	301.75	303.5	277.5	283	302	333	342	367.5	381.5	46.7%
Total Instruction	2,199.00	2,338.75	2,390.50	2,245.50	2,266.77	2,419.00	2,580.50	2,639.17	2,768.71	2,802.76	27.5%
Student Services											
Guidance counselors	74.5	74.5	78.5	78	82	98	100	108	111	105	40.9%
Visiting teacher/social workers	1	2	2	2	2	2	3	3	3	3	200.0%
Psychologists	7	7	8	8	8	8	8	8	8	9	28.6%
Librarians	35	36	37	38	38	38	38	38	39	40	14.3%
Other professionals (noninstructional)	53	69.5	78	78.5	83.5	83.5	92.5	97	98	100	88.7%
Technicians	31	30	30	0	0	0	0	0	4	10	-67.7%
Total student services	201.50	219.00	233.50	204.50	213.50	229.50	241.50	254.00	263.00	267.00	32.5%
Support and Administration											
Clerical/secretarial	281	262	297	203.5	205.5	235	246	252.25	261.75	265.75	-5.4%
Service workers	290	250	256	271	271	270	272	268	274	277	-4.5%
Skilled crafts	N/A										
Unskilled Laborers	275	271	318	318	318	323	333	334	346	353	28.4%
Total support and administration	846.00	783.00	871.00	792.50	794.50	828.00	851.00	854.25	881.75	895.75	5.9%
Total	3,413.50	3,520.25	3,680.50	3,409.00	3,444.27	3,656.50	3,885.80	3,959.67	4,153.71	4,226.76	23.8%

Source: Keller Independent School District records.

Note: 2018 was a ten month period

Keller Independent School District

Operating Statistics
Last Ten Fiscal Periods

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
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%
2014	33,440	257,028,150	7,686	2,036	16.4	23.79%
2015	33,619	278,400,408	8,281	2,151	15.6	23.26%
2016	34,180	288,671,453	8,446	2,216	15.4	23.26%
2017	34,660	304,045,079	8,772	2,321	14.9	24.20%
2018	34,937	281,191,332	8,049	2,350	14.9	25.87%

Note 1: 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.

Note 2: 2018 was a ten month period

Source: Nonfinancial information from district records.

Keller Independent School District

Building Information Last Ten School Years

	School Year			
	2009	2010	2011	2012
Schools				
Elementary				
Buildings	21	21	22	22
Square feet	1,684,123	1,684,123	1,744,123	1,744,123
Capacity	15,570	15,570	16,170	16,170
Enrollment	12,330	12,774	12,805	13,292
Intermediate/Middle				
Buildings	10	10	11	11
Square feet	1,295,858	1,295,858	1,478,683	1,478,683
Capacity	10,710	10,710	11,910	11,910
Enrollment	10,021	10,119	10,393	10,656
High				
Buildings	4	5	5	5
Square feet	1,128,974	1,578,974	1,578,974	1,578,974
Capacity	7,500	10,000	10,000	10,000
Enrollment	8,467	8,675	9,272	9,635
Administrative				
Buildings	2	2	3	3
Square feet	84,566	84,566	119,566	119,566
Athletics				
Stadiums	11	12	13	13
Football/soccer/play fields	43	44	45	45
Running tracks	8	9	10	10
Baseball/softball	12	13	14	14
Natatorium	1	1	1	1

Table XIX

School Year					
2013	2014	2015	2016	2017	2018
22	22	22	22	25	25
1,744,123	1,744,123	1,744,123	1,744,123	1,933,237	1,933,237
16,170	16,170	16,170	16,170	17,170	17,170
13,033	13,019	12,713	12,915	13,064	13,103
11	11	11	11	11	11
1,478,683	1,478,683	1,478,683	1,478,683	1,756,873	1,756,873
11,910	11,910	11,910	11,910	11,910	11,910
10,595	10,518	10,366	10,426	10,533	10,679
5	5	5	5	6	6
1,578,974	1,613,974	1,613,974	1,613,974	1,946,615	1,946,615
10,000	10,000	10,000	10,000	12,300	12,300
9,795	10,226	10,540	10,839	11,063	11,155
3	3	3	3	3	3
119,566	119,566	119,566	139,299	138,983	138,983
13	13	13	13	13	11
45	45	45	45	45	47
10	10	10	10	10	10
14	14	14	14	14	14
1	1	1	1	1	1

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Federal Awards Section

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**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 (the District), as of and for the ten months ended June 30, 2018, 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 November 12, 2018, which included an emphasis of matter paragraph on the restatement of beginning net position due to the implementation of new accounting guidance, GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions".

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and responses or schedule of findings and questioned costs as items 2018-001.

Board of Trustees
Keller Independent School District

District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying corrective action plan. 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 District'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
November 12, 2018

**Independent Auditor's Report on Compliance for Each
Major Federal Program and Report on Internal Control over
Compliance in Accordance with the Uniform Guidance**

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 (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the ten months ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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 ten months ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-002. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the 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 the 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-002 that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Board of Trustees
Keller Independent School District

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 the Uniform Guidance. 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
November 12, 2018

Keller Independent School District
Schedule of Expenditures of Federal Awards
Ten Months Ended June 30, 2018

Exhibit K-1

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Department of Education:			
<i>ESEA Title I, Part A Improving Basic Programs</i>	84.010A	18610101220907	\$ 1,781,135
<i>TTL 1 1003 SCHOOL IMPROVEMENT</i>	84.010A	18610123220907	110,384
<i>IDEA-B Formula ⁽¹⁾</i>	84.027A	186600012209076600	3,879,223
<i>IDEA-B Preschool Grant ⁽¹⁾</i>	84.173A	186610012209076610	11,527
<i>IDEA-B High Cost Risk Discretionary Grant ⁽¹⁾</i>	84.027A	66001806	18,119
<i>Carl D. Perkins Basic Formula Grant</i>	84.048A	18420006220907	164,038
<i>ESEA Title II, Part A Teacher/Principal Training/Recruiting</i>	84.367A	18694501220907	328,947
<i>ESEA Title III, Part A English Language Acquisition- Summer LEP</i>	84.369A	69551602	13,058
<i>ESEA Title III, Part A English Language Acquisition</i>	84.365A	18671001220907	221,809
<i>ESSA Title IV, Part A, Subpart 1</i>	84.424A	18680101220907	25,665
Total U.S. Department of Education			6,553,905
Passed through State Department of Agriculture:			
<i>National School Breakfast Program ⁽²⁾</i>	10.553	71401401	788,815
<i>National School Lunch Program ⁽²⁾</i>	10.555	71301401	3,921,416
<i>National School Lunch Program - Non-cash Assistance ⁽²⁾</i>	10.555	71301401	771,020
Total U.S. Department of Agriculture			5,481,251
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 12,035,156
School Health and Related Services (SHARS) ⁽³⁾			815,193
Schools and Libraries Program (E-Rate) ⁽³⁾			132,306
TOTAL FEDERAL REVENUES, RECONCILED TO EXHIBIT C-3			\$ 12,982,655

(1) Reported as Special Education Cluster, as required by Compliance Supplement April 2018

(2) Reported as Child Nutrition Cluster, as required by Compliance Supplement April 2018

(3) SHARS and E-Rate are not considered federal financial assistance subject to requirements in accordance with Uniform Guidance

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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). 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 June 30, 2018, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying 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. For the ten months ended June 30, 2018, the District received and disbursed food commodities totaling \$771,020.

Keller Independent School District
 Schedule of Findings and Questioned Costs
 Ten Months Ended June 30, 2018

Section I – Summary of Auditors’ Results

Financial Statements

An unmodified 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 No
- 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 No

An unmodified opinion was issued on compliance for major programs.

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major programs:

Child Nutrition Cluster:

10.553	National School Breakfast Program
10.555	National School Lunch Program
10.555	National School Lunch Program – Non-cash Assistance

- Dollar threshold used to distinguish between type A and type B programs? \$750,000

Auditee qualified as low-risk auditee? Yes No

Keller Independent School District

Schedule of Findings and Questioned Costs - Continued

Ten Months Ended June 30, 2018

Section II – Other Matter

2018-001: Excess expenditures over budgeted appropriations

Condition: The District expended amounts in excess of budgeted appropriations for the period ended June 30, 2018.

Criteria: The budgetary comparison schedule for the General Fund indicates two areas with an excess of expenditures over appropriations for the period ended June 30, 2018.

Cause/Effect: Due to the District's change in year-end, additional amounts related to year-end salary accruals were recorded to properly account for certain contracts causing actual expenditures to exceed budgeted appropriations.

Recommendation: The District should continue to closely monitor and amend the budget so appropriations are not exceeded in any functions.

View of Responsible Officials: See Corrective Action Plan

Section II – Financial Statement Findings

There were no matters reported.

Section IV – Federal Award Findings and Questioned Costs

2018-002: Child Nutrition Cluster - Verification

Major Programs: Child Nutrition Cluster

Compliance Requirement: N. Special Tests and Provisions

Criteria: In accordance with the OMB *Compliance Supplement*, N. Special Tests and Provisions, by November 15th of each school year, the District must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals.

Condition:

(X) Compliance Finding (X) Significant Deficiency () Material Weakness

Cause: Out of 19 Child Nutrition participants selected for testing, 4, listed as "direct verified – reduced", should have been verified in accordance with Special Tests and Provision, Verification of Free and Reduce Price Application but were not. Further, the control to detect the error did not operate as designed.

Effect/Potential Effect: Improperly classifying a participant could result in improper reimbursements from the granting agency. Questioned costs are undeterminable because the information necessary to determine the status of the participant as free or reduced is not available.

Recommendation: Management should ensure that proper procedures are followed during the verification process and ensure that the sample and testing results are sufficiently reviewed by a supervisor prior to making a final determination as to the status of Child Nutrition participant.

Keller Independent School District

Schedule of Findings and Questioned Costs - Continued
Ten Months Ended June 30, 2018

View of Responsible Officials: See Corrective Action Plan

Section V – Prior Audit Findings

There were no matters reported.

Section VI – Corrective Action Plan

2018-001: Excess expenditures over budgeted appropriations

This excess of expenditures was due to a unique set of circumstances that occurred when the District changed its fiscal year end from August 31 to June 30. The 2017-18 fiscal year was designated as the transition year of September 1 through June 30 – a ten-month year. As the District prepared its budget for the transition year, the assumption was that teacher contracts would be changed to mirror the fiscal year. At a later date, it was decided not to change the contracts. The resulting payroll accrual for teacher contracts that ran through July caused expenditures to exceed budget. This was a one-time occurrence only and will not affect future years. The District has properly accounted for all planned expenditures for the period ending June 30, 2019 in the budget adopted in June 2018 and will continue to monitor and amend the budget as changes in estimates or circumstances occur.

Responsible Official: Director of Finance

Date of Implementation: June 2018

2018-002: Child Nutrition Cluster – Verification

At the time of the error, the process for “direct verified – reduced” status through the State had been changed and little guidance had been communicated. The District is now aware of the State requirements and the difference between “direct verified – free” and “direct verified – reduced” and will ensure the proper procedures are in place, followed by supervisor review when verification is performed for the 2018-2019 fiscal year.

Responsible Official: Child Nutrition Coordinator

Date of Implementation: October 2018