

Keller
Independent School District

Keller, Texas



Comprehensive
Annual
Financial Report

For the Fiscal Year Ended August 31, 2016

Keller Independent School District

Keller, Texas



Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2016

Prepared by the Finance Department

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

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INTRODUCTORY SECTION

**KELLER INDEPENDENT SCHOOL DISTRICT
CERTIFICATE OF BOARD**

Keller Independent School District	Tarrant	220-907
Name of Local Education Agency	County	County-District-Number No.

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

Approved Disapproved

Year ended August 31, 2016 at a meeting of the Board of Trustees of such school district on the 19th day of January, 2017.


Signature of Board Secretary


Signature of Board President

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



OFFICE OF THE SUPERINTENDENT

KELLER INDEPENDENT SCHOOL DISTRICT

350 KELLER PARKWAY

KELLER, TEXAS 76248

PHONE: 817-744-1000

FAX: 817-744-1261

January 19, 2017

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 or Keller ISD) for the fiscal year ended August 31, 2016.

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

The financial statements of the District have been audited by Weaver, L.L.P, a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the District for the fiscal year ended August 31, 2016, 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 year ended August 31, 2016 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 fiscal year ended August 31, 2016, 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.

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

The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board of Trustees. Every school district in Texas is required by law to prepare and file a budget with the Texas Education Agency. Activities of the General, Child Nutrition (special revenue) and Debt Service funds are included in the district’s budget. Budgets for Special Revenue funds (other than the Child Nutrition Fund) and Capital Projects Fund are prepared on a project basis, based on grant regulations or applicable bond ordinances. Budgetary control (the level at which expenditures cannot legally exceed appropriations) is maintained at the functional category level within each fund. These functional categories are defined by the Texas Education Agency and identify the purpose of transactions. The district also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year end. However, encumbrances outstanding at year-end 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 usually scheduled on the second Thursday of each month and are held at the Keller ISD Education Center. Special meetings and work sessions are scheduled as needed and announced in compliance with public notice requirements.

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

In general, the Board adopts policies, sets direction for curriculum, employs the Superintendent, and oversees the operations of the District and its schools. Besides general Board business, Trustees are charged with numerous statutory regulations including calling trustee and other school elections and canvassing the results,

organizing the Board and electing its officers. The Board is also responsible for setting the tax rate, setting salary schedules, 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 approaches build out, enrollment growth is slowing. Until the 2011-2012 year, enrollment was increasing in excess of 1,000 students per year. The enrollment increase in 2011-12 was 404 students, but the increase for 2013-14 fell to 237 students. In the fall of 2014, a new Charter School opened within KISD boundaries which caused a decrease in enrollment of 133 students for the 2014-15 school year. For the 2015-16 school year, enrollment increased by 87 students and preliminary enrollment counts for the 2016-17 school year indicate a strong increase in enrollment. Keller ISD is expected to remain the largest district in Northeast Tarrant County through build out and the third largest district in Tarrant County as a whole. The district enrollment is expected to increase by approximately 1,000 students during the next five years, reaching 35,000 by 2018-19 and approaching 37,000 by the fall of 2025.

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. Major housing developments that contribute to the fast growth of the District are slowing but are still at a greater pace than national housing start data. Keller ISD is currently ranked eighth in the DFW Metroplex, with 948 annual closings, and tenth in annual housing starts with 847. Approximately 621 vacant developed lots and 492 lots for future development remain in the District's top ten developments, with a total of 2,995 vacant developed lots and future lots throughout the entire district. At this time, the West Fork Ranch development leads with 107 vacant developed lots and 426 lots for future development.

Economic Conditions and Employment. According to the Texas Workforce Commission and Metrostudy, the Dallas-Fort Worth area created 108,700 new jobs as of June 2016. The job growth rate for DFW of 3.2% exceeded the national job growth rate of 1.7%. 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 nine consecutive years, according to the State Comptroller's office. As of June 2016, the unemployment rate in Keller was 3.5%, as opposed to 4.0% for the DFW metroplex, 4.8% for Texas and 5.1% 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 foreseeable 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 3,960 teachers and support personnel to serve the district's 41 campuses. KISD serves as the district's fifth largest employer behind Bell Helicopter, BNSF Railway, Amazon and Fidelity Investments. Students from Keller, Fort Worth, Watauga, Southlake, Colleyville, Hurst, North Richland Hills, Westlake, and Haltom City attend classes at twenty-two elementary schools (PK-4), four intermediate schools (5-6), one intermediate/middle school (5-8), six middle schools (7-8), four high schools (9-12), two Early Learning Centers and one alternative school. In addition, the district opened the Keller Center for Advanced Learning (KCAL) in August, 2016, for career and technology learning programs. Besides the 41 regular schools, the district utilizes 13 portable buildings, which provide approximately 25 additional classrooms.

The oldest campus in KISD is Keller Middle School (formerly Keller High School) which was built in 1962. Of the district's 41 campuses, one intermediate and two elementary campuses were added in the 1970's. One high school, one middle school and two elementary schools were built in the 1980's. During the 1990's, one high school, one intermediate and five elementary schools were added. The time frame between 2000 and 2009 were the busiest for KISD in terms of construction as one high school, three middle schools, three intermediates and twelve elementary campuses were constructed. Since 2010, a fourth high school, a hybrid middle/intermediate campus, one elementary campus and two early learning centers have been opened. One elementary school was added in 2016, but another 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 and Bus Barn (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, 504, 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).

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.

Although Career and Technology courses in a variety of areas have been offered through each of the high schools in the past, the district opened the Keller Center for Advanced Learning (KCAL) in August, 2016. KCAL will offer students the opportunity to take advanced courses within their chosen endorsement. Students will participate in field-based experiences, culminating in the senior practicum made possible with strong community and business partnerships. Each student will have the opportunity to participate in career and technical organizations and obtain certifications, licensures and/or college credit within their program of study. KCAL is a collaborative, innovative education experience that will empower KISD students to be highly competitive in our global society.

KCAL began the 2016-2017 school year offering advanced instruction in Cosmetology, Auto Tech, Architecture and Construction, Graphic Design, Audio/Visual Production and Commercial Photography. Programs will be expanded in school year 2017-18 to include Culinary Arts, Bio-Medical Science, Health Science, Information Technology, Criminal Forensics, Animation, Law Enforcement, Agriculture and STEM. Although many of these programs are offered now at the high school campuses, moving the programs to KCAL will offer more intensive instruction in each field.

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

**MAJOR
INITIATIVES**

FOCUS & DIRECTION

KELLER ISD – Intentionally Exceptional!

OUR VISION

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

MISSION STATEMENT

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

VALUES

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

DISTRICT STRATEGIC GOALS:

Goal 1.1:

Prepare students to pursue their choices in post-graduation opportunities.

Goal 1.2:

Enable students to develop skills to collaborate, think critically and creatively, and effectively communicate thoughts and ideas.

Goal 2.1:

Assure timely, effective, and consistent two-way communication.

Goal 2.2:

Establish and nurture collaborative partnerships with students, families, and community members that unify our learning community.

Goal 3.1:

Ensure organizational efficiency and alignment.

Goal 3.2:

Use continuous improvement framework to drive sustained organizational success.

Goal 4.1:

Employ, train and retain a diverse, well-qualified, innovative staff.

Goal 4.2:

Foster a positive, engaging work environment that supports collaboration, community and personal wellness.

Goal 5.1:

Provide equitable distribution of financial resources throughout the district.

Goal 5.2:

Ensure sound fiscal practice and financial transparency.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

District of Innovation. The 84th Legislature approved a concept known as district of Innovation (DOI) which allows traditional independent school districts most of the flexibilities available to open enrollment charter schools, including exemption from certain requirements mandated in the Texas Education Code. To create a DOI, a school district must adopt an innovation plan for its district.

Keller ISD's Board of Trustees passed a resolution on March 8, 2016, initiating the process of exploring and considering District of Innovation designation for KISD. Over the following months and summer, district administrators assembled a committee composed of teachers, parents, local business and community members, KISD Trustees, and representatives from local civic organizations and educational institutions. This committee will help process the focus areas for the district in order to form a Local Innovation Plan.

Debt. District personnel will continue to work with the community through the Citizens Bond Oversight Committee to review the facility needs of the district in future years. This Board-appointed committee makes recommendations to the Board of Trustees for needs that will be addressed through additional debt issuance, while minimizing the financial impact on the taxpayer. As new construction slows and significantly fewer bonds are issued, the district's annual debt requirements will decrease as well. This would eventually lead to decreases in the debt service portion of the tax rate. Additional information on the district's debt is provided in the footnotes to the financial statements.

Performance Improvement System Keller ISD operates within a continuous improvement framework in all areas. District employees are trained on the concepts, ideas and practices of continuous improvement on a regular, on-going basis. On-going systems to embed continuous improvement practices into the daily work of employees include the refinement of the appraisal system, the interactive learning plan for administrators at monthly meetings and the expansion of a trained cadre of teachers to share the models on campuses.

Accountability. Keller ISD earned a "Met Standard", the highest rating from the Texas Education Agency's 2016 State District and Campus Accountability Rating. This is the fourth consecutive year that schools and districts in Texas have been rated under the new accountability system. Under this system, campuses/districts are assigned one rating based on meeting the target for each performance index.

Met Standard Acceptable rating assigned to campuses and districts that meet the target on all indexes for which they have performance data in 2016.

Met Alternative Standard Acceptable rating assigned to charter operators and alternative education campuses that are evaluated by alternative education accountability provisions and meet modified targets on all performance indexes for which they have performance data in 2016.

Improvement Required Unacceptable rating assigned to campuses and district that miss the target on one or more performance indexes.

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 17 campuses received at least one Distinction Designation.

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 first year the Transparency Stars award has been offered and is now the highest award given to public entities for financial transparency. Prior to this year, 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, 2015. This award is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment – one in which Keller ISD has received for the past nine 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, 2015. This prestigious award, which KISD has also received for nine 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 2015-16 fiscal year based on 2014-15 financial information, the District received a rating of "Passed/Above 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

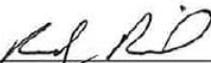
Keller ISD's Purchasing Department has earned the Award of Merit with Recognized Status from the Texas Association of School Business Officials (TASBO) for the seventh consecutive year. TASBO's Purchasing Award of Merit is presented to school districts that are committed to professional standards in 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 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,



Randy Reid, ED.D
Superintendent



R. Mark Youngs, RTSBA
Chief Financial Officer



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



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

Keller Independent School District

Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

August 31, 2015

Executive Director/CEO



ASSOCIATION OF
SCHOOL BUSINESS OFFICIALS
INTERNATIONAL

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

Keller Independent School District

**for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended August 31, 2015.**

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



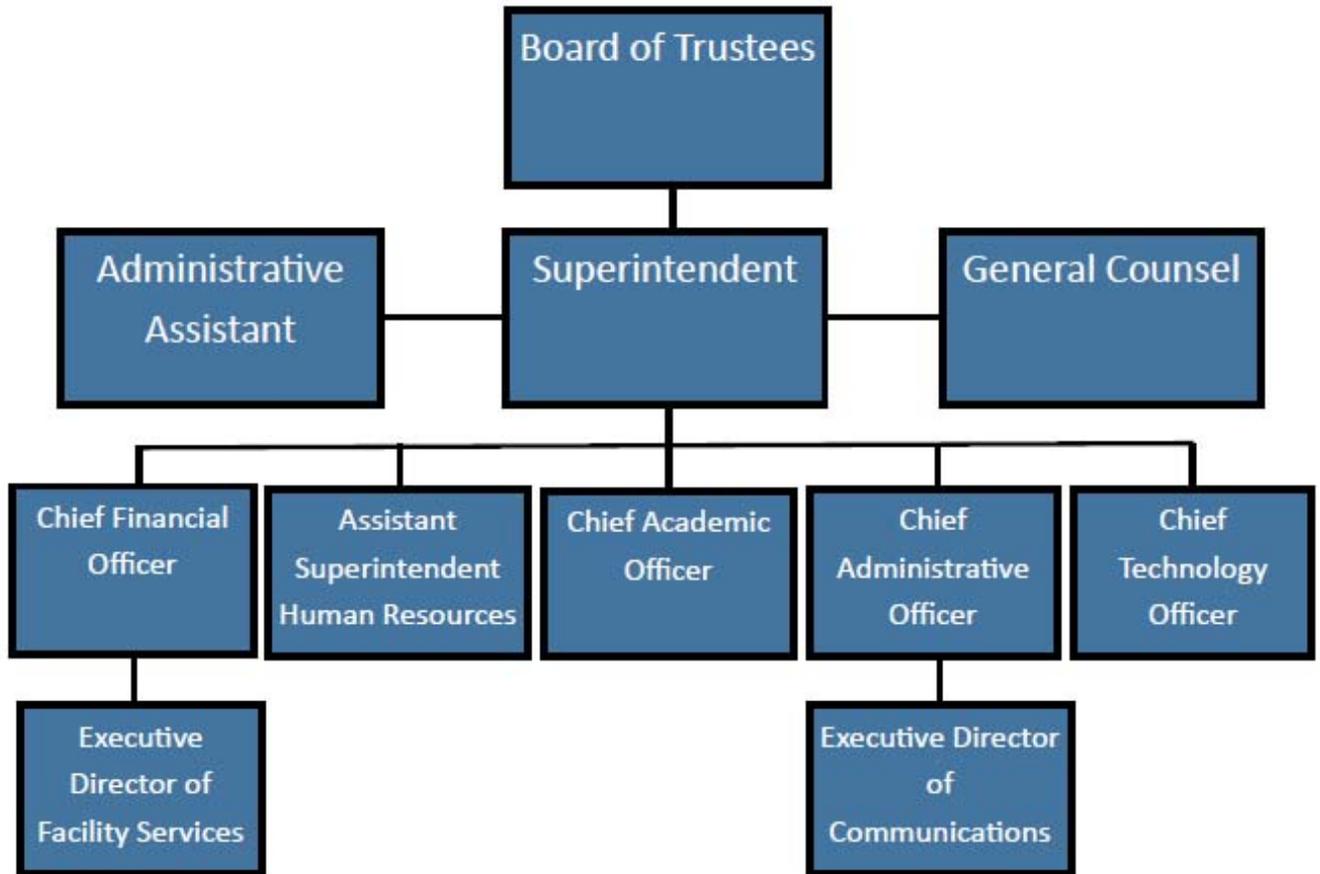
Brenda Burkett

Brenda R. Burkett, CPA, CSBA, SFO
President

John D. Musso

John D. Musso, CAE, RSBA
Executive Director

Keller Independent School District 2015 – 2016 Organizational Chart



KELLER INDEPENDENT SCHOOL DISTRICT

School Board and Administrators

Board of Trustees

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

Administration

Dr. Randy Reid.....	Superintendent of Schools
Amanda Bigbee.....	General Counsel
R. Mark Youngs.....	Chief Financial Officer
Cecil McDaniel.....	Chief of Schools
Joe Griffin.....	Chief Technology Officer
Lindsay Anderson.....	Assistant Superintendent, Academic Support
Dr. Kevin Hood.....	Assistant Superintendent, Elementary Education
Cory Wilson.....	Assistant Superintendent, Elementary Education
Dustin Blank.....	Assistant Superintendent, Secondary Education
Penny Benz.....	Assistant Superintendent, Human Resources
Shellie Johnson.....	Executive Director, Communications
Hudson Huff.....	Executive Director, Facility Services
Johjania Najera.....	Executive Director, Human Resources
Sara Koprowski.....	Executive Director, Intervention Services
Leanne Shivers.....	Executive Director, Student Services
Rhonda Dominguez.....	Director, Analytics
Jennifer Price.....	Director, Assessment and Accountability
Bob DeJonge.....	Director, Athletics
Leslee Shepherd.....	Director, Career and Technology
Jeff Bradley.....	Director, College and Career Readiness
Jennifer Fleming.....	Director, Counseling
Deborah Cartwright.....	Director, Data Compliance and Records Management
Karin Mahlenkamp.....	Director, Early Childhood Program
Frank DiNella.....	Director, Facility Systems and Service
Dr. Victoria Miles.....	Director, Federal Programs
Kristin Williams.....	Director, Finance
Kimberly Blann.....	Director, Fine Arts
Cindy Parsons.....	Director, Health Services
Sandy Garza.....	Director, Human Resources
Greg Gaston.....	Director, Human Resources
Sheri Rich.....	Director, Human Resources Benefits
Mary Martin.....	Director, Language Acquisition
Matt Hill.....	Director, Media Services
Leah Beard.....	Director, Organizational Improvement and Strategic Planning
Faith Morbitzer.....	Director, Payroll
Billy Kidd.....	Director, Planning and Facility Project Management
Lori Tudor.....	Director, Purchasing
Kevin Kinley.....	Director, Safety and Security
Dr. Janette Hahn.....	Director, Special Education
Vaughn Hamblen.....	Director, Systems Integration
David Smith.....	General Manager, Child Nutrition (Sodexo)
Jason Lowery.....	General Manager, Transportation (Durham)

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Keller Independent School District
Keller, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Keller Independent School District (the District) as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 4–14, the General Fund budgetary comparison information and notes to the required supplementary information on pages 64–65, the schedule of the District's proportionate share of the net pension liability, the schedule of the District's contributions, and the notes to the required supplementary information on pages 66–69, 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, the required TEA schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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, the required TEA schedules 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, the required TEA schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2017, 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
January 19, 2017

**Keller Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2016**

This section is the Keller Independent School District (District or Keller ISD) management discussion and analysis of the annual financial report for the period ending August 31, 2016. It should be read in conjunction with the transmittal letter and the District's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

The District had approximately \$353 million in expenses related to governmental activities; of which \$42 million of these expenses were offset by program-specific charges for services or grants and contributions. General revenues of \$312 million partially offset the costs of these programs; resulting in an increase in net position of \$675,356. Expenses for governmental activities increased by approximately \$5.45 million, or 1.57%, from the previous year. Although expenses in the general fund increased by \$10.4 million, or 4.1%, this was mostly offset by decreased expenses in the debt service fund of (\$4.3 million), or (6.3%) and in the State Funded Grant Funds of (\$3.6 million), or (8.6%) Increased expenses in the general fund were mostly due to a pay increase of 3% of mid-point for all employees, at a cost of approximately \$6 million, and additional staff needed at a cost of \$3.3 million. Expenses in the Debt Service Fund decreased due to two refundings of debt in the current year and also as a result of multiple refundings in previous years. Included in the State Funded Grant Funds is the Instructional Materials Allotment fund. In the 2014-15 fiscal year, large amounts of instructional material for new curriculums were purchased; however, similar purchases were not then necessary in 2015-16, resulting in a decrease of expenses in that fund group.

- General revenues accounted for \$312,045,994, or 88.1% of all fiscal year 2016 revenues. Program-specific revenues in the form of charges for services and grants and contributions accounted for \$42,009,379 of additional revenues. The 2016 charges for services and grants and contributions represent a \$1.34 million, or 3.29% increase from 2015, which was mainly due to increased participation and a slight increase in meal prices in the Child Nutrition program. General revenues increased by \$13.3 million, or 4.46%. This increase was due to a \$6.5 million increase in property taxes across both the general and debt service funds based on higher property values, and an additional \$5.27 million in state funding based on increased enrollment in general as well as in special populations.
- At August 31, 2016, the District's liabilities and deferred inflows of resources exceeded its assets and deferred outflow of resources by (\$26,139,141) (Total Net Position). This was an increase from the prior year of \$675,356, or 2.52%. Unrestricted Net Position decreased by (\$4.8 million), or (4.43%), for a total of (\$15,632,710). The increase in Total Net Position was negligible, but the decrease in Unrestricted Net Position was primarily due to the increase in the debt service fund balance, requiring restriction of the funds. The increase was due to increased property tax revenue to the fund as well as the decrease in expenditures because of multiple debt refundings over the last few years.
- At the close of the fiscal year the combined governmental fund balance was \$136,387,444, a decrease of (\$112,806,644) from the prior year. This decrease occurred mainly in the Capital Projects Fund, due to the expenditure of bond funds to construct a new elementary school, a new Early Learning Center and to renovate an existing building to create the Keller Center for Advanced Learning (KCAL) for career and technology learning. The General Fund unassigned fund balance decreased by (\$9,281,062), due to planned spending of general funds to reduce fund balance. Assignments of fund balance total \$1,698,788 and include the athletic long term plan \$1,143,000 and the fine arts long term plan \$555,788. In addition, fund balance equal to 20% of the 2017 general fund expenditure budget has been committed, as per Board policy.
- The District's total long term liabilities increased by \$3,306,091, or 0.35%, from the previous fiscal year. The key factor in this increase was the increase in net pension liability; however, this was mostly offset by the repayment of debt.
- General Fund expenditures increased by \$10.4 million, or 4.1%, from the prior year. The 2015-2016 general fund budget was adopted to include a deficit of (\$9,047,586). The Keller ISD Board of Trustees intended that a portion of the general fund's significant reserves be used to provide pay increases for all district employees at an approximate cost of \$6 million. Reserves were also dedicated in the budget to offset a portion of employees' health insurance premiums, assist with start-up costs for a health clinic, and to fund additional staff.

**Keller Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 15-16 of this report.

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

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

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

The basic governmental fund financial statements can be found on pages 17-22 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*

**Keller Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2016**

service funds to report activities for its self-funded insurance programs (Workers Compensation and Health Insurance).

The basic proprietary fund financial statements can be found on pages 23-25 of this report.

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

The basic fiduciary fund financial statement can be found on page 26 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 17-63 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 64-69 of this report.

The Texas Education Agency (TEA) requires that certain reports are included in this report and those statements and schedules can be found on pages 70-74.

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 (\$26,139,141).

**Table A-1
Net Position**

	Governmental Activities		Percent Change 2015 to 2016
	2015	2016	
Current and other assets	\$234,614,223	\$150,317,734	(35.93%)
Capital assets (net)	629,147,671	714,725,576	13.60%
Long-term investments	37,662,920	19,718,920	(47.64%)
Total assets	\$901,424,814	\$884,762,230	(1.85%)
Deferred Outflow of Resources	\$47,477,704	\$79,549,029	67.56%
Current liabilities	\$29,162,176	\$38,152,956	30.83%
Long-term liabilities	936,210,695	939,516,786	0.35%
Total liabilities	\$965,372,871	\$977,669,742	1.27%
Deferred Inflow of Resources	10,344,144	12,780,658	23.55%

**Keller Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2016**

**Table A-1
Net Position
(Continued)**

Net Position:			
Net investment in capital assets	(\$22,871,719)	(\$20,615,977)	9.86%
Restricted for Grants	2,398,356	2,253,635	(6.03%)
Restricted for Debt Service	3,965,603	7,329,911	84.84%
Restricted for Employee			
Health Claims	526,000	526,000	0%
Unrestricted Net Position	<u>(10,832,737)</u>	<u>(15,632,710)</u>	(44.31%)
Total Net Position	(\$26,814,497)	(\$26,139,141)	2.52%

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 \$(20,615,977). The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. The increase in Total Net Position is negligible and cannot be attributed to any one circumstance, but rather to a variety, including repayment of debt. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Governmental Activities

Governmental activities increased the District's net position by \$675,356. The total cost of all *governmental activities* this year was \$353,380,017. The amount that our taxpayers paid for these activities was \$204,845,194 or 57.97%.

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

	Governmental Activities		
Revenues:			Percent Change
Program Revenues:	2015	2016	2015 to 2016
Charges for services	\$17,052,785	\$17,862,587	4.75%
Operating grants & contributions	23,619,227	24,146,792	2.23%
General Revenues:			
Property taxes	198,293,507	204,845,194	3.30%
State grants	98,759,927	104,034,451	5.34%
Investment earnings	425,718	1,335,280	213.65%
Other	<u>1,236,846</u>	<u>1,831,069</u>	4.80%
Total Governmental Revenues	\$339,388,010	\$354,055,373	4.32%
Expenses:			
Instruction	185,202,372	192,543,062	3.96%
Instructional resources & media services	4,064,395	4,101,419	0.91%
Curriculum & instructional staff development	4,928,683	5,011,692	1.68%

Table A-2

**Keller Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2016**

**Changes in District's Net Position
(Continued)**

Instructional leadership	2,855,696	3,067,583	7.42%
School leadership	17,247,461	17,975,838	4.22%
Guidance, counseling & evaluation services	13,527,953	14,350,156	6.08%
Social Services	186,794	186,441	(0.19%)
Health services	3,224,463	4,520,733	40.20%
Student (pupil) transportation	6,686,403	7,680,726	14.87%
Food services	13,580,453	13,460,964	(0.88%)
Co-curricular/extra-curricular activities	10,579,801	10,986,247	3.84%
General administration	6,904,386	7,385,418	6.97%
Plant maintenance and operations	23,417,979	25,475,399	8.78%
Security and monitoring services	2,301,600	2,453,664	6.61%
Data processing services	5,241,972	5,279,989	0.73%
Community services	964,285	1,008,673	4.60%
Debt Service - interest on long-term debt/fees	40,665,465	33,855,378	(16.75%)
Shared services agreement	2,887,489	261,892	(90.93%)
Juvenile Justice Alternative Education	9,804	-	(100.00%)
Payments to tax increment fund	2,294,948	2,679,362	16.75%
Non-operating expenses	1,153,257	1,095,381	(5.02%)
Total Governmental Expenses	347,925,659	353,380,017	1.57%
Increase (Decrease) in Net Position	(8,537,649)	675,356	107.91%
Beginning Net Position	21,260,282	(26,814,497)	(226.12%)
Prior period adjustment	(39,537,130)	-	100.00%
Beginning Net Position, as restated	(18,276,848)	(26,814,497)	(46.71%)
Ending Net Position	(26,814,497)	(26,139,141)	2.52%

Property tax revenues are the single largest source of general income for the district. Property values continue to increase with 3.30% in growth for 2016 and 8.29% growth in the previous year, even though construction of new homes in the District's 51 square miles is now beginning to moderate after several years of rampant growth. Growth of only 3.30 % in 2016 was somewhat of an anomaly as there were unprecedented issues at the appraisal district which caused property value information to be incomplete. Values rose significantly in 2016-17 and are expected to further increase in 2017-18. The following graphs depict the District's sources of revenue for the years 2016 and 2015 as a percentage of total revenues.

**Keller Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2016**

Table A-3

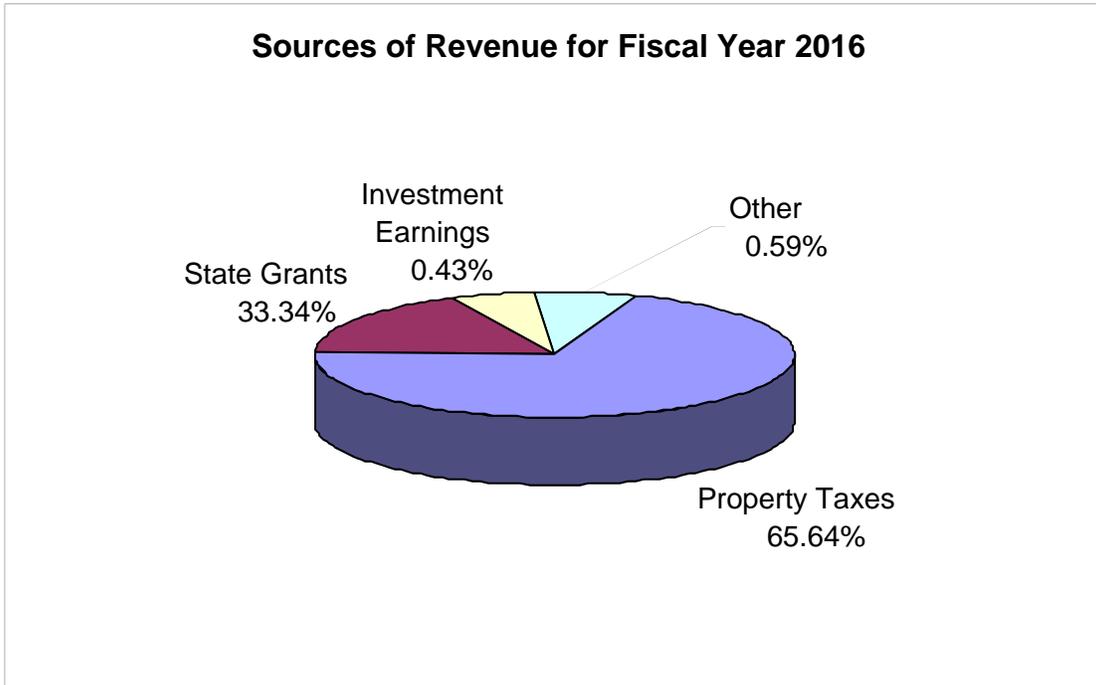
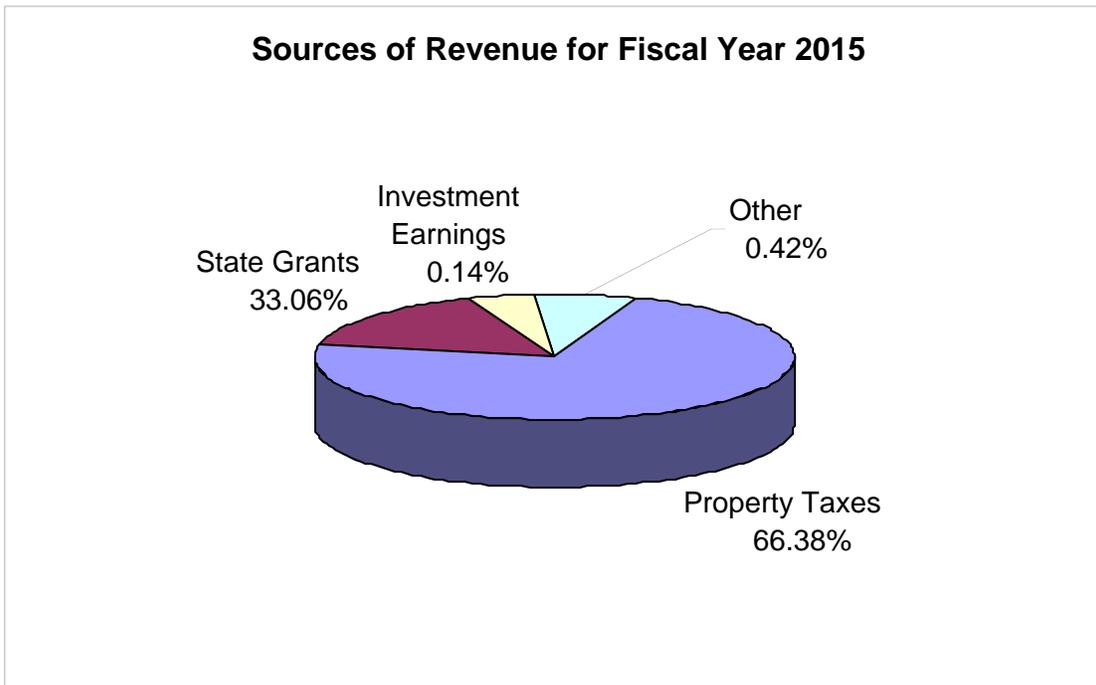


Table A-4



**Keller Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2016**

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 \$353,380,017.

**Table A-5
Costs of Services**

Major Function	Total Cost of Services			Net Cost of Services		
	2015	2016	Percent Change 2015 to 2016	2015	2016	Percent Change 2015 to 2016
Instruction, Curriculum, and Media Services	\$194,195,450	\$201,656,173	3.84%	\$176,075,100	\$188,881,800	7.27%
Instructional and School Leadership	20,103,157	21,043,421	4.68%	19,153,177	20,052,604	4.70%
Student Support Services, Food Service, and Extra/ Co-Curricular Activities	47,785,867	51,185,267	7.11%	29,046,906	27,682,326	(4.70%)
General Administration	6,904,386	7,385,418	6.97%	6,535,475	6,955,404	6.42%
Plant Maintenance, Security and Data Processing	30,961,551	33,209,052	7.26%	29,066,282	31,129,658	7.10%
Community Services	964,285	1,008,673	4.60%	721,430	897,323	24.38%
Debt Service	40,665,465	33,855,378	(16.75%)	40,547,477	31,951,048	(21.20%)
Shared Services Agreement	2,887,489	261,892	(90.93%)	2,752,119	167,308	(93.92%)
Non-operating expenses	3,458,009	3,774,743	9.16%	3,355,681	3,653,167	8.86%
Total Expenses	<u>\$347,925,659</u>	<u>\$353,380,017</u>	1.57%	<u>\$307,253,647</u>	<u>\$311,370,638</u>	1.34%

Total net expenses increased 1.34% in 2016 from the previous year. The 24.38% increase in net cost of services for Community Services was caused by increased payroll costs at the Natatorium due to increased participation, as well as an increase in the cost of after-school child care. Net Instruction, Curriculum and Media Services costs increased by 7.27% from the prior year, due to a 3% of midpoint pay increase for all staff and additional staffing to accommodate both increased enrollment and new instructional programs. The pay increase also contributed to the 7.10% increase in Plant Maintenance, Security and Data Processing, as did increased utility costs. And net Non-operating expenses increased 8.86% due to increases in both the property tax appraisal fees and payments to the tax increment fund.

Significant decreases in net expenses occurred in the Debt Service and Shared Service Agreement functions. The decrease in Debt Service occurred because of multiple debt refundings in the past few years as well as repayment of debt, and the decrease in the Shared Service Agreement function net expenses was due to the ending of the agreement during the 2015-16 fiscal year.

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.

**Keller Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2016**

In particular, unreserved, undesignated fund balance may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$136,387,444, a decrease from the previous year of (\$112,806,644). This decrease occurred mostly in the Capital Projects Fund and was due to the expenditure of bond funds for the building of a Career and Technology Center (KCAL), one elementary school and one Early Learning Center. The total General Fund balance decreased by (\$8.7) million, or (13.09%) from the previous year. The amended 2015-16 general fund budget included a planned reduction of the fund balance of approximately (\$11.7 million), but conservative spending moderated the planned deficit.

The fund balance of the Federally Funded Grant Fund decreased in 2016 by (\$493,796), or (19%). The decrease occurred in the Child Nutrition fund, and again, was a planned reduction of excess reserves. Replacement of serving lines at many of the campuses, and the purchase of a food truck and additional kitchen equipment allowed for this planned reduction in fund balance.

The fund balances of the Debt Service Fund increased by \$3.36 million, mostly due to the healthy increase in property values, repayment of debt and several significant debt refundings over the last few years which lowers interest cost paid from the fund. The State Funded Grant Fund balance increased by \$160,608, or 515% due to an increase in the number of grants received, and the Local Funds balance increased by \$289,517 or 7.4%, which was caused by increased deposits to the Campus Activity Fund.

The general fund balance has an unassigned fund balance of \$380,305. 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 (\$240,737) and deferred expenditures (\$1,132,984). Non-spendable fund balance in all other funds consists of prepaid items (\$4,533) in the Debt Service fund, (\$160,546) in the Capital Projects fund, (\$119,188) in the Federally Funded Grant fund, (\$125,576) in the State Funded Grant fund and (\$16,483) in the Local Governmental fund. Fund balance is restricted to pay debt service (\$8,548,914), for the capital acquisition program (\$63,286,149), and for food service (\$1,996,411). Grant funds are restricted in both the State Funded Grant Funds \$(66,223) and in the Local Funds (\$191,001). Commitments of fund balance include (\$3,975,069) in Local Funds for campus activity funds, and (\$54,444,537) in the general fund for budgetary contingencies as per Board policy. Fund balance is assigned for the fine arts and athletic long term plans (\$1,698,788).

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$380,305, while the total fund balance was \$57,897,351. 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 0.14% of the total general fund expenditures, while total fund balance represents 21.74% 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 8/31/16 was \$54,444,537, or 20%, and may be used at the discretion of the Board of Trustees.

During the current fiscal year, the fund balance of the District's general fund decreased by (\$8,719,741), compared to a decrease in the prior year of (\$9,802,981). With a healthy general fund balance and a strong economic outlook, the Board of Trustees approved a deficit budget to restore some of the budget reductions made in prior years due to the recession, fund new initiatives, and provide a 3% of mid-point pay increase for all district employees. KISD adopted deficit budgets for both 2015 and 2016 in the amount of (\$9,298,724) and (\$9,047,586) respectively. During the 2015-16 year, the Board of Trustees approved an additional \$11.4 million in expenditure budget for various purposes, including close to \$9 million for TRS on Behalf expenditures required by the State. Savings realized within the general fund expenditure budget due to position vacancies and managed spending contributed to the less than expected use of the general fund balance in 2016.

**Keller Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2016**

General Fund Budgetary Highlights

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

In addition, at the end of every fiscal year, school districts across the state also make their year-end amended budgets to ensure all functional categories will have favorable balances. If unfavorable functional balances (outside the acceptable variance) are reported in the audit at the close of the fiscal year, the result is a letter issued by the Texas Education Agency stipulating the legal requirements for budgeting. The district did not exceed functional budget in any category in the general fund in the 2015-16 fiscal year.

1. *Variances of original expenditure budget compared to amended budget.* The amended expenditure budget increased \$11,389,687 from the original budget. Major budget amendments contributing to this increase include: (1) \$8.7 million for TRS on Behalf, (2) \$750,000 to assist in opening the Keller Center of Advanced Learning and for career and technology programs (3) \$233,849 from previously unused High School allotment funds for use in the program, (4) \$325,000 for competition expenses at the state or national level, and (5) \$879,750 for athletic and fine arts improvements and equipment as approved by the Board in their long-term plans.

2. *Variances of amended budget to actual expenditures.* Variations of amended budget to actual expenditures were minimal in 2015-16, with an overall variation of 1.1%. The largest variance was 5.2% in the Security and Monitoring Services function (52). This variance was due to various security and technology items ordered, but not received within the fiscal year. The commitments were transferred to the subsequent year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016 the District had invested approximately \$715 million in a broad range of capital assets, including land, equipment, and buildings. (See Table A-6) This amount represents a net increase of \$85.5 million or 13.6% percent from the prior year.

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

	Governmental Activities		Percent Change 2015 to 2016
	2015	2016	
Land	\$ 37,092,722	\$ 47,073,400	26.91%
Buildings & improvements	759,523,332	856,935,309	12.82%
Furniture & equipment	30,031,344	32,831,691	9.32%
Construction in progress	12,604,968	6,780,494	(46.21)%
Total Assets	839,252,366	943,620,894	12.44%
Less: accumulated depreciation	(210,104,695)	(228,895,318)	(8.94)%
Net Capital Assets	<u>\$ 629,147,671</u>	<u>\$ 714,725,576</u>	13.60%

**Keller Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2016**

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

Long-Term Debt

At the end of August 31, 2016, the District had total bonded debt outstanding of \$728,705,385, a decrease of \$42,522,572, or a (5.51%) decrease from the previous year. The District also had accreted interest of \$29,176,945, a decrease of (\$7,200,549), or a (19.80%) decrease from the previous year.

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

Governmental Activities			Percent Change
	2015	2016	2015 to 2016
Bonds and Notes Payable			
General Obligations Bonds	\$ 771,227,957	\$ 728,705,385	(5.51%)
Premium on bonds	94,026,271	109,968,943	16.96%
Accreted interest	36,377,494	29,176,945	(19.80%)
Total Bonds and Notes Payable	901,631,722	867,851,273	(3.75)%
Other Liabilities			
Compensated Absences	763,858	772,503	1.13%
Net Pension Liability	33,815,115	67,579,409	99.85%
Claims Payable	3,100,330	3,313,601	6.88%
Total Other Liabilities	37,679,303	71,665,513	90.20%
Total long-term debt	\$ 939,311,025	\$ 939,516,786	

The district implemented Government Accounting Standards Board No. 65, *Items Previously Reported as Assets and Liabilities*, in 2014. Accordingly, deferred losses on refundings are now classified as deferred outflow of resources on the government-wide statements.

More detailed information about the District's debt is presented in Notes 2 and 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.

**Keller Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2016**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

General fund revenues in 2016-2017 are budgeted to increase from 2015-2016 actual revenue by approximately \$5.9 million, or 2.3%. Although property tax revenue is expected to increase, funding from the state is expected to decline by a similar amount.

The total General Fund expenditure budget for 2016-17 is \$272,222,683. This is an increase of \$5.98 million or 2.25% from actual 2015-16 expenditures. As always, the majority of a school district's expenditures are for personnel costs, 82.48%.

After reducing the general fund budget by \$12 million in 2011-12 in response to state education budget cuts in the billions, the district has slowly been reinstating some necessary programs and adding new initiatives for the last few years. However, the results of the 84th Legislature were disappointing for school districts in terms of education funding. In the face of increasing property values, Texas lawmakers reduced the amount of support school districts were to receive. The district was able to increase the budget only slightly in 2015-16, but a continued increase in property values for the 2016-2017 year allowed the district to increase spending by about 2.25%. The budget was guided by the goal to provide the resources to comply with the requirements of House Bill 5, hiring and retaining qualified staff, and addressing the cost of health care. The 2016-17 budget includes a 2% of midpoint pay increase for professional staff and a 3% of midpoint pay increase for paraprofessional and hourly staff, and includes new items deemed necessary to support educational goals for the 2016-17 year, including:

Additional positions needed based on staffing formula	\$ 6,122,725
Administrative positions to open 2 new facilities	\$ 1,911,900
Increase in transportation costs due to new facilities	700,000
Increase in utility costs due to additional square footage	500,000
Increase in contracts	403,050
	<hr/>
	\$ 9,637,675

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

1. Contingency fund for unexpected costs
2. Cash flow for operational resources at the beginning of the year prior to the tax collection season
3. Viewed as 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

**KELLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2016**

<u>Data Control Codes</u>		<u>Governmental Activities</u>
ASSETS		
1110	Cash and temporary investments	\$ 129,449,121
1220	Property taxes receivable (delinquent)	3,125,703
1230	Allowance for uncollectible taxes	(781,426)
1240	Due from other governments	14,673,780
1290	Other receivables	1,512,134
1300	Inventories, at cost	240,737
1410	Prepaid items	1,571,685
	Capital assets	
1510	Land	47,073,400
1520	Buildings and improvements, net	643,810,274
1530	Furniture and equipment, net	17,061,408
1580	Construction in progress	6,780,494
1810	Restricted cash	526,000
1910	Long-term investments	19,718,920
	Total assets	<u>884,762,230</u>
DEFERRED OUTFLOW OF RESOURCES		
1700	Deferred loss on refunding	39,886,080
1705	Deferred outflows - pension	39,662,949
	Total deferred outflows of resources	<u>79,549,029</u>
LIABILITIES		
2110	Accounts payable	16,007,377
2140	Interest payable	1,938,679
2150	Payroll deductions and withholdings payable	2,224,587
2160	Accrued wages payable	1,224,027
2180	Due to other governments	5,768
2210	Accrued expenses	15,468,822
2300	Unearned revenues	1,283,696
	Noncurrent liabilities	
2501	Due within one year	37,368,752
2502	Due in more than one year	834,568,625
2540	Net pension liability	67,579,409
	Total liabilities	<u>977,669,742</u>
DEFERRED INFLOW OF RESOURCES		
2605	Deferred inflows - pension	12,780,658
	Total deferred inflows of resources	<u>12,780,658</u>
NET POSITION		
3200	Net investment in capital assets	(20,615,977)
3840	Restricted for grants and Food Service	2,253,635
3850	Restricted for debt service	7,329,911
3490	Restricted for employee health claims	526,000
3900	Unrestricted net position	(15,632,710)
	Total net position	<u>\$ (26,139,141)</u>

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

**KELLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016**

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	\$ 192,543,062	\$ 5,754,413	\$ 5,871,695	\$ (180,916,954)
0012	Instructional resources and media services	4,101,419	110,959	443,128	(3,547,332)
0013	Curriculum and instructional staff development	5,011,692	142,202	451,976	(4,417,514)
0021	Instructional leadership	3,067,583	93,248	85,923	(2,888,412)
0023	School leadership	17,975,838	537,111	274,535	(17,164,192)
0031	Guidance, counseling, and evaluation services	14,350,156	386,825	1,620,393	(12,342,938)
0032	Social services	186,441	5,826	2,347	(178,268)
0033	Health services	4,520,733	100,410	54,543	(4,365,780)
0034	Student (pupil) services	7,680,726	248,380	121,180	(7,311,166)
0035	Food services	13,460,964	7,693,450	10,257,977	4,490,463
0036	Cocurricular/extracurricular activities	10,986,247	887,247	2,124,363	(7,974,637)
0041	General administration	7,385,418	214,944	215,070	(6,955,404)
0051	Plant maintenance and operations	25,475,399	1,339,813	314,920	(23,820,666)
0052	Security and monitoring services	2,453,664	70,149	124,892	(2,258,623)
0053	Data processing services	5,279,989	163,674	65,946	(5,050,369)
0061	Community services	1,008,673	22,365	88,985	(897,323)
0072	Debt service - interest on long term debt	33,855,378	-	1,904,330	(31,951,048)
0093	Shared services agreement	261,892	4,913	89,671	(167,308)
0097	Payments to tax increment fund	2,679,362	86,658	34,918	(2,557,786)
0099	Other governmental charges	1,095,381	-	-	(1,095,381)
[TP]	TOTAL PRIMARY GOVERNMENT	<u>\$ 353,380,017</u>	<u>\$ 17,862,587</u>	<u>\$ 24,146,792</u>	<u>\$ (311,370,638)</u>
General revenues					
Taxes					
MT	Property taxes, levied for general purposes			\$ 138,389,296	
DT	Property taxes, levied for debt service			66,455,898	
SF	State grants, unrestricted			104,034,451	
IE	Investment earnings			1,335,280	
MI	Miscellaneous local and intermediate			1,831,069	
TR	Total general revenues			<u>312,045,994</u>	
CN			Change in net position	675,356	
NB	Net position, beginning			(26,814,497)	
NE	Net position, ending			<u>\$ (26,139,141)</u>	

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**KELLER INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2016**

<u>Data Control Codes</u>		<u>10 General Fund</u>	<u>20 Federally Funded Grant Fund</u>
ASSETS			
1110	Cash and temporary investments	\$ 21,995,561	\$ 2,312,149
1220	Property taxes - delinquent	2,172,179	-
1230	Allowance for uncollectible taxes	(543,045)	-
1240	Due from other governments	11,662,522	2,985,613
1260	Due from other funds	9,179,474	-
1290	Other receivables	323,027	466,394
1300	Inventories, at cost	240,737	-
1410	Prepaid items	1,132,984	119,188
1910	Long-term investments	19,718,920	-
1000	Total assets	<u>65,882,359</u>	<u>5,883,344</u>
LIABILITIES			
2110	Accounts payable	2,847,898	338,239
2150	Payroll deduction and withholdings payable	2,224,587	-
2160	Accrued wages payable	1,003,112	219,579
2170	Due to other funds	117,973	2,908,701
2180	Due to other governments	313	3,431
2210	Accrued expenditures	233,562	-
2300	Unearned revenue	14,989	297,795
2000	Total liabilities	<u>6,442,434</u>	<u>3,767,745</u>
DEFERRED INFLOWS OF RESOURCES			
2600	Deferred property taxes	<u>1,542,574</u>	<u>-</u>
FUND BALANCES			
Nonspendable			
3410	Investments in inventory	240,737	-
3430	Prepaid items	1,132,984	119,188
Restricted for			
3480	Retirement of long term debt	-	-
3470	Capital acquisition program	-	-
3450	Food service	-	1,996,411
3450	Grant funds	-	-
Committed for			
3545	Campus activity fund	-	-
3545	Other purposes	54,444,537	-
Assigned for			
3590	Other purposes	1,698,788	-
Unassigned			
3600	Reported in General Fund	380,305	-
3000	Total fund balances	<u>57,897,351</u>	<u>2,115,599</u>
4000	Total liabilities, deferred inflows, and fund balances	<u>\$ 65,882,359</u>	<u>\$ 5,883,344</u>

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

Exhibit C-1

50 Debt Service Fund	60 Capital Projects Fund	30-42 State Funded Grant Funds	46-48 Local Funds	Total Governmental Funds
\$ 9,357,358	\$ 89,738,884	\$ 66,025	\$ 4,422,169	\$ 127,892,146
953,524	-	-	-	3,125,703
(238,381)	-	-	-	(781,426)
-	-	25,645	-	14,673,780
116,898	-	-	-	9,296,372
4,094	616,644	-	10,200	1,420,359
-	-	-	-	240,737
4,533	160,546	125,576	16,483	1,559,310
-	-	-	-	19,718,920
<u>10,198,026</u>	<u>90,516,074</u>	<u>217,246</u>	<u>4,448,852</u>	<u>177,145,901</u>
-	12,413,582	6,216	255,888	15,861,823
-	-	-	-	2,224,587
-	42	1,294	-	1,224,027
-	-	17,937	-	3,044,611
-	-	-	2,024	5,768
-	14,655,755	-	8,387	14,897,704
970,912	-	-	-	1,283,696
<u>970,912</u>	<u>27,069,379</u>	<u>25,447</u>	<u>266,299</u>	<u>38,542,216</u>
<u>673,667</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,216,241</u>
-	-	-	-	240,737
4,533	160,546	125,576	16,483	1,559,310
8,548,914	-	-	-	8,548,914
-	63,286,149	-	-	63,286,149
-	-	-	-	1,996,411
-	-	66,223	191,001	257,224
-	-	-	3,975,069	3,975,069
-	-	-	-	54,444,537
-	-	-	-	1,698,788
-	-	-	-	380,305
<u>8,553,447</u>	<u>63,446,695</u>	<u>191,799</u>	<u>4,182,553</u>	<u>136,387,444</u>
<u>\$ 10,198,026</u>	<u>\$ 90,516,074</u>	<u>\$ 217,246</u>	<u>\$ 4,448,852</u>	<u>\$ 177,145,901</u>

**KELLER INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2016**

Total fund balances - governmental funds	\$ 136,387,444
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.	(8,094,909)
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	943,620,894
Accumulated depreciation has not been recorded in the fund financial statements.	(228,895,318)
Bonds payable have not been included in the fund financial statements.	(728,705,385)
Net pension liability is not reported in the fund financial statements.	(67,579,409)
Accreted interest on capital appreciation bonds is not capitalized in the fund financial statements.	(29,176,945)
Premiums on the issuance of bonds are not capitalized in the fund financial statements.	(109,968,943)
Deferred loss on bond refunding has not been reflected in the fund financial statements.	39,886,080
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.	2,216,241
Deferred outflows of resources for pension related liabilities are recognized in the government-wide statements but are not recorded in the fund financial statements.	39,662,949
Deferred inflows of resources for pension related liabilities are recognized in the government-wide statements but are not recorded in the fund financial statements.	(12,780,658)
Accrued liabilities for compensated absences have not been reflected in the fund financial statements.	(772,503)
Interest is accrued on outstanding debt in the government-wide financial statements whereas in the fund financial statements interest expenditures are reported when due.	<u>(1,938,679)</u>
Net position of governmental activities	<u>\$ (26,139,141)</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
YEAR ENDED AUGUST 31, 2016**

Data Control Codes		10 General Fund	20 Federally Funded Grant Fund
REVENUES			
5700	Total local and intermediate sources	\$ 141,467,092	\$ 7,449,706
5800	State program revenues	112,624,228	556,941
5900	Federal program revenues	3,423,182	12,651,028
5020	Total revenues	<u>257,514,502</u>	<u>20,657,675</u>
EXPENDITURES			
Current			
0011	Instruction	167,044,847	3,196,921
0012	Instructional resources and media services	3,423,302	-
0013	Curriculum and instructional staff development	3,880,048	887,620
0021	Instructional leadership	2,825,950	98,046
0023	School leadership	16,592,356	16,747
0031	Guidance, counseling and evaluation services	10,316,960	2,816,181
0032	Social work services	180,126	-
0033	Health services	3,103,701	1,003
0034	Student (pupil) transportation	7,643,048	63,014
0035	Food services	2,072	13,694,434
0036	Cocurricular/extracurricular activities	8,553,633	-
0041	General administration	6,637,122	-
0051	Facilities maintenance and operations	24,165,053	-
0052	Security and monitoring services	2,084,497	-
0053	Data processing services	5,060,289	-
0061	Community services	556,490	115,613
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	390,006	-
Intergovernmental			
0093	Shared services agreement	-	261,892
0097	Payments to tax increment fund	2,679,362	-
0099	Other governmental charges	1,095,381	-
6030	Total expenditures	<u>266,234,243</u>	<u>21,151,471</u>
1100	Excess (deficiency) of revenues over (under) expenditures	<u>(8,719,741)</u>	<u>(493,796)</u>
Other Financing Sources (Uses)			
7911	Issuance of refunding debt	-	-
7916	Premium or discount on issuance of bonds	-	-
7957	Developer Contributions	-	-
8949	Payment to refunded bond escrow agent	-	-
	Total other financing sources (uses)	<u>-</u>	<u>-</u>
1200	Net change in fund balance	(8,719,741)	(493,796)
0100	Fund balance - September 1 (beginning)	<u>66,617,092</u>	<u>2,609,395</u>
3000	Fund balance - August 31 (ending)	<u>\$ 57,897,351</u>	<u>\$ 2,115,599</u>

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
\$ 66,704,277	\$ 1,006,709	\$ -	\$ 5,389,382	\$ 222,017,166
1,904,330	7,322	769,874	3,249	115,865,944
-	-	-	-	16,074,210
<u>68,608,607</u>	<u>1,014,031</u>	<u>769,874</u>	<u>5,392,631</u>	<u>353,957,320</u>
-	1,266,662	502,956	1,980,382	173,991,768
-	-	-	380,612	3,803,914
-	-	38,449	54,665	4,860,782
-	-	-	14,827	2,938,823
-	51,897	-	50,207	16,711,207
-	-	61,836	436,422	13,631,399
-	-	-	-	180,126
-	-	-	13,134	3,117,838
-	-	-	-	7,706,062
-	-	-	38	13,696,544
-	-	601	1,921,862	10,476,096
-	74,803	-	122,799	6,834,724
-	609,968	-	-	24,775,021
-	1,153,482	-	93,336	3,331,315
-	4,175	-	-	5,064,464
-	-	5,424	34,830	712,357
-	-	-	-	-
20,642,572	-	-	-	20,642,572
43,595,799	-	-	-	43,595,799
1,224,732	-	-	-	1,224,732
-	105,589,273	-	-	105,979,279
-	-	-	-	261,892
-	-	-	-	2,679,362
-	-	-	-	1,095,381
<u>65,463,103</u>	<u>108,750,260</u>	<u>609,266</u>	<u>5,103,114</u>	<u>467,311,457</u>
<u>3,145,504</u>	<u>(107,736,229)</u>	<u>160,608</u>	<u>289,517</u>	<u>(113,354,137)</u>
126,935,000	-	-	-	126,935,000
25,527,395	-	-	-	25,527,395
-	331,695	-	-	331,695
<u>(152,246,597)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(152,246,597)</u>
<u>215,798</u>	<u>331,695</u>	<u>-</u>	<u>-</u>	<u>547,493</u>
3,361,302	(107,404,534)	160,608	289,517	(112,806,644)
5,192,145	170,851,229	31,191	3,893,036	249,194,088
<u>\$ 8,553,447</u>	<u>\$ 63,446,695</u>	<u>\$ 191,799</u>	<u>\$ 4,182,553</u>	<u>\$ 136,387,444</u>

**KELLER INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2016**

Total net change in fund balances - governmental funds	\$ (112,806,644)
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.	(2,613,590)
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 2016 capital outlays is to increase net position.	106,343,170
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.	(20,441,557)
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.	(323,708)
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.	20,642,572
The current year issuance of bonds are shown as another resource in the fund financial statements but are shown as an increase in long term debt in the government-wide financial statements.	(126,935,000)
Current year payments to bond refunding escrow agent are shown as other uses in the fund financial statements but are shown as reductions in long term debt in the government-wide financial statements.	148,815,000
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	7,200,551
Premiums associated with bonds payable are reported as revenue on the fund financial statements when bonds are issued. Amounts are reported net of amortization on the government-wide financial statements.	(25,527,395)
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.	9,584,722
Current year amortization of the deferred loss on the issuance or 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.	(1,689,753)
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 an increase to net position.	(1,631,955)
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.	(233,643)
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.	(8,645)
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.	109,006
Increase in net position resulting in a change in estimate related to litigation.	1,000,000
Current year deferred loss on refunding associated with bonds payable is reported net of amortization on the government wide financial statements.	(807,775)
Change in net position of governmental activities	<u>\$ 675,356</u>

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

**KELLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2016**

	<u>Governmental Activities - Internal Service Funds</u>
ASSETS	
Cash and temporary investments	\$ 1,556,975
Accounts receivable	91,775
Prepaid items	12,375
Cash - restricted	<u>526,000</u>
Total assets	<u>2,187,125</u>
LIABILITIES	
Accounts and claims payable	3,459,155
Due to other funds	6,251,761
Accrued expenses	<u>571,118</u>
Total liabilities	<u>10,282,034</u>
NET POSITION	
Restricted for employee health claims	526,000
Unrestricted net position	<u>(8,620,909)</u>
Total net position	<u>\$ (8,094,909)</u>

**KELLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED AUGUST 31, 2016**

	Governmental Activities - Internal Service Funds
Operating Revenues	
Local and intermediate sources	\$ 20,139,341
Total operating revenues	20,139,341
Operating Expenses	
Payroll costs	53,566
Professional and contracted services	2,863,412
Claim settlement costs	19,841,925
Total operating expenses	22,758,903
Operating loss	(2,619,562)
Nonoperating Revenues	
State on-behalf revenue	2,172
Earnings from temporary deposits and investments	3,800
Total nonoperating revenues	5,972
Change in net position	(2,613,590)
Total net position - September 1 (beginning)	(5,481,319)
Total net position - August 31 (ending)	\$ (8,094,909)

**KELLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED AUGUST 31, 2016**

	Governmental Activities - Internal Service Funds
Cash flows from operating activities	
Cash received from user charges	\$ 20,139,341
Cash payments to employees for services	(51,394)
Cash payments for insurance claims	(20,238,110)
Net cash used in operating activities	(150,163)
Cash flows from investing activities	
Interest and dividends on investments	3,800
Net cash provided by investing activities	3,800
Net change in cash and cash equivalents	(146,363)
Cash and cash equivalents at beginning of the year	2,229,338
Cash and cash equivalents at end of the year, including \$526,000 in restricted cash	2,082,975
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	(2,619,562)
Adjustments to reconcile operating loss to net cash used in operating activities	
State on-behalf revenue	2,172
Change in assets and liabilities	
Increase in accounts receivable	465,498
Increase in prepaid items	69,068
Increase in accounts payable	355,498
Increase in due to other funds	1,330,859
Increase in accrued expenditures	246,304
Net cash used in operating activities	\$ (150,163)

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

**KELLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES – FIDUCIARY FUNDS
AUGUST 31, 2016**

	Agency Funds
ASSETS	
Cash	\$ 530,901
Accounts receivable	5,257
Total assets	536,158
LIABILITIES	
Accounts payable	13,480
Due to other governments	289
Due to student groups	522,389
Total liabilities	\$ 536,158

KELLER INDEPENDENT SCHOOL DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Board of Trustees is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by GASB. There are no component units included within the reporting entity and the District is not included in any other governmental reporting entity.

B. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District's non-fiduciary activities with most of the interfund activities removed. Net position is segregated into net 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 fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Position. All interfund transactions between governmental funds are eliminated on the government-wide statements.

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Government-Wide and Fund Financial Statements – Continued

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Any remaining governmental funds are aggregated and reported as non-major funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are non-operating.

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

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

Basis of accounting refers to when revenues and expenditures/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 year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amounts.

Proprietary Funds and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting, except for Agency Funds, which are custodial in nature and therefore do not have a measurement focus. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred.

D. Fund Accounting

The District's accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund 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.

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Fund Accounting – Continued

The District reports the following major governmental funds:

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

Federally Funded Grant 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.

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.

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Fund Accounting – Continued

Fiduciary Funds:

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

E. Budgets and Budgetary Accounting

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

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

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

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

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

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.

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

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 may be reported at amortized cost.

The non-TRS pension trust fund investment is a fixed annuity contract and is report 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 BASIC FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

J. Account Code Reporting

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

K. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula becomes available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimate as of August 31, 2016 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 and allotments received from the State through the Foundation School Program.

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.

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

M. Property Taxes – Continued

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 \$1,542,574 and \$673,667 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 estimated fair market value at the date of donation.

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

Buildings and furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	5-25
Vehicles	5-10
Office equipment	3-20
Computer equipment	5

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.

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

O. Long-Term Debt – Continued

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 August 31, 2016 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".

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.

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

S. Deferred Inflows and Deferred Outflows of Resources – Continued

If a balance previously reported as an asset or liability does not meet the definition of an asset, deferred outflow, liability, or deferred inflow, then it must actually be reported as a current inflow or outflow of resources (revenue, expense, or expenditure).

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 BASIC FINANCIAL STATEMENTS**

NOTE 2. BONDED DEBT PAYABLE

Bonded debt payable as of August 31, 2016 is as follows:

Description	Interest Rate Payable	Amount of Original Issue	Amount Outstanding 9/1/2015	Issued Current Year	Refunded Current Year	Retired Current Year	Amount Outstanding 8/31/2016
Unlimited Tax School Building and Refunding Bonds Series 1996A Final maturity 2021	3.60-5.90	\$ 59,539,931	\$ 11,714,701	\$ -	\$ -	\$ 650,933	\$ 11,063,768
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	87,084,973	-	84,895,000	350,000	1,839,973
Unlimited Tax School Refunding Bonds Series 2006A Final maturity 2029	4.00-4.60	64,749,980	63,926,826	-	63,920,000	4,330	2,496
Unlimited Tax School Refunding Bonds Series 2007 Final maturity 2028	4.00-5.00	136,470,000	5,825,000	-	-	2,800,000	3,025,000
Unlimited Tax School Building Bonds Series 2009 Final maturity 2035	4.39-5.50	142,299,951	5,345,538	-	-	16,971	5,328,567
Unlimited Tax Refunding Bonds Series 2009 Final maturity 2023	3.00-4.625	11,199,999	4,900,000	-	-	655,000	4,245,000
Unlimited Tax Refunding Bonds Series 2009A Final maturity 2031	3.50-4.50	22,419,992	22,351,297	-	-	9,855	22,341,442
Unlimited Tax Refunding Bonds Series 2010 Final maturity 2030	2.00-4.125	8,389,999	7,290,000	-	-	245,000	7,045,000
Unlimited Tax Refunding Bonds Series 2011 Final maturity 2028	2.00-4.00	9,370,000	7,775,000	-	-	650,000	7,125,000

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

NOTE 2. BONDED DEBT PAYABLE – CONTINUED

Description	Interest Rate Payable	Amount of Original Issue	Amount Outstanding 9/1/2015	Issued Current Year	Refunded Current Year	Retired Current Year	Amount Outstanding 8/31/2016
Unlimited Tax							
Refunding Bonds							
Series 2012							
Final maturity 2031	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	4,339,998	-	-	4,998	4,335,000
Unlimited Tax							
Refunding Bonds							
Series 2013							
Final maturity 2025	1.50-5.00	81,080,000	81,080,000	-	-	965,000	80,115,000
Unlimited Tax							
Refunding Bonds							
Series 2014							
Final maturity 2024	2.46	43,350,000	45,350,000	-	-	5,870,000	39,480,000
Unlimited Tax							
Refunding Bonds							
Series 2014A							
Final maturity 2028	2.00-5.00	56,565,000	56,165,000	-	-	-	56,165,000
Unlimited Tax							
Building Bonds							
Series 2015							
Final maturity 2040	1.00-5.00	153,875,000	148,875,000	-	-	5,450,000	143,425,000
Unlimited Tax							
Refunding Bonds							
Series 2015							
Final maturity 2032	2.00-5.00	98,675,000	97,170,000	-	-	465,000	96,705,000
Unlimited Tax							
Refunding Bonds							
Series 2015A							
Final maturity 2035	4.00-5.00	116,577,588	115,304,629	-	-	380,485	114,924,144
Unlimited Tax							
Refunding Bonds							
Series 2016A							
Final maturity 2031	2.00-5.00	70,915,000	-	70,915,000	-	1,235,000	69,680,000
Unlimited Tax							
Refunding Bonds							
Series 2016B							
Final maturity 2031	2.00-3.00	56,020,000	-	56,020,000	-	890,000	55,130,000
Total bonded debt payable		<u>\$ 1,258,090,424</u>	<u>\$ 771,227,957</u>	<u>\$ 126,935,000</u>	<u>\$ 148,815,000</u>	<u>\$ 20,642,572</u>	<u>\$ 728,705,385</u>

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

NOTE 2. BONDED DEBT PAYABLE – CONTINUED

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

<u>Due Fiscal Year Ending August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 21,744,472	\$ 36,422,097	\$ 58,166,569
2018	26,452,208	32,737,671	59,189,879
2019	19,773,388	35,040,459	54,813,847
2020	21,171,246	33,379,422	54,550,668
2021	25,594,071	29,876,886	55,470,957
2022-2026	182,490,000	100,124,043	282,614,043
2027-2031	227,280,000	66,815,922	294,095,922
2032-2036	117,385,000	31,504,100	148,889,100
2037-2040	86,815,000	9,066,750	95,881,750
	<u>\$ 728,705,385</u>	<u>\$ 374,967,350</u>	<u>\$ 1,103,672,735</u>

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

On April 15, 2016, the District issued \$70,915,000 in Unlimited Tax Refunding Bonds, with interest rates between 2.00% and 5.00% to refund \$84,895,000 of series 2006 Bonds with original maturities between 2017 and 2031 and interest rates between 4.25% and 5.00%. The refunding was undertaken to reduce the District's total debt service payments over the next 15 years by approximately \$22,425,120 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$18,569,899.

On April 15, 2016, the District issued \$56,020,000 in Unlimited Tax Refunding Bonds, with interest rates between 2.00% and 3.00% to refund \$63,920,000 of series 2006A Bonds with original maturities between 2018 and 2031 and interest rates between 4.00% and 4.60%. The refunding was undertaken to reduce the District's total debt service payments over the next 15 years by approximately \$14,428,565 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$10,700,182.

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

NOTE 3. ACCUMULATED UNPAID SICK LEAVE BENEFITS

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

Balance, September 1, 2015	\$	763,858
New entrants and salary increments		27,913
Payments to participants		<u>(19,268)</u>
 Balance, August 31, 2016	 \$	 <u><u>772,503</u></u>

NOTE 4. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 771,227,957	\$ 126,935,000	\$ 169,457,572	\$ 728,705,385	\$ 21,744,472
Accreted interest	36,377,494	2,760,518	9,961,067	29,176,945	6,780,429
Premium on bonds	94,026,271	25,527,395	9,584,723	109,968,943	7,163,066
Compensated absences	763,858	27,913	19,268	772,503	23,984
Claims payable	3,100,330	31,489,942	31,276,671	3,313,601	1,656,801
Net pension liability	33,815,115	44,447,028	10,682,734	67,579,409	-
Total governmental activities long-term liabilities	<u>\$ 939,311,025</u>	<u>\$ 231,187,796</u>	<u>\$ 230,982,035</u>	<u>\$ 939,516,786</u>	<u>\$ 37,368,752</u>

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

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

NOTE 5. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2016 was as follows:

Primary Government:

	Balance 9/1/2015	Additions	Transfers	Deletions	Balance 8/31/2016
Capital assets, not being depreciated					
Land	\$ 37,092,722	\$ 9,980,678	\$ -	\$ -	\$ 47,073,400
Construction in progress	12,604,968	6,561,363	(12,385,837)	-	6,780,494
Total capital assets, not being depreciated	49,697,690	16,542,041	(12,385,837)	-	53,853,894
Capital assets, being depreciated					
Buildings and improvements	759,523,332	85,026,140	12,385,837	-	856,935,309
Furniture and equipment	30,031,344	4,774,989	-	(1,974,642)	32,831,691
Total capital assets, being depreciated	789,554,676	89,801,129	12,385,837	(1,974,642)	889,767,000
Less accumulated depreciation on					
Buildings and improvements	196,394,440	16,730,595	-	-	213,125,035
Furniture and equipment	13,710,255	3,710,962	-	(1,650,934)	15,770,283
Accumulated depreciation	210,104,695	20,441,557	-	(1,650,934)	228,895,318
Total capital assets, being depreciated, net	579,449,981	69,359,572	12,385,837	(323,708)	660,871,682
Governmental activities capital assets, net	\$ 629,147,671	\$ 85,901,613	\$ -	\$ (323,708)	\$ 714,725,576

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

NOTE 5. CAPITAL ASSET ACTIVITY – CONTINUED

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

Instruction	\$ 14,996,765
Instructional resources and media services	209,525
Curriculum and staff development	32,912
Instructional leadership	33,349
School leadership	714,102
Guidance, counseling and evaluation services	244,218
Social services	543
Health services	1,301,687
Student transportation	1,949
Food services	287,805
Co-curricular/extracurricular activities	689,081
General administration	82,932
Plant maintenance and operations	1,017,124
Security and monitoring services	375,200
Data processing services	165,645
Community services	288,720
	\$ 20,441,557
Total depreciation expense	\$ 20,441,557

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:

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

NOTE 6. DEPOSITS AND INVESTMENTS – CONTINUED

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

The 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 August 31, 2016 are classified in the accompanying financial statements as follows:

Primary government	\$ 149,694,041
Fiduciary funds	530,901
	\$ 150,224,942

Cash and investments as of August 31, 2016 consist of the following:

Deposits with financial institutions	\$ 2,291,093
Investments	147,933,849
	\$ 150,224,942

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.

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

NOTE 6. DEPOSITS AND INVESTMENTS – CONTINUED

As of August 31, 2016 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. See investment table of page 47 for further disclosure.

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.

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 \$20,538,299
- C. Largest cash, savings and time deposit combined account balance amounted to \$15,995,000 and occurred during the month of December 2015
- D. Total amount of FDIC coverage at the time of largest combined balance was \$250,000

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

NOTE 6. DEPOSITS AND INVESTMENTS – CONTINUED

Investment in State Investment Pools

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

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.

Texas TERM is a Texas government investment pool organized to help investors achieve their investment objectives such as, safety, liquidity, higher potential yield, accounting and safekeeping and convenience. The pool is directed by an Advisory Board of experienced local government officials, finance director and treasurers and is managed by a team of industry leaders that are focused on providing professional investment services to investors. Texas TERM has been organized in conformity with the Interlocal Cooperation Act Chapter 791 of the Texas Government Code and the PFIA.

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 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.

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

NOTE 6. DEPOSITS AND INVESTMENTS – CONTINUED

Investment in State Investment Pools – Continued

- 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.

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, Texas TERM and Texas CLASS 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, have 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.

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

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

NOTE 6. DEPOSITS AND INVESTMENTS – CONTINUED

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 August 31, 2016	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs			
Investments measured at amortized cost							
Investment pools							
TexPool Prime	\$ 2,030,864	n/a	n/a	n/a	1%	38	AAAm
TexasTERM	7,000,023	n/a	n/a	n/a	5%	88	AAAm
TexasCLASS	109,116,231	n/a	n/a	n/a	74%	47	AAAm
Investments measured at net asset value (NAV)							
Investment pools							
LOGIC	2,067,811	n/a	n/a	n/a	1%	39	AAAm
Investments by fair value level							
Municipal Bonds	4,018,920	-	4,018,920	-	3%	182	AA
FHLB	11,700,000	-	11,700,000	-	8%	641	AAA
FLHB	8,000,000	-	8,000,000	-	5%		
FFCB	4,000,000	-	4,000,000	-	3%	947	AAA
Total	<u>\$ 147,933,849</u>	<u>\$ -</u>	<u>\$ 27,718,920</u>	<u>\$ -</u>	<u>100%</u>		
Portfolio weighted average maturity						<u>125</u>	

NOTE 7. DEFINED BENEFIT PENSION PLANS

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/Pages/about_archive_cafr.aspx; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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

NOTE 7. DEFINED BENEFIT PENSION PLANS – CONTINUED

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.

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. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2016 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

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

NOTE 7. DEFINED BENEFIT PENSION PLANS – CONTINUED

Contributions – Continued

	Contribution Rates	
	2015	2016
Member	6.7%	7.2%
Non-employer contributing entity (state)	6.8%	6.8%
Employers	6.8%	6.8%
<u>Employer #0767</u>	<u>2016</u>	
Employer contributions	\$ 5,995,391	
Member contributions	13,968,276	
NECE on-behalf contributions	8,998,913	

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 and junior colleges, 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.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% 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 BASIC FINANCIAL STATEMENTS**

NOTE 7. DEFINED BENEFIT PENSION PLANS – CONTINUED

Contributions – Continued

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.

Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	August 31, 2015
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.

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

NOTE 7. DEFINED BENEFIT PENSION PLANS – CONTINUED

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.

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, 2015 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Geometric Real Rate of Return</u>	<u>Contribution to Long-Term Portfolio Returns*</u>
Global equity			
U.S.	18%	4.6%	1.0%
Non-U.S. developed	13%	5.1%	0.8%
Emerging markets	9%	5.9%	0.7%
Directional hedge funds	4%	3.2%	0.1%
Private equity	13%	7.0%	1.1%
Stable value			
U.S. treasuries	11%	0.7%	0.1%
Absolute return	0%	1.8%	-
Stable value hedge funds	4%	3.0%	0.1%
Cash	1%	-0.2%	-
Real return			
Global inflation linked bonds	3%	0.9%	-
Real assets	16%	5.1%	1.1%
Energy and natural resources	3%	6.6%	0.2%
Commodities	0%	1.2%	-
Risk parity			
Risk parity	5%	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.

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

NOTE 7. DEFINED BENEFIT PENSION PLANS – CONTINUED

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 2015 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	\$ 105,884,196	\$ 67,579,409	\$ 35,673,901

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

At August 31, 2016, the District reported a liability of \$67,579,409 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	\$ 67,579,409
State's proportionate share that is associated with District	107,396,378
Total	\$ 174,975,787

The net pension liability was measured as of August 31, 2015 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, 2014 thru August 31, 2015.

At August 31, 2015, the employer's proportion of the collective net pension liability was 0.19118%, which was an increase from 0.12659%, its proportion measured as of August 31, 2014.

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

NOTE 7. DEFINED BENEFIT PENSION PLANS – CONTINUED

Changes Since the Prior Actuarial Valuation

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

Economic Assumptions

- The inflation assumption was decreased from 3.00% to 2.50%.
- The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
- In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
- The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

- The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

- Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a higher incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
- There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- Small adjustments to the disability pattern were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
- For members that become disabled in the future, it is assumed 20% of them will chose a 100% joint and survivor annuity option.

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

NOTE 7. DEFINED BENEFIT PENSION PLANS – CONTINUED

Changes Since the Prior Actuarial Valuation - Continued

Actuarial Methods and Policies

- The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

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

For the year ended August 31, 2016, the District recognized pension expense of \$8,977,374 and revenue of \$8,977,374 for support provided by the State.

At August 31, 2016, 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	\$ 434,930	\$ 2,597,137
Changes in actuarial assumptions	1,828,020	2,410,937
Differences between projected and actual investment earnings	16,643,303	7,751,460
Changes in proportion and difference between the employer’s contributions and the proportionate share of the contributions	14,761,305	21,124
Contributions paid to TRS subsequent to the measurement dates	5,995,391	-
	\$ 39,662,949	\$ 12,780,658

Contributions paid to TRS subsequent to the measurement dates will be recognized in 2017. 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 August 31:	Pension Expense Amount
2017	\$ 3,674,630
2018	3,683,494
2019	3,683,493
2020	6,267,314
2021	2,088,231
2022	1,489,738

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

NOTE 8. RETIREE HEALTH PLAN

Plan Description

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement Systems of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS website at www.trs.state.tx.us, by writing to the Communications Dept. of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas, or by calling 1-800-223-8778.

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with the District contributing a percentage of payroll set at .55% for fiscal period 2016. For the years ended August 31, 2014, 2015 and 2016, the State's contributions to TRS-Care were \$709,517, \$778,728, and \$813,635, respectively, the active member contributions were \$1,102,675, \$1,198,890, and \$1,260,928, respectively, and the District's contributions were, \$933,031, \$1,014,445 and \$1,068,786, respectively, which equaled the required contributions each period.

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 years ended August 30, 2014, 2015, and 2016, the subsidy payments received by the TRS-Care on behalf of the District were \$469,702, \$782,821 and \$755,637, respectively. These payments are recorded as equal revenues and expenditures in the governmental fund financial statements.

**KELLER INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC 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.

Effective December 2002, the District established a self-funded health insurance plan. The District and employees share the cost of employee coverage. Employees, at their option, can authorize payroll withholdings to pay contributions or premiums for dependents. The plan is authorized by Article 3.51-2, Texas Insurance Code and is documented by a contractual agreement. The District's retention of risk is \$165,000 per employee with an aggregate stop-loss limit of approximately \$2,000,000 as of January 1, 2016. The District's aggregate attachment point is \$22,223,541 for the 2015 calendar year.

Settled claims have not exceeded the aggregate coverage in any of the past three fiscal years. Insurance coverage has not been reduced for the year from the prior year. Accrued claims payable of \$3,313,601 as of August 31, 2016, includes provisions for claims reported but not paid and claims incurred but not reported. The provision for reported claims is determined by estimating the amount that will ultimately be paid each claimant and is calculated and provided by the District's third party administrator. The District estimates the provision for claims incurred but not yet reported. Accrued claims payable have not been discounted to their present value as the District expects such claims to be paid within the following fiscal year. The District believes that any discount of the claims payable would not be material to the overall financial statements.

Changes in the fund's claims liability amount for the year ended August 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Liability, beginning of year	\$ 3,100,330	\$ 2,671,035
Current year claims and changes in estimates	31,489,942	24,013,975
Claim payments	<u>(31,276,671)</u>	<u>(23,584,680)</u>
Liability, end of year	<u>\$ 3,313,601</u>	<u>\$ 3,100,330</u>

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

NOTE 10. LITIGATION

From time to time, the District is a defendant in legal proceedings relating to its operations as a school district. Based on management assessment of the status of ongoing litigation as of August 31, 2016 a change in estimate was recorded during the year resulting in a decrease in accrued liabilities for contingencies in the amount of \$1,000,000. Management further 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 2016 issues 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 August 31, 2016, the District has entered into long-term construction projects with an aggregate unexpended balance of \$47,105,298.

The District has also entered into operating leases for office equipment and for management technology services. The expenditures under these leases for the year ended August 31, 2016 totaled \$5,189,032.

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

Year Ending August 31,	
2017	\$ 4,908,175
2018	3,572,458
2019	2,867,968
2020	354,324
Total	<u>\$ 11,702,925</u>

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

NOTE 12. DUE FROM STATE AGENCIES

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. Amounts due from federal and state governments as of August 31, 2016, 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	\$ 11,662,522	\$ -	\$ 11,662,522
State funded grants	25,645	-	25,645
Federally funded grants	-	2,985,613	2,985,613
Total	<u>\$ 11,688,167</u>	<u>\$ 2,985,613</u>	<u>\$ 14,673,780</u>

NOTE 13. INTERFUND BALANCES AND ACTIVITIES

Interfund balances at August 31, 2016 consisted of the following individual fund balances:

Due To Fund	Due From Fund	Amount	Purpose
Debt Service Fund	General Fund	\$ 117,973	Reclassification of revenue
General Fund	Internal Service Fund	6,251,761	Reclassification of revenue
General Fund	Federally Funded Grant Fund	2,908,701	Reclassification of negative cash balances
General Fund	State Funded Grant Funds	17,937	Reclassification of negative cash balances
		<u>\$ 9,296,372</u>	

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

NOTE 14. RECONCILIATION TO BASIC FINANCIAL STATEMENTS

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

Total expenditures of federal awards per K-1	\$ 12,651,028
School Health and Related Services (SHARS)	3,224,889
E-rate revenue reported in general fund	<u>198,293</u>
Total reported on and reconciled to exhibit C-3	<u>\$ 16,074,210</u>

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

NOTE 15. OTHER RECEIVABLES

Other receivables recorded in the fund level financial statements consisted of the following at August 31, 2016:

	General Fund	Federally Funded Grants	Debt Service Fund	Capital Projects Fund	Local Funds	Total
Services rendered	\$ 166,211	\$ 466,394	\$ 4,094	\$ 616,644	\$ 10,200	\$ 1,263,543
E-rate receivable	156,816	-	-	-	-	156,816
Total	<u>\$ 323,027</u>	<u>\$ 466,394</u>	<u>\$ 4,094</u>	<u>\$ 616,644</u>	<u>\$ 10,200</u>	<u>\$ 1,420,359</u>

NOTE 16. 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
 - a. Restricted Fund Balance – includes amounts that can be spent only for the specific purposes as imposed by law, or imposed by creditors, grantors, contributors, or other governments’ laws and regulations. Examples include federal and state grant programs, retirement of long-term debt, and construction.
 - i. The proceeds of specific revenue sources which are restricted to expenditures for specified purposes as designated by grantors, contributors, or governmental entities over state or local program grants.
 - ii. The aggregate fund balance in the debt service fund is legally restricted for payment of bonded indebtedness and is not available for other purposes until all bonded indebtedness is liquidated.
 - iii. The fund balance of the capital projects fund reflects an amount committed for construction and major renovation projects, and it usually represents unexpended proceeds from the sale of school building bonds, which primarily have restricted uses.

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

NOTE 16. CLASSIFICATION OF FUND BALANCE – CONTINUED

Fund Balance Classifications – Continued

- b. Committed Fund Balance – includes amounts that can be used only for the specific purposes as determined by the governing body by formal action recorded in the minutes of the governing body. Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally. Examples include, but specifically not limited to, Board action regarding construction, claims, and judgments, retirement of loans/notes payable, capital expenditures, and self-insurance. The District’s Board must take action to commit funds, modify a commitment or rescind a commitment for a specific purpose prior to the end of the fiscal year, but the amount of the commitment may be determined after the end of the fiscal year.
 - i. Campus activity funds are considered committed by the governing body through adoption of board policy pertaining to the usage of these funds.
 - ii. The District’s Board of Trustees voted to commit fund balance equal to between 17% and 20% of the 2017 general fund expenditure budget for budgetary contingencies.
- c. 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.

Assigned for	
Fine arts - ten year plan	\$ 555,788
Athletic - ten year plan	<u>1,143,000</u>
Total	<u><u>\$ 1,698,788</u></u>

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

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

NOTE 17. 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 \$626,104 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 August 31, 2016, the remainder of the textbooks, in possession of the District, have minimal value and are not otherwise reflected elsewhere in these statements.

NOTE 18. NEW ACCOUNTING PRONOUNCEMENTS

In June 2015, GASB issued statement number 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68, and amendments to certain provisions of GASB 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of GASB 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB 68. It also amends certain provisions of GASB 67 and GASB 68 for pension plans and pensions that are within their respective scopes. This statement is effective for financial statements for reporting periods beginning after June 15, 2016.

In June 2015, GASB 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* was issued. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement is effective for financial statements for reporting periods beginning after June 15, 2016.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for OPEB. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement is effective for financial statements for reporting periods beginning after June 15, 2017.

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

NOTE 18. NEW ACCOUNTING PRONOUNCEMENTS – CONTINUED

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify the hierarchy of GAAP. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement is effective for financial statements for reporting periods beginning after June 15, 2016.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement requires governments that enter into tax abatement agreements to disclose:

1. Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
2. The gross dollar amount of taxes abated during the period
3. Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

This statement is effective reporting periods beginning after December 15, 2015.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. Statement 78 was issued in December 2015. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

In January 2016, GASB issued Statement No. 80: *Blending Requirements for Certain Component Units – on amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

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

NOTE 18. NEW ACCOUNTING PRONOUNCEMENTS – CONTINUED

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for periods beginning after December 15, 2016.

In March 2016, GASB issued Statement No. 82: *Pension Issues – an amendment of GASB Statements No. 67, No.68, and No. 73*. This Statement addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

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

REQUIRED SUPPLEMENTARY INFORMATION

**KELLER INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED AUGUST 31, 2016**

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES				
5700	Total local and intermediate sources	\$ 146,654,935	\$ 146,654,935	\$ 141,467,092	\$ (5,187,843)
5800	State program revenues	96,942,490	105,670,939	112,624,228	6,953,289
5900	Federal program revenues	3,125,000	3,125,000	3,423,182	298,182
5020	Total revenues	246,722,425	255,450,874	257,514,502	2,063,628
	EXPENDITURES				
	Current				
0011	Instruction	160,492,622	167,582,053	167,044,847	537,206
0012	Instructional resources & media services	3,398,135	3,510,521	3,423,302	87,219
0013	Curriculum & instructional staff development	4,041,615	4,023,608	3,880,048	143,560
0021	Instructional leadership	2,933,090	2,921,863	2,825,950	95,913
0023	School leadership	15,942,718	16,669,618	16,592,356	77,262
0031	Guidance counseling & evaluation services	9,874,346	10,449,073	10,316,960	132,113
0032	Social services	179,983	192,063	180,126	11,937
0033	Health services	3,157,091	3,188,326	3,103,701	84,625
0034	Student (pupil) transportation	7,231,723	7,721,184	7,643,048	78,136
0035	Food services	7,000	7,000	2,072	4,928
0036	Cocurricular/extracurricular activities	7,289,887	8,683,764	8,553,633	130,131
0041	General administration	6,737,064	6,901,024	6,637,122	263,902
0051	Plant maintenance and operations	25,063,834	25,203,715	24,165,053	1,038,662
0052	Security and monitoring services	2,158,387	2,199,429	2,084,497	114,932
0053	Data processing services	4,810,421	5,154,993	5,060,289	94,704
0061	Community services	518,177	561,880	556,490	5,390
	Capital outlay				
0081	Facilities acquisition and construction	99,000	412,541	390,006	22,535
	Intergovernmental				
0093	Shared services agreement	-	-	-	-
0095	Juvenile justice alternative education program	2,300	2,300	-	2,300
0097	Payments to tax increment fund	2,623,317	2,679,362	2,679,362	-
0099	Other intergovernmental charges	1,209,301	1,095,381	1,095,381	-
6030	Total expenditures	257,770,011	269,159,698	266,234,243	2,925,455
1100	Excess (deficiency) of revenues over (under) expenditures	(11,047,586)	(13,708,824)	(8,719,741)	4,989,083
	Other financing sources (uses)	2,000,000	2,000,000	-	(2,000,000)
1200	Net change in fund balances	(9,047,586)	(11,708,824)	(8,719,741)	2,989,083
0100	Fund balances - September 1 (beginning)	66,617,092	66,617,092	66,617,092	-
3000	Fund balances - August 31 (ending)	\$ 57,569,506	\$ 54,908,268	\$ 57,897,351	\$ 2,989,083

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

**KELLER INDEPENDENT SCHOOL DISTRICT
NOTES TO 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 August 20th the District prepares a budget for the next succeeding fiscal year beginning September 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment is approved before the fact, is reflected in the official minutes of the Board, and is not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. Significant amendments were made to the following functional areas:

Function	Increase
Instruction	\$ 7,089,431
Cocurricular/extracurricular	1,393,877
School Leadership	726,900
Guidance and Counseling	574,727
Student Transportation	489,461

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

**KELLER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
YEAR ENDED AUGUST 31, 2016**

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.191179500%	0.126594400%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 67,579,409	\$ 33,815,115
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	<u>107,396,378</u>	<u>88,871,869</u>
Total	<u>\$ 174,975,787</u>	<u>\$ 122,686,984</u>
District's Covered-Employee Payroll	\$ 184,444,586	\$ 169,617,596
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its covered-Employee Payroll	36.64%	19.94%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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, 2015.

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

**KELLER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
YEAR ENDED AUGUST 31, 2016**

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 3,841,258	\$ 3,597,578
Contribution in Relation to the Contractually Required Contribution	<u>(3,841,258)</u>	<u>(3,597,578)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 194,375,460	\$ 184,444,586
Contributions as a Percentage of Covered-Employee Payroll	1.98%	1.95%

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

**KELLER INDEPENDENT SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DISTRICT'S NET PENSION LIABILITY**

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

The following are changes to the actuarial assumptions or other inputs that affected the measurement of the total pension liability since the prior measurement period.

Economic Assumptions:

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.

**KELLER INDEPENDENT SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DISTRICT'S NET PENSION LIABILITY**

Other Demographic Assumptions – Continued

12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

13. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

COMBINING STATEMENTS

AGENCY FUNDS

**KELLER INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED AUGUST 31, 2016**

	Balance September 1, 2015	Additions	Deductions	Balance August 31, 2016
STUDENT ACTIVITY ACCOUNT				
Assets				
Cash and cash equivalents	\$ 322,622	\$ 2,036,795	\$ 1,916,556	\$ 442,861
Accounts receivable	2,599	5,072	2,617	5,054
Total assets	<u>\$ 325,221</u>	<u>\$ 2,041,867</u>	<u>\$ 1,919,173</u>	<u>\$ 447,915</u>
Liabilities				
Accounts payable	9,607	1,110,829	1,113,143	11,921
Due to other governments	25	25	289	289
Due to student groups	315,589	713	120,829	435,705
Total liabilities	<u>\$ 325,221</u>	<u>\$ 1,111,567</u>	<u>\$ 1,234,261</u>	<u>\$ 447,915</u>
EMPLOYEE ACTIVITIES				
Assets				
Cash and cash equivalents	88,294	655,509	655,763	88,040
Accounts receivable	114	203	114	203
Total assets	<u>\$ 88,408</u>	<u>\$ 655,712</u>	<u>\$ 655,877</u>	<u>\$ 88,243</u>
Liabilities				
Accounts payable	1,658	111,287	111,188	1,559
Due to student groups	86,750	67,997	67,931	86,684
Total liabilities	<u>\$ 88,408</u>	<u>\$ 179,284</u>	<u>\$ 179,119</u>	<u>\$ 88,243</u>
TOTAL AGENCY FUNDS				
Assets				
Cash and cash equivalents	410,916	2,692,304	2,572,319	530,901
Accounts receivable	2,713	5,275	2,731	5,257
Total assets	<u>\$ 413,629</u>	<u>\$ 2,697,579</u>	<u>\$ 2,575,050</u>	<u>\$ 536,158</u>
Liabilities				
Accounts payable	11,265	1,222,116	1,224,331	13,480
Due to other governments	25	25	289	289
Due to student groups	402,339	68,710	188,760	522,389
Total liabilities	<u>\$ 413,629</u>	<u>\$ 1,290,851</u>	<u>\$ 1,413,380</u>	<u>\$ 536,158</u>

REQUIRED TEA SCHEDULES

**KELLER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
YEAR ENDED AUGUST 31, 2016**

Years Ended August 31,	1		2	3	10
	Tax Rates		Assessed or Appraised Valuation	Assessed or Appraised Valuation	Delinquent Balance by Year September 1
	Maintenance	Debt Service			
2007 and prior	Various	Various	Various	Various	\$ 626,389
2008	1.040	0.317	9,482,514,598		100,892
2009	1.040	0.377	10,212,543,961		156,452
2010	1.040	0.446	10,518,985,594		214,974
2011	1.040	0.491	10,838,009,000		256,232
2012	1.040	0.500	11,200,638,123		269,416
2013	1.040	0.500	11,303,854,760		385,601
2014	1.040	0.500	11,925,386,754		421,774
2015	1.040	0.500	12,950,447,900		1,152,680
2016 (current)	1.040	0.500	12,902,894,457		-
Totals					<u>\$ 3,584,410</u>

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

Exhibit J-1

20	31	32	30	40	50
Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Total Collections	Adjustments	Delinquent Balance by Year August 31, 2016
\$ -	\$ 3,802	\$ 873	\$ 4,675	\$ (39,119)	\$ 582,595
-	878	268	1,146	37	99,783
-	1,592	577	2,169	2,067	156,350
-	38,484	16,515	54,999	(289)	159,686
-	102,667	48,431	151,098	101,528	206,662
-	111,760	53,731	165,491	117,142	221,067
-	140,928	67,754	208,682	30,339	207,258
-	190,553	91,612	282,165	103,122	242,731
-	404,915	194,671	599,586	(153,024)	400,070
<u>195,978,901</u>	<u>136,911,820</u>	<u>65,822,988</u>	<u>202,734,808</u>	<u>7,605,408</u>	<u>849,501</u>
<u>\$ 195,978,901</u>	<u>\$ 137,907,399</u>	<u>\$ 66,297,420</u>	<u>\$ 204,204,819</u>	<u>\$ 7,767,211</u>	<u>\$ 3,125,703</u>
	<u>\$ 2,679,362</u>				

**KELLER INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION FUND
FOR THE YEAR ENDED AUGUST 31, 2016**

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES					
5700	Total local and intermediate sources	\$ 7,652,087	\$ 7,652,087	\$ 7,449,706	\$ (202,381)
5800	State program revenues	71,413	269,486	342,075	72,589
5900	Federal program revenues	5,310,607	5,310,607	5,408,864	98,257
5020	Total revenues	13,034,107	13,232,180	13,200,645	(31,535)
EXPENDITURES					
0035	Food service	12,184,107	13,775,503	13,694,441	81,062
6030	Total expenditures	12,184,107	13,775,503	13,694,441	81,062
1200	Net changes in fund balances	850,000	(543,323)	(493,796)	49,527
0100	Fund balance - September 1 (beginning)	2,609,395	2,609,395	2,609,395	-
3000	Fund balance - August 31 (ending)	\$ 3,459,395	\$ 2,066,072	\$ 2,115,599	\$ 49,527

**KELLER INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2016**

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance With
		Original	Final	(GAAP Basis)	Final Budget Positive or (Negative)
	REVENUES				
5700	Total local and intermediate sources	\$ 68,497,805	\$ 68,497,805	\$ 66,704,277	\$ (1,793,528)
5800	State program revenues	-	-	1,904,330	1,904,330
5020	Total revenues	68,497,805	68,497,805	68,608,607	110,802
	EXPENDITURES				
	Current				
0071	Debt service	64,304,425	65,479,010	65,463,103	15,907
6030	Total expenditures	64,304,425	65,479,010	65,463,103	15,907
	Excess (deficiency) of revenues over (under) expenditures	4,193,380	3,018,795	3,145,504	126,709
	OTHER FINANCING SOURCES (USES)				
7911	Issuance of bonds	-	-	126,935,000	126,935,000
7916	Premium or discount on issuance of bonds	-	-	25,527,395	25,527,395
8949	Payment to refunded bond escrow agent	-	-	(152,246,597)	(152,246,597)
7080	Total other financing sources (uses)	-	-	215,798	215,798
1200	Net change in fund balance	4,193,380	3,018,795	3,361,302	342,507
0100	Fund balance - September 1 (beginning)	5,192,145	5,192,145	5,192,145	-
3000	Fund balance - August 31 (ending)	\$ 9,385,525	\$ 8,210,940	\$ 8,553,447	\$ 342,507

STATISTICAL SECTION

STATISTICAL SECTION (unaudited)

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

TABLE 1

	Fiscal Year					
	2007	2008	2009	2010	2011	2012
Governmental activities						
Net investment in capital assets	\$(17,947,640)	\$(19,985,969)	\$(33,180,143)	\$(39,790,063)	\$(38,159,556)	\$(43,992,374)
Restricted	2,008,006	2,324,821	8,467,449	6,575,067	6,749,910	7,812,705
Unrestricted	18,942,594	16,612,108	15,707,608	12,395,863	23,775,858	50,167,324
Total primary government net position	\$ 3,002,960	\$ (1,049,040)	\$ (9,005,086)	\$ (20,819,133)	\$ (7,633,788)	\$ 13,987,655

	Fiscal Year			
	2013 as restated	2014	2015	2016
Governmental activities				
Net investment in capital assets	\$(31,475,706)	\$(25,308,063)	\$(22,871,720)	\$(20,615,977)
Restricted	7,588,984	6,759,290	3,889,959	10,109,546
Unrestricted	41,920,606	39,809,055	(10,832,736)	(15,632,710)
Total primary government net position	\$ 18,033,884	\$ 21,260,282	\$(29,814,497)	\$ (26,139,141)

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

	Fiscal Year			
	2007	2008	2009	2010
Expenses				
Governmental activities				
Instruction	\$ 111,942,019	\$ 130,853,347	\$ 147,615,180	\$ 160,197,180
Instructional Resources and Media Services	3,507,020	3,791,403	4,548,868	3,261,124
Curriculum and Staff Development	2,421,519	3,245,795	3,490,394	3,497,953
Instructional Leadership	2,262,844	2,392,807	2,459,408	2,310,199
School Leadership	11,505,689	12,661,163	13,325,500	13,594,932
Guidance, Counseling and Evaluation Services	7,131,813	7,815,695	8,822,213	9,129,293
Social Work Services	203,993	224,136	283,831	262,992
Health Services	1,704,416	1,927,807	2,110,792	2,252,365
Student (Pupil) Transportation	4,178,437	5,105,905	6,035,224	6,222,185
Food Services	8,386,864	9,713,959	10,407,692	10,538,803
Cocurricular/Extracurricular Activities	5,944,813	6,643,550	7,298,740	8,057,423
General Administration	4,686,385	4,988,376	6,271,204	5,837,704
Plant Maintenance and Operations	20,113,567	22,487,313	18,653,300	21,065,268
Security and Monitoring Services	504,895	756,555	1,154,381	1,468,225
Data Processing Services	2,149,616	4,053,626	3,639,516	3,379,340
Community Services	440,227	472,403	801,894	1,086,051
Debt Service - Interest on Long Term Debt	29,834,899	32,158,191	31,561,209	39,427,642
Facilities Acquisition and Construction	8,506,584	3,466,383	-	-
Shared Services Agreement	-	-	3,811,277	3,945,201
Juvenile Justice Alternative Ed Program	-	-	5,500	-
Payments to Tax Increment Fund	1,501,599	1,097,395	1,831,416	1,925,666
Other governmental charges	-	-	-	-
Total Primary Government Expenses	226,927,199	253,855,809	274,127,539	297,459,546
Program Revenues				
Charges for services				
Instruction	6,780,489	5,304,345	5,657,131	6,315,099
Instructional Resources and Media Services	-	126,865	142,871	119,037
Curriculum and Staff Development	-	67,640	69,490	94,857
Instructional Leadership	-	98,478	93,844	103,019
School Leadership	-	522,364	559,767	600,663
Guidance, Counseling and Evaluation Services	-	334,565	344,598	411,113
Social Work Services	-	4,521	5,153	5,016
Health Services	-	17,488	90,105	99,258
Student (pupil) services	101,745	38,860	60,974	42,653
Food Services	6,206,636	7,068,398	7,368,464	7,499,282
Cocurricular/Extracurricular Activities	436,407	585,666	667,347	727,064
General Administration	-	69,176	160,056	170,883
Plant Maintenance and Operations	-	1,014,592	833,404	825,571
Security and Monitoring Services	-	632	4,426	6,176
Data Processing Services	-	67,981	60,163	59,782
Community Services	390,294	497,538	500,131	548,056
Facilities Acquisition and Construction	-	69,691	40,245	-
Shared services agreement	-	-	-	-
Payments to Juvenile Justice Alternative Ed	-	-	-	-
Payments to tax increment fund	-	-	-	-
Other governmental charges	-	-	-	-
Operating Grants and Contributions	15,612,510	14,532,569	13,532,702	22,629,116
Total Primary Government Program Revenues	29,528,081	30,421,369	30,190,871	40,256,645
Net (Expense)/Revenue				
Total Primary Government Net Expense	\$ (197,399,118)	\$ (223,434,440)	\$ (243,936,668)	\$ (257,202,901)

TABLE II

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 159,641,776	\$ 149,547,022	\$ 158,093,657	\$ 169,674,602	\$ 185,202,372	\$ 192,543,062
3,743,225	3,506,194	3,669,131	3,976,459	4,064,395	4,101,419
2,889,302	2,754,701	2,899,611	4,289,446	4,928,683	5,011,692
2,269,740	2,091,486	2,465,543	2,945,318	2,855,696	3,067,583
14,478,924	14,317,804	15,324,170	17,083,843	17,247,461	17,975,838
10,101,315	10,056,213	10,963,668	12,199,237	13,527,953	14,350,156
279,278	156,066	204,112	149,486	186,794	186,441
2,458,895	3,099,151	3,306,124	3,543,211	3,224,463	4,520,733
6,808,740	5,448,661	5,687,815	6,807,163	6,686,403	7,680,726
10,974,335	12,085,660	12,452,594	13,247,466	13,580,453	13,460,964
8,771,031	7,985,415	8,838,689	10,013,525	10,579,801	10,986,247
5,584,569	8,082,486	6,178,573	5,772,175	6,904,386	7,385,418
14,671,718	18,625,453	20,029,457	21,774,504	23,417,979	25,475,399
1,675,711	1,299,191	1,591,648	2,053,138	2,301,600	2,453,664
4,380,257	5,227,588	4,960,996	5,203,488	5,241,972	5,279,989
1,075,017	1,541,352	1,023,234	1,012,650	964,285	1,008,673
41,249,450	33,103,972	38,588,692	29,753,356	40,665,465	33,855,378
-	-	-	226,588	-	-
3,329,680	3,410,020	3,059,151	3,425,122	2,887,489	261,892
-	2,375	-	-	9,804	-
1,750,904	1,732,427	1,973,187	2,055,966	2,294,948	2,679,362
-	-	-	1,068,490	1,153,257	1,095,381
<u>296,133,867</u>	<u>284,073,237</u>	<u>301,310,052</u>	<u>316,275,233</u>	<u>347,925,659</u>	<u>353,380,017</u>
6,309,615	4,795,456	5,153,446	6,214,788	5,399,497	\$ 5,754,413
164,173	108,282	103,893	129,162	108,058	110,959
113,478	73,913	89,283	139,535	172,978	142,202
105,594	64,515	75,705	100,677	89,771	93,248
627,088	414,131	469,161	599,345	496,425	537,111
444,807	335,308	410,717	525,376	463,205	386,825
13,266	5,153	6,989	5,869	5,786	5,826
107,640	75,805	91,614	107,422	92,965	100,410
-	182,176	195,915	269,584	212,425	248,380
8,038,128	7,704,516	7,442,377	7,276,413	7,283,932	7,693,450
380,766	839,066	909,624	985,275	874,016	887,247
259,481	170,378	183,971	199,923	197,638	214,944
917,800	1,238,443	1,372,248	1,376,577	1,222,925	1,339,813
72,715	34,634	54,277	74,694	61,028	70,149
174,991	151,902	150,317	182,898	157,278	163,674
646,909	29,857	35,978	35,358	50,374	22,365
-	-	-	-	-	-
158,544	112,888	96,181	135,645	91,555	4,913
-	79	-	-	310	-
83,370	1,732,427	-	-	72,619	86,658
-	-	-	81,422	-	-
<u>31,969,236</u>	<u>24,161,384</u>	<u>20,475,623</u>	<u>22,155,964</u>	<u>23,619,227</u>	<u>24,146,792</u>
<u>50,587,601</u>	<u>42,230,313</u>	<u>37,317,319</u>	<u>40,595,927</u>	<u>40,672,012</u>	<u>42,009,379</u>
<u>\$ (245,546,266)</u>	<u>\$ (241,842,924)</u>	<u>\$ (263,992,733)</u>	<u>\$ (275,679,306)</u>	<u>\$ (307,253,647)</u>	<u>\$ (311,370,638)</u>

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

	Fiscal Year			
	2007	2008	2009	2010
Net (Expense)/Revenue				
Total primary government net expense	\$ (173,151,194)	\$ (197,399,118)	\$ (223,434,440)	\$ (243,936,668)
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes				
Property Taxes, Levied for General Purposes	110,256,743	99,265,515	108,794,551	113,892,990
Property Taxes, Levied for Debt Service	25,190,201	30,153,606	39,240,626	48,657,348
State Aid - Formula Grants	41,701,262	75,667,541	78,938,143	78,839,121
Grants and Contributions not Restricted	4,840,601	4,247,899	4,685,515	4,686,451
Investment Earnings	11,012,544	10,047,879	4,110,151	583,181
Miscellaneous Local and Intermediate Revenue	43,827	-	211,636	1,706,719
Special Item - Gain on Sale of Capital Assets	-	-	-	-
Special Item - Lease of Mineral Rights	-	-	-	-
Total Primary Government	<u>193,045,178</u>	<u>219,382,440</u>	<u>235,980,622</u>	<u>248,365,810</u>
Change in Net Position				
Total Primary Government	<u>\$ 19,893,984</u>	<u>\$ 21,983,322</u>	<u>\$ 12,546,182</u>	<u>\$ 4,429,142</u>

TABLE III

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ (257,202,901)	\$ (245,222,381)	\$ (241,842,924)	\$ (275,679,306)	\$ (307,253,647)	\$ (311,370,638)
111,315,561	114,660,445	117,999,604	123,722,646	133,949,135	138,389,296
53,168,610	55,758,482	56,616,666	59,396,906	64,344,372	66,455,898
92,872,674	88,208,113	83,578,692	94,396,991	98,759,927	104,034,451
-	-	-	-	-	-
364,742	436,411	503,704	205,056	425,718	1,335,280
686,139	4,400,916	16,555,404	1,184,105	1,236,846	1,831,069
-	-	-	-	-	-
-	-	-	-	-	-
258,407,726	263,464,367	263,464,367	278,905,704	298,715,998	312,045,994
\$ 1,204,825	\$ 18,241,986	\$ 21,621,443	\$ 3,226,398	\$ (8,537,649)	\$ 675,356

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

	Fiscal Year			
	2007	2008	2009	2010
General Fund				
Nonspendable	\$ -	\$ -	\$ -	\$ -
Assigned	-	-	-	-
Committed	-	-	-	-
Unassigned	-	-	-	-
Reserved	1,340,066	1,449,859	1,532,963	1,734,879
Unreserved	46,336,853	46,355,894	44,972,848	50,591,988
Total General Fund	\$ 47,676,919	\$ 47,805,753	\$ 46,505,811	\$ 52,326,867
All Other Governmental Funds				
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted	170,167,059	92,983,867	159,330,604	84,315,947
Committed	2,023,295	2,106,586	2,358,333	2,971,732
Total All Other Governmental Funds	\$ 172,190,354	\$ 95,090,453	\$ 161,688,937	\$ 87,287,679
Total Governmental Funds	\$ 219,867,273	\$ 142,896,206	\$ 208,194,748	\$ 139,614,546

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 Year					
2011	2012	2013	2014	2015	2016
\$ 478,717	\$ 507,277	\$ 1,220,509	\$ 2,035,489	\$ 1,351,973	\$ 1,373,721
2,135,000	2,233,000	3,538,000	5,611,000	4,049,750	1,698,788
39,821,169	42,951,888	45,962,311	49,904,046	51,554,002	54,444,537
21,704,248	37,287,784	27,599,602	18,869,538	9,661,367	380,305
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 82,979,949</u>	<u>\$ 78,320,422</u>	<u>\$ 76,420,073</u>	<u>\$ 66,617,092</u>	<u>\$ 57,897,351</u>
\$ 3,820,273	\$ 203,371	\$ 136,188	\$ 59,169	\$ 383,319	\$ 426,326
7,653,724	8,662,864	8,229,583	7,798,705	178,432,758	74,088,698
47,466,171	43,344,629	47,569,680	33,405,954	3,760,919	3,975,069
<u>\$ 58,940,168</u>	<u>\$ 52,210,864</u>	<u>\$ 55,935,451</u>	<u>\$ 41,263,828</u>	<u>\$ 182,576,996</u>	<u>\$ 78,490,093</u>
<u>\$ 58,940,168</u>	<u>\$ 135,190,813</u>	<u>\$ 134,255,873</u>	<u>\$ 117,683,901</u>	<u>\$ 249,194,088</u>	<u>\$ 136,387,444</u>

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

	Fiscal Year			
	2007	2008	2009	2010
Federal sources:				
Distributed by TEA	\$ 1,985,730	\$ 2,388,359	\$ 2,901,556	\$ 3,500,740
Distributed by other State of Texas Government Agencies	9,477	33,815	33,808	-
Distributed directly from the Federal Government	3,497,039	3,913,060	6,794,383	17,567,415
Total federal sources	<u>5,492,246</u>	<u>6,335,234</u>	<u>9,729,747</u>	<u>21,068,155</u>
State sources:				
Per capita and foundation school program act revenues	48,147,830	82,130,671	81,074,303	78,839,121
Program revenues distributed by TEA	1,431,086	1,239,341	1,772,973	1,631,654
Revenues from State of Texas Government Agencies	7,083,211	7,488,381	7,612,709	8,600,792
Total state sources	<u>56,662,127</u>	<u>90,858,393</u>	<u>90,459,985</u>	<u>89,071,567</u>
Local and intermediate sources:				
Real and personal property taxes	134,740,395	130,365,048	146,468,671	161,844,911
Tuition and fees	466,045	389,982	347,508	316,339
Other revenues	17,281,608	15,326,676	11,268,146	8,210,040
Cocurricular, enterprising services or activities	6,643,043	7,506,213	8,077,074	8,172,591
Intermediate sources	1,757	-	-	-
Total local and intermediate sources	<u>159,132,848</u>	<u>153,587,919</u>	<u>166,161,399</u>	<u>178,543,881</u>
Total revenues	<u>\$ 221,287,221</u>	<u>\$ 250,781,546</u>	<u>\$ 266,351,131</u>	<u>\$ 288,683,603</u>

TABLE V

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 19,511,673	\$ 11,831,059	\$ 7,296,537	\$ 6,164,527	\$ 5,989,017	\$ 7,242,164
3,423,621	4,404,830	5,140,284	6,739,147	8,139,928	8,633,753
679,717	198,346	253,235	235,365	261,491	198,293
23,615,011	16,434,235	12,690,056	13,139,039	14,390,436	16,074,210
93,111,147	88,298,739	83,578,692	96,100,114	98,972,062	104,126,784
1,749,313	10,509,894	9,791,808	14,011,593	12,759,172	11,713,165
9,409,975	51,501	-	22,800	970	25,995
104,270,435	98,860,134	93,370,500	110,134,507	111,732,204	115,865,944
165,451,751	172,484,714	174,381,741	182,037,145	197,413,380	205,078,837
353,426	198,843	131,243	133,891	112,518	149,256
6,279,085	9,626,893	24,715,810	8,083,241	6,339,829	8,650,206
9,298,060	8,360,630	5,437,179	7,993,222	8,519,517	8,138,867
-	-	-	-	-	-
181,382,322	190,671,080	204,665,973	198,247,499	212,385,244	222,017,166
\$ 309,267,768	\$ 305,965,449	\$ 310,726,529	\$ 321,521,045	\$ 338,507,884	\$ 353,957,320

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

	Fiscal Year			
	2007	2008	2009	2010
Instruction	\$ 104,424,666	\$ 123,238,031	\$ 137,966,424	\$ 143,731,660
Instructional Resources and Media Services	3,304,523	3,609,718	4,023,598	3,073,705
Curriculum and Instructional Staff Development	2,414,188	3,234,342	3,307,415	3,398,086
Instructional Leadership	2,254,022	2,388,084	2,330,351	2,293,997
School Leadership	10,281,519	11,626,540	12,607,682	12,614,563
Guidance, Counseling and Evaluation Services	6,483,117	7,247,584	8,359,238	8,699,241
Social Work Services	203,993	224,177	268,954	263,532
Health Services	1,532,247	1,767,584	1,999,997	2,106,395
Student (Pupil) Transportation	4,176,311	5,106,034	5,719,227	6,223,306
Food Services	8,253,263	9,679,025	9,862,758	10,601,047
Cocurricular/Extracurricular Activities	5,730,968	6,415,289	6,495,765	7,311,068
General Administration	4,645,167	5,006,260	5,615,508	5,220,506
Facilities Maintenance and Operations	19,715,511	22,382,711	18,104,552	18,753,283
Security and Monitoring Services	500,381	752,179	979,151	1,220,503
Data Processing Services	2,237,898	4,070,647	2,331,712	1,852,169
Community Services	438,107	469,717	765,056	895,726
Debt Service				
Principal	8,197,688	9,751,128	10,030,963	9,650,999
Interest	28,227,427	31,661,335	34,443,024	41,994,683
Bond Issuance Cost and Fees	2,025,772	-	1,509,659	464,129
Facilities Acquisition and Construction	30,876,722	78,024,833	77,956,170	71,488,717
Shared Services Agreement	-	-	3,811,277	3,945,201
Juvenile Justice Alternative Education Program	-	-	5,500	-
Payments to Tax Increment Fund	1,501,599	1,097,395	1,831,416	1,925,666
Other governmental charges	-	-	-	-
Total Expenditures	\$ 258,056,594	\$ 247,425,089	\$ 327,752,613	\$ 350,325,397
Debt Service as a Percentage of Noncapital Expenditures	14.69%	16.21%	16.41%	16.09%

TABLE VI

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 147,728,382	\$ 137,478,868	\$ 144,563,470	\$ 156,612,149	\$ 176,132,985	\$ 173,991,768
3,509,334	3,178,713	3,345,419	3,619,137	3,810,470	3,803,914
2,868,473	2,130,562	2,465,712	3,654,330	4,837,526	4,860,782
2,226,975	1,886,237	2,112,412	2,446,534	2,774,756	2,938,823
13,210,075	12,555,229	13,671,533	15,186,047	15,768,172	16,711,207
9,471,451	9,271,339	10,224,865	11,431,030	12,625,002	13,631,399
278,615	155,656	202,973	148,189	182,939	180,126
2,262,925	2,287,508	2,683,242	2,743,828	2,964,515	3,117,838
6,807,858	5,447,852	5,687,815	6,807,163	6,686,403	7,706,062
10,893,263	11,502,826	12,180,602	12,899,687	13,749,031	13,696,544
8,269,409	7,015,477	8,158,341	9,827,485	10,210,050	10,476,096
5,480,294	7,432,120	5,583,815	5,113,321	6,406,375	6,834,724
19,377,794	17,722,083	19,531,372	21,029,781	23,500,150	24,775,021
1,542,978	1,080,540	1,694,051	2,709,758	3,759,373	3,331,315
3,675,083	4,590,653	4,390,347	4,891,652	5,540,617	5,064,464
852,899	691,259	828,185	767,228	1,503,077	712,357
12,756,706	12,694,742	14,508,842	23,934,768	23,278,028	20,642,572
42,447,453	44,192,957	42,948,531	35,136,159	41,058,833	43,595,799
167,667	87,034	950,783	226,588	6,744,314	1,224,732
27,066,197	7,392,685	11,851,971	12,582,876	13,343,717	105,979,279
3,329,680	3,410,020	3,059,151	3,425,122	2,887,489	261,892
-	2,375	-	-	9,804	-
1,750,904	1,732,427	1,973,187	2,055,966	2,294,948	2,679,362
-	-	-	1,068,490	1,153,257	1,095,381
<u>\$ 357,728,182</u>	<u>\$ 325,974,415</u>	<u>\$ 293,939,162</u>	<u>\$ 312,616,619</u>	<u>\$ 338,317,288</u>	<u>\$ 467,311,457</u>
17.46%	18.92%	19.81%	19.08%	18.20%	14.53%

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

	Fiscal Year			
	2007	2008	2009	2010
Excess of Revenues Over (Under) Expenditures	\$ (26,137,868)	\$ (76,971,067)	\$ (83,974,266)	\$ (69,044,579)
Other Financing Sources (Uses)				
General Long-term Debt Issued	201,219,980	-	153,419,950	30,809,991
Sale of Real or Personal Property	-	-	-	-
Transfers In	4,819,805	7,093,543	6,198,732	-
Premium or Discount on Issuance of Bonds	9,059,177	-	7,084,810	1,159,821
Prepaid Interest	947,569	-	-	-
Lease of Mineral Rights	-	-	-	-
Other Resources	-	-	-	-
Transfers Out	(4,819,805)	(7,093,543)	(6,198,732)	-
Payment to Bond Refunding Escrow Agent	(66,007,787)	-	(11,231,952)	(31,505,435)
Other (Uses)	-	-	-	-
Total Other Financing Sources (Uses)	8,161,848	145,218,939	-	149,272,808
Net Change in Fund Balances	\$ (53,271,648)	\$ 119,081,071	\$ (76,971,067)	\$ 65,298,542

TABLE VII

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ (16,706,647)	\$ 12,026,287	\$ (1,890,090)	\$ (16,796,243)	\$ (42,713,947)	\$ (113,354,137)
9,445,000	2,710,000	85,419,998	45,650,000	425,692,588	126,935,000
-	-	-	-	-	-
-	-	-	-	3,285,775	-
530,449	200,974	15,269,804	3,645,068	66,744,576	25,527,395
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(3,285,775)	-
(9,804,046)	(2,825,750)	(99,734,652)	(49,070,797)	(318,213,030)	(152,246,597)
-	-	-	-	-	331,695
464,377	171,403	85,224	955,150	174,224,134	547,493
<u>\$ (68,580,202)</u>	<u>\$ (16,535,244)</u>	<u>\$ 12,111,511</u>	<u>\$ (934,940)</u>	<u>\$ 131,510,187</u>	<u>\$ (112,806,644)</u>

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

TABLE VIII

Fiscal Year	Assessed Value		Less: Tax-Exempt Property	Total Taxable Assessed ^a Value	Total Direct Tax Rate ^b	Estimated Actual Taxable ^c Value	Taxable Assessed Value as a Percentage of Actual Taxable Value
	Real Property	Personal Property					
2007	\$ 8,686,272,201	\$ 411,634,404	\$ 1,083,891,412	\$ 8,014,015,193	1.6080	\$ 9,097,906,605	88.09%
2008	10,166,073,644	461,656,910	1,145,215,956	9,482,514,598	1.3574	10,627,730,554	89.22%
2009	10,833,000,112	510,021,252	1,130,477,403	10,212,543,961	1.4169	11,343,021,364	90.03%
2010	11,251,605,888	571,747,425	1,304,367,719	10,518,985,594	1.4863	11,823,353,313	88.97%
2011	11,695,681,740	703,851,758	1,561,524,498	10,838,009,000	1.5306	12,399,533,498	87.41%
2012	12,079,424,023	665,686,946	1,544,472,846	11,200,638,123	1.5400	12,745,110,969	87.88%
2013	12,222,225,208	732,942,046	1,651,312,494	11,303,854,760	1.5400	12,955,167,254	87.25%
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%

Source: Tarrant County Tax Appraisal District

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

**Keller Independent School District
Property Tax Rates for Direct and Overlapping Governments
Last Ten Fiscal Years**
(rate per \$100 of assessed value)

TABLE IX

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

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

Note:

^aIncludes levies for operating and debt service costs

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

TABLE X

Taxpayer	2016			2007		
	Taxable Assessed Value	Rank	Percentage of Taxable Value	Taxable Assessed Value	Rank	Percentage of Taxable Value
Kroger Co	\$ 141,738,665	1	1.10%	\$ -	-	-
FMR Texas LP	128,439,168	2	1.00%	77,331,474	1	0.92%
ATC Investors LP	105,474,800	3	0.82%	54,021,082	3	0.64%
Wal-Mart Stores Texas LP	84,916,625	4	0.66%	58,830,468	2	0.70%
HCA Health Services of TX, Inc.	67,988,307	5	0.53%	-	-	-
Hillwood Monterra LP	63,456,922	6	0.49%	-	-	-
FFA DFW Associates LLC	48,500,000	7	0.38%	-	-	-
North Beach TX Partners LLC	47,418,838	8	0.37%	-	-	-
BR Carroll Keller Crossing LLC	44,436,000	9	0.34%	-	-	-
SC Dominion SPE LLC	41,760,000	10	0.32%	-	-	-
TXU Electric Delivery Co	-	-	-	39,498,195	4	0.47%
Inland Western Watauga LP	-	-	-	30,237,500	5	0.36%
SW Fossil Creek Apt LP	-	-	-	27,390,775	6	0.33%
BH Fossil Creek Apt LP	-	-	-	27,179,841	7	0.32%
Belterra Investors LP	-	-	-	26,700,000	8	0.32%
PR Town Center LP	-	-	-	25,600,000	9	0.30%
Tri County Electric Coop, Inc.	-	-	-	23,793,003	10	0.28%
Subtotal	774,129,325		6.00%	390,582,338		4.64%
All other taxpayers	12,128,765,132		94.00%	8,033,342,500		95.36%
	<u>\$ 12,902,894,457</u>		<u>100%</u>	<u>\$ 8,423,924,838</u>		<u>100%</u>

Source: Tarrant Appraisal District

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

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
2007	2006	\$ 134,275,750	\$ 971,349	\$ 135,247,099	\$ 133,308,212	99.28%	\$ 1,717,289	\$ 135,025,501	99.84%
2008	2007	127,969,466	(105,401)	127,864,066	126,471,104	98.83%	1,288,424	127,759,528	99.92%
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%	n/a	n/a	n/a

Source: Tarrant County Tax Office

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

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

TABLE XII

Governmental Activities

Fiscal Year	Bonded Debt	Total Primary Government	Percentage of Personal Income^a	Estimated Population	Per Capita^a	Ratio of Net Bonded Debt to Estimated Actual Property Value^b
2007	\$ 682,726,268	\$ 682,726,268	48.34%	37,700	\$ 18,109	13.33
2008	673,489,537	673,489,537	55.13%	38,701	17,402	15.78
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	46.81%	43,287	20,829	14.36
2016	867,851,273	867,851,273	43.38%	44,050	19,702	17.13

Notes:

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

^bSee Schedule VIII for estimated actual property value.

**Keller Independent School District
Direct and Overlapping Governmental Activities Debt
As of August 31, 2016**

TABLE XIII

Governmental Unit	Total Tax Supported Debt as of 08/31/16	Estimated Percentage Applicable^b	Estimated Share of Direct and Overlapping Debt
City of Colleyville	\$ 7,915,380	10.36%	\$ 820,033
City of Fort Worth	763,435,000	10.18%	77,717,683
City of Haltom City	50,720,000	4.25%	2,155,600
City of Hurst	53,597,824	1.28%	686,052
City of Keller	52,243,674	98.02%	51,209,249
City of North Richland Hills	141,879,927	11.41%	16,188,500
City of Southlake	92,606,299	4.96%	4,593,272
City of Watauga	25,760,000	39.25%	10,110,800
Town of Westlake	27,797,700	51.31%	14,263,000
Tarrant County	344,185,000	9.40%	32,353,390
Tarrant Co. Hospital District	22,335,000	9.40%	2,099,490
Subtotal, Overlapping Debt			\$ 212,197,069
District Direct Debt			728,705,385
Total Direct and Overlapping Debt			\$ 940,902,454
Ratio of Total Direct and Overlapping Debt to Assessed Valuation			7.29%
Per Capita Overlapping Debt			\$ 4,817

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 Years**

	Fiscal Year			
	2007	2008	2009	2010
Assessed value ^a	\$8,014,015,193	\$9,482,514,598	\$ 10,212,543,961	\$10,518,985,594
Debt limit ^b	801,401,519	948,251,460	1,021,254,396	1,051,898,559
Amount of debt applicable to debt limit:				
Total bonded debt	612,851,650	603,100,522	735,369,508	725,718,509
Less: Reserve for debt service	4,741,309	5,066,051	6,689,998	5,167,382
Total net debt applicable to limit	<u>608,110,341</u>	<u>598,034,471</u>	<u>728,679,510</u>	<u>720,551,127</u>
Legal debt margin	<u>\$ 193,291,178</u>	<u>\$ 350,216,989</u>	<u>\$ 292,574,886</u>	<u>\$ 331,347,432</u>
Total net debt applicable to the limit as a percentage of debt limit	75.88%	63.07%	71.35%	68.50%

Notes:

^aMarket value less exemptions

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

TABLE XIV

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$10,838,009,000	\$11,200,638,123	\$11,303,854,760	\$11,925,386,754	\$12,950,447,900	\$ 12,902,894,457
1,083,800,900	1,120,063,812	1,130,385,476	1,192,538,675	1,295,044,790	1,290,289,446
712,856,767	700,087,012	681,493,165	657,363,397	771,227,957	728,705,385
3,820,031	3,892,876	3,406,682	4,062,753	5,188,673	8,548,914
<u>709,036,736</u>	<u>696,194,136</u>	<u>678,086,483</u>	<u>653,300,644</u>	<u>766,039,284</u>	<u>720,156,471</u>
<u>\$ 374,764,164</u>	<u>\$ 423,869,676</u>	<u>\$ 452,298,993</u>	<u>\$ 539,238,031</u>	<u>\$ 529,005,506</u>	<u>\$ 570,132,975</u>
65.42%	62.16%	59.99%	54.78%	59.15%	55.81%

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

TABLE XV

<u>Calendar Year</u>	<u>Population^a</u>	<u>Personal Income^b</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate^c</u>
2007	37,700	\$ 1,412,242,000	\$ 37,460	3.40%
2008	38,701	1,221,674,467	31,567	4.10%
2009	39,450	1,385,484,000	35,120	5.70%
2010	39,675	1,567,717,950	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%

Notes:

All information above is for the Keller municipal area.

Sources:

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

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

^cTexas Workforce Commission

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

TABLE XVI

Employer	2016			2007		
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
Bell Helicopter	5,580	1	13.86%	6,048		23.49%
BNSF Railway	5,200	2	12.92%	3,100	1	12.04%
Amazon	5,000	3	12.42%	-	2	0.00%
Fidelity Investments	4,800	4	11.92%	2,700	6	10.49%
Keller ISD	4,141	5	10.29%	3,032	5	11.78%
Walmart	3,542	6	8.80%	-	4	0.00%
ATC Logistics	3,500	7	8.69%	-		0.00%
Genco	3,000	8	7.45%	-		0.00%
Sabre Holdings	2,999	9	7.45%	3,100	2	12.04%
United States Postal Service	2,500	10	6.21%	-		0.00%
DFW Airport	-		0.00%	1,713	6	6.65%
Motorola	-		-	1,700	7	6.60%
Gaylor Texas Resort	-		-	1,500	8	5.83%
Healthmarkets	-		-	1,450	9	5.63%
Transporation Security Admin	-		-	1,406	10	5.46%
	<u>40,262</u>		<u>100%</u>	<u>25,749</u>		<u>100%</u>

Source: City of Keller

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

TABLE XVII

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Percentage Change 2007-2016
Supervisory											
Instructional administrators	12	15	14	15.5	15.5	12.5	12.5	13.5	17	18	50.0%
Noninstructional administrators	36	38	40	46.5	46.5	39.5	43.5	49.5	57.8	60.25	67.4%
Consultants/supervisors of instruction	14	13	12	19.5	19.5	9.5	8.5	12	24	25	78.6%
Principals	33	34	35	36	39	39	39	39	39	40	21.2%
Assistant Principals	52	63	66	62	65	66	66	66	67	69	32.7%
Total supervisory	147.00	163.00	167.00	179.50	185.50	166.50	169.50	180.00	204.80	212.25	44.4%
Instruction											
Elementary classroom teachers	960	1050	1092	1130	1120	1097	1117.33	1134.25	1200.5	1228.5	28.0%
Secondary classroom teachers	705	732	752	822	884	798	787.44	901.75	961.5	979.67	39.0%
Other teachers (adult)	-	-	-	-	-	-	-	-	-	-	0.0%
Other professionals (instructional)	88	88	95	85	83	73	79	81	85.5	89	1.1%
Aides	320	297	260	301.75	303.5	277.5	283	302	333	342	6.9%
Total Instruction	2,073.00	2,167.00	2,199.00	2,338.75	2,390.50	2,245.50	2,266.77	2,419.00	2,580.50	2,639.17	27.3%
Student Services											
Guidance counselors	59	59	74.5	74.5	78.5	78	82	98	100	108	83.1%
Visiting teacher/social workers	3	1	1	2	2	2	2	2	3	3	0.0%
Psychologists	7	7	7	7	8	8	8	8	8	8	14.3%
Librarians	31	32	35	36	37	38	38	38	38	38	22.6%
Other professionals (noninstructional)	36	49	53	69.5	78	78.5	83.5	83.5	92.5	97	169.4%
Technicians	29	32	31	30	30	0	0	0	0	0	-100.0%
Total student services	165.00	180.00	201.50	219.00	233.50	204.50	213.50	229.50	241.50	254.00	53.9%
Support and Administration											
Clerical/secretarial	100	264	281	262	297	203.5	205.5	235	246	252.25	152.3%
Service workers	285	289	290	250	256	271	271	270	272	268	-6.0%
Skilled crafts	N/A										
Unskilled Laborers	262	269	275	271	318	318	318	323	333	334	27.5%
Total support and administration	647.00	822.00	846.00	783.00	871.00	792.50	794.50	828.00	851.00	854.25	32.0%
Total	3,032.00	3,332.00	3,413.50	3,520.25	3,680.50	3,409.00	3,444.27	3,656.50	3,877.80	3,959.67	30.6%

Source: Keller Independent School District records.

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

TABLE XVIII

<u>Fiscal Year</u>	<u>Peak Enrollment</u>	<u>Operating Expenditures</u>	<u>Cost per Pupil</u>	<u>Teaching Staff</u>	<u>Pupil-Teacher Ratio</u>	<u>Percentage of Students Receiving Free or Reduced-Price Meals</u>
2007	27,905	\$ 176,492,509	6,325	1,665	16.8	14.38%
2008	29,424	194,800,822	6,620	1,782	16.5	15.88%
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%

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

Source: Nonfinancial information from district records.

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

	Fiscal Year			
	2007	2008	2009	2010
Schools				
Elementary				
Buildings	18	19	21	21
Square feet	1,432,873	1,516,623	1,684,123	1,684,123
Capacity	13,470	14,170	15,570	15,570
Enrollment	11,853	12,228	12,330	12,774
Intermediate/Middle				
Buildings	10	10	10	10
Square feet	1,295,858	1,295,858	1,295,858	1,295,858
Capacity	10,710	10,710	10,710	10,710
Enrollment	6,435	8,388	10,021	10,119
High				
Buildings	4	4	4	5
Square feet	1,128,974	1,128,974	1,128,974	1,578,974
Capacity	7,500	7,500	7,500	10,000
Enrollment	7,617	7,956	8,467	8,675
Administrative				
Buildings	2	2	2	2
Square feet	84,566	84,566	84,566	84,566
Athletics				
Stadiums	11	11	11	12
Football/soccer/play fields	40	41	43	44
Running tracks	8	8	8	9
Baseball/softball	12	12	12	13
Natatorium	1	1	1	1

TABLE XIX

Fiscal Year					
2011	2012	2013	2014	2015	2016
22	22	22	22	22	22
1,744,123	1,744,123	1,744,123	1,744,123	1,744,123	1,744,123
16,170	16,170	16,170	16,170	16,170	16,170
12,805	13,292	13,033	13,019	12,713	12,915
11	11	11	11	11	11
1,478,683	1,478,683	1,478,683	1,478,683	1,478,683	1,478,683
11,910	11,910	11,910	11,910	11,910	11,910
10,393	10,656	10,595	10,518	10,366	10,426
5	5	5	5	5	5
1,578,974	1,578,974	1,578,974	1,613,974	1,613,974	1,613,974
10,000	10,000	10,000	10,000	10,000	10,000
9,272	9,635	9,795	10,226	10,540	10,839
3	3	3	3	3	3
119,566	119,566	119,566	119,566	119,566	139,299
13	13	13	13	13	13
45	45	45	45	45	45
10	10	10	10	10	10
14	14	14	14	14	14
1	1	1	1	1	1

FEDERAL AWARDS SECTION



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

Board of Trustees
Keller Independent School District
Keller, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Keller Independent School District (the District), as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise Keller Independent School District's basic financial statements, and have issued our report thereon dated January 19, 2017.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
January 19, 2017



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR 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 year ended August 31, 2016. 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 year ended August 31, 2016.

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 were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies.

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
January 19, 2017

**KELLER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2016**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
<i>ESEA Title I, Part A Improving Basic Programs</i>	84.010A	16610101220907	\$ 1,779,079
<i>IDEA-B Formula ⁽¹⁾</i>	84.027A	166600012209076600	4,820,238
<i>IDEA-B Preschool Grant ⁽¹⁾</i>	84.173A	166610012209076610	50,962
<i>Carl D. Perkins Basic Formula Grant</i>	84.048A	16420006220907	65,936
<i>ESEA Title II, Part A Teacher/Principal Training/Recruiting</i>	84.367A	16694501220907	302,250
<i>ESEA Title III, Part A English Language Acquisition- Summer LEP</i>	84.369A	69551502	8,906
<i>ESEA Title III, Part A English Language Acquisition</i>	84.365A	16671001220907	214,793
Total U.S. Department of Education			7,242,164
Passed through State Department of Agriculture:			
<i>National School Breakfast Program ⁽²⁾</i>	10.553	71401401	767,871
<i>National School Lunch Program ⁽²⁾</i>	10.555	71301401	3,934,603
<i>National School Lunch Program - Non-cash Assistance ⁽²⁾</i>	10.555	71301401	706,390
Total U.S. Department of Agriculture			5,408,864
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 12,651,028
School Health and Related Services (SHARS) ⁽³⁾			3,224,889
Schools and Libraries Program (E-Rate) ⁽³⁾			198,293
TOTAL FEDERAL REVENUES, RECONCILED TO EXHIBIT C-3			\$ 16,074,210

(1) Reported as Special Education Cluster, as required by Compliance Supplement June 2016

(2) Reported as Child Nutrition Cluster, as required by Compliance Supplement June 2016

(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 August 31, 2016, 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 year ended August 31, 2016, the District received and disbursed food commodities totaling \$706,390.

**KELLER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2016**

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 None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weakness(es)? Yes None reported

An 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

Elementary and Secondary Education Act:

84.010A	Title I, Part A Improving Basic Programs
---------	--

- 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
FOR THE YEAR ENDED AUGUST 31, 2016**

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no matters reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no matters reported.

**KELLER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2016**

Finding 2015-01

Other Matter: The District had uncollateralized cash during 2015.

Status: Planned corrective action completed during the year ended August 31, 2016.

**KELLER INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2016**

There were no matters reported.