

**KENNEDALE INDEPENDENT SCHOOL
DISTRICT**

**ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED**

AUGUST 31, 2011

KENNEDALE INDEPENDENT SCHOOL DISTRICT

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Year Ended August 31, 2011**

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CERTIFICATE OF THE BOARD

Kennedale Independent School District
Name of School District

Tarrant
County

220-914
Co. – Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) _____ approved _____ disapproved for the year ended August 31, 2011, at a meeting of the board of trustees of such school district on the _____ day of _____, 2011.

Signature of Board Secretary

Signature of Board President

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

KIRK, RICHARDSON & POOLE, P. C.

Members of the American Institute of Certified Public Accountants

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Independent Auditor's Report

Board of Trustees
Kennedale Independent School District
Kennedale, Texas

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kennedale Independent School District (the "District"), as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2011, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 12 and 40 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 inquires 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-5. Except for Exhibit J-3 (Cash Flow and the Optimum Fund Balance Calculation Schedule) which is marked UNAUDITED and on which we express no opinion, these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Signed copy on file

Kirk, Richardson & Poole, P. C.
October 20, 2011

**KENNEDALE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2011
UNAUDITED**

In this section of the Annual Financial and Compliance Report, we, the managers of Kennedale Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2011. Please read it in conjunction with the independent auditor's report on page 4 and the District's Basic Financial Statements that begin on page 14.

FINANCIAL HIGHLIGHTS

During the year the District began construction on a multipurpose center located in the Kennedale High School Sports complex. This facility will be used for many district activities including meetings and other school related functions. It is slated to be finished by the end of 2011. Food service added new ovens at Delaney, Arthur and Patterson and purchased a van to be used to transport commodities to various district cafeterias.

Other highlights of the past year include adding additional dual credit courses at Kennedale High School and winning the State 3A Baseball Championship! Kennedale Jr. High added Pre-Ap classes in core subject areas and implemented Spanish 1 and Health for high school credit. James A. Arthur Elementary – a TEA Recognized campus for the 4th straight year – has had over 2,000 students attend Camp Grady Spruce for a week of learning in a natural setting. Delaney Elementary added art to its curriculum and continued dual language instruction. Patterson Elementary earned not only an Exemplary rating from TEA, but also received recognition as a Title 1 recognized campus. And finally, once again the Kennedale ISD Foundation had another successful year donating over \$18,000 to classroom teachers to purchase materials to be used in their classrooms.

The District's governmental activities net assets decreased by \$83,253 as a result of this year's operations.

During the year, the District had expenses that were \$33,956 less than the \$30,401,994 generated in tax and other revenues for governmental programs. This compares to last year when expenditures were less than revenues by \$364,394.

Total cost of all of the District's programs did not increase significantly during the year; however, enrollment declined slightly from the previous year which resulted in less state revenue. Decline in property values also resulted in less revenue from local taxes..

The General Fund ended the year with a fund balance of \$4,677,579, an increase of \$302,908 over last year. The increase was due mainly to receiving \$412,639 in Gas Lease proceeds during the year.

The resources available for appropriations were \$657,139 less than budgeted for the General Fund, mainly due to receiving less local tax revenue because of declining property values. Actual expenditures were less than the budgeted amounts in all areas. The most significant of these

were in Instruction, Facilities Maintenance and Operations, and Facilities Acquisition and Construction. Actual expenditures were \$294,923, \$237,876, and \$289,557, respectively, less than the final amended budget amounts. Savings on the budget was aided by the use of the federal AARA stimulus funds that were used for personnel costs as well as other items such as supplies and travel.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 14 and 15). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 16) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The fiduciary statements provide financial information about activities for which the District acts solely as trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 21) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by the Texas Education Agency. The section labeled "Texas Education Agency Required Schedules" and "Federal Awards Section" contains data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 14. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the same basis of accounting which is the basis used by most private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students outside the District and grants provided by the U.S. Department of Education to assist students with disabilities or from disadvantaged backgrounds, and revenues provided by the taxpayers or by Texas Education Agency in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net assets and changes in them. The District's net assets (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Assets and the Statement of Activities, the District reports the following activities:

Governmental activities – Most of the District's basic services are reported here, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 16 and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities.) The District has only governmental funds that are accounted for as follows:

Governmental funds – Most of the District's basic services are reported in governmental funds. These use the modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in the separate Statements of Fiduciary Net Assets on page 20. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table 1) and the changes in net assets (Table 2) of the District's governmental activities.

Net assets of the District's governmental activities decreased from \$14,467,535 to \$14,384,282. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$3,259,975, a decrease of \$1,999,107, from the prior year.

Table 1
Kennedale Independent School District
Net Assets

	Governmental Activities	
	2011	2010
Current and other assets:		
Capital assets	\$ 9,171,183	\$ 8,489,725
Total assets	58,765,486	60,040,113
	<u>67,936,669</u>	<u>68,529,838</u>
Long-term liabilities:	51,728,896	52,319,208
Other liabilities	1,823,491	1,743,095
Total liabilities	<u>53,552,387</u>	<u>54,062,303</u>
Net Assets:		
Invested in capital assets, net of related debt	9,598,603	7,873,567
Restricted	1,525,704	1,334,886
Unrestricted	3,259,975	5,259,082
Total net assets	<u>\$14,384,282</u>	<u>\$14,467,535</u>

Table 2
Kennedale Independent School District
Changes in Net Assets

	Governmental Activities	
	2011	2010
Revenues:		
Program revenues:		
Charges for services	\$ 1,105,870	\$ 1,137,562
Operating grants and contributions	4,448,580	4,718,867
General revenues:		
Maintenance and operations taxes	10,844,886	11,433,945
Debt service taxes	3,474,266	3,113,664
State aid – formula grants	9,869,440	8,986,209
Grants and Contributions not Restricted	241,827	665,354
Other	279,587	219,197
Special Item – Gas Lease Proceeds	412,639	10,461
Total revenues	<u>30,677,095</u>	<u>30,285,259</u>
Expenses:		
Instruction and Instructional-Related Services	17,485,584	17,626,286
Instructional and School Leadership	2,178,902	2,247,104
Support Services – Student (Pupil)	4,060,195	4,148,302
Administrative Support Service	870,534	840,969
Support Services – Non-student Based	3,320,041	3,089,042
Ancillary Services	1,792	1,831
Debt Service	2,747,426	2,182,477
Capital Outlay	0	0
Payments to Other Governments	95,874	131,017
Total Expenses	<u>30,760,348</u>	<u>30,267,028</u>
Increase/(Decrease) in Net Assets	(83,253)	18,231
Net Assets Beginning	14,467,535	14,449,304
Prior Period Adjustment	0	0
Net Assets at August 31,	<u>\$14,384,282</u>	<u>\$14,467,535</u>

The District’s total revenues were \$391,836 (1.3%) more than last year. This was primarily the result of receiving \$883,231 more in State Aid – Formula Grants and \$402,178 more in Gas Lease Proceeds. These increases were offset by various decreases/increases in other sources of revenue.

The cost of all governmental activities this year was \$30,760,148, an increase of \$493,320 over last year. Part of this increase was due to increased payroll cost associated with operating the District. As shown in the Statement of Activities on page 15, the amount that our taxpayers financed for these activities through District taxes was \$14,319,152. Other costs were paid by those who directly benefited from the programs (\$1,105,870) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,448,580) or by State Aid – Formula Grants funding (\$9,869,440), or by other sources revenues of \$934,053.

THE DISTRICT’S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$6,507,615, which is more than last year’s total of \$5,885,022.

Over the course of the year, the Board of Trustees amended the District's budget to account for changes in grant appropriations. No amendments were needed to prevent budget overruns.

The District's General Fund balance reported on pages 16 and 18 differs from the General Fund's budgetary fund balance of \$3,625,921. This is principally due to a combination of budget revenues being less than expected, expenditures being less than expected, and Gas Lease Proceeds .

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2011, the District had \$58,768,486 net of accumulated depreciation, invested in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment. This represents a net decrease of \$1,271,627 from last year. This decrease is mainly due to depreciation.

Debt

At year-end, the District had \$51,728,896 in bonds, capital leases, accreted interest, and unamortized premiums on issuance of bonds versus \$52,319,208 last year. More detailed information about the District's long-term liabilities is presented in Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected officials and appointed officials considered many factors when setting the fiscal year 2012 budget and tax rates. Lack of population growth was one important factor that had to be considered. Maintaining teacher's salaries to be comparable with area districts was another consideration. To compensate for the law passed by the special session of the Legislature in 2006 that capped Maintenance & Operation (M&O) tax rate at \$1.04, the District held an election that has allowed KISD to adopt a tax rate of \$1.17. Because of the success of this election, the district is able to adopt the \$1.17 tax rate for the 11-12 school year. This will enable the district to continue funding for all programs. Because of refinancing a portion of the district's outstanding bonds, the Debt Service Tax was reduced by \$.03.

Amounts available for appropriation in the General Fund are \$23,095,908, a decrease of 4 percent over the final 2011 budget of \$24,145,323. The budget was reduced due to property value decline and reduction of state funds due to no growth in student population and cuts imposed by the state legislature. The District will use its revenues to finance programs currently offered. Budgeted expenditures are expected to decrease by 4.0 percent, to \$23,095,908 from the fiscal year 2011 expenditures of \$24,145,323. The District was able to fund the budget despite the loss of state funds by consolidating some positions and eliminating others from which employees resigned or retired. No other positions were cut.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Superintendent's Office, at Kennedale Independent School District, 100 West Kennedale Pkwy., Kennedale, Texas 76060.

BASIC FINANCIAL STATEMENTS

KENNEDALE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2011

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 7,624,944
1220 Property Taxes Receivable (Delinquent)	637,511
1230 Allowance for Uncollectible Taxes	(12,751)
1240 Due from Other Governments	547,211
1290 Other Receivables, net	1,200
1300 Inventories	18,969
1420 Capitalized Bond and Other Debt Issuance Costs	354,099
Capital Assets:	
1510 Land	5,870,283
1520 Buildings, Net	51,260,205
1530 Furniture and Equipment, Net	1,235,805
1580 Construction in Progress	399,193
1000 Total Assets	67,936,669
LIABILITIES	
2110 Accounts Payable	308,458
2140 Interest Payable	138,783
2160 Accrued Wages Payable	1,051,955
2300 Deferred Revenues	324,295
Noncurrent Liabilities	
2501 Due Within One Year	1,373,459
2502 Due in More Than One Year	50,355,437
2000 Total Liabilities	53,552,387
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	9,598,603
3820 Restricted for Federal and State Programs	468,283
3850 Restricted for Debt Service	1,057,421
3900 Unrestricted Net Assets	3,259,975
3000 Total Net Assets	\$ 14,384,282

The notes to the financial statements are an integral part of this statement.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT B-1

Data	Program Revenues			Net (Expense)
Control	1	3	4	Revenue and
Codes	Expenses	Charges for	Operating	Changes in Net
		Services	Grants and	Assets
			Contributions	Primary Gov.
				Governmental
				Activities

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 17,133,612	\$ 191,055	\$ 3,105,816	\$ (13,836,741)
12 Instructional Resources and Media Services	270,493	-	25,866	(244,627)
13 Curriculum and Staff Development	81,479	-	8,069	(73,410)
21 Instructional Leadership	563,437	-	60,016	(503,421)
23 School Leadership	1,615,465	-	108,235	(1,507,230)
31 Guidance, Counseling and Evaluation Services	774,698	-	235,788	(538,910)
33 Health Services	324,400	-	22,642	(301,758)
34 Student (Pupil) Transportation	878,319	-	-	(878,319)
35 Food Services	1,118,089	524,996	639,996	46,903
36 Extracurricular Activities	964,689	265,225	32,484	(666,980)
41 General Administration	870,534	-	55,417	(815,117)
51 Plant Maintenance and Operations	2,924,291	124,594	129,596	(2,670,101)
52 Security and Monitoring Services	94,321	-	-	(94,321)
53 Data Processing Services	301,429	-	16,586	(284,843)
61 Community Services	1,792	-	569	(1,223)
72 Debt Service - Interest on Long Term Debt	2,745,370	-	-	(2,745,370)
73 Debt Service - Bond Issuance Cost and Fees	2,056	-	-	(2,056)
93 Payments related to Shared Services Arrangements	7,500	-	7,500	-
95 Payments to Juvenile Justice Alternative Ed. Prg.	250	-	-	(250)
99 Other Intergovernmental Charges	88,124	-	-	(88,124)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 30,760,348	\$ 1,105,870	\$ 4,448,580	(25,205,898)

Data	General Revenues:		
Control	Taxes:		
Codes			
MT	Property Taxes, Levied for General Purposes		10,844,886
DT	Property Taxes, Levied for Debt Service		3,474,266
SF	State Aid - Formula Grants		9,869,440
GC	Grants and Contributions not Restricted		241,827
IE	Investment Earnings		10,219
MI	Miscellaneous Local and Intermediate Revenue		269,368
SI	Special Item - Gas Lease Proceeds		412,639
TR	Total General Revenues and Special Items		25,122,645
CN	Change in Net Assets		(83,253)
NB	Net Assets--Beginning		14,467,535
NE	Net Assets--Ending		\$ 14,384,282

The notes to the financial statements are an integral part of this statement.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2011

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 5,817,078	\$ 1,196,206	\$ 611,660	\$ 7,624,944
1220 Property Taxes - Delinquent	527,936	109,575	-	637,511
1230 Allowance for Uncollectible Taxes (Credit)	(10,559)	(2,192)	-	(12,751)
1240 Receivables from Other Governments	445,100	-	102,111	547,211
1290 Other Receivables	1,200	-	-	1,200
1300 Inventories	-	-	18,969	18,969
1000 Total Assets	<u>\$ 6,780,755</u>	<u>\$ 1,303,589</u>	<u>\$ 732,740</u>	<u>\$ 8,817,084</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110 Accounts Payable	\$ 258,756	\$ -	\$ 49,702	\$ 308,458
2160 Accrued Wages Payable	1,021,717	-	30,238	1,051,955
2300 Deferred Revenues	822,703	107,384	18,969	949,056
2000 Total Liabilities	<u>2,103,176</u>	<u>107,384</u>	<u>98,909</u>	<u>2,309,469</u>
Fund Balances:				
Nonspendable Fund Balance:				
3410 Inventories	-	-	18,969	18,969
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	449,314	449,314
3480 Retirement of Long-Term Debt	-	1,196,205	-	1,196,205
Committed Fund Balance:				
3510 Construction	316,435	-	-	316,435
3530 Capital Expenditures for Career & Technology	120,418	-	-	120,418
Assigned Fund Balance:				
3550 Construction	412,640	-	-	412,640
3590 Other Assigned Fund Balance	-	-	165,548	165,548
3600 Unassigned Fund Balance	3,828,086	-	-	3,828,086
3000 Total Fund Balances	<u>4,677,579</u>	<u>1,196,205</u>	<u>633,831</u>	<u>6,507,615</u>
4000 Total Liabilities and Fund Balances	<u>\$ 6,780,755</u>	<u>\$ 1,303,589</u>	<u>\$ 732,740</u>	<u>\$ 8,817,084</u>

The notes to the financial statements are an integral part of this statement.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
AUGUST 31, 2011

Total Fund Balances - Governmental Funds	\$	6,507,615
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$74,475,472 and the accumulated depreciation was \$14,235,695. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		7,920,569
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2011 capital outlays and debt principal payments is to increase (decrease) net assets.		1,914,965
3 The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(1,869,079)
4 Accrued interest on long-term debt is not treated as an expenditure in the fund financial statements.		(138,783)
5 Each year bond premiums, discounts and issuance costs are amortized in the governmental activities.		(822,441)
6 Each year an accretion amount of interest is added to the refunded bond principal and the refunded bond interest.		(624,626)
7 Loss on refunding bonds are not included in the fund financial statements.		871,301
8 Property taxes receivable are reported as deferred income in the fund financial statements.		624,761
19 Net Assets of Governmental Activities	<u>\$</u>	<u>14,384,282</u>

The notes to the financial statements are an integral part of this statement.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT C-3

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 11,536,561	\$ 3,531,357	\$ 774,611	\$ 15,842,529
5800 State Program Revenues	11,202,873	238,410	128,943	11,570,226
5900 Federal Program Revenues	-	-	2,989,239	2,989,239
5020 Total Revenues	<u>22,739,434</u>	<u>3,769,767</u>	<u>3,892,793</u>	<u>30,401,994</u>
EXPENDITURES:				
Current:				
0011 Instruction	13,509,333	-	2,241,472	15,750,805
0012 Instructional Resources and Media Services	247,856	-	17,106	264,962
0013 Curriculum and Instructional Staff Development	78,078	-	3,263	81,341
0021 Instructional Leadership	540,514	-	21,819	562,333
0023 School Leadership	1,482,362	-	58,553	1,540,915
0031 Guidance, Counseling and Evaluation Services	567,160	-	196,200	763,360
0033 Health Services	313,338	-	-	313,338
0034 Student (Pupil) Transportation	804,034	-	-	804,034
0035 Food Services	12,844	-	1,157,205	1,170,049
0036 Extracurricular Activities	713,247	-	94,662	807,909
0041 General Administration	865,747	-	-	865,747
0051 Facilities Maintenance and Operations	2,853,364	-	68,556	2,921,920
0052 Security and Monitoring Services	94,321	-	-	94,321
0053 Data Processing Services	301,429	-	-	301,429
0061 Community Services	196	-	569	765
Debt Service:				
0071 Principal on Long Term Debt	-	1,320,509	-	1,320,509
0072 Interest on Long Term Debt	-	2,131,180	-	2,131,180
0073 Bond Issuance Cost and Fees	-	178,054	-	178,054
Capital Outlay:				
0081 Facilities Acquisition and Construction	399,193	-	-	399,193
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	7,500	7,500
0095 Payments to Juvenile Justice Alternative Ed. Prg.	250	-	-	250
0099 Other Intergovernmental Charges	88,124	-	-	88,124
6030 Total Expenditures	<u>22,871,390</u>	<u>3,629,743</u>	<u>3,866,905</u>	<u>30,368,038</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(131,956)</u>	<u>140,024</u>	<u>25,888</u>	<u>33,956</u>
OTHER FINANCING SOURCES (USES):				
7911 Capital Related Debt Issued (Regular Bonds)	-	8,879,996	-	8,879,996
7915 Transfers In	22,225	-	-	22,225
7916 Premium or Discount on Issuance of Bonds	-	1,105,390	-	1,105,390
8911 Transfers Out (Use)	-	-	(22,225)	(22,225)
8949 Payment to Escrow Agent	-	(9,809,388)	-	(9,809,388)
7080 Total Other Financing Sources (Uses)	<u>22,225</u>	<u>175,998</u>	<u>(22,225)</u>	<u>175,998</u>
SPECIAL ITEMS:				
7918 Special Item - Gas Lease Proceeds	412,639	-	-	412,639
1200 Net Change in Fund Balances	302,908	316,022	3,663	622,593
0100 Fund Balance - September 1 (Beginning)	<u>4,374,671</u>	<u>880,183</u>	<u>630,168</u>	<u>5,885,022</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 4,677,579</u>	<u>\$ 1,196,205</u>	<u>\$ 633,831</u>	<u>\$ 6,507,615</u>

The notes to the financial statements are an integral part of this statement.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2011

Total Net Change in Fund Balances - Governmental Funds	\$	622,593
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2011 capital outlays and debt principal payments is to increase (decrease) net assets.		1,914,965
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(1,869,079)
Accrued interest on long-term debt is not treated as an expenditure in the fund financial statements.		(38,428)
Property taxes receivable are reported as deferred income in the fund financial statements.		(137,538)
Each year the accretion amount of interest is added to the refunded bond principal and the refunded bond interest.		(624,626)
Loss on refunding bonds are not reported in the fund financial statements.		929,392
Amortization of bond premiums, discounts and issuance costs are not treated as expenditures in the fund financial statements.		(880,532)
 Change in Net Assets of Governmental Activities	 \$	 <u><u>(83,253)</u></u>

The notes to the financial statements are an integral part of this statement.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 AUGUST 31, 2011

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 89,205
Total Assets	<u>\$ 89,205</u>
 LIABILITIES	
Due to Student Groups	\$ 89,205
Total Liabilities	<u>\$ 89,205</u>

The notes to the financial statements are an integral part of this statement.

**Kennedale Independent School District
Notes to the Financial Statements
For the Year ended August 31, 2011**

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Kennedale Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The District follows the generally accepted accounting principles 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; and it complies with the requirements of the appropriate version of the Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. Reporting entity

Kennedale Independent School District is a public educational agency under the applicable laws and regulations of the State of Texas. The District is governed by a seven member Board of Trustees (the "Board") elected by the registered voters of the District. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. All powers and duties not specifically delegated by statute to the Texas Education Agency ("Agency") or to the State Board of Education are reserved for the Board, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the Board. Therefore, the District is a financial reporting entity as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity." There are no component units or business-like activities included within the District's financial statements.

B. Government-Wide and Fund Accounting

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. Direct costs are those that are clearly identifiable with a specific function. Program revenues of the District include charges for services and operating grants and contributions. Charges for services consist of charges to customers or applicants that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District.

Examples include tuition paid by students not residing in the District, school lunch charges, etc. Operating grants and contributions include amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes are always general revenue.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as internal balances on the government-wide Statement of Net Assets.

The fund financial statements provide reports on the financial condition and results of operations for the governmental and fiduciary funds. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

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

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue 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.)

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept, that is, when they are both measurable and available. The District considers them available if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

The Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. Agency Funds apply the accrual basis of accounting, but do not have a measurement focus. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The total net assets are segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. Fund Accounting

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, equity, revenues, expenditures or expenses.

The District reports the following major governmental funds:

- 1. The General Fund** – The General Fund is used to account for financial resources used for general operations. It is the basic fund of the school system and covers activities for which a special fund has not been established. Any fund balances are considered resources available for current operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.
- 2. Debt Service Funds** – This fund is used to account for payment of principal and interest on long-term general obligation debt of the District. The main source of revenue for debt service is the apportionment of local property taxes.

Additionally, the District reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds** – These funds are used to account for resources restricted to, or designated for, specific purposes by the District or a grantor. Federal and State financial assistance is generally accounted for in a Special Revenue Fund. Generally unused balances are returned to the grantor at the close of specified project periods.

Fiduciary Funds:

1. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund consists of the Student Activity Funds and other organizational activities requiring clearing accounts.

E. Other Accounting Policies

1. Cash and cash equivalents include cash and highly liquid investments such as certificates of deposits, money market funds, cash management pools, Treasury bills, and commercial paper.
2. Except for inventories of food commodities, the District records purchases of supplies and materials as expenditures when purchased. This method is used to avoid administrative costs that are considered excessive to any benefit gained and where expenditures tend to be equalized over a period of years.

Inventories of food commodities are valued at fair market value as supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market is recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

3. In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not

withheld from the actual debt proceeds received, are reported as debt service expenditures.

4. Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to accumulate but does not vest. Therefore, a liability for unused sick leave has not been recorded in either the government-wide financial statements or the governmental fund financial statements.
5. Capital assets, which include land, buildings and improvements, furniture and equipment, are reported in the applicable governmental column in the government-wide financial statements. The District defines capital assets with an initial, individual cost of more than \$5,000 and having an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 improvements and furniture and equipment of the District are depreciated using the straight-line method over the following estimated lives:

Assets	Years
Land	Not depreciated
Buildings and improvements	15-39
Furniture and equipment	10

6. Bond proceeds not spent are restricted for construction.
7. In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.
8. In accordance with Governmental Accounting Standards Board 54, Fund Balance reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constraint for specific purposes which are externally imposed by creditors, grantors, contributors, or

laws or regulations of other governments; or imposed by law though constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal actions of the Board of Trustees and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Superintendent as delegated by the Board of Trustees.

Unassigned – includes fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The non-spendable fund balance is comprised of the following: Fund 240 – National Breakfast & Lunch Program Inventory - \$18,969.

The District committed the following fund balance by a Board Resolution dated August 25, 2011: General Fund – \$316,435 for future construction and \$120,418 for capital expenditures for Career & Technology.

The District uses the restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal constraints that prohibit doing this, such as grant agreements. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District does not have a minimum fund balance policy.

Disclosure of Fund Balances Reported on Balance Sheet – Governmental Funds
For Fiscal Year Ending June 30, 2011

Fund Balance:	General	Other Funds	Total Governmental Funds
Non-Spendable			
National Breakfast & Lunch Program Inventory	\$ 0	\$ 18,969	\$ 18,969
Restricted for:			
National Breakfast & Lunch Program	0	449,314	449,314
Retirement of Long-Term Debt:			
Debt Service Fund	0	1,196,205	1,196,205
Committed to:			
Construction	316,435	0	316,435
Capital Expenditures for Career & Technology	120,418	0	120,418
Assigned to:			
Construction	412,640	0	412,640
Technology Allotment	0	2,143	2,143
Campus Activity Funds	0	163,405	163,405
Unassigned:	3,828,086	0	3,828,086
Total Fund Balance:	<u>\$4,677,579</u>	<u>\$1,830,036</u>	<u>\$6,507,615</u>

9. The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (the “Agency”) in their Resource Guide. The Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.
10. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items within the deferred expenditures (expenses) line item in both government-wide and fund financial statements.
11. School Districts are required to report all expenses by function, except certain indirect expenses. General administration and data processing service functions (data control codes 41 and 53, respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.
12. In the Fund Balances section of the Governmental Funds Balance Sheet, there are various reservations and designations of fund balances reported. Governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for specific purposes. Designations of fund balances represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS.

Refer to Exhibit C-2 “Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets” and to Exhibit C-4 “Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities” for explanations.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Data

The Board of Trustees adopted an “appropriated budget” for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue 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 report appears in Exhibit G-1 and the other two reports are in Exhibit J-4 and J-5.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten day's public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a 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 must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

	Original Budget Appropriations	Increase (Decrease)	Amended Budget Appropriations
General Fund	\$23,347,035	\$798,288	\$24,145,323
Food Service Special Revenue Fund	1,209,852	36,628	1,246,480
Debt Service Fund	3,000	3,630,839	3,633,839

The General Fund's most significant budget amendment was to add \$688,750 for Facilities Acquisition and Construction for capital projects throughout the District. The Food Service Special Revenue Fund was amended because of operating cost being more than expected. Debt Service Fund was amended for bond principal and interest payments.

A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

August 31, 2011 Fund Balance	
Appropriated Budgeted Funds – Food Service Special Revenue Fund	\$468,283
Non-appropriated Budgeted Funds	165,548
All Special Revenue Funds	\$633,831

B. Excess of Expenditures over Appropriations

For the period ended August 31, 2011, there were no expenditures over appropriations within the General Fund, Debt Service Fund, or Food Service Special Revenue Fund.

C. Deficit Fund Equity

There were no deficit fund equities for the year ended August 31, 2011.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Legal and Contractual Provisions Governing 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 the District's agent bank approved 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 dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At August 31, 2011, the carrying amount of the District's deposits (cash, certificates of deposits, and interest-bearing saving accounts included in temporary investments) was \$1,907,210 and the bank balance was \$1,813,873. The District's cash deposits at August 31, 2011, and during the year, were entirely covered by FDIC insurance and pledged collateral held by the District's agent bank in the District's name.

2. Investments Considered as Cash Equivalents:

The State Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of returns, (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 authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposits, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

The District's investments at August 31, 2011, are shown below:

<u>Investment/Credit Ratings</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
LoneStar – AAAm	\$4,716,190	\$4,716,190	On demand
TexStar - AAAm	607,050	607,050	On demand
TexPool - AAAm	391,607	391,607	On demand
Totals	<u>\$5,714,847</u>	<u>\$5,714,847</u>	

The District's temporary investments consist of balances held by Lone Star Investment Pool ("LoneStar"), TexStar, and Texas Local Government Investment Pool ("TexPool") as detailed above. These investment pools are public funds investment pools created to provide a safe environment for the placement of local government funds in authorized short-term, fully-collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by U. S. Government agency securities and placed through a primary government securities dealer. These pools operate in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Act of 1940.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy does address the following risks:

- a. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy regarding types of deposits allowed and collateral requirements is all deposits are covered by FDIC insurance and pledged collateral in their entirety. The District has no custodial credit risk for its deposits.
- b. Custodial Credit Risk – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investments exposed to Custodial Credit Risk.
- c. Interest-rate Risk – Interest-rate risk occurs when potential purchases of debt securities do not agree to pay face value for those securities if interest rates rise. The District does not have any investments considered as Interest-rate Risk.
- d. Other Credit Risk Exposure – The District may invest in a securities lending program if the value of securities loaned is not less than 100 percent collateralized, including accrued income, and the loan allows for termination at any time; the loan is secured; the terms of the loan require that the securities being held as collateral be pledged to the investing entity; and, the loan is placed through a primary government securities dealer or a financial institution doing

business in this state. The District does not have any investments in a securities lending program.

- e. Concentration Risk – The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer. The District is not exposed to concentration risk.

Defaults and Recovery of Prior-period Losses – The District had no defaults and recovery of prior-period losses.

B. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior 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 delinquent if not paid before February 1 of 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 fiscal year.

The tax rates assessed for the year ended August 31, 2011, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.170000 and \$0.374821 per \$100 valuation, respectively, for a total of \$1.544821 per \$100 valuation.

Current tax collections for the year ended August 31, 2011 were 98.6% of the year-end adjusted tax levy.

C. Delinquent Taxes Receivable

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 on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. Interfund Receivables, Payables, and Transfers

As each fund is a separate self-balancing set of accounts, transactions between funds should be recorded properly in each fund affected. Interfund receivables and payables generally arise from interfund loans between different funds with balances being repaid generally within one year.

There were no Interfund Receivables/Payables at August 31, 2011.

Other Financing Sources (Uses) and Transfers:

The District had the following Financing Sources (Uses) associated with the issuance of \$8,879,996 in Unlimited Tax Refunding Bonds, Series 2011 during the year:

Capital Related Debt Issued	\$8,879,996
Premium or Discount on Issuance of Bonds	1,105,390
Payment to Escrow Agent	(9,809,388)

Refer to Note H. Bonds Payable for additional information.

During the year Special Revenue Fund 411 Technology Allotment transferred \$22,225 to the General Fund to correct prior due to/due from.

E. Disaggregation of Receivables and Payables

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of August 31, 2011.

F. Deferred Revenues

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Deferred Revenues at August 31, 2011 were as follows:

	Unavailable	Unearned	Total
Delinquent Property Taxes Receivable – General	\$517,377	\$ 0	\$517,377
Delinquent Property Taxes Receivable – Debt Service	107,384	0	107,384
Prepaid State Revenues	0	305,326	305,326
Food Service Commodities	0	18,969	18,969
Total Deferred Revenues	\$624,761	\$324,295	\$949,056

G. Capital Asset Activity

Capital asset activity for the year ended August 31, 2011 is as follows:

	Beginning Balance	Increases/ Adjustments	Decreases/ Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 5,870,283	\$ 0	\$0	\$ 5,870,283
Construction in Progress	0	399,193	0	399,193
	<u>5,870,283</u>	<u>399,193</u>	<u>0</u>	<u>6,269,476</u>
Capital assets, being depreciated:				
Buildings and improvements	65,730,106	66,990	0	65,797,096
Furniture and equipment	2,675,419	128,269	0	2,803,688
Total capital assets, being Depreciated	<u>68,405,525</u>	<u>195,259</u>	<u>0</u>	<u>68,600,784</u>
Accumulated depreciation for:				
Buildings and improvements	12,893,705	1,643,187	0	14,536,892
Furniture and equipment	1,341,990	225,892	0	1,567,882
Total accumulated depreciation	<u>14,235,695</u>	<u>1,869,079</u>	<u>0</u>	<u>16,104,774</u>
Total capital assets, being Depreciated, net	<u>54,169,830</u>	<u>(1,673,820)</u>	<u>0</u>	<u>52,496,010</u>
Governmental activities capital assets, Net	<u>\$60,040,113</u>	<u>\$(1,274,627)</u>	<u>\$0</u>	<u>\$58,765,486</u>

Depreciation expense was charged to governmental functions of the District as follows:

Governmental activities:	
11 – Instruction	\$1,382,807
12 – Instructional Resources & Media Services	5,531
13 – Curriculum & Instructional Staff Development	138
21 – Instructional Leadership	1,104
23 – School Leadership	74,550
31 – Guidance, Counseling & Evaluation Services	11,338
33 – Health Services	11,062
34 – Student Transportation	74,285
35 – Food Services	76,309
36 – Extracurricular Activities	156,780
41 – General Administration	4,787
51 – Plant Maintenance & Operations	69,361
61 – Community Services	1,027
Total Depreciation Expense	<u>\$1,869,079</u>

H. Bonds Payable

During the current year the District issued \$8,879,996 in Unlimited Tax Refunding Bonds, Series 2011, with an average interest rate of 3.8%, to advance refund \$1,030,000 in Unlimited Tax Refunding Bonds, Series 1999, with an average interest rate of 4.6%, and to advance refund \$7,850,000 in Unlimited Tax School Building Bonds, Series 2004, with an average interest rate of 5.0%, and to pay the costs associated with sale of the Bonds. The net proceeds of \$9,809,388, after paying underwriter's discount and cost of issuance of \$175,998 were used to purchase U.S government securities. These securities

were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the Unlimited Tax Refunding Bonds, Series 1999 and the Unlimited Tax School Building Bonds, Series 2004 bonds. As a result, the Unlimited Tax Refunding Bonds, Series 1999 and the Unlimited Tax School Building Bonds, Series 2004 are considered defeased and the liability for those bonds has been removed from the Statement of Net Assets. The District in effect reduced its aggregate debt service payments by \$421,356 over 16 years and obtained an economic gain (the difference between the present values of the old and new debt service payments) of \$366,626.

The following is a description of the District's bonds outstanding as of August 31, 2011:

Issue/ Maturity Date	Interest Rates Payable	Amounts Original Issue	Beginning Balance	Issued	Retired	Ending Balance	Amounts Due Within One Year
1999 Refunding/ 2027	4.20% to 5.25%	\$ 2,780,000	\$ 2,210,000	\$ 0	\$1,125,000	\$ 1,085,000	\$ 90,000
2004 School Bldg./2029	2.00% to 5.00%	25,000,000	15,110,000	0	8,235,000	6,875,000	440,000
2005 School Bldg. & Refunding/ 2030	3.00% to 5.00%	25,645,000	23,385,000	0	660,000	22,725,000	675,000
2006 Unlimited Tax Refunding/ 2029	3.70% to 4.50%	8,974,988	8,540,025	0	90,000	8,450,025	95,000
2011 Unlimited Tax Refunding/ 2026	3.0% to 4.0%	8,879,996	0	8,879,996	90,509	8,789,487	73,459
Sub-total		<u>\$71,279,984</u>	<u>\$49,245,025</u>	<u>\$8,879,996</u>	<u>\$10,200,509</u>	<u>\$47,924,512</u>	<u>\$1,373,459</u>
Accreted Interest			<u>\$1,937,388</u>	<u>\$724,117</u>	<u>\$99,492</u>	<u>\$2,562,013</u>	
Unamortized Premium On Issuance of Bonds			<u>\$1,136,796</u>	<u>\$1,105,390</u>	<u>\$128,514</u>	<u>\$2,113,672</u>	
Refunding Loss			<u>\$0</u>	<u>\$(929,388)</u>	<u>\$(58,087)</u>	<u>\$(871,301)</u>	

Interest and fees paid on general obligation bonds during the year was \$2,309,234.

The following is a summary of the District’s future annual debt service requirements to maturity for general obligation bonds.

Year Ended August 31	Principal	Interest	Total Requirements
2012	\$ 1,373,459	\$ 2,111,401	\$ 3,484,860
2013	1,445,000	2,041,451	3,486,451
2014	1,495,000	1,991,840	3,486,840
2015	1,726,603	2,018,582	3,745,185
2016	1,830,465	1,999,751	3,830,216
2017/2021	11,948,960	7,645,785	19,594,745
2022/2026	14,125,000	6,868,665	20,993,665
2027/2031	13,980,025	4,238,934	18,218,959
Totals	<u>\$47,924,512</u>	<u>\$28,916,409</u>	<u>\$76,840,921</u>

There are a number of limitations and restrictions contained in the various general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2011.

Defeasance of Debt

In prior years, the District also defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District’s financial statements. On August 31, 2011, \$28,260,000 of all bonds outstanding is considered defeased.

I. Changes in Long-Term Liabilities

The following changes occurred in long-term liabilities during the year:

	Beginning Balance	Increase	Decrease	Ending Balance	Amounts Due In One Year
Governmental Activities					
Gen. Obligation Bonds	\$49,245,025	\$8,879,996	\$10,200,509	\$47,924,512	\$1,373,459
Accreted Interest	1,937,388	724,117	99,492	2,562,013	0
Unamortized Premium on Issuance of Bonds	1,136,796	1,105,390	128,514	2,113,672	0
Refunding Loss	0	(929,388)	(58,087)	(871,301)	0
Total	<u>\$52,319,209</u>	<u>\$9,780,115</u>	<u>\$10,370,428</u>	<u>51,728,896</u>	<u>\$1,373,459</u>

J. Defined Benefit Pension Plan

Plan Description. The District contributes to the Teacher Retirement System of Texas (“TRS”), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfers under Texas Government Code, Title 8,

Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplemental information for the defined benefit plan. That report may be obtained by writing to the TRS Communication Department, 1000 Red River, Austin, Texas 78701, by calling the TRS Communication Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. State law provides for fiscal years 2011, 2010, and 2009, a state contribution rate of 6.0% and a member contribution rate of 6.4%. In certain instances the reporting district is required to make all or a portion of the state's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State contributions to TRS made on behalf of the District's employees for the years ended August 31, 2011, 2010, and 2009 were \$1,118,211, \$1,265,867, and \$1,217,736 respectively. The District paid additional state contributions for the years ended August 31, 2011, 2010, and 2009 in the amounts of \$251,220, and \$245,588, and \$167,571, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

K. 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 postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplemental information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us, by writing to the Communication Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78711 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 school districts contributing a percentage of payroll set at 0.55% for fiscal years 2011, 2010, and 2009. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2011, 2010, and 2009, the State's contributions to TRS-Care were \$174,720, \$173,562, and \$167,467, respectively, and the District's contributions were \$96,097, \$95,460, and \$92,110, respectively, which equaled the required contributions each year.

L. Retiree Medicare Part D Coverage

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2011 and 2010, these on-behalf payments, in the amount of \$46,465 and \$43,342, were recognized by the District as revenues and expenditures, respectively.

M. Health Care Coverage

During the year ended August 31, 2011 employees of the District were covered by the Teacher Retirement System-Active Care, a statewide health coverage program for public education employees. The District paid premiums of \$241.24 on behalf of the employees to the Plan; and, employees, at their option, could authorize payroll withholdings to pay premiums for dependents.

N. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs and various grant programs. Amounts due from federal and state governments as of August 31, 2011 are summarized below. All federal grants shown below are passed through TEA and are reported on the combined financial statements as Due from Other Governments.

Fund	Due From Other Governments
General Operating Fund	\$445,100
Special Revenue Fund	102,111
Total	\$547,211

O. Revenue from Local and Intermediate Sources

During the current year, local, intermediate and out-of-state revenues consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Fund Totals
Property Taxes	\$10,957,314	\$ 0	\$3,496,088	\$14,453,402
Food Sales	0	517,144	0	517,144
Investment Income	8,226	382	1,993	10,601
Penalties, interest & other tax related income	174,860	0	33,276	208,136
Extracurricular Student activities	61,254	11,592	0	72,846
Other	334,907	245,493	0	580,400
Total	\$11,536,561	\$774,611	\$3,531,357	\$15,842,529

P. Litigation

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, 2011 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.

Q. Worker's Compensation Plan

The District is exposed to various risks of loss related injuries to employees. Beginning with the current school year, the District entered into an interlocal agreement with the Texas Public Workers' Compensation Program ("Program") to provide workers' compensation coverage to the District's employees. The District's contributions to the Program are based on the District's various payroll classifications and the Texas Department of Insurance workers' compensation rates as modified by the District's experience rating factor.

R. 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; injuries to employees; and natural disasters. During fiscal year 2011, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

S. Special and Extraordinary Items

Special Items: The District received \$412,639 in gas lease bonus proceeds.

REQUIRED SUPPLEMENTARY INFORMATION

KENNEDALE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2011

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	\$ 11,932,119	\$ 12,362,651	\$ 11,536,561	\$ (826,090)
5800 State Program Revenues	11,414,916	11,033,922	11,202,873	168,951
5020 Total Revenues	23,347,035	23,396,573	22,739,434	(657,139)
EXPENDITURES:				
Current:				
0011 Instruction	13,819,755	13,804,257	13,509,333	294,924
0012 Instructional Resources and Media Services	250,864	250,941	247,856	3,085
0013 Curriculum and Instructional Staff Development	173,418	97,929	78,078	19,851
0021 Instructional Leadership	594,127	586,762	540,514	46,248
0023 School Leadership	1,613,253	1,607,379	1,482,362	125,017
0031 Guidance, Counseling and Evaluation Services	624,739	596,973	567,160	29,813
0033 Health Services	302,912	319,217	313,338	5,879
0034 Student (Pupil) Transportation	923,775	849,050	804,034	45,016
0035 Food Services	54,790	19,846	12,844	7,002
0036 Extracurricular Activities	674,097	754,978	713,247	41,731
0041 General Administration	892,818	948,511	865,747	82,764
0051 Facilities Maintenance and Operations	2,831,172	3,091,240	2,853,364	237,876
0052 Security and Monitoring Services	99,679	100,775	94,321	6,454
0053 Data Processing Services	302,276	334,390	301,429	32,961
0061 Community Services	425	325	196	129
Debt Service:				
0071 Principal on Long Term Debt	94,935	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	688,750	399,193	289,557
Intergovernmental:				
0095 Payments to Juvenile Justice Alternative Ed. Prg.	5,000	5,000	250	4,750
0099 Other Intergovernmental Charges	89,000	89,000	88,124	876
6030 Total Expenditures	23,347,035	24,145,323	22,871,390	1,273,933
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(748,750)	(131,956)	616,794
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	22,225	22,225
7080 Total Other Financing Sources (Uses)	-	-	22,225	22,225
SPECIAL ITEMS:				
7918 Special Item - Gas Lease Proceeds	-	-	412,639	412,639
1200 Net Change in Fund Balances	-	(748,750)	302,908	1,051,658
0100 Fund Balance - September 1 (Beginning)	-	4,374,671	4,374,671	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ 3,625,921	\$ 4,677,579	\$ 1,051,658

COMBINING SCHEDULES

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2011

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	
ASSETS					
1110	Cash and Cash Equivalents	\$ (19,555)	\$ (32,221)	\$ (1,022)	\$ 525,687
1240	Receivables from Other Governments	19,555	32,221	1,022	22,536
1300	Inventories	-	-	-	18,969
1000	Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 567,192</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ 49,702
2160	Accrued Wages Payable	-	-	-	30,238
2300	Deferred Revenues	-	-	-	18,969
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,909</u>
Fund Balances:					
Nonspendable Fund Balance:					
3410	Inventories	-	-	-	18,969
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	449,314
Assigned Fund Balance:					
3590	Other Assigned Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>468,283</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 567,192</u>

244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	266 Title XIV ARRA State Stabilization	283 IDEA, Pt. B ARRA Formula	284 IDEA, Pt. B ARRA Preschool	285 ESEA I,A Improving Basic Program	289 Other Federal Special Revenue Funds
\$ -	\$ (5,582)	\$ -	\$ -	\$ (7,628)	\$ -	\$ -	\$ (1,074)
-	5,582	-	-	7,628	-	-	1,074
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2011

Data Control Codes	385 Visually Impaired SSVI	397 Advanced Placement Incentives	404 Student Success Initiative	411 Technology Allotment
ASSETS				
1110 Cash and Cash Equivalents	\$ -	\$ -	\$ (12,493)	\$ 2,143
1240 Receivables from Other Governments	-	-	12,493	-
1300 Inventories	-	-	-	-
1000 Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,143</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110 Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160 Accrued Wages Payable	-	-	-	-
2300 Deferred Revenues	-	-	-	-
2000 Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Nonspendable Fund Balance:				
3410 Inventories	-	-	-	-
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	-	-
Assigned Fund Balance:				
3590 Other Assigned Fund Balance	-	-	-	2,143
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,143</u>
4000 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,143</u>

429 Other State Special Revenue Funds	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ 163,405	\$ 611,660
-	-	102,111
-	-	18,969
<u>\$ -</u>	<u>\$ 163,405</u>	<u>\$ 732,740</u>
\$ -	\$ -	\$ 49,702
-	-	30,238
-	-	18,969
<u>-</u>	<u>-</u>	<u>98,909</u>
-	-	18,969
-	-	449,314
-	163,405	165,548
<u>-</u>	<u>163,405</u>	<u>633,831</u>
<u>\$ -</u>	<u>\$ 163,405</u>	<u>\$ 732,740</u>

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 526,330
5800 State Program Revenues	-	-	-	7,494
5900 Federal Program Revenues	289,229	473,235	6,176	643,027
5020 Total Revenues	<u>289,229</u>	<u>473,235</u>	<u>6,176</u>	<u>1,176,851</u>
EXPENDITURES:				
Current:				
0011 Instruction	286,337	261,927	6,176	-
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	-	-
0021 Instructional Leadership	2,323	7,513	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	196,200	-	-
0035 Food Services	-	-	-	1,152,305
0036 Extracurricular Activities	-	95	-	-
0051 Facilities Maintenance and Operations	-	-	-	10,966
0061 Community Services	569	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of	-	7,500	-	-
6030 Total Expenditures	<u>289,229</u>	<u>473,235</u>	<u>6,176</u>	<u>1,163,271</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,580</u>
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	-	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	-	-	-	13,580
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>454,703</u>
3000 Fund Balance - August 31 (Ending)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 468,283</u></u>

244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	266 Title XIV ARRA State Stabilization	283 IDEA, Pt. B ARRA Formula	284 IDEA, Pt. B ARRA Preschool	285 ESEA I,A Improving Basic Program	289 Other Federal Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
32,216	68,912	21,103	1,107,537	330,824	8,683	7,223	1,074
<u>32,216</u>	<u>68,912</u>	<u>21,103</u>	<u>1,107,537</u>	<u>330,824</u>	<u>8,683</u>	<u>7,223</u>	<u>1,074</u>
32,216	50,847	21,103	1,107,537	325,708	8,683	7,223	1,074
-	-	-	-	-	-	-	-
-	3,263	-	-	-	-	-	-
-	6,867	-	-	5,116	-	-	-
-	7,935	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>32,216</u>	<u>68,912</u>	<u>21,103</u>	<u>1,107,537</u>	<u>330,824</u>	<u>8,683</u>	<u>7,223</u>	<u>1,074</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	385 Visually Impaired SSVI	397 Advanced Placement Incentives	404 Student Success Initiative	411 Technology Allotment
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	1,224	5,400	27,503	85,850
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>1,224</u>	<u>5,400</u>	<u>27,503</u>	<u>85,850</u>
EXPENDITURES:				
Current:				
0011 Instruction	1,224	5,400	27,503	31,453
0012 Instructional Resources and Media Services	-	-	-	10,300
0013 Curriculum and Instructional Staff Development	-	-	-	-
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	45,362
0061 Community Services	-	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	-	-
6030 Total Expenditures	<u>1,224</u>	<u>5,400</u>	<u>27,503</u>	<u>87,115</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,265)</u>
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	-	-	-	(22,225)
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,225)</u>
1200 Net Change in Fund Balance	-	-	-	(23,490)
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,633</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,143</u>

429 Other State Special Revenue Funds	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ 248,281	\$ 774,611
1,472	-	128,943
-	-	2,989,239
<u>1,472</u>	<u>248,281</u>	<u>3,892,793</u>
1,472	65,589	2,241,472
-	6,806	17,106
-	-	3,263
-	-	21,819
-	50,618	58,553
-	-	196,200
-	4,900	1,157,205
-	94,567	94,662
-	12,228	68,556
-	-	569
-	-	7,500
<u>1,472</u>	<u>234,708</u>	<u>3,866,905</u>
-	13,573	25,888
-	-	(22,225)
-	-	(22,225)
-	13,573	3,663
-	149,832	630,168
<u>\$ -</u>	<u>\$ 163,405</u>	<u>\$ 633,831</u>

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REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2011

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2002 and prior years	Various	Various	\$ 1,470,776,267
2003	1.500000	0.123076	643,387,538
2004	1.500000	0.114421	711,835,586
2005	1.500000	0.304252	736,614,524
2006	1.500000	0.304252	788,698,959
2007	1.370050	0.350312	832,263,082
2008	1.040000	0.318610	910,902,098
2009	1.170000	0.318610	956,962,650
2010	1.170000	0.318610	935,493,783
2011 (School year under audit)	1.170000	0.374821	931,311,783
1000 TOTALS			

(10) Beginning Balance 9/1/2010	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2011
\$ 217,202	\$ -	\$ 47,146	\$ 3,870	\$ (477)	\$ 165,709
33,140	-	13	1	(13,824)	19,302
49,914	-	17	3	(13,737)	36,157
38,849	-	209	43	(15,359)	23,238
38,466	-	252	65	(15,357)	22,792
39,217	-	2,260	692	(12,596)	23,669
43,291	-	3,309	901	(9,948)	29,133
74,425	-	18,929	5,155	(13,732)	36,609
243,353	-	93,605	25,490	(39,436)	84,822
-	14,387,100	10,796,095	3,458,635	63,710	196,080
<u>\$ 777,857</u>	<u>\$ 14,387,100</u>	<u>\$ 10,961,835</u>	<u>\$ 3,494,855</u>	<u>\$ (70,756)</u>	<u>\$ 637,511</u>

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2012-2013
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2011

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION, 99 - APPRAISAL DISTRICT COST

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLL COSTS	\$ -	\$ 2,400	\$ 404,821	\$ 310,611	\$ -	\$ -	\$ 717,832
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	13,359	-	-	13,359
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	17,048	-	-	-	17,048
6212	Audit Services	-	-	-	13,580	-	-	13,580
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	95,885	-	-	-	-	95,885
621X	Other Professional Services	-	-	2,575	-	-	-	2,575
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	4,818	8,780	-	-	13,598
6240	Contr. Maint. and Repair	-	-	-	-	1,551	-	1,551
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	8,469	-	-	-	8,469
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	-	600	10,064	7,355	-	-	18,019
6410	Travel, Subsistence, Stipends	6,982	-	13,363	-	-	-	20,345
6420	Ins. and Bonding Costs	-	-	7,586	-	-	-	7,586
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	-	-	32,804	-	-	-	32,804
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 6,982	\$ 98,885	\$ 501,548	\$ 353,685	\$ 1,551	\$ -	\$ 962,651

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 26,738,294

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 665,038
Total Debt & Lease(6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	2,854,930
Food (Function 35, 6341 and 6499)	(13)	425,297
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		<u>353,685</u>

SubTotal: 4,298,950

Net Allowed Direct Cost \$ 22,439,344

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 65,797,096
Historical Cost of Building over 50 years old	(16)	\$ -
Amount of Federal Money in Building Cost (Net of #16)	(17)	\$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	\$ 2,803,688
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 92,746
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ -

(8) NOTE A: \$8,780 in Function 53 expenditures are included in this report on administrative costs.
 \$88,124 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
FOR THE YEAR ENDED AUGUST 31, 2011

In accordance with Texas Education Agency guidelines, the District has elected not to present this schedule for the current year.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2011

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	\$ 687,752	\$ 612,130	\$ 526,330	\$ (85,800)
5800 State Program Revenues	8,400	8,350	7,494	(856)
5900 Federal Program Revenues	513,700	626,000	643,027	17,027
5020 Total Revenues	<u>1,209,852</u>	<u>1,246,480</u>	<u>1,176,851</u>	<u>(69,629)</u>
EXPENDITURES:				
0035 Food Services	1,193,257	1,227,095	1,152,305	74,790
0051 Facilities Maintenance and Operations	16,595	19,385	10,966	8,419
6030 Total Expenditures	<u>1,209,852</u>	<u>1,246,480</u>	<u>1,163,271</u>	<u>83,209</u>
1200 Net Change in Fund Balances	-	-	13,580	13,580
0100 Fund Balance - September 1 (Beginning)	-	454,703	454,703	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ 454,703</u>	<u>\$ 468,283</u>	<u>\$ 13,580</u>

KENNEDALE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2011

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	\$ 3,062,879	\$ 3,322,605	\$ 3,531,357	\$ 208,752
5800	State Program Revenues	(3,059,879)	135,235	238,410	103,175
5020	Total Revenues	3,000	3,457,840	3,769,767	311,927
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	-	1,320,509	1,320,509	-
0072	Interest on Long Term Debt	-	2,134,531	2,131,180	3,351
0073	Bond Issuance Cost and Fees	3,000	178,799	178,054	745
6030	Total Expenditures	3,000	3,633,839	3,629,743	4,096
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(175,999)	140,024	316,023
OTHER FINANCING SOURCES (USES):					
7911	Capital Related Debt Issued (Regular Bonds)	-	8,879,996	8,879,996	-
7916	Premium or Discount on Issuance of Bonds	-	1,105,391	1,105,390	(1)
8949	Payment to Escrow Agent	-	(9,809,388)	(9,809,388)	-
7080	Total Other Financing Sources (Uses)	-	175,999	175,998	(1)
1200	Net Change in Fund Balances	-	-	316,022	316,022
0100	Fund Balance - September 1 (Beginning)	-	880,183	880,183	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ 880,183	\$ 1,196,205	\$ 316,022

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**REPORT ON INTERNAL CONTROLS, COMPLIANCE,
AND FEDERAL AWARDS**

KIRK, RICHARDSON & POOLE, P. C.

Members of the American Institute of Certified Public Accountants

Tom Kirk, CPA	Don Richardson, CPA	Cindy Poole, CPA
7559 John T. White Road	P O. Box 8342	Fort Worth, Texas 76124-0342
(817) 451-7406	E-mail: krcpa@flash.net	Fax (817) 451-7597

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
Kennedale Independent School District
Kennedale, Texas

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kennedale Independent School District (the "District") as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 20, 2011. 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.

Internal Control Over Financial Reports

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 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 District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in

internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Items 2011-01.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District's administration, Board of Trustees, others within the District, and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than those specified parties.

Signed copy on file

Kirk, Richardson & Poole, P. C.
October 20, 2011

KIRK, RICHARDSON & POOLE, P. C.

Members of the American Institute of Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Kennedale Independent School District
Kennedale, Texas

Members of the Board of Trustees:

Compliance

We have audited the compliance of Kennedale Independent School District (the "District") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 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, 2011. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Trustees, others within the District, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Signed copy on file

Kirk, Richardson & Poole, P.C.
October 20, 2011

KENNEDALE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified.

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes ___x___ no
- Significant deficiencies identified that are not considered to be material weakness? _____ yes ___x___ none reported

Noncompliance material to financial statements noted? _____ yes ___x___ no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? _____ yes ___x___ no
- Significant deficiencies identified that are not considered to be material weakness? _____ yes ___x___ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ yes ___x___ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	ESEA, Title I, Part A, Improving Basic Programs
84.173	IDEA – Part B, Preschool
84.389	ESEA, Title I, Part A, Improving Basic Programs – ARRA
84.392	IDEA – Part B, Preschool – ARRA
84.394	Title XIV, State Fiscal Stabilization Fund – ARRA
10.553	School Breakfast Program
10.555	National School Lunch Program – Cash Assistance
10.555	National School Lunch Program – Non-Cash Assistance

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.

Auditee qualified as low risk auditee?: Yes

Section II – Financial Statement Findings

2011-01 – Compliance with Spending Minimum of Mandated Program Allotments

Criteria – A District is required by the Texas Education Agency to expend at least 55% or 60% of its received allotments in certain mandated programs.

Deficiency - Program Intent Code 22 – Career and Technology: The District expended less than the required 60% of the current year allotment of \$849,199. The District was required to spend in the current year \$509,519 plus \$16,219 prior year shortage and \$33,111 prior-prior year

shortage, for a total of \$558,849. Actual expenditures were \$404,927 or \$153,922 less than the required amount to be expended during the year.

Context – Review of program expenditures against revenues received.

Effect – The District is not in compliance with the Texas Education Agency’s requirement to spend the minimum of Mandated Program Allotments. Continued under expenditures in these areas could result in the District losing or receiving reduced funding from the Texas Education Agency for these programs in the future.

Cause – Established procedures were not being followed.

Recommendations – We recommend the District follow procedures for monitoring expenditures within all mandated programs to ensure compliance with the Texas Education Agency’s minimum expenditure rule.

Views of responsible officials and planned corrective action – The District agrees with this finding and will follow procedures to ensure the District complies with Texas Education Agency expenditure requirement.

Section III – Federal Award Findings and Questioned Costs

N/A – None.

KENNEDALE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2011

PRIOR YEAR'S FINDING/NONCOMPLIANCE:

N/A – None

STATUS OF PRIOR YEAR'S FINDINGS/NONCOMPLIANCE:

N/A

KENNEDALE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2011

Contact Person: Sue Martin, Business Manager

CORRECTIVE ACTION PLAN:

2011-01 – Compliance with Spending Minimum Amount of Mandated Program Allotment

The District will follow procedures to review mandated program expenditure requirement to ensure compliance with spending required minimum amounts plus any prior year shortages.

KENNE DALE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2011

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	11610101220914	\$ 289,229
*ESEA, Title I, A - ARRA -Improving Basic Programs	84.389	10551001220914	7,223
Total Title I, Part A Cluster			296,452
*IDEA - Part B, Formula	84.027	11660001220914	473,235
*IDEA - Part B, Preschool	84.173	11661001220914	6,176
*IDEA, Part B, Formula - ARRA	84.391	10554001220914	330,824
*IDEA, Part B, Preschool - ARRA	84.392	10555001220914	8,683
Total Special Education Cluster (IDEA)			818,918
Career and Technical - Basic Grant	84.048	11420006220914	32,216
Title III, Part A - English Language Acquisition	84.365A	11671001220914	21,103
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	11694501220914	68,912
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394	11557001220914	1,107,537
Summer School LEP	84.369	69551002	1,074
Total Passed Through State Department of Education			\$ 2,346,212
TOTAL DEPARTMENT OF EDUCATION			\$ 2,346,212
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553		\$ 96,640
*National School Lunch Program - Cash Assistance	10.555		468,289
*National School Lunch Prog. - Non-Cash Assistance	10.555		78,098
Total CFDA Number 10.555			546,387
Total Child Nutrition Cluster			643,027
Total Passed Through the State Department of Agriculture			\$ 643,027
TOTAL DEPARTMENT OF AGRICULTURE			\$ 643,027
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,989,239

*Clustered Programs

**KENNEDALE INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2011**

1. For all federal programs, the District uses the fund types specified in Texas Education Agency's "Financial Accountability System Resource Guide." Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance is generally accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type.

With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred expenditures until earned.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions of Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement – Provisional 6/97.
4. The District participates in numerous 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, 2011, 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 provisions have been recorded in the accompanying financial statements for such contingencies.

SCHOOLS FIRST QUESTIONNAIRE

KENNEDALE INDEPENDENT SCHOOL DISTRICT

Fiscal Year 2011

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	2113672