



AUSTIN INDEPENDENT SCHOOL DISTRICT
Basic Financial Statements
with Accompanying Information

August 31, 2004

(With Independent Auditors' Reports Thereon)

AUSTIN INDEPENDENT SCHOOL DISTRICT
Basic Financial Statements with Accompanying Information

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AUSTIN INDEPENDENT SCHOOL DISTRICT

Certificate of Board

August 31, 2004

Austin Independent School District
Travis County, Texas
227-901-13

We the undersigned, certify that the attached annual financial report of the above named school district was reviewed and approved ___ disapproved for the year ended August 31, 2004, at a meeting of the Board of School Trustees of such school district on the 24th day of January 2005.

Patricia A. Whiteside

Secretary, Board of Trustees

Doyle Vally

President, Board of Trustees



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Independent Auditors' Report

Board of Trustees
Austin Independent School District:

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2004 on our consideration of the District's internal control over financial reporting and 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 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.

The Management's Discussion and Analysis on pages 4 through 13 and the budgetary comparison schedule for the General Fund on pages 44 and 45 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Other Supplementary Information, as listed in the foregoing table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Other Supplementary Information, except for that portion marked unaudited on which we express no opinion, and the Schedule of Expenditures of Federal Awards 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.

KPMG LLP

December 17, 2004

AUSTIN INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

August 31, 2004

This section of Austin Independent School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2004. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

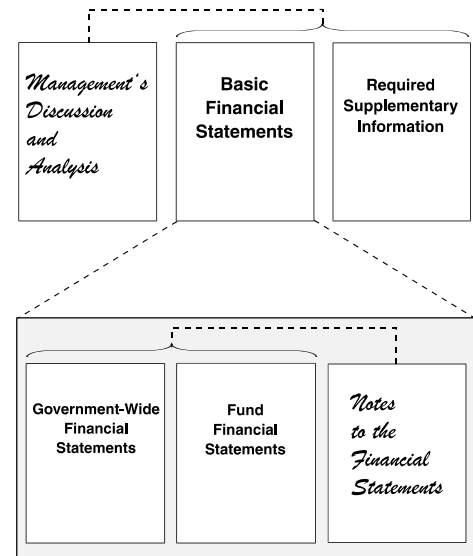
- The assets of the District exceeded its liabilities at the close of the fiscal year ending August 31, 2004. Net assets were \$188.0 million. Net assets invested in capital assets, net of related debt were \$95.9 million. The District' restricted net assets were \$14.5 million. Unrestricted net assets were \$77.6 million.
- During the year, the District's expenses were \$34.4 million more than the \$786.9 million generated in taxes and other revenues for governmental activities. Expenditures totaled \$699.9 million after charges for services and operating grants and contributions (revenue). Total revenue from property taxes, state aid, unrestricted grants and contributions, investment income and miscellaneous revenues is \$665.5 million.
- At the end of the current year fiscal year, the unreserved fund balance for the general fund was \$66.5 million, or 9.9% of the total general fund expenditures.
- The District issued approximately \$9.7 million in bonds during fiscal year 2003-2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements.
 - The *governmental funds* statement tells how *general government* services were financed in the *short term* as well as what remains for future spending.

Figure A-1 Required Components of the District's Annual Financial Report



Summary ↔ Detail

AUSTIN INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

August 31, 2004

- The proprietary fund statements provide information about the District's internal service funds, which are used to accumulate expenses to be charged to the governmental funds.
- Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain certain information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 (on the previous page) shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section explains the structure and contents of each of the statements.

Figure A-2 Major Features of the District's Government-wide and Fund Financial Statements

<i>Type of Statement</i>	Government-wide	Government Funds	Fiduciary Funds
<i>Scope</i>	Entire District's Government (except fiduciary funds)	The activities of the District that are not propriety or fiduciary.	Instances in which the District is the trustee or agent for someone else's resources.
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of fiduciary assets and liabilities
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Modified accrual accounting and current financial resources focus.
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Management’s Discussion and Analysis

August 31, 2004

<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after year end, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	Agency funds do not report revenue and expenditures.
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Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities on the accrual basis regardless of when cash is received or paid.

The two government-wide statements report the District’s net assets and how they have changed. Net assets, the difference between the District’s assets and liabilities, are one way to measure the District’s financial position.

- Over time, increases or decreases in the District’s net assets are an indicator of whether its financial health is improving or deteriorating.
- To assess the overall financial health of the District, one must consider additional factors such as changes in the District’s tax base.

The government-wide financial statements of the District include the Governmental activities. All of the District’s basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District’s major funds, rather than the District as a whole. Funds are a governmental accounting tool that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage resources for specific purposes or to delineate the use of certain taxes and grants.

The District has three kinds of funds:

- Governmental funds—Most of the District’s basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) on the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine the availability of financial resources to finance the District’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them. These include debt financing and capital projects.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

August 31, 2004

- Proprietary funds – Services for which the District charges internal departments a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In the District, Internal service funds are used to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self Insurance Fund.
- Fiduciary funds—The District is the trustee, or fiduciary, for certain funds. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District's combined net assets were approximately \$188.0 million at August 31, 2004. The following is a schedule of the District's Net Assets:

Table A-1
The District's Net Assets
(in millions of dollars)

	Governmental Activities	
	2004	2003
Current and other assets	\$ 179.8	212.1
Capital and non-current assets	520.6	545.4
Total assets	700.4	757.5
Current liabilities	63.8	63.1
Long-term liabilities	448.6	471.9
Total liabilities	512.4	535.0
Net assets:		
Invested in capital assets net of related debt	95.9	88.7
Restricted	14.5	23.0
Unrestricted	77.6	110.8
Total net assets	\$ 188.0	222.5

Capital asset depreciation and retirements exceeded capital outlays by approximately \$24.8 million in 2004.

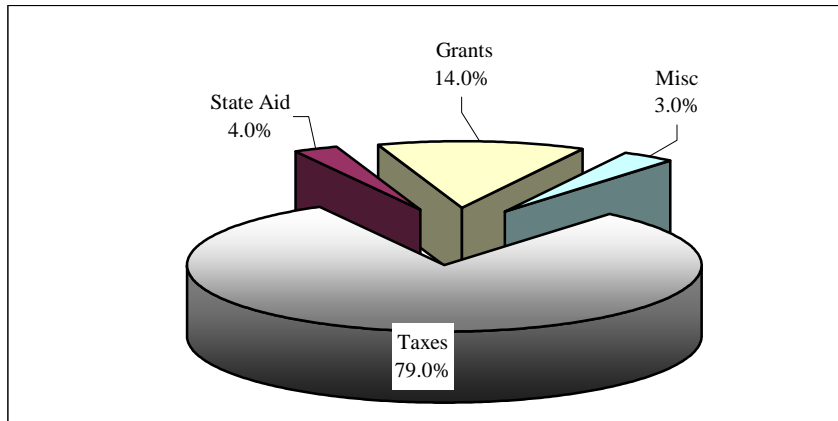
AUSTIN INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

August 31, 2004

Changes in net assets: The District's total revenues were \$786.9 million. A significant portion, 79%, of the District's revenue comes from taxes; 4% comes from state aid formula grants, while 14% is related to other operating grants; the remaining 3% comes from miscellaneous revenue sources (see figure A-3 below).

Figure A-3



The total cost of all programs was \$821.3 million and \$801.6 million for the years ended August 31, 2004 and 2003, respectively. When adjusted for the \$154.2 million in expenses in 2004 and \$141.1 million in expenses in 2003 related to Chapter 41 and other pass through costs, 70.0% and 69.9%, respectively, of these costs are for instructional and student services.

The total of all program and service costs for school leadership was 7.4% and 7.9% in 2004 and 2003, respectively, and 12.3% and 11.8% in 2004 and 2003, respectively, for plant maintenance and operations (including security services).

Table A-2
Government Activities
(In millions of dollars)

	<u>2004</u>	<u>2003</u>
<u>Program revenues</u>		
Charges for services	\$ 12.7	\$ 13.0
Operating grants and contributions	108.7	115.7
<u>General revenues</u>		
Property taxes	618.3	642.1
State aid - formula	33.7	41.1
Investment earnings	2.9	4.4
Other	10.5	6.9
Total revenues	<u>786.8</u>	<u>823.2</u>

AUSTIN INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

August 31, 2004

	2004	2003
Expenses		
Instruction and instructional related	348.9	350.1
Instructional resources and media related	12.0	12.4
Curriculum and staff development	17.3	16.4
Instructional leadership	11.2	12.2
School leadership	37.8	40.0
Guidance, counseling, and evaluation services	21.8	20.8
Social work services	2.6	2.8
Health services	4.6	4.2
Student transportation	17.6	17.5
Food services	31.4	26.7
Extracurricular activities	10.9	10.4
General administration	17.7	18.6
Plant maintenance and operations	73.4	70.1
Security and monitoring services	8.1	7.6
Data processing services	17.9	15.1
Community services	8.8	8.9
Debt service	24.8	26.5
Payments to fiscal agent/member districts-shared service	154.2	141.1
Depreciation - Unallocated	0.3	0.2
Total expenses	821.3	801.6
Increase/ (Decrease) in net assets	(34.5)	21.6
Beginning net assets	222.5	200.9
Ending net assets	\$ 188.0	\$ 222.5

Table A-3 presents the cost of the District's largest functions as well as each function's net cost (total costs less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded directly by state revenues as well as local tax dollars.

- The cost of all governmental activities in 2004 was \$821.3 million and in 2003 was \$801.6 million.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$618.3 million in 2004 and \$642.1 million in 2003.
- Those who directly benefited paid some of the costs of the programs (\$12.7 million in 2004 and \$13.0 million in 2003), with grants and contributions (\$108.7 million in 2004 and \$115.7 million in 2003) sharing the load.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

August 31, 2004

Table A-3
Net Cost of Selected District Functions
(in millions of dollars)

	Total cost of services		Net cost of services	
	2004	2003	2004	2003
Instruction	\$ 378.2	379.0	\$ 316.4	310.5
School leadership	49.0	52.2	39.6	42.7
Plant maintenance and operations	73.4	70.1	71.6	67.9

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$115.3 million, a decrease of \$33.5 million from the previous fiscal year. Approximately 59.9% percent of this total amount (\$69.1 million) constitutes the unreserved, undesignated fund balance. The remainder of the fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed 1) for inventory (\$2.5 million), 2) to pay debt service (\$2.5 million), 3) for prepaid items (\$.763 million), 4) to liquidate purchase orders of the prior period (\$8.0 million), 5) for food service (\$3.0 million), 6) for capital acquisitions and contractual obligations (\$16.4 million), and 7) for self insurance funds (\$13.0 million).

The general fund is the primary operating fund of the District. At the end of the current fiscal year, the unreserved, undesignated fund balance of the general fund was \$66.5 million, while the total fund balance was \$92.1 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to the total fund expenditures. The unreserved, undesignated fund balance represents about 10% of the total general fund expenditures, while the total fund balance represents 13% of that same amount.

Due to the budget management, the fund balance of the District's general fund decreased \$23.7 million during the current fiscal year which was a smaller decrease than originally expected. The fund balance of the District's other governmental funds shows a decrease of \$9.8 million.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

August 31, 2004

General Fund Budgetary Highlights (see Exhibit G-1)

Differences between the original general operating fund budget and the final amended budget are explained as follows:

Revenues:

- The primary favorable variances in local sources are due to an adjustment of property tax collections in an amount of \$1 million and a budget increase for the E-Rate reimbursement of \$0.6 million.
- A favorable variance in state sources is due to an increase of approximately \$5.4 in the foundation school payment to reflect the final per capita rate of \$334 per average daily attendance.
- Favorable variances in other resources are due to the following factors: (1) sale of the old Austin High building for \$4.7 million, (2) a settlement for building design deficiencies mainly at Zavala elementary totaling \$450,000, (3) a record of the loan proceeds from the Lone Star Energy program totaling \$850,000.

Expenditures:

- According to the District's local policy, campuses are allowed to carry forward any unspent balance from their previous year's campus allotment. This carryover amounted to \$1.0 million.
- Carryover funds for outstanding purchase orders from prior years were approximately \$8.1 million.
- Carryover funds for various pre-approved, prior year's projects were approximately \$8.2 million.
- An increase in the construction management's budget to reflect the proceeds of \$850,000 for the Lone Star Energy program.
- A decrease in the District's recapture payments of a little more than \$1 million reflected the actual student enrollment for the school year 2003-04.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2004, the District had invested \$520.6 million in a broad range of capital assets, including land, equipment, buildings, vehicles, and capital lease assets. (See Table A-4 below)

Table A-4
District's Capital Assets
(In millions of dollars)

	Governmental Activities	
	2004	2003
Land	\$ 46.4	46.7
Buildings and improvements	456.0	480.0
Furniture fixtures and equipment	17.6	17.0
Capital lease assets	.6	1.7
	<u>\$ 520.6</u>	<u>545.4</u>

AUSTIN INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

August 31, 2004

The District's fiscal year 2003-2004 capital spending totaled \$5.9 million in building and improvements and capital equipment. At August 31, 2004, the District is committed under contracts in the amount of approximately \$.49 million. The commitments are for remaining work on various construction projects. These commitments are payable from the Capital Projects Fund.

At August 31, 2004, the District had \$476.5 million in long-term debt outstanding as shown in Table A-5 (below):

Table A-5
District's Long-Term Debt
(In millions of dollars)

	Governmental Activities 2004
Leases payable	\$ 1.5
Bonds payable	472.0
Notes payable	3.0
Total bonds and notes payable	\$ 476.5

Economic Factors and Next Year's Budgets and Rates

Taxable appraised values for the 2003-04 school year were \$40.16 billion, a decrease of 4.28% from the previous year. The values for the upcoming school year are \$40.19 billion, an increase of 0.07%. Student enrollment for 2003-04 was 78,759, a 0.45 % increase from the previous school year, and is estimated at 79,896 for 2004-05, a 1.44% increase from 2003-04.

Funding from the state is based on Average Daily Attendance (ADA). ADA for 2003-04 was 71,864, an increase of 0.52% from the prior year. For 2004-05, the District estimated ADA at 72,293, a 0.60% increase from the 2003-04 school year.

General fund costs per student enrolled usually increase due to inflationary factors such as teacher salary increases. The cost per student for the 2003-04 school year was \$6,553 and for the 2004-05 school year is estimated at \$6,719. This cost excluded the Chapter 41 payments. An increase in the cost per student for the 2004-05 school year is mainly due to a cost of living adjustment in salary compensation and health benefits in an amount of \$18 million.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

August 31, 2004

At the end of the 2003-2004 school year, the District had a decrease of \$23.7 million in the general fund balance, leaving the District an ending fund balance of \$92.1 million, of which \$66.5 million is unreserved. For the 2004-05 school year, general fund revenues are projected to increase approximately .29%, while expenditures are projected to increase .25%. However, the District will require a utilization of \$16.6 million from the fund balance to finance the budget for the current school year. The largest change in the 2004-05 budget is a decrease of \$22.5 million in recapture costs. For the 2003-04 and 2004-05 school years, recapture was budgeted at \$158.0 million and \$135.5 million respectively. The District's Maintenance and Operation (M&O) tax rate is at \$1.50 per hundred dollars of assessed value, which represents the maximum M&O legal tax rate the District can impose at this time.

Included in the 2004-05 budgets is a 4.2% average salary increase for all employees, with a starting salary for beginning teachers with a bachelor's degree of \$35,080. This represents an increase of \$1,570 in the starting salary for 2004-05 over 2003-04.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Financial Services Department.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit A-1 - Statement of Net Assets

August 31, 2004

<u>Data Control Codes</u>		<u>Governmental activities</u>
ASSETS		
1110	Cash and temporary investments	\$ 153,420,307
1225	Property taxes receivables (net)	9,614,883
1240	Due from other governments	12,784,029
1267	Due from fiduciary funds	8,963
1290	Other receivables (net)	297,229
1310	Inventories	2,607,641
1410	Prepaid expenses	762,660
1420	Capital bond and other debt issuance costs	298,098
	Capital assets:	
1510	Land	46,413,797
1520	Buildings and improvements, net	455,399,030
1530	Furniture and equipment, net	17,569,525
1550	Capital lease assets, net	567,179
1580	Construction in progress	660,960
1000	Total assets	<u>700,404,301</u>
LIABILITIES		
2110	Accounts payable	12,144,694
2150	Payroll deductions and withholdings	3,693,251
2160	Accrued wages payable	5,256,009
2180	Due to other governments	3,722,812
2190	Due to student groups	2,994
2200	Accrued expenditures or expenses	1,854,641
2300	Deferred revenue	950,361
	Noncurrent liabilities:	
2125	Due within one year	36,189,595
2500	Due in more than one year	448,553,854
2000	Total liabilities	<u>512,368,211</u>
NET ASSETS		
3200	Invested in capital assets, net of related debt	95,914,668
3800	Restricted	14,511,055
3900	Unrestricted	77,610,367
3000	Total net assets	<u>\$ 188,036,090</u>

See accompanying notes to financial statements.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit B-1 - Statement of Activities

For the Year Ended August 31, 2004

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		8 Total
			3 Charges for services	4 Operating grants and contributions	
Primary government:					
Governmental activities:					
11	Instruction	\$ 348,897,279	(1,418,009)	(48,981,017)	298,498,253
12	Instructional resources and media services	11,973,959	—	(1,480,254)	10,493,705
13	Curriculum and staff development	17,357,796	(14,160)	(9,925,221)	7,418,415
21	Instructional leadership	11,226,987	—	(4,687,637)	6,539,350
23	School leadership	37,780,239	—	(4,748,640)	33,031,599
31	Guidance, counseling, and evaluation services	21,768,124	(717)	(7,352,242)	14,415,165
32	Social work services	2,611,942	—	(999,697)	1,612,245
33	Health services	4,579,337	—	(1,872,626)	2,706,711
34	Student transportation	17,577,911	—	(853,932)	16,723,979
35	Food Service	31,392,361	(8,599,848)	(19,543,711)	3,248,802
36	Extracurricular activities	10,950,472	(917,977)	(403,721)	9,628,774
41	General administration	17,689,987	(431,699)	(654,461)	16,603,827
51	Plant maintenance and operations	73,417,265	—	(1,827,558)	71,589,707
52	Security and monitoring services	8,123,157	—	(611,823)	7,511,334
53	Data processing services	17,851,027	—	(804,845)	17,046,182
61	Community services	8,809,745	(1,292,992)	(3,834,072)	3,682,681
71	Interest on long-term debt	24,845,731	—	—	24,845,731
91	Contracted instructional services between schools	153,221,383	—	—	153,221,383
92	Incremental costs related to WADA	—	—	—	—
93	Payments related to shared services arrangements	933,553	—	(113,786)	819,767
99	Depreciation-unallocated	303,517	—	—	303,517
TG	Total governmental activities	821,311,772	(12,675,402)	(108,695,243)	699,941,127
Data Control Codes					
General revenues:					
Taxes:					
MT	Property taxes, levied for general purposes				574,662,346
DT	Property taxes, levied for debt service				43,668,665
SF	State aid-formula grants				33,702,334
GC	Grants and contributions not restricted to specific programs				2,890,507
IE	Investment earnings				2,929,872
MI	Miscellaneous				2,946,210
S1	Special item — (ex. gain on sale of land)				4,143,275
S1	Special item — (ex. gain on sale of vehicles)				7,758
S1	Special item — (ex. Insurance settlement)				450,000
S1	Special item — (ex. Insurance recovery)				107,152
TG	Total general revenues, special items, and transfers				665,508,119
CN					(34,433,008)
NB	Net assets—beginning				222,469,098
NE	Net assets—ending				\$ 188,036,090

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit C-1 - Balance Sheet - Governmental Funds

August 31, 2004

Data Control Codes		10 General Fund	Non-major Governmental Funds	98 Total Governmental Funds
ASSETS				
1110	Cash and temporary investments	\$ 93,706,737	\$ 31,242,170	\$ 124,948,907
1220	Property taxes - delinquent	23,257,962	2,613,297	25,871,259
1230	Allowance for uncollectible taxes	(14,290,224)	(1,966,153)	(16,256,377)
1240	Receivables from other governments	3,539,088	9,244,941	12,784,029
1260	Due from other funds	14,363,891	1,334,950	15,698,841
1290	Other receivables	185,871	111,358	297,229
1300	Inventories	1,009,764	1,526,440	2,536,204
1410	Deferred expenditures	762,660	—	762,660
1000	Total assets	<u>\$ 122,535,749</u>	<u>\$ 44,107,003</u>	<u>\$ 166,642,752</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110	Accounts payable	\$ 7,425,670	\$ 4,711,717	\$ 12,137,387
2150	Payroll deductions and withholdings	3,693,251	—	3,693,251
2160	Accrued wages payable	3,720,885	852,768	4,573,653
2170	Due to other funds	3,539,278	13,075,261	16,614,539
2180	Payable to other governments	3,004,171	718,641	3,722,812
2190	Due to student groups	2,993	—	2,993
2300	Deferred revenue	9,049,956	1,515,287	10,565,243
2000	Total liabilities	<u>30,436,204</u>	<u>20,873,674</u>	<u>51,309,878</u>
Fund balances:				
Reserved for:				
3410	Inventories	1,009,764	1,526,440	2,536,204
3420	Retirement of long-term debt	—	2,540,218	2,540,218
3430	Prepaid items	762,660	—	762,660
3440	Encumbrances	8,066,059	—	8,066,059
3450	Food service	—	2,998,196	2,998,196
3470	Capital acquisitions and contractual obligation	3,073,334	13,293,388	16,366,722
3490	Other purposes	12,713,414	298,350	13,011,764
3600	Unreserved	66,474,314	—	66,474,314
3610	Special revenue funds	—	2,576,737	2,576,737
3000	Total fund balances	<u>92,099,545</u>	<u>23,233,329</u>	<u>115,332,874</u>
4000	Total liabilities and fund balances	<u>\$ 122,535,749</u>	<u>\$ 44,107,003</u>	

Amounts reported for *governmental activities* in the statement of net assets (A-1) are different because:

Data Control Codes

1	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	\$ 520,610,491
2	Certain costs related to the sale of bonds are capitalized and amortized over the life of the bonds.	298,098
3	Amount of interest on debt payable in August is required to be recognized in the statement of net assets.	(1,854,642)
4	Revenue in governmental activities is recognized in the period received.	9,616,299
5	Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	21,264,914
6	Bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(476,549,587)
7	Certain costs associated with the accrual of vacation leave are recognized as expenditures in the governmental funds when established. This is the amount of the vacation accrual.	(682,357)
19	Net assets of governmental activities.	<u>\$ 188,036,090</u>

See accompanying notes to financial statements.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit C-2 - Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended August 31, 2004

Data Control Codes		10	Non-major	98
		General	Governmental	Total
		Fund	Funds	Governmental
				Funds
	REVENUES			
5700	Local and intermediate sources	\$ 582,677,216	\$ 58,677,266	\$ 641,354,482
5800	State program revenues	54,526,940	16,273,752	70,800,692
5900	Federal program revenues	2,317,351	68,597,168	70,914,519
5020	Total revenues	<u>639,521,507</u>	<u>143,548,186</u>	<u>783,069,693</u>
	EXPENDITURES			
	Current:			
0011	Instruction	293,665,632	38,191,541	331,857,173
0012	Instructional resources and media services	9,727,058	1,116,554	10,843,612
0013	Curriculum and staff development	7,471,177	9,963,519	17,434,696
0021	Instructional leadership	6,655,273	4,670,999	11,326,272
0023	School leadership	33,464,248	3,312,817	36,777,065
0031	Guidance, counseling, and evaluation services	14,450,311	7,291,812	21,742,123
0032	Social work services	1,717,237	910,323	2,627,560
0033	Health services	4,088,699	475,668	4,564,367
0034	Student transportation	18,155,750	219,799	18,375,549
0035	Food service	—	32,031,227	32,031,227
0036	Extracurricular activities	10,579,675	88,030	10,667,705
0041	General administration	16,345,931	220,172	16,566,103
0051	Plant maintenance and operations	63,524,219	10,164,215	73,688,434
0052	Security and monitoring services	6,150,841	350,363	6,501,204
0053	Data processing services	14,960,087	546,592	15,506,679
0061	Community services	4,303,186	4,554,271	8,857,457
0071	Principal and interest on long-term debt	8,808,318	47,232,050	56,040,368
0081	Capital outlay	1,226,721	1,663,306	2,890,027
0091	Contracted instructional services			
	between schools	153,221,383	—	153,221,383
0093	Payments related to shared			
	services arrangements	819,767	113,786	933,553
6030	Total expenditures	<u>669,335,513</u>	<u>163,117,044</u>	<u>832,452,557</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(29,814,006)</u>	<u>(19,568,858)</u>	<u>(49,382,864)</u>
	OTHER FINANCING SOURCES (USES):			
7911	Capital-related debt issued (regular bonds)	—	9,685,000	9,685,000
7911	Premium on capital-related debt issuance	—	48,528	48,528
7912	Sale of real or personal property	4,931,601	—	4,931,601
7914	Non-current loan proceeds	1,250,377	—	1,250,377
7915	Transfers in	—	65,309	65,309
8911	Transfers out	(58,000)	—	(58,000)
8941	Litigation settlements	(51,769)	—	(51,769)
7080	Total other financing sources and (uses)	<u>6,072,209</u>	<u>9,798,837</u>	<u>15,871,046</u>
1200	Net change in fund balances	<u>(23,741,797)</u>	<u>(9,770,021)</u>	<u>(33,511,818)</u>
0100	Fund balances--beginning	115,841,342	33,003,350	148,844,692
3000	Fund balances--ending	<u>\$ 92,099,545</u>	<u>\$ 23,233,329</u>	<u>\$ 115,332,874</u>

See accompanying notes to financial statements.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit C-3 - Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities

For the Year Ended August 31, 2004

Net change in fund balances—total governmental funds (from C-2)	\$ (33,511,818)
Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
Governmental funds report capital outlays as expenditures.	
However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$29,893,275) exceeded capital outlays (\$5,870,489) and net asset removal (\$746,186) in the current period.	(24,768,972)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments of principal and lease principal (\$32,326,120) exceeded debt proceeds (\$10,935,377).	21,390,743
Premium received on bonds is amortized over the life of the bond. This is the amount by which bond premium (\$48,528) exceeded amortization (\$6,697).	(41,831)
The amount of interest which is accrued but not yet paid for bond payments due in August is recognized in the governmental funds. This is the amount of reduced interest payable in 2004 over 2003 (\$294,974) and the change in accretion of capital appreciation bonds (\$1,505,704).	(1,210,730)
Certain costs associated with the issuance of bonds is amortized over the life of the bonds. This is net amount of the cost of issuance (\$94,677) less current amortization (\$15,430).	79,247
Deferred revenue is recognized on the governmental funds. This is the net change between 2004 and 2003.	(637,215)
The revenues and expenses of the internal service fund are distributed in the statement of activities and are not considered a governmental fund. The difference is the amount of net income.	4,209,622
Certain costs associated with the accrual of vacation leave are recognized as expenditures in the governmental funds when established. This is the amount of net change in the vacation accrual between 2004 and 2003.	57,946
Change in net assets of governmental activities (see B-1)	\$ <u><u>(34,433,008)</u></u>

See accompanying notes to financial statements.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit D-1 - Statement of Net Assets

Proprietary Funds

Year Ended August 31, 2004

	Governmental activities - Internal Service Funds
	<u> </u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 11,139
Temporary investments	28,460,261
Due from other funds	975,820
Inventory	71,438
	<u> </u>
Total current assets	<u>29,518,658</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenditures	7,307
Due to other funds	51,158
Claims payable, due within one year	3,000,000
	<u> </u>
Total current liabilities	<u>3,058,465</u>
Noncurrent liabilities:	
Due in more than one year - claims payable	5,195,277
	<u> </u>
Total noncurrent liabilities	<u>5,195,277</u>
	<u> </u>
Total liabilities	<u>8,253,742</u>
NET ASSETS	<u>\$ 21,264,916</u>

See accompanying notes to financial statements.

AUSTIN INDEPENDENT SCHOOL DISTRICT

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

Proprietary Funds

For the Year Ended August 31, 2004

	Governmental activities - Internal Service Funds
Operating revenues:	
Local and intermediate sources	\$ <u>5,571,174</u>
Total operating revenues	<u>5,571,174</u>
Operating expenses:	
Other operating expenses	<u>1,650,106</u>
Total operating expenses	<u>1,650,106</u>
Operating income	<u>3,921,068</u>
Nonoperating revenues:	
Interest and investment revenue	<u>288,555</u>
Total nonoperating revenue	<u>288,555</u>
Change in net assets	4,209,623
Total net assets—beginning	<u>17,055,293</u>
Total net assets—ending	\$ <u><u>21,264,916</u></u>

See accompanying notes to financial statements.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit D-3 - Statement of Cash Flows

Proprietary Funds

For the Year Ended August 31, 2004

	Governmental activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to suppliers	\$ (609,050)
Payments for employee salaries and benefits	(742,546)
Payments from other funds	5,152,343
Claims paid	<u>(2,634,232)</u>
Net cash provided by operating activities	<u>1,166,515</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	3,784,860
Outlays for purchase of investments	(5,146,487)
Interest and dividends	<u>288,555</u>
Net cash used in investing activities	<u>(1,073,072)</u>
Net increase in cash and cash equivalents	93,443
Cash—beginning of the year	<u>(82,304)</u>
Cash—end of the year	\$ <u><u>11,139</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 3,921,068
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in due from other funds	(419,162)
Increase in other assets	11,716
(Decrease) in accounts payable and accrued expenditures	(13,594)
Increase in due to other funds	330
(Decrease) in claims payable	<u>(2,333,843)</u>
Net cash provided by operating activities	\$ <u><u>1,166,515</u></u>

See accompanying notes to financial statements.

AUSTIN INDEPENDENT SCHOOL DISTRICT
 Exhibit E-1 - Statement of Fiduciary Assets and Liabilities
 Fiduciary Funds
 August 31, 2004

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 4,323,683
Temporary investments	2,218,057
Due from other funds	67,363
	\$ 6,609,103
LIABILITIES	
Accounts payable	68,905
Due to other governments	972,621
Due to other funds	76,327
Due to student groups	5,491,250
	\$ 6,609,103
	\$ 6,609,103

See accompanying notes to financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

(1) Reporting Entity

This report includes the financial statements of the funds required to account for those activities, organizations and functions which are related to the Austin Independent School District (the District) and which are controlled by or dependent upon the District's governing body, the Board of Trustees. The Board of Trustees (the Board), a nine-member group as a body corporate, has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (TEA) 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.

The District receives funding from local, state and federal government sources and must comply with the applicable requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. There are no component units with the reporting entity. The District is a governmental entity exempt from federal income taxation under Internal Revenue Code Section 115.

(2) Government-Wide and Fund Financial Statements

The government-wide financial statements consist of the statement of net assets and the statement of activities. These statements report information on all of the non-fiduciary activities of the District. The effect of the interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include charges to customers and grants used for operational requirements. Separate financial statements are presented for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Governmental activities are supported by tax revenues, state aid, charges for services, investment earnings and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. All capital asset depreciation, other than depreciation of the District's central administration building, is reported as a direct expense of the functional program that benefits from the use of the capital assets. Depreciation expense related to the District's central administrative building is reported as unallocated in the statement of activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting operational or capital requirement of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, and fiduciary funds even though the latter are excluded from the government-wide financial statement. Major individual governmental funds are reported as separate columns in the fund financial statements.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

(3) Summary of Significant Accounting Policies

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the TEA's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for the purpose of carrying on specific activities in accordance with laws, regulations, or other appropriate requirements.

1. Governmental Fund Types

The District reports the following major governmental fund:

The General Fund is the fund that accounts for financial resources in use for general types of 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. This is a budgeted fund, and any fund balances are considered as resources available for current operations. Fund balances may be appropriated by the Board to implement its responsibilities.

Additionally, the District reports the following non-major funds:

The Special Revenue Funds are the funds that account for state and federally financed programs or expenditures legally restricted for specified purposes or where unused balances are returned to the grantor at the close of specified project periods. This fund type also includes child care operations, food concessions, scholarships and food service operations, which is allowed to maintain a fund balance; such balances are to be used exclusively for allowable child nutrition program purposes. The food service fund is the only Special Revenue Fund that is required to be budgeted. For all other funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.

The Debt Service Fund is the fund that accounts for the use of debt service taxes and other revenues collected for the purposes of retiring bond principal and paying interest on long-term general obligation debt and other long-term debt for which a tax has been dedicated. This is a budgeted fund.

The Capital Projects Fund is the fund that accounts for proceeds from sales of bonds and other revenues to be used for Board authorized acquisition, construction, or renovations, as well as furnishing and equipping of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the Debt Service fund and are used to retire related bond principal. This fund is budgeted on a project basis.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

2. Proprietary Fund Types

The Internal Service Fund, an unbudgeted fund, is the fund that accounts for the District's self-funding of workers' compensation claims, Campus Police, Print Shop, and Health Services. Revenues are generated in the internal service fund through charges to various funds of the District. Expenses result from the administration and funding of District workers' compensation claims and other activities of the internal service funds. Internal Service funds inherently create redundancy because their expenses are recorded a second time in the funds that are billed for the services they provide. Therefore, on the government-wide financial statements, the operations of the internal service funds are consolidated.

3. Fiduciary Fund Types

Agency Funds, unbudgeted funds, are the funds that accounts for activities of student groups and other types of activities requiring clearing accounts. An Agency Fund is also used to account for the District's activities as successor-in-interest of the Travis County Education District. This fund type has no equity, assets are equal to liabilities, and do not include revenues and expenditures for general operations of the District.

B. Measurement Focus

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund type financial statements. All governmental funds are accounted for on a "spending" or "financial flow" measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance of governmental funds is considered a measure of "available spendable resources."

C. Basis of Accounting

The government-wide financial statements and proprietary fund type financial statements follow the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, state aid and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider are met.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

The modified accrual basis of accounting is used for the Governmental Fund Types and Agency Fund. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both available and measurable. Revenues, other than grants, are considered to be available when they are expected to be collected during the current budgetary period, or within 60 days thereafter, to pay liabilities outstanding at the close of the budgetary period. Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred and all eligibility requirements have been met, except in the Food Service Special Revenue fund where revenue recognized is based on the number of students served. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables. Interest revenue and building rentals are recorded when earned since they are measurable and available. Other revenues such as fees, tuition, local food service revenue, and miscellaneous revenues are recognized when measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, except expenditures for debt service including unmatured interest on long-term debt and compensated absences. Expenditures for principal and interest on long-term debt and compensated absences are recognized when matured.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include operating grants and contributions, food service user charges, and other charges. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service funds are health insurance premiums to participate in the District's self insured health program. Operating expenses for the internal service fund include the cost of health services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, investments in local government investment pools, and certificates of deposit owned with original stated maturities of three months or less.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

E. Investments

State statutes and Board policy authorize the District to invest any and all of its funds in certificates of deposit, direct debt securities of the United States of America or the State of Texas, other obligations the principal and interest on which are unconditionally guaranteed by the State of Texas or the United States, fully collateralized direct repurchase agreements, common trust funds, local government investment pools and other investments specifically allowed by chapter 2256 of the Public Funds Investment Act and Sections 23.80 and 20.42 of the Texas Education Code. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments. The District's policy is to report all highly liquid debt instruments, such as treasury and agency obligations, with a remaining maturity of one year or less at the time of purchase at amortized cost and all other investments at fair value.

F. Due from (to) Other Funds

Interfund receivables and payables arise from interfund receipts or disbursements of cash and are recorded in all affected funds in the period in which transactions are executed in the normal course of operations.

G. Inventory

Inventory of materials and supplies are carried on the basis of the last invoice cost, which approximates first-in first-out cost, and are subsequently charged to budgetary expenditures when consumed. Inventories include plant maintenance and operating supplies as well as instructional materials. These inventories are offset at year-end by a reservation of fund balance, which indicates that they do not represent "available spendable resources".

Donated commodities inventory is recorded as deferred revenue at year-end. Revenue is recognized when the commodities are distributed to the schools. There was \$647,073 of donated commodities in inventory at August 31, 2004.

H. Capital Assets

Capital assets, which includes land, buildings, furniture and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the 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.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

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

<u>Assets</u>	<u>Years</u>
Building and site improvements	30
Furniture and equipment	5-10
Vehicles	5-7
Property under capital leases	10
Buses	8-10
Computer software and equipment	3-7
Portable buildings	10

I. Compensated Absences

The State of Texas has created a minimum sick leave program consisting of five days of personal leave per year that may be used for illness or discretionary personal leave with no limit on accumulation and transferability among districts for every eligible employee regularly employed in Texas public schools.

Each district's local Board of Education is required to establish a sick leave plan. Local school districts may provide additional sick leave beyond the state minimum. The District's policy provides six to eight additional sick leave days per year depending on the number of duty days scheduled to work during the school year.

Accumulated state leave at end of the year remains in the employee's state personal leave account. Additional sick leave days provided by the District do not vest; therefore, at August 31, 2004 no liability exists.

Teachers do not receive paid vacation but are paid only for the number of days they are required to work each year. All regular employees are entitled to an annual vacation. In the government-wide financial statements, the District has a liability for unused vacation pay for regular employees for all vacation earned as of August 31, 2004. The District allows unused vacation days to carry over through December 31.

J. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. 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.

The District participates in the Texas Association of School Boards Modified Self-Funded program for its vehicle liability insurance. The District has commercial insurance for all other risks of loss, except vehicle liability insurance and workers' compensation, including employee health benefits and employee life and dental and accident insurance.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

The District is self-insured up to \$250,000 per occurrence for losses related to workers' compensation. The District has purchased excess coverage through a commercial insurer licensed in the State of Texas.

K. Encumbrances

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31 and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget.

Outstanding encumbrances at August 31, 2004 that were subsequently provided for in the 2004 budget as a September amendment for Board approval totaled \$8,066,059 in the General Fund. This amount is reflected as a reserve of fund balance at August 31, 2004.

L. Fund Balance Reserves

Reserves have been established in the governmental funds financial statements to indicate that a portion of the fund balance is not available for appropriation for expenditure or is legally segregated for a specific future use. Designations of fund equity are the representations of management for the utilization of financial resources in future periods.

M. Data Control Totals

The Data Control Codes refer to the account code structure prescribed by the TEA in the FAR. TEA requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide database for policy development and funding plans.

N. Deferred Revenue

The deferred revenue on the balance sheet of the General Fund primarily relates to uncollected property taxes less the allowance for doubtful accounts. The remainder relates to excess Foundation School Program Funds received from the Texas Education Agency over earned state aid and donated commodity inventory in the child nutrition program special revenue fund.

O. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both the government wide and fund financial statements.

(4) Deposits and Investments

(a) Deposits

At August 31, 2004, all District deposits were with the contracted depository bank in accounts which were secured at the balance sheet date by FDIC coverage and by pledged securities, as approved by the School Depository Act, held by the District's agent, Bank of America, in the name of the District.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

At August 31, 2004, one hundred sixteen student activity accounts were held at the District's contracted depository bank.

At August 31, 2004, the District had an overdraft ledger balance of \$12,339,450 while the total of bank balances equaled \$3,929,527. Of the bank balances, \$200,000 is covered by federal depository insurance and the remainder was covered by \$5,444,485 of collateral pledged in the District's name. The District's cash deposits at August 31, 2004 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

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

1. Name of bank: Bank of America
2. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$6,440,653.
3. Largest deposit combined account balance amounted to \$4,890,405 and occurred during the month of January 2004.
4. Total amount of FDIC coverage at the time of the largest combined balance was \$200,000.

To comply with the reporting requirements of GASB Statement No. 3, the District's cash deposits are categorized to give an indication of custodial risk assumed by the District at year-end.

The following categories of custodial risk are included:

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

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

(b) Investments

Similar to cash deposits, investments can be categorized according to three levels of custodial risk. These three levels of risk are:

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

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

The District's temporary investments, including restricted assets, at August 31, 2004 are as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Category</u>
U.S. Government-agency securities	\$ —	—	N/A
Total categorized investments	<u>—</u>	<u>—</u>	
Investments not requiring categorization:			
Governmental activities -			
Lone Star	1,162,227	1,162,227	
TexPool	119,019,254	119,019,254	
Texas Term	34,220,240	34,220,240	
Fidelity	14,040,595	14,040,595	
Bank of America mutual fund	<u>1,641,124</u>	<u>1,641,124</u>	
Total noncategorized investments	<u>170,083,440</u>	<u>170,083,440</u>	
Fiduciary fund -			
TexPool	1,371,709	1,371,709	
Bank of America Mutual fund	<u>846,348</u>	<u>846,348</u>	
Total noncategorized investments	<u>2,218,057</u>	<u>2,218,057</u>	
Total investments	<u>\$ 172,301,497</u>	<u>172,301,497</u>	

TexPool - The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating weekly portfolio, information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. As such, TexPool uses amortized cost to report net assets and share prices since that amount approximates fair value.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

Lone Star – The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is managed by an 11-member Board of Trustees and pursuant to the Investment Agreement, the Board is authorized and directed to adopt and maintain bylaws consistent with the bylaws of the Texas School Cash Management Program. Pursuant to Section 2256.016(g) of the Public Funds Investment Act, Lone Star has established an Advisory Board. The purpose of the Advisory Board shall be to gather and exchange information from participants and non-participants relating to Lone Star's operations. The Board has entered into an agreement with TASB, a Texas nonprofit corporation, pursuant to which TASB serves as administrator of the Lone Star's operations. Standard & Poor's rates money market funds and has rated Lone Star as AA-A. The net asset value of the District's investment in Lone Star approximates fair value.

Texas TERM (TexasDAILY) – TexasDAILY is a public funds investment pool established by the TexasTERM Advisory Board pursuant to provisions of the TexasTERM Common Investment Contract that established the TexasTERM Local Government Investment Pool and the series known as TexasTERM. TexasDAILY was organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The investment advisor and administrator for TexasDAILY is PFM Asset Management LLC. The net asset value of the District's investment approximates fair value.

(5) Property Taxes

Property taxes are levied as of October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 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 when they become due or past due and receivable within the current period, including those property taxes expected to be collected during a 60-day period after the close of the District's fiscal year.

The final assessed value at January 1, 2003, upon which the October 2003 levy was based was approximately \$38,527,056,136.

The tax rates assessed for the year ended August 31, 2004, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.500 and \$.1137 per \$100 valuation, respectively, for a total of \$1.6137 per \$100 of assessed valuation.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles within the General and Debt Service Fund are based upon 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.

As of August 31, 2004, property taxes receivable, net of estimated uncollectible taxes, totaled \$8,967,738 and \$647,144 for the General and Debt Service Funds, respectively.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

(6) Receivable 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. Amounts due from federal and state governments as of August 31, 2004 for the District's major fund and nonmajor funds are summarized below. All federal grants shown below are passed through the TEA and are reported in the basic financial statements as Receivable from Other Governments.

Fund	Local entities	State Grants/other	Federal grants	Total
General	\$ 218,477	3,248,513	72,098	3,539,088
Non-major Funds	612,242	7,913,318	719,381	9,244,941
Total	\$ 830,719	11,161,831	791,479	12,784,029

(7) Changes in Capital Assets

The following summarizes the change in Capital assets for the year ended August 31, 2004:

Capital assets, not being depreciated:

	Balance August 31, 2003	Additions	Transfers/deletions	Balance August 31, 2004
Land	\$ 46,702,980	5,050	(294,233)	46,413,797
Construction in progress	7,722,752	1,198,372	(8,260,164)	660,960
Total	\$ 54,425,732	1,203,422	(8,554,397)	47,074,757

Capital assets, being depreciated:

	Balance August 31, 2003	Additions	Transfers/deletions	Balance August 31, 2004
Property under capital leases	\$ 11,349,460	—	—	11,349,460
Buildings and improvements	743,102,603	—	6,317,949	749,420,553
Furniture and equipment	43,501,046	4,667,067	(1,518,354)	46,649,759
Total	\$ 797,953,109	4,667,067	4,799,595	807,419,771

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

Less accumulated depreciation for:

	<u>Balance August 31, 2003</u>	<u>Additions</u>	<u>Transfers/ deletions</u>	<u>Balance August 31, 2004</u>
Property under capital leases	\$ 9,647,432	1,134,849	—	10,782,281
Buildings and improvements	270,815,987	24,753,098	(1,547,562)	294,021,523
Furniture and equipment	<u>26,535,957</u>	<u>4,005,328</u>	<u>(1,461,051)</u>	<u>29,080,234</u>
Total	\$ <u>306,999,376</u>	<u>29,893,275</u>	<u>(3,008,613)</u>	<u>333,884,038</u>

Depreciation expense was charged to functions/programs of primary government activities as follows:

Instruction	\$ 18,746,498
Instructional resources and media services	1,202,476
Curriculum and instructional staff development	5,644
Instructional Leadership	1,888
School leadership	1,251,274
Guidance and counseling services	136,186
Health services	43,904
Transportation	1,491,237
Food services	1,528,523
Cocurricular activities	633,686
General administration	87,638
Plant maintenance and security services	1,204,781
Security and monitoring services	123,232
Data processing services	3,110,776
Community services	14,186
Facilities acquisition and construction	7,828
Unallocated depreciation	<u>303,517</u>
Total	\$ <u>29,893,275</u>

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

(8) Long-term Debt

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, contractual obligations and loans. Contractual obligations are issued at parity with general obligation bonds, but carry a secondary revenue stream pledge; however, all certificates of obligation are tax, not revenue, supported. This debt, unlike other tax-supported debt, can be issued without a vote of the citizens. At August 31, 2004, the District debt limitation under local policies, which represents 10% of the District's total assessed property value for school tax purposes, is \$3,852,705,613 and the District's legal debt margin is 1.23%.

The following is a summary of changes in long-term obligations (including general obligation bonds, contractual obligation bonds, leases and self-insurance claims payable) for the year ended August 31, 2004:

	<u>Bonds payable</u>	<u>Loans/ leases payable</u>	<u>Self-insurance claims payable</u>
Balance, as reported at August 31, 2003	\$ 491,406,782	4,984,597	10,529,120
Additions – 2004 unlimited tax and school, building bond	9,685,000	—	—
Additions – accretion of discount	1,505,705	—	—
Additions – Loan Star loan	—	1,250,377	—
Additions – bond premium	48,528	—	—
Current year claims and/or changes in estimates	—	—	200,671
Retirements	(30,593,047)	(1,733,073)	—
Claim payments	—	—	(2,534,514)
Amortized bond premium	(6,697)	—	—
Balance at August 31, 2004	<u>\$ 472,046,271</u>	<u>4,501,901</u>	<u>8,195,277</u>
Amount due within one year	<u>\$ 31,428,108</u>	<u>1,761,487</u>	<u>3,000,000</u>

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

Included in the District's long-term debt arising from refunding transactions are capital appreciation bonds (CAB), which are non-interest bearing and are discounted at issuance. CAB's are designed to accrete in value over time. The following is a summary of the interest rates and original issue amounts for the District's general long-term debt account group as of August 31, 2004:

Description	Interest rate payable	Amounts original issue
	<hr/>	<hr/>
Bonded indebtedness:		
1993 Unlimited Tax Refunding Bonds	5.50%	\$ 105,035,000
1996 Unlimited Tax School Building and Refunding Bonds	5.37 - 7.00%	221,097,346
1997 Unlimited Tax School Building Bonds	4.75 - 6.00%	110,000,000
1998 Unlimited Tax School Building Bonds	4.00 - 5.25%	109,475,000
1998 Unlimited Tax Refunding Bonds	0.00 - 5.00%	130,397,389
2002 Unlimited Tax School Building Bonds	3.50 - 4.75%	20,010,000
2002A Unlimited Tax School Building Bonds	3.00 - 5.00%	4,675,000
2002 Unlimited Tax School Qualified Zone Academy Bonds	0%	6,710,260
2004 Unlimited Tax School Building Bonds	2.25 - 5.00%	9,685,000
Total bonded indebtedness		<hr/> 717,084,995 <hr/>
Other direct obligations:		
1996 Public Property Finance	4.625 - 7.00%	7,870,000
1999 Public Property Finance	4.625 - 5.00%	42,000,000
Total obligations of the District		<hr/> \$ 766,954,995 <hr/>

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

Description	Amounts outstanding August 31, 2003	Additions current year	Retired current year	Amounts outstanding August 31, 2004
Bonded indebtedness:				
1993 Unlimited Tax Refunding Bonds	\$ 10,290,000	—	5,535,000	4,755,000
1996 Unlimited Tax Refunding Bonds	91,602,640	453,317 (1)	7,210,000	84,845,957
Building bonds:				
1997 Unlimited Tax and School	94,200,000	—	4,700,000	89,500,000
1998 Unlimited Tax and School	96,685,000	—	4,620,000	92,065,000
1998 Unlimited Tax Refunding Bond	138,238,605	1,052,388 (1)	1,795,000	137,495,993
2002 Unlimited Tax and School	20,010,000	—	965,000	19,045,000
2002A Unlimited Tax and School	4,675,000	—	—	4,675,000
2002 Unlimited Tax and School Qualified Zone Academy Bonds	6,710,260	—	363,047	6,347,213
2004 Unlimited Tax and School	—	9,685,000	—	9,685,000
Bond premium	95,277	48,528	6,697	137,108
Total bonded indebtedness	462,506,782	11,239,233	25,194,744	448,551,271
Other direct obligations:				
1996 Public Property Finance	1,300,000	—	1,300,000	—
1999 Public Property Finance	27,600,000	—	4,105,000	23,495,000
Total obligations of the District	\$ 491,406,782	11,239,233	30,599,744	472,046,271

(1) Represents accretion of discount on capital appreciation bonds.

Presented below is a summary of general obligation bonds requirements to maturity:

Year ended August 31	Principal	Interest	Total
2005	\$ 27,138,108	21,088,141	48,226,249
2006	25,863,794	19,475,103	45,338,897
2007	19,316,820	20,728,366	40,045,186
2008	29,618,754	19,886,185	49,504,939
2009	30,869,037	18,663,597	49,532,634
2010 to 2014	189,552,128	79,976,580	269,528,708
2015 to 2019	122,825,522	12,734,436	135,559,958
2020 to 2024	3,230,000	497,308	3,727,308
	\$ 448,414,163	193,049,716	641,463,879

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

For general obligations, included in interest is the future accretion of capital appreciation bonds in the amount of \$15,018,050. This amount will be considered principal as it is accreted in the future.

Presented below is a summary of contractual obligation bonds requirements to maturity:

<u>Year ended August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 4,290,000	1,153,919	5,443,919
2006	4,485,000	941,244	5,426,244
2007	4,690,000	724,188	5,414,188
2008	4,905,000	474,944	5,379,944
2009	<u>5,125,000</u>	<u>211,475</u>	<u>5,336,475</u>
Total	<u>\$ 23,495,000</u>	<u>3,505,770</u>	<u>27,000,770</u>

For the general obligation bonds, the District has pledged as collateral the proceeds of continuing, direct annual tax levied, without limitation as to rate, against taxable property within the District.

In December 1985, March 1991, January 1993 and June 1996, the District legally defeased certain previously issued or assumed bonds by placing the proceeds of Unlimited Tax Refunding Bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the refunded bonds are considered to be legally defeased and the liability for the refunded bonds has been removed from the District's financial statements.

During 2001, the District entered into an unsecured Loan Agreement with the State Energy Conservation Office - General Services Commission. The State Energy Conservation Office shall advance to the District a maximum of \$2,295,062 to be used for the retrofitting of lighting fixtures and new air conditioning equipment. The District will be repaying the aggregate amount disbursed, plus interest at 4.04%. At August 31, 2004, approximately \$362,000 of principal and interest had been repaid, and the remaining balance on the loan was \$1,958,011. During 2004, the District began drawing under another loan agreement approved in November 2003, under which a maximum of \$4,498,298 may be advanced. The project completion date for the new agreement is September 2007 and the repayment schedule, including interest at 3%, will be determined at completion of the project. At August 31, 2004, approximately \$1,250,377 had been advanced under the new agreement.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

During 1994, the District entered into a lease-purchase agreement for its share of construction costs relating to the Greater Austin Area Telecommunications Network. In accordance with this agreement, the District began making semi-annual payments of \$780,810 in September 1995 that will continue through 2005. The stated interest rate on this agreement is 6.52%.

<u>Year ended August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,488,395	73,136	1,561,531
Total	\$ <u>1,488,395</u>	<u>73,136</u>	<u>1,561,531</u>

(9) Interfund Receivables and Payables

Interfund balances occur when one fund pays or receives resources for another fund. Interfund balances at August 31, 2004, consisted of the following fund receivables and payables:

	<u>Due from</u>	<u>Due to</u>
Major Fund – General Fund:		
Special Revenue	\$ 8,770,849	893,849
General	1,255,423	1,255,423
Debt Service	—	1,000
Capital Projects	4,119,406	382,934
Internal Service	51,158	936,757
Fiduciary	68,445	65,075
Enterprise Funds	98,610	4,240
Total General Fund	<u>14,363,891</u>	<u>3,539,278</u>
Non-Major Funds:		
Special Revenue -		
General Fund	898,089	8,869,459
Special Revenue	26,543	26,543
Internal Service	—	38,353
Fiduciary	7,172	2,288
Enterprise Funds	1,889	1,889

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

	<u>Due from</u>	<u>Due to</u>
Debt Service -		
General Fund	1,000	—
Capital Projects -		
General Fund	382,934	4,119,406
Capital Projects	<u>17,323</u>	<u>17,323</u>
Total Non-Major Funds	<u>1,334,950</u>	<u>13,075,261</u>
Internal Service Funds-		
General Fund	936,757	51,158
Special Revenue	38,208	—
Enterprise	145	—
Fiduciary Funds	710	—
Fiduciary-		
General Fund	65,075	68,445
Special Revenue	2,288	7,172
Internal Service	<u>—</u>	<u>710</u>
Total	<u>\$ 16,742,024</u>	<u>16,742,024</u>

(10) Commitments and Contingencies

At August 31, 2004, the District is committed under contracts in the amount of approximately \$488,000. The commitments are for remaining work on various construction projects. These commitments are payable from the Capital Projects Fund.

The District participates in a number of federal financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 and provisions OMB Circular A-133 through August 31, 2004, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

The District leases certain building facilities and equipment on a year-to-year basis. Total rent expenditures for the year ended August 31, 2004, was approximately \$1,760,000. These leases are considered for accounting purposes to be operating leases.

The District has been named in several civil lawsuits. The outcome of these pending cases cannot presently be determined; however, the District plans to vigorously contest each action. In the opinion of management, disposition of these lawsuits will have no material adverse effect on the financial position of the District.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

The District is a defendant in a lawsuit involving the death of a student. The lawsuit seeks declaratory relief and monetary relief in excess of \$23,414,000. While it is not possible at this time to predict the outcome of this legal action, in the opinion of management, the disposition of this matter will not have a material adverse effect on the District's financial position.

The Travis County Central Appraisal District is a defendant in various lawsuits involving the property values assigned to property located within the District's boundaries on which the District assesses property taxes. Assessed value of property values under suit as follows:

<u>Tax year</u>	<u>Property value</u>
2000	\$ 21,019,000
2001	169,625,000
2002	778,111,000
2003	1,156,059,000

The District could be required to refund property taxes paid on values which were greater than the ultimate final assessed valuation assigned by the court. Such lawsuits could continue several years into the future.

(11) Retirement Plan

Plan Description - The District contributes to the Teacher Retirement System of Texas (TRS), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception - risks and costs are not shared by the District, but are the liability of the State of Texas. The TRS provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The TRS operates under the authority of provisions contained primarily in Texas Government Code, Title 8 Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The TRS's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

Funding Policy - Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.0% of the District's covered payroll. The District's employee contributions to the TRS for the years ending August 31, 2004, 2003, and 2002, were \$25,640,614, \$25,244,460, and \$24,741,064, respectively, equal to the required contributions for each year. During the years ended August 31, 2004, 2003 and 2002, contributions of \$21,734,338, \$20,163,053, and \$19,988,613, respectively, were made on behalf of the District by the State of Texas. Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ending August 31, 2004, 2003, and 2002 were \$4,618,132, \$4,545,968, and \$4,118,954, respectively, equal to the required contributions for each year.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

(12) Health Care Coverage

During the year ended August 31, 2004, employees of the District were covered by a health insurance plan. With the AMIL health plan, employees have a choice of a PPO or an HMO. The District contributed \$240 per month, per employee to the plan chosen by the employee. All contributions were paid to licensed insurers. The contracts between the Austin Independent School District and the licensed insurers provide terms of coverage and contribution costs.

Latest financial statements for the insurance companies, available for the year ended December 31, 2004, are filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

(13) Self Insurance

The District participates in the Texas Association of School Boards Modified Self-funded program for its vehicle liability insurance. In connection therewith, stop loss insurance for bodily injury over \$100,000 per person, \$300,000 per occurrence, and \$100,000 for personal property is maintained. The District is responsible for claims up to these amounts. During fiscal year 2004, the District expended \$279,016 for claims. The District maintained a designated fund balance in the amount of \$1,444,100 at August 31, 2004.

The District is self-insured for workers' compensation coverage. The District contributes amounts to the internal service fund based on an estimate of the ultimate cost of claims expected to be incurred each year and changes in amounts estimated in prior years. The District's retention under this program is limited to \$250,000 per occurrence (all claims relating to a related event are considered an occurrence). The District purchased excess coverage through Insurance Corporation of Hannover, a governmental risk pool, for losses in excess of \$250,000 up to the statutory limit as described by state law. The District has contracted with Republic Western Insurance Company, a commercial insurer licensed in the State of Texas, to provide the coverage per occurrence in excess of \$250,000 up to a statutory limit as described by state law.

Changes in workers' compensation claims liability amounts are as follows:

	<u>2004</u>	<u>2003</u>
Beginning of the year liability	\$ 10,529,120	11,148,483
Current year claims and/or changes in estimates	200,671	1,934,458
Claim payments	<u>(2,534,514)</u>	<u>(2,553,821)</u>
End of the year liability	<u>\$ 8,195,277</u>	<u>10,529,120</u>

The end of the year liability includes claims incurred and reported and estimated claims incurred but not reported, based on historical activity.

Due to the types of risk self-insured, the ultimate amount to be paid out may be more or less than the amount accrued at August 31, 2004. The District has a contingent liability in the event the insurer is unable to fulfill its responsibility under the contract or the incurred claims exceed the amounts covered by stop loss coverage. There have been no claim settlements exceeding the District's retention limits in the last three years.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Basic Financial Statements

August 31, 2004

(14) Interfund Transfers

Transfers during the year ended August 31, 2004 were made out of the general fund totaling \$58,000 into various Special Revenue funds to use unrestricted revenues collected in the general fund to finance programs accounted for in other funds in accordance with budgetary authorization.

(15) Budget Overages

For the year ended August 31, 2004, the District exceeded its budget in General Fund function 11, Instruction by \$474,107; function 21, Instructional Leadership by \$97,649, and function 80; Capital Outlay, by \$4,554.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Required Supplementary Information

Exhibit G-1 - Budgetary Comparison Schedule

General Fund

For the Year Ended August 31, 2004

	Budgeted amounts		Actual amounts (budgetary basis) (see Notes)	Variance with final budget positive (negative)	
	Original	Final			
REVENUES					
5700	Local and intermediate sources	\$ 579,380,055	581,187,530	\$ 582,227,216	\$ 1,039,686
5800	State program revenues	51,109,524	56,509,524	54,526,940	(1,982,584)
5900	Federal program revenues	1,557,250	1,557,250	2,317,351	760,101
5020	Total revenues	632,046,829	639,254,304	639,071,507	(182,797)
EXPENDITURES					
Current:					
0011	Instruction	304,229,019	293,191,524	293,665,631	(474,107)
0012	Instructional resources and media services	9,210,179	9,813,928	9,727,058	86,870
0013	Curriculum and staff development	4,491,110	7,474,650	7,471,177	3,473
0021	Instructional leadership	7,393,797	6,557,624	6,655,273	(97,649)
0023	School leadership	30,979,256	34,433,704	33,464,248	969,456
0031	Guidance, counseling, and evaluation services	13,967,579	14,697,092	14,450,311	246,781
0032	Social work services	1,995,731	1,736,716	1,717,237	19,479
0033	Health services	3,946,237	4,128,687	4,088,699	39,988
0034	Student transportation	15,141,450	19,082,070	18,155,750	926,320
0036	Extracurricular activities	8,236,627	10,773,779	10,579,675	194,104
0041	General administration	14,618,005	16,389,404	16,345,932	43,472
0051	Plant maintenance and operations	57,326,019	67,904,279	63,524,219	4,380,060
0052	Security and monitoring services	5,424,725	6,193,670	6,150,841	42,829
0053	Data processing services	12,449,555	16,687,541	14,960,087	1,727,454
0061	Community services	3,877,287	4,335,647	4,303,186	32,461
0071	Principal and interest on long-term debt	8,911,803	8,811,803	8,808,318	3,485
0081	Capital outlay	—	1,222,167	1,226,721	(4,554)
0091	Contracted instructional services between schools	158,011,398	155,011,398	153,221,383	1,790,015
0092	Incremental costs related to WADA	1,068,803	—	—	—
0093	Payments related to shared services arrangements	875,477	875,477	819,767	55,710
6030	Total expenditures	662,154,057	679,321,160	669,335,513	9,985,647
1100	Excess (deficiency) of revenues over expenditures	(30,107,228)	(40,066,856)	(30,264,006)	9,802,850
OTHER FINANCING SOURCES (USES):					
7912	Sale of real or personal property	51,000	4,916,561	4,931,601	15,040
7914	Non-current loan proceeds	—	849,758	1,250,377	400,619
7915	Transfers in	715,306	715,306	715,306	—
7941	Insurance settlement	—	450,000	450,000	—
8911	Transfers out	(773,306)	(2,306)	(773,306)	(771,000)
8941	Other uses	(50,000)	(50,000)	(51,769)	(1,769)
7080	Total other financing sources and (uses)	(57,000)	6,879,319	6,522,209	(357,110)
1200	Net change in fund balances	(30,164,228)	(33,187,537)	(23,741,797)	9,445,740
0100	Fund balances--beginning	115,841,342	115,841,342	115,841,342	—
3000	Fund balances--ending	\$ 85,677,114	82,653,805	\$ 92,099,545	\$ 9,445,740

See accompanying independent auditors' report and notes to budgetary comparison schedule.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit G -1 - Notes to the Budgetary Comparison Schedule

August 31, 2004

Budgetary Data

Formal budgetary accounting is employed for the General Fund, as outlined in TEA's FAR. The budgetary comparison schedule is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund (except that insurance settlements of \$450,000 recorded as other resources on the budgetary basis instead of as local revenue), Debt Service Fund and the Food Service Special Revenue Fund. The remaining Special Revenue Funds and the Capital Projects Fund adopt project-length budgets, which do not correspond to the District's fiscal year. Each annual budget for these funds is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The Board amended the budget throughout the year. Such amendments are before the fact and are reflected in the official minutes of the Board.

For the year ended August 31, 2004, the District exceeded its budget in General Fund function 11, Instruction by \$474,107, function 21, Instructional Leadership by \$97,649, and function 80, Capital Outlay, by \$4,554.

OTHER SCHEDULES
EXHIBITS J-1 THROUGH J-5

AUSTIN INDEPENDENT SCHOOL DISTRICT
Exhibit J-1 - Schedule of Delinquent Taxes Receivable
Year Ended August 31, 2004

Last ten years ended August 31	1		2	3	10	20	Total	Total	40	50
	Tax Rates		Assessed/appraised value for School tax purposes	Beginning balance 9/1/2003	Current year's total levy	maintenance collections	debt service collections	Entire year's adjustments	Ending balance 8/31/2004	
	Maintenance	Debt service								
1994 and prior years	---Various rates---		\$ ---Various---	\$ 6,464,283	—	67,283	15,430	663,950	7,045,520	
1995	1.1802	0.1648	22,279,847,538	535,221	—	15,626	2,182	(312)	517,101	
1996	1.1317	0.1515	54,544,448,513	541,908	—	18,868	2,526	(822)	519,692	
1997	1.1496	0.1614	25,406,140,764	620,983	—	29,055	4,079	(1,502)	586,347	
1998	1.2296	0.1714	27,588,427,515	882,102	—	69,312	9,662	3,984	807,112	
1999	1.2605	0.1714	30,049,898,907	955,711	—	88,017	11,968	(2,019)	853,707	
2000	1.3886	0.1600	34,615,350,589	1,226,063	—	167,319	19,279	(45,215)	994,250	
2001	1.4104	0.1382	38,842,493,940	1,863,897	—	(184,982)	(18,126)	(587,086)	1,479,919	
2002	1.4522	0.0964	41,826,379,899	4,554,576	—	(145,865)	(9,683)	(1,459,169)	3,250,955	
2003	1.5000	0.0964	40,424,012,912	8,081,738	—	(270,886)	(17,409)	(4,669,808)	3,700,225	
2004 (School year under audit)	1.5000	0.1137	38,527,056,136	—	625,646,692	572,203,341	43,373,013	(3,953,907)	6,116,431	
1000 Totals				\$ 25,726,482	625,646,692	572,057,088	43,392,921	(10,051,906)	\$ 25,871,259	

See accompanying notes to financial statements.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit J-2 - Schedule of Expenditures for Computation of Indirect Costs for
2003-2004-General and Special Revenue Funds
Year Ended August 31, 2004

Account number	Account name	1 School board	2 Tax collections	3 Superintendent's office	4 Indirect cost	5 Direct cost	6 Miscellaneous	7 Total
611X - 6146	Payroll costs	\$ 62,259	—	654,202	14,953,445	928,974	—	16,598,880
6149	Fringe benefits (unused leave for separating employees except function 41 and related 53)	—	—	—	—	—	—	—
6211	Legal services	—	—	—	—	449,029	—	449,029
6212	Audit services	—	—	—	152,000	—	—	152,000
6213	Tax appraisal and collection	—	3,517,811	—	—	—	—	3,517,811
621X	Other professional services	51,625	—	146,460	2,375,700	7,203	—	2,580,988
6220	Tuition and transfer payments	—	—	—	—	—	—	—
6230	Education service centers	—	—	—	—	—	—	—
6240	Contract maintenance and repair	—	—	—	—	79	—	79
6250	Utilities	—	—	—	—	—	—	—
6260	Rentals	248	—	3,110	43,008	3,402	—	49,768
6290	Miscellaneous contr.	1,210	—	8,283	358,365	104,438	—	472,296
6320	Textbooks and reading	215	—	464	37,788	1,994	—	40,461
6330	Testing materials	—	—	—	—	—	—	—
63XX	Other supplies materials	5,679	—	12,259	3,799,795	57,479	—	3,875,212
6410	Travel, subsistence, stipends	27,710	—	7,490	195,239	14,212	—	244,651
6420	Insurance and bonding costs	—	—	—	—	—	—	—
6430	Election costs	170,577	—	—	—	—	—	170,577
6490	Miscellaneous operating	119,982	—	12,202	319,423	28,942	—	480,549
6500	Debt service	—	—	—	—	—	—	—
6600	Capital outlay	—	—	—	—	—	—	—
6000	Total	\$ 439,505	3,517,811	844,470	22,234,763	1,595,752	—	28,632,301

Total expenditures/expenses for General and Special Revenue Funds:
Less: Deductions of unallowable cost:

(9) \$ 773,133,794

Fiscal Year

Total Capital Outlay (6600)

(10) \$ 4,797,768

Total Debt and Lease (6500)

(11) 8,808,318

Plant Maintenance (function 51, 6100-6400)

(12) 63,586,176

Food (function 35, 6341 and 6499)

(13) 8,870,165

Stipends (6413)

(14) —

Column 4 (above) - Total Indirect Cost

22,234,763

Subtotal:

108,297,190

Net allowed direct cost:

\$ 664,836,604

Cumulative

Total cost of building before depreciation (1520)

(15) \$ 749,420,551

Historical costs of buildings over 50 years old

(16) \$ 12,361,315

Amount of federal money in building costs (net of above)

(17) \$ —

Total cost of furniture and equipment before depreciation (1530 and 1540)

(18) \$ 46,649,759

Historical costs of furniture and equipment over 16 years old

(19) \$ 3,118,597

Amount of federal money in furniture and equipment (net of #19)

(20) \$ 3,213,921

(Note A - \$14,111,726 in function 53 expenditures are included in this report on administrative costs.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit J-3 - Fund Balance and Cash Flow Calculation Worksheet -

General Fund

August 31, 2004

1. Total General Fund Balance as of 8/31/04 (Exhibit C-1 object 3000 for the General Fund only)			1. \$ <u>92,099,545</u>
2. Reserved Fund Balances - General Fund (Exhibit C-1 object 3400s for General Fund)			
3410 Inventories	2a.	<u>1,009,764</u>	
3430 Prepaid items	2b.	<u>762,660</u>	
3440 Outstanding encumbrances	2c.	<u>8,066,059</u>	
3470 Capital acquisitions and contractual obligations	2d.	<u>3,073,334</u>	
3490 Other -	2e.	<u>12,713,414</u>	
Total Reserved Fund Balance			2. <u>25,625,231</u>
3. Total designated unreserved fund balances - General Fund			3. <u>—</u>
4. Estimated amount needed to cover fall (9/1/04-1/31/05) cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues) - unaudited			4. <u>68,392,014</u>
5. Estimated one month's average cash disbursements of General Fund for period 9/1/03-5/31/04 - unaudited			5. <u>55,248,114</u>
6. General Fund Optimum Fund Balance and Cash Flow-unaudited			6. <u>149,265,359</u>
7. Excess Net Undesignated Unreserved General Fund Fund Balance (Line 1 minus Line 6) - unaudited			7. \$ <u><u>(57,165,814)</u></u>

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit J-4 - Budgetary Comparison Schedule - Nonmajor Fund

Child Nutrition Program Fund

August 31, 2004

Data Control Codes		1		2	3	Variance with final budget positive (negative)
		Budgeted amounts		Actual amounts budgetary basis		
		Original	Final			
	REVENUES					
5700	Local and intermediate sources	\$ 10,549,605	8,703,346	8,556,739		(146,607)
5800	State program revenues	830,715	826,795	810,128		(16,667)
5900	Federal program revenues	17,996,615	17,996,615	18,042,383		45,768
5020	Total revenues	29,376,935	27,526,756	27,409,250		(117,506)
	EXPENDITURES					
	Current:					
0035	Food service	26,379,986	31,160,033	31,075,231		84,802
0051	Plant maintenance and operations	45,000	45,000	13,310		31,690
6030	Total expenditures	26,424,986	31,205,033	31,088,541		116,492
1100	Excess (deficiency) of revenues over expenditures	2,951,949	(3,678,277)	(3,679,291)		(1,014)
1200	Net change in fund balances	2,951,949	(3,678,277)	(3,679,291)		(1,014)
0100	Fund balances--beginning	8,203,967	8,203,967	8,203,967		—
3000	Fund balances--ending	\$ 11,155,916	4,525,690	4,524,676		(1,014)

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit J-5 - Budgetary Comparison Schedule

Debt Service Fund

August 31, 2004

Data Control Codes		1	2	3	Variance with final budget positive (negative)
		Budgeted amounts		Actual amounts	
		Original	Final	budgetary basis	
	REVENUES				
5700	Local and intermediate sources	\$ 42,739,735	42,739,735	43,920,618	1,180,883
5020	Total revenues	42,739,735	42,739,735	43,920,618	1,180,883
	EXPENDITURES				
0071	Principal and interest on long-term debt	47,199,735	47,199,735	47,195,696	4,039
6030	Total expenditures	47,199,735	47,199,735	47,195,696	4,039
1100	Excess (deficiency) of revenues over expenditures	(4,460,000)	(4,460,000)	(3,275,078)	1,184,922
	OTHER FINANCING SOURCES (USES):				
7917	Prepaid interest	—	58,323	58,323	—
7080	Total other financing sources and (uses)	—	58,323	58,323	—
1200	Net change in fund balances	(4,460,000)	(4,401,677)	(3,216,755)	1,184,922
0100	Fund balances--beginning	5,756,972	5,756,972	5,756,972	—
3000	Fund balances--ending	\$ 1,296,972	1,355,295	2,540,217	1,184,922

FEDERAL AWARDS SECTION



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**Independent Auditors' 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
Austin Independent School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Austin Independent School District (District) as of and for the year ended August 31, 2004, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

KPMG LLP

December 17, 2004



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**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

Board of Trustees
Austin Independent School District:

Compliance

We have audited the compliance of Austin Independent School District (District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2004. The District's major federal programs are identified in the summary of auditors' 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 Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2004.

Internal Control Over Compliance

The management of 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

KPMG LLP

December 17, 2004

AUSTIN INDEPENDENT SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended August 31, 2004

Section I-Summary of Auditors' Results

Basic Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weakness? _____ yes X
- Noncompliance material to basic financial statements noted? _____ yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

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

Any audit findings disclosed that are require to be reported in accordance with Section 510(a) of Circular A-133? _____ yes X No

Identification of major programs:

CFDA Number

Name of federal program or cluster

84.010

ESEA Title I, Part A – Improving Basic Programs

84.367

ESEA Title II, Part A – Teacher and Principal Training and Recruiting

84.357

Texas Reading First Initiatives

AUSTIN INDEPENDENT SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended August 31, 2004

Dollar threshold used to distinguish between
type A and type B programs:

\$ 2,095,000

Auditee qualified as low-risk auditee?

 X

yes

 No

Section II-General Purpose Financial Statement Findings

No matters were reported.

Section III-Federal Award Findings and Questioned Costs

No matters were reported.

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit K-1 – Schedule of Expenditures of Federal Awards

Year ended August 31, 2004

(1) <u>Project Number</u>	<u>Federal Grantor/Pass- Through Grantor/Program Title</u>	(2) <u>Federal CFDA Number</u>	(3) <u>Expenditures, indirect costs and refunds</u>	(4) <u>Pass through amount subrecipients</u>
U.S. DEPARTMENT OF EDUCATION				
Direct Program:				
S060A030771	Indian Education Formula Grants to LEA's	84.060A	\$ 21,720	—
S060A040771	Indian Education Formula Grants to LEA's	84.060A	4,888	—
	Subtotal, Indian Education Formula Grants to LEA's		26,608	—
Q184E030043	Travis County School Safety Consortium	84.184E	26,983	—
S184K010048	Drug & Violence Prevention Coordinators for Middle Schools	84.184K	167,608	—
S184K010048-03	Drug & Violence Prevention Coordinators for Middle Schools	84.184K	160,697	—
	Subtotal, Drug & Violence Prevention		328,305	—
S215E010028-02	Elementary School Counseling Program	84.215E	83,383	—
S215E010028-03	Elementary School Counseling Program	84.215E	292,740	—
	Subtotal, Elementary School Counseling Program		376,123	—
S215L022023	Smaller Learning Communities (OESE)	84.215L	629,735	—
S287B010737-03	After School Learning Centers	84.287B	194,988	—
S287B010737-03	After School Learning Centers	84.287B	7,865	—
	Subtotal, After School Learning Centers		202,853	—
T290U980098-02	ESEA Title VII Part B - Foreign Language	84.290U	19,541	—
U330C030012	Incentive Program	84.330C	192,818	—
P334A000138	GEAR-UP	84.334A	282,955	—
P334A000138-03	GEAR-UP	84.334A	2,071,252	—
	Subtotal, GEAR-UP		2,354,207	—
S363A020165	School Leadership Program	84.363A	57,029	—
S363A020165-03	School Leadership Program	84.363A	527,966	—
	Subtotal, School Leadership Program		584,995	—
	Total Direct, US Department of Education		4,742,168	—
Passed Through The University of Texas at Austin:				
N/A	Federal Work-Study Program	84.033	16,371	—
	Total Pass-Through The University of Texas at Austin		16,371	—
Passed Through State Department of Education:				
441000832113067	Adult Ed. - English Literacy & Civics Education, Section 231	84.002A	94,050	—
441000832113067A	Adult Ed. - English Literacy & Civics Education, Section 231	84.002A	3,983	—
54100087110059	Adult Ed. - English Literacy & Civics Education, Section 231	84.002A	6,160	—
	Subtotal, Adult Ed. - English Literacy & Civics Education, Section 231		104,193	—
4610101227901	ESEA Title I Part A - Improving Basic Programs	84.010A	15,259,104	—
5610101227901	ESEA Title I Part A - Improving Basic Programs	84.010A	1,696,577	—
	Subtotal, ESEA Title I Part A - Improving Basic Programs		16,955,681	—

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit K-1 – Schedule of Expenditures of Federal Awards

Year ended August 31, 2004

(1)		(2)	(3)	(4)
Project Number	Federal Grantor/Pass- Through Grantor/Program Title	Federal CFDA Number	Expenditures, indirect costs and refunds	Pass through amount subrecipients
3610104227901006	Title I - School Improvement Program	84.010A	1,058,126	—
3610104227901048	Title I - School Improvement Program	84.010A	243,584	—
3610104227901055	Title I - School Improvement Program	84.010A	368,284	—
3610104227901125	Title I - School Improvement Program	84.010A	404,194	—
	Subtotal, ESEA Title I - School Improvement Program		2,074,188	—
4610103227901	ESEA Title I Part D - Prevention & Intervention	84.010A	148,759	—
5610103227901	ESEA Title I Part D - Prevention & Intervention	84.010A	35,623	—
	Subtotal, ESEA Title I Part D - Prevention & Intervention		184,382	—
5615001227901	ESEA Title I Part C - Migrant Education	84.011	3,140	—
466000122790144	IDEA - Part B, Formula	84.027	10,619,415	—
56600012279016600	IDEA - Part B, Formula	84.027	1,599,438	—
	Subtotal, IDEA - Part B, Formula		12,218,853	—
466000422790144	IDEA - Part B, Capacity Building	84.027	212,261	—
56600042279016604	IDEA - Part B, Capacity Building	84.027	12,462	—
	Subtotal, IDEA - Part B, Capacity Building		224,723	—
366000222790133	IDEA - Part B, Discretionary (Deaf)	84.027	568	—
466000222790144	IDEA - Part B, Discretionary (Deaf)	84.027	13,002	—
466000222790144	IDEA - Part B, Discretionary	84.027	338	—
	Subtotal, IDEA - Part B, Discretionary (Deaf)		13,908	—
466000122790144	IDEA - Part B, Formula (Deaf)	84.027	34,662	—
56600012279016601	IDEA - Part B, Formula (Deaf)	84.027	2,606	—
	Subtotal, IDEA - Part B, Formula (Deaf)		37,268	—
466000422790144	IDEA - Part B, Capacity Building (Deaf)	84.027	720	—
56600042279016614	IDEA - Part B, Capacity Building (Deaf)	84.027	—	—
	Subtotal, IDEA - Part B, Capacity Building (Deaf)		720	—
442000622790113	Vocational Education - Basic Grant	84.048A	836,336	—
542000622790113	Vocational Education - Basic Grant	84.048A	37,897	—
	Subtotal, Vocational Education - Basic Grant		874,233	—
366102212013	IDEA - Part B, Preschool	84.173	486	—
466100122790144	IDEA - Part B, Preschool	84.173	464,508	—
56610012279016610	IDEA - Part B, Preschool	84.173	38,313	—
	Subtotal, IDEA - Part B, Preschool		503,307	—
466100122790144	IDEA - Part B, Preschool Deaf	84.173	6,536	—
56610012279016611	IDEA - Part B, Preschool Deaf	84.173	518	—
	Subtotal, IDEA - Part B, Preschool Deaf		7,054	—
439110122790144	IDEA - C Early Intervention	84.181	2,064	—
53911012279013911	IDEA - C Early Intervention	84.181	120	—
	Subtotal, IDEA - C Early Intervention		2,184	—

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit K-1 – Schedule of Expenditures of Federal Awards

Year ended August 31, 2004

(1)		(2)	(3)	(4)
Project Number	Federal Grantor/Pass- Through Grantor/Program Title	Federal CFDA Number	Expenditures, indirect costs and refunds	Pass through amount subrecipients
025540	NCLB, Title IV, Part A, Subpart B	84.184C	759	—
095054	NCLB, Title IV, Part A, Subpart B	84.184C	93,797	—
	Subtotal, NCLB, Title IV, Part A, Subpart B	84.184C	94,556	—
4691001227901	ESEA Title IV - Safe and Drug-Free Schools	84.186A	420,193	—
5691001227901	ESEA Title IV - Safe and Drug-Free Schools	84.186A	53,505	—
	Subtotal, ESEA Title IV - Safe and Drug-Free Schools		473,698	—
44014	McKinney - Vento Homeless Education	84.196	151,100	—
N/A	Capital Area Tech Prep	84.243	46,509	—
269500131200224	Texas 21st Century Community Learning Centers, Cycle 1	84.287C	850,052	—
469500171110002	Texas 21st Century Community Learning Centers, Cycle 2	84.287C	113,813	—
46950017110003	Texas 21st Century Community Learning Centers, Cycle 2	84.287C	99,296	—
469500671110002	Texas 21st Century Community Learning Centers, Cycle 1	84.287C	29,518	—
	Subtotal, Texas 21st Century Community Learning Centers		1,092,679	—
4685001227901	ESEA Title V Part A - Innovative Programs	84.298	221,712	—
5685001227901	ESEA Title V Part A - Innovative Programs	84.298	63,809	—
	Subtotal, ESEA Title V Part A - Innovative Programs		285,521	—
4685002711130001	Academic Competitions, Rider 67	84.298A	183,727	—
361200168	Evenstart - Communities In Schools	84.213	216	—
4630001227901	ESEA Title II Part D - Enhancing Education Through Technology	84.318X	471,192	—
5630001227901	ESEA Title II Part D - Enhancing Education Through Technology	84.318X	65,500	—
	Subtotal, Title II Part D - Enhancing Education Through Technology		536,692	—
263000221400133	Technology Applications Readiness Grants for Empowering Texas (TARGET)	84.318X	669,526	113,786
263000221400333	Technology Applications Readiness Grants for Empowering Texas (TARGET)	84.318X	4,960	—
263000221402733	Technology Applications Readiness Grants for Empowering Texas (TARGET)	84.318X	63	—
56300027110001	Technology Applications Readiness Grants for Empowering Texas (TARGET)	84.318X	29,596	—
	Subtotal, TARGET		704,145	113,786
351000320200134	Continued Funding for AP Spanish Language Pilot Project	84.330A	30,215	—
3616001227901107	Title I, Part F, Comprehensive School Reform	84.332A	34,311	—
3616001227901141	Title I, Part F, Comprehensive School Reform	84.332A	23,967	—
4616001227901107	Title I, Part F, Comprehensive School Reform	84.332A	71,748	—
4616001227901141	Title I, Part F, Comprehensive School Reform	84.332A	76,350	—
	Subtotal, Title I, Part F, Comprehensive School Reform		206,376	—
P334A990399-03	GEAR UP 2004 Annual Forum	84.334A	19,261	—
364550110200334	Texas Reading First Initiative for Grades K-3	84.357A	2,449,686	—
46455017110004	Texas Reading First Initiative for Grades K-3	84.357A	121,504	—
	Subtotal, Texas Reading First Initiative for Grades K-3		2,571,190	—

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit K-1 – Schedule of Expenditures of Federal Awards

Year ended August 31, 2004

(1)		(2)	(3)	(4)
Project Number	Federal Grantor/Pass- Through Grantor/Program Title	Federal CFDA Number	Expenditures, indirect costs and refunds	Pass through amount subrecipients
3671001227901	Title III, LEP, FY 2003	84.365	185	—
4671001227901	Title III, LEP, FY 2003	84.365	1,511,298	—
4671001227901	Title III, Immigrant, FY 2003	84.365	211,809	—
5671001227901	Title III, LEP, FY 2003	84.365	50,578	—
5671003227901	Title III, Immigrant, FY 2003	84.365	19,597	—
	Subtotal, Title III		<u>1,793,467</u>	<u>—</u>
4694501227901	ESEA Title II, Part A Teacher and Principal Training and Recruiting	84.367A	3,913,516	—
5694501227901	ESEA Title II, Part A Teacher and Principal Training and Recruiting	84.367A	442,637	—
	Subtotal, ESEA Title II, Part A Teacher and Principal Training and Recruiting		<u>4,356,153</u>	<u>—</u>
	Total Pass-Through State Department of Education		<u>45,749,339</u>	<u>113,786</u>
	TOTAL U.S. DEPARTMENT OF EDUCATION		<u>50,507,878</u>	<u>113,786</u>
	U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			
	Passed Through the Education Service Center, Region 13:			
SM52316	Substance Abuse Mental Health Services Administration	93.104	31,510	—
	Total Pass-Through Education Service Center, Region 13		<u>31,510</u>	<u>—</u>
	Passed Through the City of Austin:			
023263135	Southeast Austin Community Youth Development	93.556	32,187	—
N/A	Southeast Austin Community Youth Development	93.556	155,765	—
	Total Pass-Through City of Austin		<u>187,952</u>	<u>—</u>
	Passed Through State Department of Human Services			
N/A	Medical Assistance Program	93.778	287,697	—
	Total Passed Through the Texas Department of Human Services:		<u>287,697</u>	<u>—</u>
	TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES		<u>507,159</u>	<u>—</u>
	U.S. DEPARTMENT OF JUSTICE			
	Direct Program:			
2003-GP-CX-0148	Community Prosecution and Project Safe Neighborhoods	16.609	111,208	—
2000SHWX0548	COPS in Schools	16.710	17,422	—
	Total Direct		<u>128,630</u>	<u>—</u>
	Passed Through The City of Austin:			
N/A	Weed & Seed After-School Enrichment	16.595	14,775	—
	Total Pass-Through City of Austin		<u>14,775</u>	<u>—</u>
	TOTAL U.S. DEPARTMENT OF JUSTICE		<u>143,405</u>	<u>—</u>
	U.S. DEPARTMENT OF AGRICULTURE			
	Passed Through the Texas Department of Human Services:			
7591002	Summer Food Service Program for Children	10.559	430,214	—
Austin ISD 9 227003A2004	Commodities Supplemental Food Program	10.565	905,870	—
	Total Pass-Through Texas Department of Human Services		<u>1,336,084</u>	<u>—</u>

AUSTIN INDEPENDENT SCHOOL DISTRICT

Exhibit K-1 – Schedule of Expenditures of Federal Awards

Year ended August 31, 2004

(1)		(2)	(3)	(4)
<u>Project Number</u>	<u>Federal Grantor/Pass- Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures, indirect costs and refunds</u>	<u>Pass through amount subrecipients</u>
	Passed Through the Texas Education Agency:			
71400401	School Breakfast Program	10.553	3,801,130	—
71300401	National School Lunch Program	10.555	13,194,689	—
71300401	After-School Snack Program	10.555	140,688	—
	Total Pass-Through Texas Education Agency		<u>17,136,507</u>	<u>—</u>
	TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>18,472,591</u>	<u>—</u>
	GENERAL SERVICES ADMINISTRATION			
	Direct Program:			
N/A	Donation of Federal Surplus Personal Property	39.003	—	—
	TOTAL GENERAL SERVICES ADMINISTRATION		<u>—</u>	<u>—</u>
	U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
	Passed Through the City of Austin:			
N/A	Community Development Block Grant - ABE	14.218	20,866	—
N/A	Community Development Block Grant - ABE	14.218	38,141	—
	Total, Community Development Block Grant - ABE		<u>59,007</u>	<u>—</u>
	TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		<u>59,007</u>	<u>—</u>
	U.S. DEPARTMENT OF DEFENSE			
N/A	R.O.T.C.	12.000	167,796	—
	TOTAL U.S. DEPARTMENT OF DEFENSE		<u>167,796</u>	<u>—</u>
	TOTAL FEDERAL ASSISTANCE		<u>\$ 69,857,836</u>	<u>113,786</u>

AUSTIN INDEPENDENT SCHOOL DISTRICT

Notes to Schedule of Expenditure of Federal Awards

Year ended August 31, 2004

(1) General

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Austin Independent School District and is presented on the modified accrual basis of accounting.

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

(2) Basis of Accounting

The accounting and financial reporting treatment applied to special revenue funds is the current financial resources measurement focus. All federal grant funds were accounted for in the Special Revenue Fund, except for indirect cost reimbursement and impact aid, which are in the General Fund. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for the Special Revenue Fund. 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, except for unmatured interest on general long-term debt, which is recognized when matured, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financing resources.

Federal grant funds are considered to be earned as soon as all eligibility requirements imposed by the provider are met and expenditures have been incurred, and, accordingly, when such funds are received in advance, they are recorded as deferred revenues until earned.

(3) Basis of Accounting

The General Fund receives reimbursement from the federal government for the following activities which are not required to be presented on the Schedule of Expenditures of Federal Awards; Medicaid reimbursement, school health and related services, and troops to teachers program.

(4) Non-cash Federal Awards

The District received non-cash awards in the form of food commodities totaling \$905,875 for the year ended August 31, 2004.