

**EANES INDEPENDENT
SCHOOL DISTRICT**

**Annual Financial Report
for the Fiscal Year Ended
August 31, 2003**

EANES INDEPENDENT SCHOOL DISTRICT

Annual Financial Report

Year Ended August 31, 2003

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Eanes Independent School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eanes Independent School District (the "District") as of and for the year ended August 31, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these basic 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements, but is 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 supplementary information. However, we did not audit the information and express no opinion on it.

Affiliated Companies

ML&R PERSONNEL SOLUTIONS LLC

"The Resource for Direct Hire & Project Staffing"

ML&R WEALTH MANAGEMENT LLC*

"A Registered Investment Advisor"

* This firm is not a CPA firm

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Also, 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Maxwell Locke + Ritter LLP

December 16, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Eanes Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2003. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

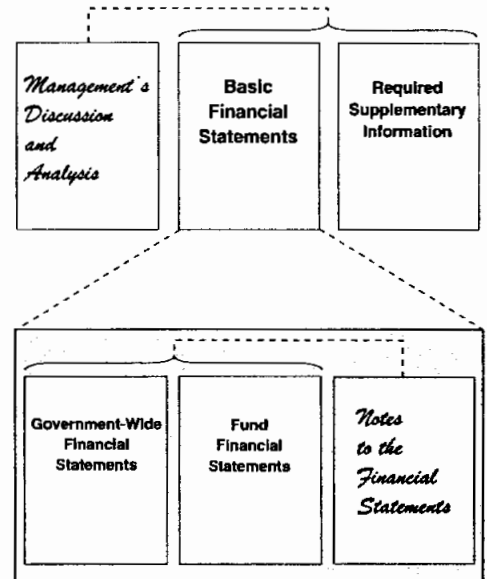
- The District's total combined net assets were \$74.5 million at August 31, 2003, an increase of 2 percent over the prior year.
- During the year, the District's expenses were \$5.7 million more than the \$109.8 million generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs was virtually unchanged from last year, and no new programs were added this year.
- The general fund reported a fund balance this year of \$21.9 million, a decrease of 2 percent.
- The District issued approximately \$30.5 million in bonds during fiscal year ending August 31, 2003.

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 statements* tell how *general government services* were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund statements* offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as food service.
- *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.

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



The financial statements also include notes that explain some of the 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 shows how the required parts of this annual report are arranged and related to one another.

Summary ↔ Detail

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

Type of Statements	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
Reporting Period	Statement of activities	Statement of activities	Statement of revenues, expenses, and changes in fund balances Statement of cash flows	Statement of fiduciary activities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Assets and liabilities	Assets and liabilities	Assets and liabilities	Assets and liabilities	Assets and liabilities
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

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 of management's discussion and analysis explains the structure and contents of each of the statements.

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 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—is one way to measure the District's financial health or *position*.

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

The government-wide financial statements of the District include the *Governmental activities*. Most 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 most significant *funds*—not the District as a whole. Funds are accounting devices 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 money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following 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) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future 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.
- *Proprietary funds*—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
- We use an *internal service fund* to report activities that provide supplies and services for the District's other programs and activities..
- *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.

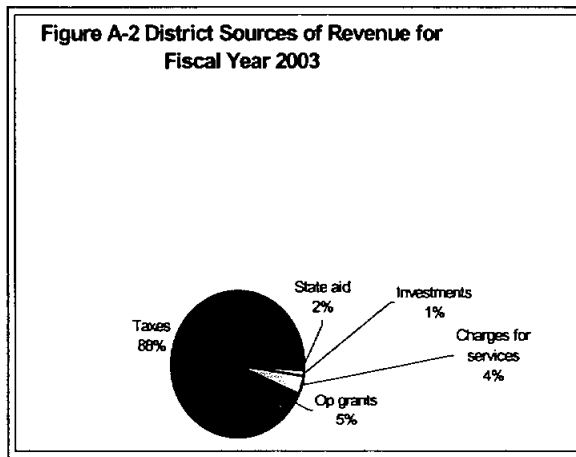
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District's combined net assets were \$74.5 million as of August 31, 2003. (See Table A-1).

	Governmental Activities		Business-Type Activities		Total		Percentage Change
	2003	2002	2003	2002	2003	2002	
Current and Other Assets	61.6	49.8	1.8	1.9	63.4	51.7	22.6%
Capital and Non-Current Assets	132.6	120.3	0.2	0.3	132.8	120.6	10.1%
Total Assets	194.2	170.1	2.0	2.2	196.2	172.3	13.9%
Current Liabilities	14.2	18.0	0.5	0.5	14.7	18.5	-20.5%
Non-current Liabilities	107.1	80.6			107.1	80.6	32.9%
Total Liabilities	121.3	98.6	0.5	0.5	121.8	99.1	22.9%
Net Assets							
Invested in Capital Assets, net of Related Debt	48.5	47.6	0.2	0.3	48.7	47.9	1.7%
Restricted	1.8	1.8	1.0	1.1	2.8	2.9	-3.4%
Unrestricted	22.7	22.1	0.3	0.3	23.0	22.4	2.7%
Total Net Assets	73.0	71.5	1.5	1.7	74.5	73.2	1.8%

Net Assets – Invested in Capital Assets, Net of Related Debt reflects that the book value of the District's capital assets is over \$48.7 million more than the debt which financed those assets. The \$23.0 million of unrestricted net asset represents resources available to fund the programs of the District next year.

Changes in net assets. The District's total revenues were \$117 million. A significant portion, 90.3 percent, of the District's revenue comes from taxes (See Figure A-2.), four percent relates to charges for services and two percent comes from state aid – formula grants.



The total cost of all programs and services was \$119.2 million; 30 percent of these costs are for instructional and student services.

Governmental Activities

- Property tax rates reduced a fractional percent. This reduction coupled with the increasing values enabled an increase of tax revenues to \$105.6, up from \$99.5 million in 2002.

Table A-2
Changes in the District's Net Assets
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2003	2002	2003	2002	2003	2002	
Program Revenues							
Charges for Services	1.7	1.5	3.3	3.3	5.0	4.8	4.2%
Operating Grants and Contributions	5.4	4.4	0.2	0.2	5.6	4.6	21.7%
General Revenues							
Property Taxes	105.6	99.5		0.0	105.6	99.5	6.1%
State-aid formula	2.9	2.0		0.0	2.9	2.0	45.0%
Investment earnings	1.2	2.0		0.0	1.2	2.0	-40.0%
Other	0.0	0.0		0.0	0.0	0.0	
Total Revenues	116.8	109.4	3.5	3.5	120.3	112.9	6.6%
Expenses							
Instruction	33.4	33.6		0.0	33.4	33.6	-0.6%
Instruction resource and media services	1.2	1.2		0.0	1.2	1.2	0.0%
Curriculum and staff development	0.3	0.4		0.0	0.3	0.4	-25.0%
Instructional leadership	0.8	0.8		0.0	0.8	0.8	0.0%
School leadership	2.9	2.9		0.0	2.9	2.9	0.0%
Guidance, counseling, and evaluation svcs	2.3	2.2		0.0	2.3	2.2	4.5%
Health services	0.6	0.6		0.0	0.6	0.6	0.0%
Student transportation	1.4	1.2		0.0	1.4	1.2	16.7%
Child Nutrition	0.1	0.0	2.5	2.5	2.6	2.5	4.0%
Extracurricular activities	1.7	1.6		0.0	1.7	1.6	6.2%
General administration	2.0	2.2		0.0	2.0	2.2	-9.1%
Plant maintenance and operations	6.2	6.0		0.0	6.2	6.0	3.3%
Security and monitoring services	0.1	0.1		0.0	0.1	0.1	0.0%
Data processing services	0.8	0.9		0.0	0.8	0.9	-11.1%
Community Education	0.0	0.0	1.1	1.0	1.1	1.0	10.0%
Facilities Acquisition	1.4	0.4		0.0	1.4	0.4	250.0%
Interest on long-term debt	9.1	11.0		0.0	9.1	11.0	-17.3%
Contract instruct svcs between schools	51.2	41.5		0.0	51.2	41.5	23.4%
Total Expenses	115.5	106.6	3.6	3.5	119.1	110.1	8.2%
Transfers	0.1	0.1	-0.1	-0.1	0.0	0.0	
Loss on Sale of Capital Assets	0	0	0	-0.2	0.0	-0.2	-100.0%
Change in Net Assets	1.4	2.9	-0.2	-0.3	1.2	2.6	-53.8%

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

The cost of all *governmental* activities this year was \$115.5 million. However, the amount that our taxpayers paid for these activities through property taxes was only \$105.6 million. Some of the cost was paid by those who directly benefited from the programs \$1.7 million, or by grants and contributions \$5.5 million.

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

	Total Cost of Services			% Change	Net Cost of Services		
	<u>2003</u>	<u>2002</u>			<u>2003</u>	<u>2002</u>	% Change
Instruction	33.4	33.6	-0.6%	29.4	30.0	2.0%	
School administration	2.9	2.9	0.0%	2.7	2.7	0.0%	
Plant Maintenance & Operations	6.2	6.0	3.3%	5.5	5.6	1.8%	
Contracted Instructional Services	51.2	41.5	23.4%	51.2	41.5	23.4%	

Business-type Activities

Revenues of the District's business-type activities increased 1 percent to \$3.5 million and expenses increased 6 percent to \$3.6 million. The most significant increase related to new programs offered through Community services.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$116.7 million, an increase of 3.5% over the preceding year. The increase in local revenues is a result of state legislation that has shifted state funds away from school districts similar to the District and caused districts to increase local revenues by significant amounts each year. The increase in state revenues is a result of a change in the state funding formula. The increase in federal revenues is primarily due to an increase in federal program revenue distributed through other agencies.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget 3 times. Even with these adjustments, actual expenditures were \$3 million below final budget amounts. The most significant positive variance resulted from staffing. Staffing is budgeted for full employment throughout the full year. Budget amounts for vacant positions throughout the year are not eligible for budget revisions.

On the other hand, resources available were \$300,000 less than the final budgeted amount. Lower than expected interest rates on investments was the primary cause of this reduction.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2003, the District had invested \$170 million in a broad range of capital assets, including land, equipment, buildings, and vehicles for governmental activities. (See Table A-4.) This amount represents a net increase (including additions and deductions) of \$12.3 million or 10.2 percent over last year.

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change <u>2003-2002</u>
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	
Land	23.4	23.4			23.4	23.4	0.0%
Buildings and improvements	104.3	104.3			104.3	104.3	0.0%
Equipment	5.8	5.3	0.4	0.3	6.2	5.6	10.7%
Other	36.5	21.7			36.5	21.7	68.2%
Totals at historical cost	170.0	154.7	0.4	0.3	170.4	155.0	
Total accumulated depreciation	-37.4	-34.4	-0.1	-0.1	-37.5	-34.5	8.7%
Net capital assets	132.6	120.3	0.3	0.2	132.9	120.5	10.3%

The District's Construction in Progress makes up the majority of the Other Assets. Renovation projects at several of the District's campuses were still underway at the end of the fiscal year. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Long Term Debt

At year-end the District had \$112.3 million in bonds and notes outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the financial statements.

Bond Ratings

The District's bonds presently carry "AAA" ratings with underlying ratings as follows: Moody's Investor Services "A3" and Standard & Poors "A".

	Governmental Activities		Total Percentage Change 2003-2002
	<u>2003</u>	<u>2002</u>	
Bonds payable	111.8	85.0	31.5%
Claims payable	.5	.5	0.0%
Total bonds & notes payable	112.3	85.5	31.5%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2004 budget preparation is down \$75 million, or one percent. New construction for 2003 is up \$50 million.
- General operating fund spending per student decreases in the 2004 budget from \$14,350 to \$14,263. This is a one percent decrease.
- The District's 2004 refined average daily attendance is expected to remain the same as the prior year.

These indicators were taken into account when adopting the general fund budget for 2003. Amounts available for appropriation in the general fund budget are \$97 million, a decrease of one percent from the final 2003 budget of \$98 million. The largest impact will be the decline in Property taxes and investment income.

Expenditures are budgeted to decrease nearly \$1.1 million in 2004. The largest reductions are in staffing. The District has added no major new programs or initiatives to the 2004 budget.

If these estimates are realized, the District's budgetary general fund fund balance is expected to decrease approximately \$3 million.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

EANES INDEPENDENT SCHOOL DISTRICT
Statement of Net Assets
August 31, 2003

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 21,600	2,508	24,108
Pooled cash	1,334,769	1,717,778	3,052,547
Temporary investments	58,029,290	-	58,029,290
Receivables:			
Property taxes - delinquent	2,047,742	-	2,047,742
Allowance for uncollectible taxes	(879,783)	-	(879,783)
Due from other governments	387,852	3,781	391,633
Internal balances	(12,949)	12,949	-
Other receivables	58,373	26,764	85,137
Deferred charge	246,910	-	246,910
Inventories, at cost	413,621	49,198	462,819
Capital assets (net of accumulated depreciation):			
Land	23,402,930	-	23,402,930
Buildings and improvements	70,338,441	-	70,338,441
Furniture and equipment	2,452,601	246,397	2,698,998
Construction-in-progress	36,482,571	-	36,482,571
Total assets	<u>\$ 194,323,968</u>	<u>2,059,375</u>	<u>196,383,343</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 2,843,900	132,483	2,976,383
Overdraft in pooled cash	1,709,047	-	1,709,047
Payroll deductions and withholdings payable	41,063	-	41,063
Accrued wages payable	1,929,948	90,695	2,020,643
Bond interest payable	1,018,328	-	1,018,328
Bonds payable	5,432,175	-	5,432,175
Due to other governments	903,080	-	903,080
Deferred revenue	315,458	296,604	612,062
Noncurrent liabilities:			
Bonds payable	106,433,941	-	106,433,941
Due to other governments	149,747	-	149,747
Compensated absences	511,910	-	511,910
Total liabilities	<u>121,288,597</u>	<u>519,782</u>	<u>121,808,379</u>
NET ASSETS			
Invested in capital assets, net of related debt	48,555,104	246,397	48,801,501
Restricted for:			
Debt service	1,809,274	-	1,809,274
Child nutrition	-	1,025,745	1,025,745
Unrestricted	22,670,993	267,451	22,938,444
Total net assets	<u>\$ 73,035,371</u>	<u>1,539,593</u>	<u>74,574,964</u>

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

EANES INDEPENDENT SCHOOL DISTRICT
Statement of Activities
Year Ended August 31, 2003

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
Instruction	\$ 33,394,655	144,589	3,773,807	(29,476,259)	-	(29,476,259)
Instructional resources and media services	1,146,881	-	119,651	(1,027,230)	-	(1,027,230)
Curriculum and staff development	312,645	-	145,788	(166,857)	-	(166,857)
Instructional leadership	753,231	241,154	128,996	(383,081)	-	(383,081)
School leadership	2,915,178	-	217,488	(2,697,690)	-	(2,697,690)
Guidance, counseling, and evaluation services	2,310,814	-	250,461	(2,060,353)	-	(2,060,353)
Health services	585,424	-	38,764	(546,660)	-	(546,660)
Student transportation	1,410,012	-	122,285	(1,287,727)	-	(1,287,727)
Food service	111,393	-	-	(111,393)	-	(111,393)
Extracurricular activities	1,688,746	779,894	254,624	(654,228)	-	(654,228)
General administration	1,970,633	171,402	88,442	(1,710,789)	-	(1,710,789)
Plant maintenance and operations	6,199,750	383,384	254,922	(5,561,444)	-	(5,561,444)
Security and monitoring services	149,047	-	5,010	(144,037)	-	(144,037)
Data processing services	759,443	-	23,792	(735,651)	-	(735,651)
Community services	19,918	-	-	(19,918)	-	(19,918)
Interest on long-term debt	9,087,325	-	-	(9,087,325)	-	(9,087,325)
Other debt service	14,370	-	-	(14,370)	-	(14,370)
Facilities acquisition	1,462,078	-	59,973	(1,402,105)	-	(1,402,105)
Payments related to shared services arrangements	51,232,155	-	-	(51,232,155)	-	(51,232,155)
Total governmental activities	\$ 115,523,698	1,720,423	5,484,003	(108,319,272)	-	(108,319,272)
Business-type activities:						
Child nutrition	\$ 2,536,086	2,233,428	145,950	-	(156,708)	(156,708)
Community education	1,151,104	1,113,450	36,473	-	(1,181)	(1,181)
Total business-type activities	\$ 3,687,190	3,346,878	182,423	-	(157,889)	(157,889)
General revenues:						
Property taxes				105,604,171	-	105,604,171
State aid-formula grants				2,959,696	-	2,959,696
Investment earnings				1,216,461	22,796	1,239,257
Transfers				50,000	(50,000)	-
Total general revenues and transfers				109,830,328	(27,204)	109,803,124
Change in net assets				1,511,056	(185,093)	1,325,963
Net assets—beginning				71,524,315	1,724,686	73,249,001
Net assets—ending				73,035,371	1,539,593	74,574,964

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

EANES INDEPENDENT SCHOOL DISTRICT

**Balance Sheet
Governmental Funds
August 31, 2003**

	<u>General</u>	<u>Debt Service</u>	<u>Major Capital Projects Fund 2002 Bond Series</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 18,279	-	-	3,321	21,600
Pooled cash	-	146,142	145,672	1,042,955	1,334,769
Temporary investments	26,516,952	1,874,244	29,011,804	626,290	58,029,290
Receivables:					
Property taxes - delinquent	1,754,011	293,731	-	-	2,047,742
Allowance for uncollectible taxes	(762,318)	(117,465)	-	-	(879,783)
Due from other governments	126,247	-	-	261,605	387,852
Due from other funds	376,206	32,219	-	5,997	414,422
Other receivables	58,373	-	-	-	58,373
Inventories, at cost	413,621	-	-	-	413,621
Total assets	<u>\$ 28,501,371</u>	<u>2,228,871</u>	<u>29,157,476</u>	<u>1,940,168</u>	<u>61,827,886</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 707,476	15,160	2,087,387	26,528	2,836,551
Overdraft in pooled cash	1,709,047	-	-	-	1,709,047
Payroll deductions and withholdings payable	41,063	-	-	-	41,063
Accrued wages payable	1,929,948	-	-	-	1,929,948
Accrued interest payable	-	157,994	-	-	157,994
Due to other funds	27,732	68,254	5,463	234,296	335,745
Due to other governments	873,192	-	-	29,888	903,080
Deferred revenue	1,308,501	178,189	-	-	1,486,690
Total liabilities	<u>6,596,959</u>	<u>419,597</u>	<u>2,092,850</u>	<u>290,712</u>	<u>9,400,118</u>
Fund balances:					
Reserved for:					
Encumbrances	24,075	-	-	-	24,075
Inventories	413,621	-	-	-	413,621
Debt service	-	1,809,274	-	-	1,809,274
Authorized construction	-	-	27,064,626	680,051	27,744,677
Unreserved, reported in:					
General fund	21,466,716	-	-	-	21,466,716
Special revenue funds	-	-	-	969,405	969,405
Total fund balances	<u>21,904,412</u>	<u>1,809,274</u>	<u>27,064,626</u>	<u>1,649,456</u>	<u>52,427,768</u>
Total liabilities and fund balances	<u>\$ 28,501,371</u>	<u>2,228,871</u>	<u>29,157,476</u>	<u>1,940,168</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 132,273,711

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds 1,171,232

The internal service fund is used by management to charge the costs of the District's computer system to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets. 303,857

The following liabilities are not due and payable in the current period and therefore are not reported in the funds:

Bonds payable, including premium on 2002 Bond Series	(111,866,116)
Less: Deferred charge for issuance costs	246,910
Compensated Absences	(511,910)
Bond interest payable	(860,334)
Rebatable arbitrage	<u>(149,747)</u>

Net assets of governmental activities 73,035,371

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

EANES INDEPENDENT SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended August 31, 2003

	General	Debt Service	Major Capital Projects Fund- 2002 Bond Series	Other Governmental Funds	Total Governmental Funds
REVENUES					
Local and intermediate sources	\$ 93,607,856	14,162,472	248,717	1,086,825	109,105,870
State program revenues	5,030,377	-	-	1,418,618	6,448,995
Federal program revenues	-	-	-	1,162,865	1,162,865
Total revenues	<u>98,638,233</u>	<u>14,162,472</u>	<u>248,717</u>	<u>3,668,308</u>	<u>116,717,730</u>
EXPENDITURES					
Current:					
Instruction	29,002,793	-	-	2,021,518	31,024,311
Instructional resources and media services	964,993	-	-	79,087	1,044,080
Curriculum and staff development	173,714	-	-	138,931	312,645
Instructional leadership	645,206	-	-	97,996	743,202
School leadership	2,784,771	-	-	86,159	2,870,930
Guidance, counseling, and evaluation services	2,153,688	-	-	140,357	2,294,045
Health services	565,648	-	-	11,418	577,066
Student transportation	1,328,026	-	-	73,163	1,401,189
Food service	-	-	-	63,754	63,754
Extracurricular activities	1,534,862	-	-	146,641	1,681,503
General administration	1,908,394	-	-	32,430	1,940,824
Plant maintenance and operations	5,947,485	-	-	118,474	6,065,959
Security and monitoring services	145,357	-	-	3,690	149,047
Data processing services	767,734	-	-	6,312	774,046
Community services	-	-	-	19,918	19,918
Debt Service:					
Principal on long-term debt	-	5,092,789	-	-	5,092,789
Interest on long-term debt	-	9,057,860	-	-	9,057,860
Other debt service expenditures	-	1,375	259,905	-	261,280
Capital Outlay	-	-	4,918,661	11,784,311	16,702,972
Intergovernmental-					
Payments related to shared services arrangements	51,222,181	-	-	9,974	51,232,155
Total expenditures	<u>99,144,852</u>	<u>14,152,024</u>	<u>5,178,566</u>	<u>14,834,133</u>	<u>133,309,575</u>
Excess (deficiency) of revenues over expenditures	<u>(506,619)</u>	<u>10,448</u>	<u>(4,929,849)</u>	<u>(11,165,825)</u>	<u>(16,591,845)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds for bonds	-	-	30,480,000	-	30,480,000
Premium on bonds	-	-	1,519,938	-	1,519,938
Transfers in	50,000	5,463	-	-	55,463
Transfers out	-	-	(5,463)	-	(5,463)
Total other financing sources and uses	<u>50,000</u>	<u>5,463</u>	<u>31,994,475</u>	<u>-</u>	<u>32,049,938</u>
Net change in fund balances	(456,619)	15,911	27,064,626	(11,165,825)	15,458,093
Fund balances--beginning	22,361,031	1,793,363	-	12,815,281	36,969,675
Fund balances--ending	<u>\$ 21,904,412</u>	<u>1,809,274</u>	<u>27,064,626</u>	<u>1,649,456</u>	<u>52,427,768</u>

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

EANES INDEPENDENT SCHOOL DISTRICT
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended August 31, 2003

Net change in fund balances—total governmental funds \$ 15,458,093

Amounts reported for governmental activities in the statement of activities 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.

Capital Outlay	15,240,894
Depreciation Expense	(2,785,922)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

249,544

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.

Bond proceeds	(31,999,938)
Issuance costs	259,905
Repayment of bond principal	5,092,789

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in bond interest payable	(105,462)
Change in compensated absences	6,068
Amorization of issuance costs	(12,995)
Amortization of bond premium	75,997

The internal service fund is used by management to charge the costs of operations of the District's computer system to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

32,083

Change in net assets of governmental activities

\$ 1,511,056

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

EANES INDEPENDENT SCHOOL DISTRICT
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year Ended August 31, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Local and intermediate sources	\$ 93,742,503	94,271,070	93,607,856	(663,214)
State program revenues	4,510,468	4,700,000	5,030,377	330,377
Total revenues	<u>98,252,971</u>	<u>98,971,070</u>	<u>98,638,233</u>	<u>(332,837)</u>
EXPENDITURES				
Current:				
Instruction	30,590,570	30,255,721	29,002,793	1,252,928
Instructional resources and media services	983,908	983,908	964,993	18,915
Curriculum and staff development	338,487	338,487	173,714	164,773
Instructional leadership	695,421	695,421	645,206	50,215
School leadership	2,818,361	2,708,896	2,784,771	(75,875)
Guidance, counseling, and evaluation services	2,115,059	2,115,059	2,153,688	(38,629)
Health services	578,106	578,106	565,648	12,458
Student transportation	1,491,094	1,491,094	1,328,026	163,068
Extracurricular activities	1,616,255	1,616,255	1,534,862	81,393
General administration	1,999,932	1,999,932	1,908,394	91,538
Plant maintenance and operations	6,572,104	6,072,104	5,947,485	124,619
Security and monitoring services	176,498	176,498	145,357	31,141
Data processing services	767,734	767,734	767,734	-
Intergovernmental-				
Payments related to shared services arrangements	51,372,287	52,316,601	51,222,181	1,094,420
Total expenditures	<u>102,115,816</u>	<u>102,115,816</u>	<u>99,144,852</u>	<u>2,970,964</u>
Excess of revenues over expenditures	<u>(3,862,845)</u>	<u>(3,144,746)</u>	<u>(506,619)</u>	<u>2,638,127</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	50,000	50,000	-
Total other financing sources and uses	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Net change in fund balance	(3,812,845)	(3,094,746)	(456,619)	2,638,127
Fund balance--beginning	<u>22,361,031</u>	<u>22,361,031</u>	<u>22,361,031</u>	<u>-</u>
Fund balance--ending	<u>\$ 18,548,186</u>	<u>19,266,285</u>	<u>21,904,412</u>	<u>2,638,127</u>

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

EANES INDEPENDENT SCHOOL DISTRICT

Statement of Net Assets

Proprietary Funds

August 31, 2003

	Business-type Activities- Nonmajor Enterprise Funds	Governmental Activities- Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,508	\$ -
Pooled cash	1,717,778	-
Due from other governments	3,781	-
Due from other funds	36,592	-
Other receivables	26,764	-
Inventories, at cost	49,198	-
Total current assets	<u>1,836,621</u>	<u>-</u>
Noncurrent assets:		
Capital assets:		
Furniture and equipment	394,369	1,077,709
Accumulated depreciation	(147,972)	(674,877)
Total noncurrent assets	<u>246,397</u>	<u>402,832</u>
Total assets	<u>2,083,018</u>	<u>402,832</u>
LIABILITIES		
Current liabilities:		
Accounts payable	132,483	6,972
Accrued wages payable	90,695	-
Due to other funds	23,643	92,003
Deferred revenue	296,604	-
Total liabilities	<u>543,425</u>	<u>98,975</u>
NET ASSETS		
Invested in capital assets	246,397	402,832
Restricted for child nutrition	1,025,745	-
Unrestricted	267,451	(98,975)
Total net assets	<u>\$ 1,539,593</u>	<u>\$ 303,857</u>

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

EANES INDEPENDENT SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended August 31, 2003

	Business-type Activities- Nonmajor Enterprise Funds	Governmental Activities- Internal Service Fund
Operating revenues-		
Charges for services	\$ 3,346,878	\$ 784,584
Operating expenses:		
Payroll costs	1,861,546	344,424
Professional and contracted services	123,670	190,707
Supplies and materials	1,322,849	58,494
Other operating	324,769	11,236
Depreciation	54,356	165,120
Total operating expenses	<u>3,687,190</u>	<u>769,981</u>
Operating income (loss)	<u>(340,312)</u>	<u>14,603</u>
Nonoperating revenues (expenses):		
Investment income	22,796	-
State program revenues	92,954	17,480
Federal program revenues	89,469	-
Loss on sale of equipment	-	-
Total nonoperating revenues (expenses)	<u>205,219</u>	<u>17,480</u>
Income (loss) before transfer	(135,093)	32,083
Transfer out	<u>(50,000)</u>	<u>-</u>
Change in net assets	(185,093)	32,083
Total net assets—beginning	1,724,686	271,774
Total net assets—ending	<u>\$ 1,539,593</u>	<u>\$ 303,857</u>

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

EANES INDEPENDENT SCHOOL DISTRICT

**Statement of Cash Flows
Proprietary Funds
Year Ended August 31, 2003**

	Business-type Activities- Nonmajor Enterprise Funds	Governmental Activities- Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers/contributors	\$ 3,349,326	\$ -
Receipts from interfund services provided	-	784,584
Payments to suppliers	(1,673,407)	(383,018)
Payments to employees	(1,881,908)	(344,424)
Net cash provided by (used in) operating activities	<u>(205,989)</u>	<u>57,142</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers to other funds	(50,000)	-
State program revenues	8,419	-
Federal program revenues	70,429	-
Net cash provided by noncapital financing activities	<u>28,848</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES-		
Capital acquisitions	<u>(6,635)</u>	<u>(57,142)</u>
CASH FLOWS FROM INVESTING ACTIVITIES-		
Interest received	<u>22,796</u>	<u>-</u>
Net decrease in cash and cash equivalents	(160,980)	-
Cash and cash equivalents—beginning of the year	<u>1,881,266</u>	<u>-</u>
Cash and cash equivalents—end of the year	<u>\$ 1,720,286</u>	<u>\$ -</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (340,312)	\$ 14,603
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	54,356	165,120
State on behalf contributions	84,535	17,480
Federal commodities	19,040	-
(Increase) decrease in receivables	33,972	-
(Increase) decrease in due from other funds	(36,592)	-
(Increase) decrease in inventory	7,442	-
Increase (decrease) in accounts payable	16,637	2,833
Increase (decrease) in accrued wages payable	(20,362)	-
Increase (decrease) in due to other funds	(29,773)	(142,894)
Increase (decrease) in deferred revenue	5,068	-
Net cash provided by (used in) operating activities	<u>\$ (205,989)</u>	<u>\$ 57,142</u>

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

EANES INDEPENDENT SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Funds
August 31, 2003

	<u>Private Purpose Trust</u>	<u>Agency Funds</u>
ASSETS		
Pooled cash	\$ 2,891	\$ 151,769
Temporary investments	69,463	112,777
Due from other funds	-	377
Total assets	<u>72,354</u>	<u>\$ 264,923</u>
LIABILITIES		
Accounts payable	-	\$ 14,147
Due to student groups	-	250,776
Total liabilities	<u>-</u>	<u>\$ 264,923</u>
NET ASSETS		
Held in trust for private purposes	<u>\$ 72,354</u>	

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

EANES INDEPENDENT SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended August 31, 2003

	Private Purpose Trust
ADDITIONS	
Contributions	\$ 4,389
Investment earnings	954
Total additions	5,343
DEDUCTIONS	
Extracurricular activities	2,800
Change in net assets	2,543
Net assets - beginning of year	69,811
Net assets - end of the year	\$ 72,354

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

EANES INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity - This report includes those activities, organizations and functions which are related to the Eanes Independent School District (the "District") and which are controlled by or dependent upon the District's governing body, the Board of School Trustees (the "Board"). The Board, a seven member group, is the level of government which has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the District. Since the District receives funding from local, state and federal government sources, it must comply with the requirements of the entities providing those funds. However, the District is not included in any other governmental "reporting entity" as defined by Statement No. 14 of the Governmental Accounting Standards Board, since Board members are elected by the public and have decision making authority. There are no component units included within the reporting entity.

The accounting policies of the District substantially comply with the rules prescribed by the Texas Education Agency's Financial Accountability System Resource Guide. These accounting policies conform to generally accepted accounting principles applicable to state and local governments.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues 1) include 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 the operational or capital requirements 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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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 and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Amounts reported as program revenues include 1) charges

to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Major revenue sources considered susceptible to accrual include state and federal program revenues and interest income. No accrual for property taxes collected within sixty days of year end has been made as such amounts are deemed immaterial; delinquent property taxes at year end are reported as deferred revenue.

The District reports the following major governmental funds:

The General Fund includes financial resources used for general operations. It is a budgeted fund, and any fund balances are considered resources available for current operations.

The Debt Service Fund includes debt service taxes and other revenues collected to retire bond principal and to pay interest due. It is a budgeted fund.

The 2002 Bond Series Fund is a major capital projects fund. Capital Projects Funds include the proceeds from sales of bonds and other revenues to be used for authorized construction and other capital asset acquisitions. The 2002 Bond Series Fund is used to account for the construction, improvement, renovation and equipment of school buildings in the District and the purchase of the sites necessary therefore.

Additionally, the District reports the following fund types:

Special Revenue Funds are governmental funds which include resources restricted to, or designated for, specific purposes by a grantor. Federally financed programs where unused balances are returned to the grantor at the close of specified project periods are accounted for in these funds. The District uses project accounting to maintain integrity for the various sources of funds.

Enterprise Funds are proprietary funds used to account for the operations of the District's child nutrition program and its community education program.

The Internal Service Fund is a proprietary fund and is used to account for the operations of the District's computer system.

The Private Purpose Trust Fund is a fiduciary trust fund and is used to account for the principal and income that benefit individuals in the form of scholarships.

Agency Funds are unbudgeted funds and are used to account for activities of student groups and other types of activities requiring clearing accounts. These funds have no equity, assets are equal to liabilities, and they do not include revenues and expenditures for general operations of the District.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their proprietary funds, subject to this same limitation. The District has elected to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Budgetary Information

Budgets are prepared annually for the general fund and the debt service fund on the modified accrual basis, which is consistent with generally accepted accounting principles. A formal budget is prepared by August 20 and is adopted by the Board at a public meeting after ten days public notice of the meeting has been given. The legal level of control for budgeted expenditures is the function level within the budgeted funds. Amendments to the budget are required prior to expending amounts greater than the budgeted amounts at the function level. Budgets are controlled at the departmental or campus level, the same level at which responsibility for operations is assigned. The budget was amended by the Board of Trustees as needed throughout the year.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or provided for in the subsequent year's budget. Encumbrances outstanding of approximately \$24,075 at August 31, 2003 were provided for in the subsequent year's budget.

Assets, Liabilities, and Net Assets or Equity

Investments - The District is entitled 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, certain Federal agency securities and other types of municipal bonds, fully collateralized repurchase agreements, commercial paper and local government investment pools. The District's investment policies and types of investments are governed by Section 2256 of the Government Code (Public Funds Investment Act). The District's management believes that it complied with the requirements of the Public Funds Investment Act and the District's investment policies. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments.

Capital Assets - Capital assets, which include land, buildings and improvements, construction in progress, and furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The District has no infrastructure

assets. Capital assets are defined by the District as assets with an initial, individual cost of at least \$5,000. Such assets are recorded at historical cost if purchased or estimated fair value at the date of donation if donated. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Capital assets (other than land and construction in progress) are depreciated using the straight line method over the following estimated useful lives; buildings and improvements - fifty years, furniture and equipment – five to fifteen years.

Inventories - Inventories in the General Fund consist of expendable supplies held for consumption. Inventories are charged to expenditures when consumed. Supply and furniture and equipment inventory are recorded at cost (FIFO method) and are offset by a fund balance reserve which indicates that they do not represent "available expendable resources." Inventories in the Enterprise Fund consist of commodities, purchased food and supplies. Purchased food and supplies are recorded at cost (FIFO method) and charged to expense when consumed. The commodity portion of inventory is valued at estimated market values supplied by the Texas Department of Human Services.

Ad Valorem Property Taxes - 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 Funds 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.

Accumulated Sick Leave Liability - The State of Texas (the "State") has created a minimum sick leave program consisting of five days of sick leave per year with no limit on accumulation and transferability among districts for every person regularly employed in Texas public schools. Each district's local Board is required to establish a sick leave plan. Local school districts may provide additional sick leave beyond the state minimum. The District's policy is to reimburse teachers, upon resignation, who have been employed in the District for five or more years for the number of unused local sick days equal to the number of remaining State days credited to the teacher since entering the District. Reimbursement is made at the daily rate of pay for a full-time substitute. The District's liability for accrued compensated absences as of August 31, 2003, was approximately \$512,000 and is included in compensated absences in the government-wide financial statements. A liability is reported in governmental funds only if they matured, for example, as a result of employee resignations and retirements. Compensated absences are generally liquidated by the general fund.

Rebatable Arbitrage – The interest paid on most debt issued by state and local governments is exempt from federal income tax. As a result, purchasers of state and municipal debt are willing to accept lower interest rates than they would on taxable debt. State and local governments sometimes temporarily reinvest the proceeds of such tax-exempt debt in materially higher-yielding taxable securities, especially during construction projects. The federal tax code refers to this practice as arbitrage. The District's liability for rebatable arbitrage as of August 31, 2003 was approximately \$150,000 and is included in due to other governments in the government-wide financial statements. No recognition is made in governmental funds until rebatable amounts are actually due and payable to the federal government.

Statement of Cash Flows - For purposes of the statement of cash flows of the Proprietary Funds, cash and cash equivalents include certificates of deposit and other short-term investments with original stated maturities of less than ninety days.

2. DEPOSITS, SECURITIES AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. Under the depository contract, the District, at its own discretion, may invest funds in time deposits and certificates of deposit provided by the depository bank at interest rates approximating United States Treasury Bill rates.

The District's deposits with financial institutions (demand deposits, money market accounts and certificates of deposit) at year end were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. The deposits were collateralized in accordance with Texas law and the Texas Education Agency maintains copies of all safekeeping receipts in the name of the District. Funds were properly secured at all times throughout the year and the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Name of depository bank: Bank of America
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$3,364,000.
- c. Largest cash, savings and time deposit combined account balance amounted to \$3,830,000 and occurred during the month of July 2003.
- d. Total amount of FDIC coverage at the time of highest combined balance was \$200,000.

The deposits held at financial institutions can be categorized according to three levels of risk as follows:

- Category 1 - Deposits which are insured or collateralized with securities held by the entity or by its agent in the District's name.
- Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 - Deposits which are uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name.

Based on these levels of risk, \$3,564,000 of the District's deposits are classified as Category 1, while \$266,000 of the District's deposits were classified as Category 3.

The District maintains a cash pool consisting of demand deposits. The combined pool is available for use by all funds. If a fund overdraws its share of the pool, the overdraft is reported as an interfund payable in that fund. The offsetting interfund receivable is reported in the general fund.

Similar to cash deposits, investments can be categorized according to three levels of risk as follows:

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

As of August 31, 2003, the District had temporary investments in three external investment pools. The investments in the external investment pools are carried at fair value which is the same as the value of the pool shares. Two of the external investment pools are not SEC registered, however, both have regulatory oversight. TexPool is regulated by the State Comptroller and the Texas Association of School Boards oversees Lone Star Investment Pool. Federated Securities Corporation is SEC registered. In accordance with Governmental Accounting Standards Board Statement No. 3 ("GASB 3"), the investments in the external investment pools are not categorized in the three risk categories provided above because the investments are in a pool of funds and therefore not evidenced by securities that exist in physical or book entry form.

Investments at August 31, 2003 consisted of the following:

Investment in State Treasury government investment pool (TexPool)	\$ 27,698,576
Investment in Lone Star Investment Pool	4,262,752
Investment in Federated Securities Corporation	26,250,202
Total investments	<u>\$ 58,211,530</u>

3. APPRAISAL DISTRICT

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code (the "Code") which established a county-wide appraisal district and an appraisal review board in each county in the State. The Travis Central Appraisal District (the "Appraisal District") is responsible for the recording and appraisal of all property in the District. Under the Code, the Board sets the tax rates on property and the District's tax department provides tax collection services. The Appraisal District is required under the Code to assess property at 100% of its appraised value. Further, real property must be reappraised at least every four years. Under certain circumstances, taxpayers and taxing units, including the District, may challenge orders of the Appraisal Review Board through various appeals and, if necessary, legal action.

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 and penalties and interest that are ultimately imposed. The assessed value at January 1, 2002, upon which the October 2002 levy was based was \$6,326,596,203. The District levied taxes based on a combined tax rate of \$1.7312 per \$100 of assessed valuation for local maintenance (general governmental services) and debt service.

4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." The composition of interfund balances as of August 31, 2003 is as follows:

Receivable Fund	Payable Fund	Amount
General	Debt Service	\$ 31,662
	Nonmajor Governmental Funds	228,898
	Nonmajor Enterprise Funds	23,643
	Internal Service Fund	92,003
Debt Service	General	26,756
	Capital Projects 2002 Bond Series	5,463
Nonmajor Governmental Funds	General	598
	Nonmajor Governmental Funds	5,399
Nonmajor Enterprise Funds	Debt Service	36,592
Agency Funds	General	377
Total		<u>\$ 451,391</u>

During the year, a nonmajor enterprise fund transferred \$50,000 to the general fund to supplement instructional staff development and training. Also, the 2002 bond series major capital projects fund transferred excess bond proceeds of \$5,463 to the debt service fund to be used for future debt service payments.

5. CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2003 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 23,402,930	-	-	23,402,930
Construction in progress	21,686,774	14,795,797	-	36,482,571
Total capital assets, not being depreciated	<u>45,089,704</u>	<u>14,795,797</u>	<u>-</u>	<u>59,885,501</u>
Capital assets, being depreciated:				
Buildings and improvements	104,328,728	7,500	-	104,336,228
Furniture and equipment	4,371,960	437,597	-	4,809,557
Total capital assets being depreciated	<u>108,700,688</u>	<u>445,097</u>	<u>-</u>	<u>109,145,785</u>
Less accumulated depreciation for:				
Buildings and improvements	(31,530,665)	(2,467,122)	-	(33,997,787)
Furniture and equipment	(2,440,988)	(318,800)	-	(2,759,788)
Total accumulated depreciation	<u>(33,971,653)</u>	<u>(2,785,922)</u>	<u>-</u>	<u>(36,757,575)</u>
Total capital assets, being depreciated, net	<u>74,729,035</u>	<u>(2,340,825)</u>	<u>-</u>	<u>72,388,210</u>
Governmental activities capital assets, net	<u>\$ 119,818,739</u>	<u>12,454,972</u>	<u>-</u>	<u>132,273,711</u>
Governmental activities – internal service fund:				
Furniture and equipment	\$ 1,020,567	57,142	-	1,077,709
Accumulated depreciation	(509,757)	(165,120)	-	(674,877)
Governmental activities – internal service fund, net	<u>\$ 510,810</u>	<u>(107,978)</u>	<u>-</u>	<u>402,832</u>
Business-type activities:				
Furniture and equipment	\$ 391,794	6,635	(4,060)	394,369
Accumulated depreciation	(97,664)	(54,356)	4,048	(147,972)
Business-type activities capital assets, net	<u>\$ 294,130</u>	<u>(47,721)</u>	<u>(12)</u>	<u>246,397</u>

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

Governmental activities:	
Instruction	\$ 2,374,164
Instruction resources and media services	102,801
Instructional leadership	10,029
School leadership	45,132
Guidance, counseling, and evaluation services	17,551
Health services	8,358
Student transportation	8,915
Food service	47,639
Extracurricular activities	7,243
General administration	29,809
Plant maintenance and operations	134,281
Capital assets held by the District's internal service fund are charged to data processing services	<u>165,120</u>
Total depreciation expense -- governmental activities	<u>\$ 2,951,042</u>
 Business-type activities-	
Child nutrition	<u>\$ 54,356</u>

6. LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended August 31, 2003:

	Balance 9-1-02	Additions	Retirements	Balance 8-31-03
General Obligation Bonds	\$ 85,034,964	30,480,000	(5,092,789)	110,422,175
Premium on 2002 Bond Series	-	1,519,938	(75,997)	1,443,941
Compensated Absences	517,978	-	(6,068)	511,910
TOTAL	<u>\$ 85,552,942</u>	<u>31,999,938</u>	<u>(5,174,854)</u>	<u>112,378,026</u>

Bonded debt consisted of the following at August 31, 2003:

<u>Series</u>	<u>Date of Issue</u>	<u>Amounts of Original Issue</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Outstanding at 8-31-03</u>
<u>General Obligation Bonds:</u>					
1985 Refunding	11-01-85	\$ 45,773,129	2004	6.0% - 9.00%	\$ 312,175
1994 School Building	06-29-94	9,900,000	2014	5.6% - 8.60%	635,000
1996 School Building and Refunding	02-01-96	23,960,000	2016	3.6% - 5.25%	16,555,000
1999 School Building and Refunding	04-01-99	30,950,000	2019	4.0% - 5.25%	27,840,000
2001 School Building	06-26-01	34,600,000	2021	4.0% - 5.50%	34,600,000
2002 School Building	12-04-02	30,480,000	2021	2.0% - 5.50%	30,480,000
		<u>\$ 175,663,129</u>			<u>\$ 110,422,175</u>

The annual principal installments for each of the outstanding issues vary each year. As of August 31, 2003, the debt service requirements to maturity for general obligation bonds are as follows:

Year Ended August 31,	Governmental Activities		
	Principal	Interest	Total
2004	\$ 5,432,175	11,212,557	16,644,732
2005	4,820,000	5,420,391	10,240,391
2006	4,975,000	5,253,241	10,228,241
2007	5,495,000	4,750,320	10,245,320
2008	5,705,000	4,531,015	10,236,015
2009-2013	32,795,000	18,334,621	51,129,621
2014-2018	33,810,000	9,412,584	43,222,584
2019-2021	17,390,000	1,673,007	19,063,007
TOTAL	\$ 110,422,175	60,587,736	171,009,911

The 1985, 1994, 1996 and 1999 Series Bonds include Serial and Capital Appreciation Bonds. The interest shown above, with respect to the Capital Appreciation Bonds, includes the interest to be paid on bonds maturing in the respective years and does not include accrued interest on bonds not maturing in those years.

For the general obligation bonds, the District has pledged as collateral the proceeds of a continuing, direct annual tax levied against taxable property within the District without limitation as to rate. The Texas Education Code generally prohibits issuance of additional ad valorem tax bonds if the aggregate principal amount of the tax bond indebtedness will exceed 10% of the assessed valuation of taxable property within the District. Total tax bond indebtedness of the District at August 31, 2003, was approximately 1.75% of the January 1, 2002, assessed valuation.

In prior years, the District defeased certain outstanding general obligation bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all the future debt service payments on the old bonds. Accordingly, the trust account assets and the defeased bonds are not included in the District's financial statements. At August 31, 2003, outstanding bonds of \$8,765,000 are considered defeased.

At August 31, 2003, general obligation bonds of approximately \$1,520,000 were authorized by voters of the District, but unissued.

7. DEFERRED REVENUE

At August 31, 2003, deferred revenue in the governmental funds consisted of the following:

	General Fund	Debt Service Fund	Nonmajor Enterprise Funds	Total
Net tax revenue	\$ 993,043	178,189	-	1,171,232
Football season tickets	198,294	-	-	198,294
Food service receipts	-	-	296,604	296,604
Parking	80,187	-	-	80,187
Other	36,977	-	-	36,977
Total	<u>\$ 1,308,501</u>	<u>178,189</u>	<u>296,604</u>	<u>1,783,294</u>

8. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

For the year ended August 31, 2003, revenues from local and intermediate sources in the governmental funds consisted of the following:

	General Fund	Debt Service Fund	Major Capital Projects Fund	Other Governmental Funds	Total
Property taxes	\$ 90,977,969	14,008,323	-	-	104,986,292
Investment income	775,999	102,074	248,717	89,671	1,216,461
Penalties, interest, and other tax related income	316,260	52,075	-	-	368,335
Tuition and fees from patrons	134,508	-	-	-	134,508
Co-curricular student activities	645,001	-	-	241,154	886,155
Other	758,119	-	-	756,000	1,514,119
Total	<u>\$ 93,607,856</u>	<u>14,162,472</u>	<u>248,717</u>	<u>1,086,825</u>	<u>109,105,870</u>

9. RETIREMENT PLAN

The District's employees participate in the Teacher Retirement System of Texas ("The System"), a public employee retirement system ("PERS"). It is a cost-sharing multiple employer defined benefit pension plan with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System 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. During the year ended August 31, 2003, contributions of approximately \$2,142,000 were made by the State. These contributions made by the State on behalf of the District have been reflected in the basic financial statements as both revenue and expenditures. The System's annual financial report and other required disclosures are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

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 employees' contributions to the System for the years ended August 31, 2003, 2002 and 2001, were approximately \$2,362,000, \$2,402,000 and \$2,256,000, respectively, which were equal to the required contributions for the years. Other contributions made from federal grants and from the District for salaries above the statutory minimum for the year ended August 31, 2003, were \$225,000 which were equal to the required contributions for the year.

10. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. Assets and income of the District's plan are administered by a private corporation under contract with the District and are held for the exclusive benefit of the participants and their beneficiaries. Accordingly, the plan's assets and liabilities are not recorded in the District's basic financial statements.

11. HEALTH CARE COVERAGE

During the year ended August 31, 2003, employees of the District were covered by a health insurance plan (the "Plan"). The District contributed \$254 per month per employee to the Plan, and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All contributions were paid to a licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

12. RISK MANAGEMENT

The District's risk management program includes coverages through third party insurance providers for property, automobile liability, school professional liability, crime, workers compensation and other miscellaneous bonds. During the year ended August 31, 2003, there were no significant reductions in insurance coverage from coverage in the prior year. Losses in excess of the various deductible levels are covered through traditional indemnity coverage for buildings and contents, and vehicle liability with various insurance firms. Settled claims have not exceeded insurance limits for the past three years.

13. COMMITMENTS AND CONTINGENCIES

The District participates in a number of federal financial assistance programs. Although the District grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through August 31, 2003, these programs are subject to financial and compliance audits. The amounts, 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. At August 31, 2003, the District is also committed under construction contracts with a remaining balance of approximately \$2,000,000.

Texas school districts with wealth per student in excess of \$305,000 are required to take action to bring their wealth down to the equalized State level. During the year ended August 31, 2003, the

District was required to pay approximately \$50,905,580 to purchase attendance credits to equalize its wealth per weighted average daily attendance (“WADA”). This purchase of WADA was made to seven school districts within the State of Texas and was incorporated into the District’s budget.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

EANES INDEPENDENT SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
August 31, 2003

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 3,321	-	3,321
Pooled cash	787,856	255,099	1,042,955
Temporary investments	185,403	440,887	626,290
Receivables:			
Due from other governments	261,605	-	261,605
Due from other funds	5,997	-	5,997
Total assets	<u>\$ 1,244,182</u>	<u>695,986</u>	<u>1,940,168</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 26,528	-	26,528
Due to other funds	218,361	15,935	234,296
Due to other governments	29,888	-	29,888
Total liabilities	<u>274,777</u>	<u>15,935</u>	<u>290,712</u>
Fund balances:			
Reserved for:			
Authorized construction	-	680,051	680,051
Unreserved, reported in:			
Special revenue funds	969,405	-	969,405
Total fund balances	<u>969,405</u>	<u>680,051</u>	<u>1,649,456</u>
Total liabilities and fund balances	<u>\$ 1,244,182</u>	<u>695,986</u>	<u>1,940,168</u>

EANES INDEPENDENT SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended August 31, 2003

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
REVENUES			
Local and intermediate sources	\$ 997,154	89,671	1,086,825
State program revenues	1,412,724	5,894	1,418,618
Federal program revenues	1,162,865	-	1,162,865
Total revenues	<u>3,572,743</u>	<u>95,565</u>	<u>3,668,308</u>
EXPENDITURES			
Current:			
Instruction	2,021,518	-	2,021,518
Instructional resources and media services	79,087	-	79,087
Curriculum and staff development	138,931	-	138,931
Instructional leadership	97,996	-	97,996
School leadership	86,159	-	86,159
Guidance, counseling, and evaluation services	140,357	-	140,357
Health services	11,418	-	11,418
Student transportation	73,163	-	73,163
Food service	63,754	-	63,754
Extracurricular activities	146,641	-	146,641
General administration	32,430	-	32,430
Plant maintenance and operations	118,474	-	118,474
Security and monitoring services	3,690	-	3,690
Data processing services	6,312	-	6,312
Community services	19,918	-	19,918
Capital Outlay	54,081	11,730,230	11,784,311
Intergovernmental	9,974	-	9,974
Total expenditures	<u>3,103,903</u>	<u>11,730,230</u>	<u>14,834,133</u>
Excess (deficiency) of revenues over expenditures	468,840	(11,634,665)	(11,165,825)
Fund balances--beginning	<u>500,565</u>	<u>12,314,716</u>	<u>12,815,281</u>
Fund balances--ending	<u>\$ 969,405</u>	<u>680,051</u>	<u>1,649,456</u>

EANES INDEPENDENT SCHOOL DISTRICT
Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year Ended August 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local and intermediate sources	\$ 14,185,944	14,185,944	14,162,472	(23,472)
Total revenues	<u>14,185,944</u>	<u>14,185,944</u>	<u>14,162,472</u>	<u>(23,472)</u>
EXPENDITURES				
Principal on long-term debt	5,092,789	5,092,789	5,092,789	-
Interest on long-term debt	9,057,860	9,057,860	9,057,860	-
Other debt service expenditures	10,000	10,000	1,375	8,625
Total expenditures	<u>14,160,649</u>	<u>14,160,649</u>	<u>14,152,024</u>	<u>8,625</u>
Excess of revenues over expenditures	<u>25,295</u>	<u>25,295</u>	<u>10,448</u>	<u>(14,847)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	5,463	5,463
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>5,463</u>	<u>5,463</u>
Net change in fund balance	25,295	25,295	15,911	(9,384)
Fund balance--beginning	<u>1,793,363</u>	<u>1,793,363</u>	<u>1,793,363</u>	<u>-</u>
Fund balance--ending	<u>\$ 1,818,658</u>	<u>1,818,658</u>	<u>1,809,274</u>	<u>(9,384)</u>

OTHER SCHEDULES

EANES INDEPENDENT SCHOOL DISTRICT
Schedule of Delinquent Taxes Receivable
Year Ended August 31, 2003

Last Ten Years Ended August 31	Tax Rates		Assessed/ Appraised Value for School Tax Purposes	Beginning Balance 9/1/2002	Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustment	Ending Balance 8/31/2003
	Maintenance	Debt Service							
1994	1.3190	0.3540	2,130,568,339	\$ 72,561	-	\$3,237	\$869	\$ (8,014)	\$ 60,441
1995	1.3000	0.3300	2,487,826,234	18,866	-	121	31	(903)	17,811
1996	1.3403	0.3031	2,834,527,410	27,415	-	147	33	(754)	26,481
1997	1.2680	0.3140	3,126,060,293	42,051	-	1,894	469	(217)	39,471
1998	1.36565	0.3012	3,282,605,572	54,024	-	7,202	1,588	(910)	44,324
1999	1.3905	0.2592	3,733,128,897	46,030	-	12,633	2,355	(1,791)	29,251
2000	1.4343	0.2354	4,135,838,155	62,194	-	27,011	4,433	4,911	35,661
2001	1.4651	0.2313	4,954,543,979	225,340	-	109,703	17,319	17,991	116,309
2002	1.5000	0.2485	5,804,005,088	1,033,016	-	622,243	103,085	(26,264)	281,424
2003	1.5000	0.2312	6,326,596,203	-	\$106,259,392	90,763,680	13,989,709	(109,434)	1,396,569
Totals				\$ 1,581,497	\$106,259,392	\$ 91,547,871	\$ 14,119,891	\$ (125,385)	\$ 2,047,742

EANES INDEPENDENT SCHOOL DISTRICT

Fund Balance and Cash Flow Calculation Worksheet

General Fund as of August 31, 2003

1. Total General Fund Balance as of 8/31/03	\$ 21,904,412
2. Total Reserved Fund Balance	437,696
3. Total Designated Fund Balance	-
4. Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues)	7,365,011
5. Estimate of one month's average cash disbursements during the regular school session (9/1/03 - 5/31/04)	4,378,469
6. Estimate of delayed payments from state sources including August payment delays	-
7. Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	-
8. Estimate of delayed payments from federal sources	-
9. Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	-
10. Optimum Fund Balance and Cash Flow	12,181,176
11. Excess (Deficit) Net Undesignated Unreserved General Fund Fund Balance (Line 1 minus Line 10)	\$ 9,723,236

Explanation of need for and/or projected use of net positive

Undesignated Unreserved General Fund Fund Balance:

- 1) To be used to purchase attendance credits to equalize the District's wealth per weighted average daily attendance.

FEDERAL AWARDS SECTION



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL STRUCTURE OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF BASIC FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Trustees of
Eanes Independent School District:

We have audited the basic financial statements of Eanes Independent School District (the "District") as of and for the year ended August 31, 2003, and have issued our report thereon dated December 16, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

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 opinion on the basic financial statements and not to provide assurance 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 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

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the basic 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.

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

Maxwell Locke + Ritter LLP

December 16, 2003



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Trustees of
Eanes Independent School District:

Compliance

We have audited the compliance of Eanes Independent School District (the "District") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended August 31, 2003. The District's major federal program is 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 its major federal program 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 its major federal program for the year ended August 31, 2003.

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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 the 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 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 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, audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maxwell Locke + Ritter LLP

December 16, 2003

**EANES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2003**

<u>Project Number</u>	<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<u>Passed Through Texas Education Agency:</u>			
3610101227909	ESEA Title I, Part A, Improving Basic Programs	84.010A	\$ 165,579
3671001227909	Title III, Part A, Language	84.365A	5,399
3691001227909	ESEA Title IV, Drug Free Schools	84.186A	24,745
3685001227909	Title V, Part A, Innovative	84.298A	24,571
3694501227909	Title II, Part A Teacher/Principal	84.367A	158,808
3660001227909	IDEA-B Formula	84.027A	702,363
3660404227909	IDEA-B Cap. Bldg. & Imp.	84.027A	9,780
3661001227909	IDEA-B Pre-School	84.173A	21,116
342000622790913	Vocational Education	84.048A	35,636
2630001227909	Title II, Part D, Enhancing Education	84.318X	4,894
TOTAL DEPARTMENT OF EDUCATION			<u>1,152,891</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<u>Passed Through Texas Education Agency:</u>			
7130301	National School Lunch Program	10.555	70,429
<u>Passed Through the Texas Department of Human Services:</u>			
	Food Distribution Program	10.550	<u>19,040</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>89,469</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,242,360</u>

The accompanying notes are an integral part of this schedule.

EANES INDEPENDENT SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED AUGUST 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - The accompanying schedule of expenditures of federal awards presents all federal expenditures of the Eanes Independent School District (the "District").

Basis of Accounting - The expenditures on the accompanying schedule of expenditures of federal awards are presented using the modified accrual basis of accounting, with the exception of the National School Lunch Program and the Food Distribution Program. Under the modified accrual basis of accounting, revenue is recognized in the accounting period in which they become available and measurable, and expenditures in the accounting period in which the fund liability is incurred, if measurable. Expenditures in the National School Lunch Program and the Food Distribution Program are not specifically attributable to this revenue source and are shown on the accompanying schedule of expenditures of federal awards in an amount equal to revenue for balancing purposes only.

Relationship to Basic Financial Statements - Expenditures of federal awards are reported in the District's basic financial statements in the special revenue funds, with the exception of the National School Lunch Program and the Food Distribution Program which are accounted for in an enterprise fund.

Relationship to Federal Financial Reports - Amounts reported in the accompanying schedule of expenditures of federal awards agree with the amounts reported in the related federal financial reports in all significant respects.

Valuation of Non-cash Programs - The District values revenues and expenditures for the Food Distribution Program based on the value of commodities received.

EANES INDEPENDENT SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2003**

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable conditions identified that are not considered to be material weaknesses yes none reported

Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? yes no
- Reportable conditions identified that are not considered to be material weaknesses? yes none reported

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

Any audit findings disclosed that are required to be reported with section 510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027	IDEA-B Formula

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

Auditee qualified as low-risk auditee? yes no

EANES INDEPENDENT SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2003**

SECTION II - FINANCIAL STATEMENT FINDINGS

No findings or questioned costs required to be reported in accordance with *Government Auditing Standards* for the years ended August 31, 2003 and 2002.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133 for the years ended August 31, 2003 and 2002.