

**MELISSA INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED AUGUST 31, 2014**

MELISSA INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2014

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CERTIFICATE OF BOARD

Melissa Independent School District  
Name of School District

Collin  
County

043-908  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one)  X  approved \_\_\_\_\_ disapproved for the year ended August 31, 2014 at a meeting of the Board of Trustees of such school district on the  22nd  day of  January , 2015.

*/s/ Rickie LaFon*

*/s/ Bruce Minchey*

\_\_\_\_\_  
Signature of Board **Secretary**

\_\_\_\_\_  
Signature of Board **President**

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

***Morgan, Davis, & Company, P.C.***  
Post Office Box 8158  
Greenville, Texas 75404

**Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other  
Supplementary Information including the Supplementary Schedule of Expenditures of Federal Awards**

**Independent Auditor's Report**

Melissa Independent School District  
1904 Cooper Street  
Melissa, Texas 75454

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Melissa Independent School District as of and for the year ended August 31, 2014 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Melissa Independent School District as of August 31, 2014 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6-10 and Budgetary Comparison Schedule-General Fund on page 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Melissa Independent School District's basic financial statements. The Combining Statements for Nonmajor Governmental Funds on pages 48-51, and the Schedule of Expenditures of Federal Awards required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* on page 67 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statements for Nonmajor Governmental Funds and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statements for Nonmajor Governmental Funds and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1, J-2, & J-3. We have applied certain limited procedures to this supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by Government Auditing Standard**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2014 on our consideration of Melissa Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Melissa Independent School District's internal control over financial reporting and compliance.

*/s/ Morgan, Davis, & Company, P.C.*

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Morgan, Davis, & Company, P.C.  
Greenville, Texas

December 29, 2014

MELISSA INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED AUGUST 31, 2014

In this section of the Annual Financial and Compliance Report, we, the administrators of Melissa Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2014. Please read it in conjunction with the District's Basic Financial Statements which follow this section.

**FINANCIAL HIGHLIGHTS**

- The District's total combined net position increased by \$2,003,185 as a result of this year's operations.
- The District's assets exceeded its liabilities at the close of the most recent fiscal year by \$337,216 which represents the District's total combined net position. Of this amount, \$5,187,300 (unrestricted net position) may be used to meet the District's ongoing obligations.
- As of August 31, 2014, the District's governmental funds reported a combined fund balance of \$8,069,793 compared to \$20,238,981 for the last fiscal year. The General Fund reported a fund balance of \$4,976,829 this fiscal year compared to \$1,626,782 the last fiscal year.
- The District's total tax rate for the 2013-2014 school year was \$ 1.54 with \$ 1.17 for maintenance & operation and \$ 0.37 for debt service.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 12 and 13). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 14) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements (starting on page 26) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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

## **Reporting the District as a Whole**

### ***The Statement of Net Position and the Statement of Activities***

The analysis of the District's overall financial condition and operations begins on page 12. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, the District has one kind of activity:

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

## **Reporting the District's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements begin on page 14 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the ESEA Title 1 Part A from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes. The District's two kinds of funds—governmental and proprietary—use different accounting approaches.

- Governmental funds—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The internal service funds (a category of proprietary funds) report activities that provide services for the District's other programs and activities—such as the District's self-insurance programs.

## The District as Trustee

### *Reporting the District's Fiduciary Responsibilities*

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 25. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District is presenting government-wide financial analysis in the form of current year data and prior year data and the changes in these accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities increased from (\$1,665,969) last year to \$337,216 at August 31, 2014. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased from \$1,900,108 last year to \$5,187,300 at August 31, 2014.

Changes in net position of the District's governmental activities were a \$1,093,717 decrease last year compared to a \$2,003,185 increase at August 31, 2014.

**Table I**  
**Melissa Independent School District**  
**NET POSITION**

	Governmental Activities 8/31/2014	Governmental Activities 8/31/2013	Net Change
Current and other assets	\$9,491,278	\$23,037,416	(\$13,546,138)
Capital assets	48,945,967	34,964,684	13,981,283
Total assets	\$58,437,245	\$58,002,100	\$435,145
Current and other liabilities	\$1,211,014	\$2,525,109	(\$1,314,095)
Long-term liabilities	56,889,015	57,142,960	(253,945)
Total liabilities	\$58,100,029	\$59,668,069	(\$1,568,040)
Net Position:			
Net Investment in Capital Assets	(\$5,205,754)	(\$4,726,330)	(\$479,424)
Restricted	355,670	1,160,253	(804,583)
Unrestricted	5,187,300	1,900,108	3,287,192
Total net position	\$337,216	(\$1,665,969)	\$2,003,185

**Table II**  
**Melissa Independent School District**  
**CHANGES IN NET POSITION**

	Governmental Activities Yr Ended 8/31/2014	Governmental Activities Yr Ended 8/31/2013	Net Change
<b>Revenues:</b>			
<b>Program Revenues:</b>			
Charges for Services	\$654,535	\$658,206	(\$3,671)
Operating grants and contributions	1,291,080	1,099,368	191,712
<b>General Revenues:</b>			
Maintenance and operations taxes	5,630,311	4,561,716	1,068,595
Debt service taxes	1,780,918	2,193,380	(412,462)
State aid - formula grants	11,270,982	6,494,191	4,776,791
Grants & Contributions not restricted to specific functions	37,692	1,576	36,116
Investment Earnings	7,237	7,032	205
Miscellaneous	311,640	150,936	160,704
<b>Total Revenue</b>	<b>\$20,984,395</b>	<b>\$15,166,405</b>	<b>\$5,817,990</b>
<b>Expenses:</b>			
Instruction, curriculum and media services	\$9,388,341	\$8,581,428	\$806,913
Instructional and school leadership	994,171	974,245	19,926
Student support services	898,186	719,406	178,780
Child nutrition	630,011	588,575	41,436
Co curricular activities	718,545	645,184	73,361
General administration	872,925	847,807	25,118
Plant maintenance, security & data processing	2,233,252	1,740,186	493,066
Community services	0	0	0
Debt services	3,122,350	2,026,599	1,095,751
Payments to fiscal agents	76,606	93,473	(16,867)
Other intergovernmental charges	46,823	43,219	3,604
<b>Total Expenses</b>	<b>\$18,981,210</b>	<b>\$16,260,122</b>	<b>\$2,721,088</b>
<b>Increase in net position before transfers and special items</b>	<b>\$2,003,185</b>	<b>(\$1,093,717)</b>	<b>\$3,096,902</b>
Transfers	0	0	0
Special Items	0	0	0
Net position at Beginning of Fiscal Year	(1,665,969)	(572,252)	(1,093,717)
Net position at End of Fiscal Year	<b>\$337,216</b>	<b>(\$1,665,969)</b>	<b>\$2,003,185</b>

**THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds (as presented in Exhibit C-3 on page 18) reported a combined fund balance of \$8,069,793 compared to \$20,238,981 for the last fiscal year. The District's General Fund reported a fund balance increase of \$3,350,047, ending the year with \$4,976,829. The District's Special Revenue Funds reported a fund balance increase of \$14,348, ending the year with \$46,757. The District's Debt Service Fund reported a fund balance decrease of \$818,931, ending the year with \$308,913. The District's Bond Construction Fund reported a fund balance decrease of \$14,714,652, ending the year with \$2,737,294.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments included amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2013) and amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:**

During the year ended August 31, 2014, the District invested \$15,264,712 in capital assets, consisting of construction in progress at the high school and middle school, various equipment, a police vehicle, an automobile, two trucks, two suburbans, and two school buses..

Capital asset activity for the year ended August 31, 2014 was as follows:

	<u>Beginning</u>			<u>Ending</u>	
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	
Land	\$2,469,565		\$0	\$0	\$2,469,565
Buildings & Improvements	41,776,503		0	0	41,776,503
Equipment & Vehicles	1,552,089	2,014,808		0	3,566,897
Construction in Progress	0	13,249,904		0	13,249,904
Totals at Historical Cost	<u>45,798,157</u>	<u>15,264,712</u>		<u>0</u>	<u>61,062,869</u>
Less accumulated depreciation for:					
Buildings & Improvements	(10,211,349)	(1,103,341)		0	(11,314,690)
Equipment	(622,124)	(180,088)		0	(802,212)
Total accumulated depreciation	<u>(10,833,473)</u>	<u>(1,283,429)</u>		<u>0</u>	<u>(12,116,902)</u>
Capital Assets, Net	<u>\$34,964,684</u>	<u>\$13,981,283</u>		<u>\$0</u>	<u>\$48,945,967</u>

**Debt:**

At year-end August 31, 2014, the District had \$56,889,015 outstanding in bonds compared to \$57,142,960 last year. During the current fiscal year, the District issued Series 2014 bonds of \$8,990,000 to partially pay down Series 2003 bonds of \$5,045,000, Series 2004 bonds of \$3,065,000, and Series 2005 bonds of \$880,000. The net present value of savings on this transaction was \$482,899. The new bonds are payable over the next 20 years at 2.00-4.00% interest.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District's elected and appointed officials considered many factors when setting the fiscal-year 2014 budget, and tax rates. Several of those factors were the economy, the District's population growth, and unemployment. These factors were taken into account when adopting the General Fund budget for 2014. Amounts available for appropriation in the General Fund budget are \$2,976,829. The District has added no major new programs or initiatives to the 2014 budget.

**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 show 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 office, at Melissa Independent School District, 1904 Cooper Street, Melissa, Texas.

## BASIC FINANCIAL STATEMENTS

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2014

Data Control Codes	Primary Government  Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ (1,108,465)
1120 Current Investments	9,684,152
1220 Property Taxes Receivable (Delinquent)	203,910
1230 Allowance for Uncollectible Taxes	(1,219)
1240 Due from Other Governments	712,900
Capital Assets:	
1510 Land	2,469,565
1520 Buildings, Net	30,461,813
1530 Equipment and Vehicles, Net	2,764,685
1580 Construction in Progress	13,249,904
1000 Total Assets	58,437,245
<b>LIABILITIES</b>	
2110 Accounts Payable	718,002
2150 Payroll Deductions & Withholdings	70,833
2160 Accrued Wages Payable	376,154
2180 Due to Other Governments	18,690
2200 Accrued Expenses	8,230
2300 Unearned Revenue	19,105
Noncurrent Liabilities	
2501 Due Within One Year	1,020,025
2502 Due in More Than One Year	55,868,990
2000 Total Liabilities	58,100,029
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	(5,205,754)
3850 Restricted for Debt Service	308,913
3870 Restricted for Campus Activities	46,757
3900 Unrestricted	5,187,300
3000 Total Net Position	\$ 337,216

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
11 Instruction	\$ 8,938,346	\$ 259,296	\$ 925,589	\$ (7,753,461)
12 Instructional Resources and Media Services	202,290	-	3,127	(199,163)
13 Curriculum and Staff Development	247,705	-	14,667	(233,038)
21 Instructional Leadership	143,600	-	2,571	(141,029)
23 School Leadership	850,571	23,894	37,669	(789,008)
31 Guidance, Counseling and Evaluation Services	361,768	-	5,341	(356,427)
33 Health Services	140,590	-	1,874	(138,716)
34 Student (Pupil) Transportation	395,828	-	5,526	(390,302)
35 Food Services	630,011	303,364	196,599	(130,048)
36 Extracurricular Activities	718,545	37,676	3,790	(677,079)
41 General Administration	872,925	-	35,021	(837,904)
51 Facilities Maintenance and Operations	1,938,608	30,305	54,801	(1,853,502)
52 Security and Monitoring Services	1,500	-	-	(1,500)
53 Data Processing Services	293,144	-	4,505	(288,639)
72 Debt Service - Interest on Long Term Debt	2,960,609	-	-	(2,960,609)
73 Debt Service - Bond Issuance Cost and Fees	161,741	-	-	(161,741)
91 Contracted Instructional Services Between Schools	17,250	-	-	(17,250)
95 Payments to Juvenile Justice Alternative Ed. Prg.	59,356	-	-	(59,356)
99 Other Intergovernmental Charges	46,823	-	-	(46,823)
<b>[TP] TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 18,981,210</b>	<b>\$ 654,535</b>	<b>\$ 1,291,080</b>	<b>(17,035,595)</b>
Data Control Codes	<b>General Revenues:</b>			
	<b>Taxes:</b>			
MT	Property Taxes, Levied for General Purposes			5,630,311
DT	Property Taxes, Levied for Debt Service			1,780,918
SF	State Aid - Formula Grants			11,270,982
GC	Grants and Contributions not Restricted			37,692
IE	Investment Earnings			7,237
MI	Miscellaneous Local and Intermediate Revenue			311,640
TR	<b>Total General Revenues</b>			<b>19,038,780</b>
CN	Change in Net Position			2,003,185
NB	Net Position - Beginning			(1,665,969)
NE	Net Position - Ending			<b>\$ 337,216</b>

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2014

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Bond Construction
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ (17,866)	\$ 104	\$ (1,069,095)
1120 Investments - Current	4,889,798	323,449	4,457,312
1220 Property Taxes - Delinquent	145,374	58,536	-
1230 Allowance for Uncollectible Taxes (Credit)	(869)	(350)	-
1240 Receivables from Other Governments	553,054	-	-
1000 Total Assets	<u>\$ 5,569,491</u>	<u>\$ 381,739</u>	<u>\$ 3,388,217</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ -	\$ -	\$ 650,923
2150 Payroll Deductions and Withholdings Payable	70,833	-	-
2160 Accrued Wages Payable	365,155	-	-
2170 Due to Other Funds	958	-	-
2180 Due to Other Governments	4,050	14,640	-
2200 Accrued Expenditures	7,161	-	-
2300 Unearned Revenues	14,514	4,591	-
2000 Total Liabilities	<u>462,671</u>	<u>19,231</u>	<u>650,923</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	129,991	53,595	-
2600 Total Deferred Inflows of Resources	<u>129,991</u>	<u>53,595</u>	<u>-</u>
<b>FUND BALANCES</b>			
Restricted Fund Balance:			
3470 Capital Acquisition and Contractual Obligation	-	-	2,737,294
3480 Retirement of Long-Term Debt	-	308,913	-
Committed Fund Balance:			
3510 Construction	2,000,000	-	-
3545 Other Committed Fund Balance	-	-	-
3600 Unassigned Fund Balance	2,976,829	-	-
3000 Total Fund Balances	<u>4,976,829</u>	<u>308,913</u>	<u>2,737,294</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 5,569,491</u>	<u>\$ 381,739</u>	<u>\$ 3,388,217</u>

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

Other Governmental Funds	Total Governmental Funds
\$ (104,320)	\$ (1,191,177)
13,593	9,684,152
-	203,910
-	(1,219)
159,846	712,900
<u>\$ 69,119</u>	<u>\$ 9,408,566</u>
\$ 10,294	\$ 661,217
-	70,833
10,999	376,154
-	958
-	18,690
1,069	8,230
-	19,105
<u>22,362</u>	<u>1,155,187</u>
-	183,586
-	183,586
-	2,737,294
-	308,913
-	2,000,000
46,757	46,757
-	2,976,829
<u>46,757</u>	<u>8,069,793</u>
<u>\$ 69,119</u>	<u>\$ 9,408,566</u>

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MELISSA INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2014

<b>Total Fund Balances - Governmental Funds</b>	\$	8,069,793
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase(decrease) net position.		26,885
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$45,798,157 and the accumulated depreciation was \$10,833,473. In addition, long-term liabilities, including bonds payable of \$57,142,960, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.		(22,178,276)
3 Current year capital outlays of \$15,264,712 and long-term debt principal payments of \$1,114,757 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Accretion on capital appreciation bonds of \$23,830 and amortization of bond premiums of \$45,991 are recorded in the government-wide financial statements. The net effect of including the 2014 capital outlays and debt principal payments is to increase (decrease) net position.		16,449,290
4 The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(1,283,429)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue of \$183,586 as revenue, eliminating interfund transactions, reclassifying reclassifying bond premiums of \$930,633, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(747,047)
<b>19 Net Position of Governmental Activities</b>	<b>\$</b>	<b>337,216</b>

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Bond Construction
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 6,152,310	\$ 1,843,880	\$ 4,924
5800 State Program Revenues	11,155,275	713,484	-
5900 Federal Program Revenues	35,911	-	-
5020 Total Revenues	<u>17,343,496</u>	<u>2,557,364</u>	<u>4,924</u>
EXPENDITURES:			
Current:			
0011 Instruction	7,697,382	-	-
0012 Instructional Resources and Media Services	173,881	-	-
0013 Curriculum and Instructional Staff Development	213,317	-	-
0021 Instructional Leadership	130,682	-	-
0023 School Leadership	761,525	-	-
0031 Guidance, Counseling and Evaluation Services	335,930	-	-
0033 Health Services	127,672	-	-
0034 Student (Pupil) Transportation	698,681	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	708,298	-	-
0041 General Administration	796,513	-	-
0051 Facilities Maintenance and Operations	1,808,027	-	-
0052 Security and Monitoring Services	1,500	-	-
0053 Data Processing Services	337,430	-	-
Debt Service:			
0071 Principal on Long Term Debt	-	1,114,757	-
0072 Interest on Long Term Debt	-	2,288,958	-
0073 Bond Issuance Cost and Fees	-	161,741	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	14,719,576
Intergovernmental:			
0091 Contracted Instructional Services Between Schools	17,250	-	-
0095 Payments to Juvenile Justice Alternative Ed. Prg.	59,356	-	-
0099 Other Intergovernmental Charges	46,823	-	-
6030 Total Expenditures	<u>13,914,267</u>	<u>3,565,456</u>	<u>14,719,576</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,429,229</u>	<u>(1,008,092)</u>	<u>(14,714,652)</u>
OTHER FINANCING SOURCES (USES):			
7901 Refunding Bonds Issued	-	9,024,720	-
7915 Transfers In	-	-	-
7916 Premium or Discount on Issuance of Bonds	-	930,633	-
8911 Transfers Out (Use)	(79,182)	-	-
8940 Payment to Bond Refunding Escrow Agent (Use)	-	(9,766,192)	-
7080 Total Other Financing Sources (Uses)	<u>(79,182)</u>	<u>189,161</u>	<u>-</u>
1200 Net Change in Fund Balances	3,350,047	(818,931)	(14,714,652)
0100 Fund Balance - September 1 (Beginning)	<u>1,626,782</u>	<u>1,127,844</u>	<u>17,451,946</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 4,976,829</u>	<u>\$ 308,913</u>	<u>\$ 2,737,294</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 365,445	\$ 8,366,559
176,314	12,045,073
518,770	554,681
<u>1,060,529</u>	<u>20,966,313</u>
494,877	8,192,259
15,491	189,372
10,169	223,486
-	130,682
23,643	785,168
-	335,930
-	127,672
-	698,681
579,145	579,145
-	708,298
518	797,031
-	1,808,027
-	1,500
1,520	338,950
-	1,114,757
-	2,288,958
-	161,741
-	14,719,576
-	17,250
-	59,356
-	46,823
<u>1,125,363</u>	<u>33,324,662</u>
<u>(64,834)</u>	<u>(12,358,349)</u>
-	9,024,720
79,182	79,182
-	930,633
-	(79,182)
-	(9,766,192)
<u>79,182</u>	<u>189,161</u>
14,348	(12,169,188)
32,409	20,238,981
<u>\$ 46,757</u>	<u>\$ 8,069,793</u>

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MELISSA INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED AUGUST 31, 2014

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(12,169,188)
The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position.		(80,937)
Current year capital outlays of \$15,264,712 and long-term debt principal payments of \$1,114,757 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Accretion on capital appreciation bonds of \$23,830 and amortization of bond premiums of \$45,991 are recorded in the government-wide financial statements. The net effect of including the 2014 capital outlays and debt principal payments is to increase (decrease) net position.		16,449,290
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(1,283,429)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue as revenue, adjusting current year revenue by \$18,082 to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying bond premiums of \$930,633, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(912,551)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>2,003,185</b>

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
AUGUST 31, 2014

	Governmental Activities -
	Internal Service Fund
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 82,712
Due from Other Funds	958
Total Assets	83,670
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	56,785
Total Liabilities	56,785
<b>NET POSITION</b>	
Unrestricted Net Position	26,885
Total Net Position	\$ 26,885

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2014

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 1,001
Total Operating Revenues	1,001
OPERATING EXPENSES:	
Other Operating Costs	81,938
Total Operating Expenses	81,938
Operating Income (Loss)	(80,937)
Total Net Position - September 1 (Beginning)	107,822
Total Net Position - August 31 (Ending)	\$ 26,885

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2014

	Governmental Activities -
	Internal Service Fund
<hr/>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$          43
Cash Payments for Insurance Claims	(68,220)
Net Cash Used for Operating Activities	<u>(68,177)</u>
Net Decrease in Cash and Cash Equivalents	(68,177)
Cash and Cash Equivalents at Beginning of Year	<u>150,889</u>
Cash and Cash Equivalents at End of Year	<u>\$          82,712</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$         (80,937)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(958)
Increase (decrease) in Accounts Payable	<u>13,718</u>
Net Cash Used for Operating Activities	<u>\$         (68,177)</u>

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2014

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	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 104,985
Investments - Current	25,977
Total Assets	<u>\$ 130,962</u>
LIABILITIES	
Due to Student Groups	\$ 130,962
Total Liabilities	<u>\$ 130,962</u>

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2014

**Note A. Summary of Significant Accounting Policies**

Melissa Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

**1. Reporting Entity**

The Board of Trustees has governance responsibilities over all activities related to public elementary and secondary public education within the jurisdiction of Melissa Independent School District. The members of the Board of Trustees are elected by the public, have the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. The District is not included in any other "governmental entity" as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, *The Financial Reporting Entity*. There are no component units included within the reporting entity. The District receives funding from local, state, and federal governmental sources and must comply with the requirements of these funding source entities.

**2. Government-Wide and Fund Financial Statements**

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Melissa Independent School District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act Title I. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Property taxes are always general revenues.

Interfund activities between governmental funds, and between governmental funds and proprietary funds, appear as "due to & due from" on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position, and as "other resources & other uses" on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as "due to & due from" on the government-wide Statement of Activities.

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

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

### **3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

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

### **4. Fund Accounting**

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

The District reports the following **major** governmental funds:

**General Fund** – This governmental fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a

budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities

**Debt Service Fund** – This governmental fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met. It is considered major because its resources exceed 10% of the District’s total resources.

**Bond Construction Fund** – This governmental fund is established to account for proceeds from bonds to be used for Board authorized acquisition, construction, or renovation, as well as, furnishing and equipping of major capital facilities. It is considered major because its resources exceed 10% of the District’s total resources.

Additionally, the District reports the following **nonmajor** fund types:

Governmental Fund Types:

**Special Revenue Funds** – These governmental funds are established to account for resources restricted to, or designated for, specific purposes by the District or a grantor in a Special Revenue Fund. Most federal and some state financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods. Project accounting is employed to maintain integrity of the various sources of funds.

The District’s Food Service Fund is considered a special revenue fund since it meets the following criteria: (1) User fees are charged to supplement the National School Lunch Program, (2) The General Fund subsidizes the Food Service Program for all expenditures in excess of the National School Lunch Program, and (3) The District does not consider the Food Service Program completely self-supporting. Food Service fund balances are used exclusively for child nutrition program purposes.

Proprietary Funds:

**Internal Service Fund** – This fund is established to account for revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis. The District's Internal Service Fund is for Workers Compensation Self-Insurance.

Fiduciary Funds:

**Agency Funds** – These funds are established to account for resources held for others in a custodial capacity. Financial resources for the Agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. The District's Agency Funds are for Student Activity Funds.

## **5. Cash and Cash Equivalents**

For purposes of the statement of cash flows for proprietary funds, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased. Cash and cash equivalents in the Internal Service fund was \$82,712 as of August 31, 2014.

## **6. Investments**

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

## **7. Inventories**

All inventories are valued at cost using the first in/first out (FIFO) method. The District purchases of supplies as expenditures. If any supplies are on hand at the end of the year, their cost is recorded as inventory and fund balance is reserved for the same amount.

## **8. Asset Capitalization and Useful Lives**

Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual unit cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	39-50
Building Improvements	15-40
Vehicles & Buses	5-10
Equipment	5-7

## **9. Compensated Absences**

It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

## **10. Long-Term Debt**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expenses when incurred.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of bonded debt issued plus the premiums/discounts received on the issuance of bonds are reported as other financing sources. The amounts of issuance costs are reported as expenditures.

## **11. Fund Balance**

In accordance with GASB 54 and school board policy, the District is reporting its fund balances in the governmental fund financial statements in each of the following categories:

*Non-spendable fund balance* – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

*Restricted fund balance* – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

*Committed fund balance* – represents amounts that can only be used for specific purposes imposed by a formal action of the District’s highest level of decision-making authority, the School Board. Committed resources cannot be used for any other purposes unless the Board removes or changes the specific use by taking the same formal action that imposed the constraint originally.

*Assigned fund balance* – represents amounts the District intends to use for specific purposes as expressed by the Board or an official delegated with the authority. The Board has delegated the authority to assign fund balances to the Superintendent.

*Unassigned fund balance* – represents the residual classification for the general fund or deficit balances in other funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and then unassigned fund balance.

As of August 31, 2014, the District’s fund balances are classified as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Bond Construction</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<b>Restricted for:</b>					
Capital Acquisitions			\$2,737,294		\$2,737,294
Debt Service		\$308,913			308,913
<b>Committed for:</b>					
Construction	2,000,000				2,000,000
Campus Activity Funds				46,757	46,757
<b>Unassigned</b>	2,976,829				2,976,829
<b>Total Fund Balances</b>	<u>\$4,976,829</u>	<u>\$308,913</u>	<u>\$2,737,294</u>	<u>\$46,757</u>	<u>\$8,069,793</u>

12.

**Functions**

School Districts are required to report all expenses by function, except certain indirect expenses. General administration, data processing services, and other intergovernmental charges functions (data control codes 41, 53, and 99 respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.

**13. Restricted Assets**

When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

**14. Data Control Codes**

The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide data base for policy development and funding plans.

## 15. Risk Management – Claims and Judgments

In the normal course of operations, the District is exposed to risks of loss from a number of sources including fire and casualty losses, errors or omissions by board members and employees, and injuries to employees during the course of performing their duties. The District attempts to cover these losses by the purchase of insurance. Significant losses are covered by commercial insurance for property and liability programs. For insured programs, there have been no significant reductions in coverage. Settlement amounts have not exceeded insurance coverage for the current year or the past three years.

### Health Care Coverage

During the year ended August 31, 2014, employees of the District were covered by a uniform statewide health care program for public education employees. The District contributed \$529 per month, which includes \$75 per month which is reimbursed by the State of Texas, per employee to the Plan. Employees, at their option, may authorize payroll withholdings to pay the remaining balance of the premium for employee coverage and/or dependents. All contributions/premiums were paid to the statewide health care program. The Plan was authorized by House Bill 3343 and is administered by the Teacher Retirement System of Texas (TRS).

### Workers Compensation Coverage

The District has entered into an agreement with the Texas Educational Insurance Association to self-fund their workers compensation plan. The agreement is administered by Claims Administrative Services, Inc. Transactions related to the plan are accounted for in the Workers Compensation Insurance Fund (the "Fund"), an internal service fund of the District. The District makes all contributions to the fund. Claims Administrative Services, Inc. obtained excess loss insurance, which limited annual claims paid from the entire fund for the year ended August 31, 2014, to \$225,000 for any individual participant.

Estimates of claims payable and of claims incurred, but not reported at August 31, 2014, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due.

Changes in the balances of claims liabilities during the past two years are as follows:

	<u>Year Ended August 31, 2014</u>	<u>Year Ended August 31, 2013</u>
Unpaid claims, beginning of fiscal year	\$43,067	\$56,663
Incurred claims (including IBNR's)	81,938	28,735
Claim payments	(68,220)	(42,331)
Unpaid claims, end of fiscal year	<u>\$56,785</u>	<u>\$43,067</u>

## 16. Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Note B. Reconciliation of Government-Wide and Fund Financial Statements

#### **Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:**

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net position.

One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land	\$2,469,565		\$2,469,565	
Buildings	41,776,503	(10,211,349)	31,565,154	
Equipment & Vehicles	1,552,089	(622,124)	929,965	
Change in Net Position				\$34,964,684

  

<u>Long-term Liabilities at the Beginning of the year</u>	<u>Payable at the Beginning of the year</u>	
Bonds Payable	\$57,142,960	
Loans Payable	0	
Change in Net Assets		(\$57,142,960)
Net Adjustment to Net Position		(\$22,178,276)

**Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:**

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities.

One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net position balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Current Year Capital Outlay</u>			
Equipment & Vehicles	\$2,014,808		
Construction in Progress	13,249,904		
Total Capital Outlay	\$15,264,712	\$15,264,712	\$15,264,712
<u>Debt Service Payments</u>			
Bond Principal	\$1,114,757		
Accretion on Capital Appreciation Bonds	23,830		
Amortization of Bond Premiums	45,991		
Total Principal Payments	\$1,184,578	1,184,578	1,184,578
Total Adjustment to Net Position		\$16,449,290	\$16,449,290

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Adjustments to Revenue and Unavailable Revenue</u>			
Net Property Tax Revenue Adjustment	\$18,082	\$18,082	\$183,586
<u>Reclassify Bond Premiums</u>			
Reclassify Bond Premiums to Bonds Payable	(\$930,633)	(\$930,633)	(\$930,633)
Totals		<u>(\$912,551)</u>	<u>(\$747,047)</u>

**Note C. Stewardship, Compliance, and Accountability**

**Budgetary Data**

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibit J-2 and J-3.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.

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

<u>August 31, 2014 Fund Balance</u>	
Appropriated Budget Funds - Food Service	\$0
Nonappropriated Budget Funds-Campus Activity Funds	<u>46,757</u>
All Special Revenue Funds	<u><u>\$46,757</u></u>

**Note D. Deposits and Investments**

District Policies and Legal and Contractual Provisions Governing Deposits and Investments:

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum

average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Public Funds Investment Act (PFIA) governs the District's investment policies and types of investments. The District's management believes that it complied with the requirements of the PFIA and the District's investment policies. These policies address the following risks:

*Foreign Currency Risk* – The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in foreign currency.

*Custodial Credit Risk for Deposits* – State law requires the District to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the District and held by the entity or its agent. Since the District complies with this law, it has no custodial risk for deposits.

*Custodial Credit Risk for Investments* – To limit the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the District and hand them over to the District or its designated agent. This includes securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

*Interest Rate Risk* – To limit the risk of changes in interest rates will adversely affect the fair value of investments, the District requires invested instruments maturities do not exceed one year from the time of purchase except when a longer maturity may be specifically authorized by the Board for a given investment provided legal limits are not exceeded.

*Credit Risk* – To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District limits investments in obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; certificates of deposits; fully collateralized repurchase agreements that have a defined termination date and secured by obligations of the United States or its agencies and instrumentalities; securities lending program; bankers acceptances; commercial paper; no-load money market mutual funds and no-load mutual funds; guaranteed investment contracts as an investment vehicle for bond proceeds and public investment pools. As of August 31, 2014, the District's investments in public funds investment pools were rated AAM by Standard & Poor's.

*Concentration of Credit Risk* – To limit the risk of loss attributed to the magnitude of the District's investment in a single issuer, the District diversifies in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer.

At August 31, 2014, the carrying amount of the District's deposits (cash, certificates of deposit, and interest bearing savings accounts) was \$(1,108,465). The District's cash deposits at August 31, 2014 and during the year ended August 31, 2014 were entirely covered by FDIC insurance or by pledged deposit collateral held by the District's agent bank in the District's name, or by letters of credit.

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

- a. Depository: First National Bank of Trenton, Trenton, Texas
- b. The highest combined balance of cash, savings, and time deposits accounts amounted to \$1,193,936 and occurred during the month of January 2014.
- c. The market value of securities pledged as of the date of the highest combined balance on deposit was \$1,247,524.

d. Total amount of FDIC coverage at the time of the highest combined balance was \$305,280.

The District's investments at August 31, 2014, were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Tex Pool Investment Accounts	\$3,379,242	48 days
Tex Star Investment Accounts	6,304,910	48 days
Total Fair Value	<u>\$9,684,152</u>	
Portfolio Weighted Average Maturity		48 days

**Note E. Property Taxes**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when collected.

The assessed value of the tax roll on January 1, 2013, upon which the tax levy for the 2014 fiscal year was based, was \$481,248,624. The tax rates assessed for the year ended August 31, 2014 to finance general fund operations and the payment of principal & interest on general obligation bonds were \$ 1.17 and \$ 0.37 per \$ 100 valuation, respectively, for a total of \$ 1.54 per \$ 100 valuation. Current year (including prior year delinquent) tax collections for the year ended August 31, 2014 were 101.50% of the tax levy.

**Note F. Delinquent Taxes Receivable**

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**Note G. Disaggregation of Receivables and Payables**

Receivables at August 31, 2014, were as follows:

	<u>Property Taxes</u>	<u>Due from Other Governments</u>	<u>Due from Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	\$145,374	\$553,054	\$0	\$0	\$698,428
Debt Service Fund	58,356	0	0	0	58,356
Nonmajor Governmental Funds	0	159,846	0	0	159,846
Total Governmental Activities	<u>\$203,730</u>	<u>\$712,900</u>	<u>\$0</u>	<u>\$0</u>	<u>\$916,630</u>
Amounts not scheduled for collection during the subsequent year	<u>\$1,219</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,219</u>

Payables at August 31, 2014, were as follows:

	<u>Accounts</u>	<u>Salaries &amp; Benefits</u>	<u>Due to Other Funds</u>	<u>Due to Other Governments</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:						
General Fund	\$0	\$435,988	\$958	\$4,050	\$7,161	\$448,157
Debt Service Fund	0	0	0	14,640	0	14,640
Bond Construction Fund	650,923	0	0	0	0	650,923
Nonmajor Governmental Funds	10,294	10,999	0	0	1,069	22,362
Total Governmental Activities	<u>\$661,217</u>	<u>\$446,987</u>	<u>\$958</u>	<u>\$18,690</u>	<u>\$8,230</u>	<u>\$1,136,082</u>
Amounts not scheduled for collection during the subsequent year	\$0	\$0	\$0	\$0	\$0	\$0

**Note H. Capital Asset Activity**

Capital asset activity for the year ended August 31, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	\$2,469,565		\$0	\$2,469,565
Buildings & Improvements	41,776,503		0	41,776,503
Equipment & Vehicles	1,552,089	2,014,808	0	3,566,897
Construction in Progress	0	13,249,904	0	13,249,904
Totals at Historical Cost	<u>45,798,157</u>	<u>15,264,712</u>	<u>0</u>	<u>61,062,869</u>
Less accumulated depreciation for:				
Buildings & Improvements	(10,211,349)	(1,103,341)	0	(11,314,690)
Equipment	(622,124)	(180,088)	0	(802,212)
Total accumulated depreciation	<u>(10,833,473)</u>	<u>(1,283,429)</u>	<u>0</u>	<u>(12,116,902)</u>
Capital Assets, Net	<u>\$34,964,684</u>	<u>\$13,981,283</u>	<u>\$0</u>	<u>\$48,945,967</u>

Depreciation expense for the current year was charged to governmental functions as follows:

11 Instruction	\$690,240
12 Instructional Resources & Media Services	12,109
13 Curriculum & Instructional Staff Development	24,219
21 Instructional Leadership	12,109
23 School Leadership	60,547
31 Guidance, Counseling, & Evaluation Services	24,219
33 Health Services	12,109
34 Student (Pupil) Transportation	96,703
35 Food Services	48,438
36 Cocurricular/Extracurricular Activities	60,547
41 General Administration	72,657
51 Plant Maintenance & Operations	145,313
53 Data Processing Services	24,219
Total Depreciation Expense	<u>\$1,283,429</u>

**Note I. Changes in Long-Term Liabilities**

Long-term liability activity for the year ended August 31, 2014, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts Due</u> <u>within One</u> <u>Year</u>
Governmental Activities:					
General Obligation Bonds	\$55,498,467	\$8,990,000	(\$10,104,757)	\$54,383,710	\$1,020,025
Accumulated Accretion on CABs	117,354	56,413	(80,243)	93,524	
Unamortized Bond Premiums	1,527,139	930,633	(45,991)	2,411,781	
Total Bonds Payable, Government-Wide	<u>\$57,142,960</u>	<u>\$9,977,046</u>	<u>(\$10,230,991)</u>	<u>\$56,889,015</u>	
Loans	0	0	0	0	
Capital Leases	0	0	0	0	
Total Governmental Activities	<u>\$57,142,960</u>	<u>\$9,977,046</u>	<u>(\$10,230,991)</u>	<u>\$56,889,015</u>	<u>\$1,020,025</u>

**Note J. Bonds Payable & Debt Service Requirements**

The District has entered into a continuing disclosure undertaking to provide annual reports and material event notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2014.

In the governmental fund financial statements, current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. The proceeds from the sale of bonds are shown in the governmental fund financial statements as Other Resources and principal payments are shown as expenditures.

A summary of changes in bonds for the year ended August 31, 2014 is as follows:

<u>Description</u>	<u>Interest Rates Payable</u>	<u>Amounts of Original Issue</u>	<u>Interest Current Year</u>	<u>Beginning Amounts Outstanding 9/01/13</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Amounts Outstanding 8/31/14</u>
Unlimited Tax Bldg Bonds-Series 2003	3.75-5.25%	\$9,000,000	\$124,176	\$8,025,000	\$0	(\$5,185,000)	\$2,840,000
Unlimited Tax Bldg Bonds-Series 2004	4.50-6.00%	4,200,000	24,595	3,585,000	0	(3,160,000)	425,000
Unlimited Tax Bldg Bonds-Series 2005	4.30-6.00%	4,700,000	144,023	4,170,000	0	(980,000)	3,190,000
Unlimited Tax Bldg Bonds-Series 2006	4.05-6.00%	4,500,000	180,940	3,990,000	0	(100,000)	3,890,000
Unlimited Tax Bldg Bonds-Series 2007	4.00-5.25%	9,900,000	382,497	8,910,000	0	(230,000)	8,680,000
Unlimited Tax Bldg Bonds-Series 2008	4.00-5.25%	3,000,000	135,670	2,845,000	0	(60,000)	2,785,000
Unlimited Tax Bldg Bonds-Series 2009	2.00-5.20%	3,380,000	147,023	3,110,000	0	(100,000)	3,010,000
Capital Appreciation Bonds-Series 2009	2.45-4.625%	596,873	80,243	123,467	0	(24,757)	98,710
Unlimited Tax Refunding Bonds-Series 2012	2.00-3.25%	2,365,000	62,825	2,240,000	0	(80,000)	2,160,000
Unlimited Tax Bldg Bonds-Series 2013	3.00-5.00%	18,495,000	792,650	18,495,000	0	0	18,495,000
Capital Appreciation Bonds-Series 2013	4.60%	5,000	0	5,000	0	0	5,000
Unlimited Tax Refunding Bonds-Series 2014	2.00-4.00%	8,720,000	214,317	0	8,720,000	(185,000)	8,535,000
Capital Appreciation Bonds-Series 2014	2.35-2.70%	270,000	0	0	270,000	0	270,000
Total General Obligation Bonds			<u>\$2,288,959</u>	<u>\$55,498,467</u>	<u>\$8,990,000</u>	<u>(\$10,104,757)</u>	<u>\$54,383,710</u>
Accumulated Accretion on CABs				117,354	56,413	(80,243)	93,524
Unamortized Bond Premiums on CABs				795,409	455,434	0	1,250,843
Unamortized Bond Premiums on GOBs				731,730	475,199	(45,991)	1,160,938
Total Bonds Payable, Government-Wide Financials				<u>\$57,142,960</u>	<u>\$9,977,046</u>	<u>(\$10,230,991)</u>	<u>\$56,889,015</u>

A portion of the above bonds were capital appreciation bonds, commonly referred to as “premium compound interest bonds”. These bonds were issued at a discount to their par or maturity value and will accrete interest until maturity. The accreted value equals the par value plus accreted interest plus the unamortized bond premium.

Summary information for the capital appreciation bonds is as follows:

<u>Series</u>	<u>Capital Appreciation Bonds</u>	
	<u>Stated Value</u>	<u>Accreted Value, 8/31/14</u>
2009	\$98,710	\$421,541
2013	\$5,000	\$560,715
2014	\$270,000	\$735,821

Debt service requirements for general obligation bonds are as follows:

<u>Year Ending August 31,</u>	<u>General Obligation Bonds</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2015	\$1,020,025	\$2,358,823	\$3,378,848
2016	1,060,365	2,314,276	3,374,641
2017	1,137,883	2,277,929	3,415,812
2018	1,220,437	2,227,282	3,447,719
2019	1,360,000	2,084,614	3,444,614
2020-2024	6,885,000	10,342,669	17,227,669
2025-2029	8,940,000	8,274,459	17,214,459
2030-2034	10,990,000	6,226,899	17,216,899
2035-2039	10,580,000	5,382,920	15,962,920
2040-Maturity	11,190,000	1,141,000	12,331,000
Total General Obligation Bonds	<u>\$54,383,710</u>	<u>\$42,630,871</u>	<u>\$97,014,581</u>

**Note K. Long Term Notes and Capital Leases Payable**

Long-Term Notes:

There were no long-term notes outstanding during the year ended August 31, 2014.

Capital Leases:

There were no capital leases outstanding during the year ended August 31, 2014.

**Note L. Accumulated Unpaid Vacation and Sick Leave Benefits**

District employees are entitled to certain compensated absences based upon their length of employment. Sick leave accrues at various rates established by the State of Texas and adopted by the Board of Trustees. Sick leave does not vest, but accumulates and is recorded as an expenditure as it is used and paid.

A summary of changes in the accumulated sick leave and vacation leave liability follows:

	<u>Sick Leave</u>	<u>Vacation Leave</u>
Balance, September 1, 2013	\$0	\$0
Additions - New Entrants and Salary Increments	0	0
Deductions - Payments to Participants	0	0
Balance, August 31, 2014	<u>\$0</u>	<u>\$0</u>

**Note M. Defined Benefit Pension Plan (TRS)**

**Plan Description** – Melissa Independent School District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

**Funding Policy** – Contribution requirements are not actuarially determined but are established and amended pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.00% of the member's annual compensation and a state contribution rate of not less than 6.00% and not more than 10.00% of the aggregate annual compensation of all members of the system during the fiscal year; (2) state statute prohibits benefit improvements, if as a result of a the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Contribution rates and contributions for fiscal years 2014-2012 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the reporting district is required to make all or a portion of the state's and /or member's contribution on salaries paid from federal and private grants and on the portion of the employee's salaries that exceeded the statutory minimum.

Contribution Rates and Contribution Amounts

Year	Member Contributions		State On-Behalf Contributions		District Contributions
	Rate	Amount	Rate	Amount	Amount
2014	6.40%	\$600,198	6.800%	\$637,710	\$116,159
2013	6.40%	\$558,666	6.400%	\$558,666	\$90,425
2012	6.40%	\$528,108	6.000%	\$495,102	\$91,755

**Note N. School District Retiree Health Plan (TRS-Care)**

**Plan Description** – Melissa Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides a health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS website at [www.trs.state.tx.us](http://www.trs.state.tx.us) under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of TRS at 1000 Red River Street, Austin, Texas 78701.

**Funding Policy** – Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectfully. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution

may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2014-2012.

Contribution Rates and Contribution Amounts

Year	Member Contributions		State Contributions		District Contributions	
	Rate	Amount	Rate	Amount	Rate	Amount
2014	0.65%	\$60,958	1.000%	\$93,781	0.55%	\$51,579
2013	0.65%	\$56,740	0.500%	\$43,646	0.55%	\$48,010
2012	0.65%	\$53,636	1.000%	\$82,517	0.55%	\$45,384

**Note O. Medicare Part D (TRS-Care) & Early Retiree Reinsurance Program (ERRP)**

*Federal Government Retiree Drug Subsidy* – The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. The allocation of these on-behalf payments is based on the ratio of a reporting entity’s covered payroll to the entire payroll reported by all reporting entities. TRS based this allocation percentage on the completed report submissions by reporting entities for the month of May. State Contributions for Medicare Part D made on behalf of Melissa Independent School District’s employees were \$25,048, \$23,187, and \$21,825, respectively for fiscal years ended August 31, 2014, 2013, and 2012.

*Early Retiree Reinsurance Program* – The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependents regardless of age. An “early retiree” is defined as a plan participant aged 55-64 which is not eligible for Medicare and is not covered by an active employee of the plan sponsor. This temporary program was not available to TRS for the fiscal years ended August 31, 2013 and 2014; therefore, there was no allocation required nor is one shown for those years. ERRP reimbursement was available on a first come, first served basis for qualified employers. TRS was certified for this program and received funds from the ERRP program in fiscal year 2012. These funds were allocated to reporting agencies using the same basis as the Medicare Part D: On-Behalf Payments (GASB 24) reporting that is done each year. For the year ended August 31, 2012 the ERRP contribution made on behalf of Melissa Independent School District’s employees was \$20,640.

**Note P. Due from Other Governments**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2014, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Other Governments</u>	<u>Totals</u>
General Fund	\$553,054	\$0	\$0	\$553,054
Debt Service Funds	0	0	0	0
Special Revenue Funds	0	159,846	0	159,846
<b>Totals</b>	<b>\$553,054</b>	<b>\$159,846</b>	<b>\$0</b>	<b>\$712,900</b>

**Note Q. Due to Other Governments**

As of August 31, 2014, the District had \$4,050 due to T.E.A. for 2013-2014 state foundation aid settle-up. The District also had \$12,517 due to T.E.A. for 2013-2014 Existing Debt Allotment overpayment, and \$2,123 due to T.E.A. for 2013-2014 Instructional Facilities Allotment overpayment. The Texas Education Agency will deduct these amounts from 2014-2015 state funding.

**Note R. Unearned Revenue & Unavailable Revenue**

Unearned revenue is that portion of the net revenue receivable which is expected to be collected within the first 60 days following the fiscal year end. Unavailable revenue is that portion of the net revenue receivable which is not expected to be collected within the first 60 days following the fiscal year end.

Unearned revenue and Unavailable revenue at August 31, 2014 consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Unearned Revenue:				
Property Tax Revenue	\$14,514	\$0	\$4,591	\$19,105
Total Unearned Revenue	\$14,514	\$0	\$4,591	\$19,105
Unavailable Revenue:				
Property Tax Revenue	\$129,991	\$0	\$53,595	\$183,586
Total Unavailable Revenue	\$129,991	\$0	\$53,595	\$183,586

**Note S. Commitments and Contingencies**

*Litigation* – The District may be subjected to loss contingencies arising principally in the normal course of operations. In the opinion of the administration, the outcome of any lawsuits will not have a material adverse effect on the accompanying financial statements and accordingly no provision for losses has been recorded.

*Grant Programs* – The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at August 31, 2014 may be impaired. In the opinion of the District, there are no significant contingent liabilities related to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

*Construction* – The District has construction in progress of \$13,249,904 as of August 31, 2014 for construction at the high school and middle school campuses. The total cost of the project is projected to be \$15,121,390. The retainage payable as of August 31, 2014 was \$650,923.

**Note T. Revenue from Local and Intermediate Sources**

During the current year, revenues from local and intermediate sources consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>	<u>Totals</u>
Property Taxes	\$5,701,961	\$0	\$1,820,393	\$0	\$7,522,354
Penalties, Interest, & Other Tax					
Related Income	44,805	0	22,836	0	67,641
Investment Income	1,659	3	651	4,924	7,237
Tuition	182,615	0	0	0	182,615
Rent	30,305	0	0	0	30,305
Gifts & Bequests	5,700	0	0	0	5,700
Net Insurance Recovery	93,436	0	0	0	93,436
Food Service Sales	0	303,364	0	0	303,364
Athletics	37,676	0	0	0	37,676
Co-curricular	0	62,078	0	0	62,078
Other	54,153	0	0	0	54,153
<b>Totals</b>	<b>\$6,152,310</b>	<b>\$365,445</b>	<b>\$1,843,880</b>	<b>\$4,924</b>	<b>\$8,366,559</b>

**Note U. Interfund Balances and Transfers In & Out**

Interfund balances at August 31, 2014, consisted of the following amounts:

**Due to Internal Service Fund from:**

General Fund	\$958
Total to Internal Service Fund from Other Funds	<u>\$958</u>

Interfund transfers for the year ended August 31, 2014, consisted of the following individual amounts:

**Transfers to Nonmajor Governmental Funds from:**

General Fund	\$79,182
Total Transferred to Nonmajor Governmental Funds from Other Funds	<u>\$79,182</u>

**Note V. Joint Ventures – Shared Service Arrangements**

The District participates in shared services arrangements for miscellaneous educational services, with other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Melissa Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

**Note W. Subsequent Events**

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through December 29, 2014, which is the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTAL INFORMATION

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 5,131,101	\$ 5,269,537	\$ 6,152,310	\$ 882,773
5800 State Program Revenues	9,083,262	9,032,299	11,155,275	2,122,976
5900 Federal Program Revenues	20,000	20,000	35,911	15,911
5020 Total Revenues	14,234,363	14,321,836	17,343,496	3,021,660
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011 Instruction	7,917,694	7,807,426	7,697,382	110,044
0012 Instructional Resources and Media Services	289,220	173,881	173,881	-
0013 Curriculum and Instructional Staff Development	246,388	222,545	213,317	9,228
0021 Instructional Leadership	132,950	132,950	130,682	2,268
0023 School Leadership	736,040	761,525	761,525	-
0031 Guidance, Counseling and Evaluation Services	355,142	335,930	335,930	-
0033 Health Services	210,240	127,672	127,672	-
0034 Student (Pupil) Transportation	392,000	699,528	698,681	847
0036 Extracurricular Activities	738,327	719,892	708,298	11,594
0041 General Administration	963,105	843,972	796,513	47,459
0051 Facilities Maintenance and Operations	1,742,072	1,810,957	1,808,027	2,930
0052 Security and Monitoring Services	-	1,500	1,500	-
0053 Data Processing Services	265,907	337,430	337,430	-
<b>Intergovernmental:</b>				
0091 Contracted Instructional Services Between Schools	55,000	17,250	17,250	-
0095 Payments to Juvenile Justice Alternative Ed. Prg.	20,000	60,000	59,356	644
0099 Other Intergovernmental Charges	382,250	55,000	46,823	8,177
6030 Total Expenditures	14,446,335	14,107,458	13,914,267	193,191
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(211,972)	214,378	3,429,229	3,214,851
<b>OTHER FINANCING SOURCES (USES):</b>				
8911 Transfers Out (Use)	-	(80,000)	(79,182)	818
1200 Net Change in Fund Balances	(211,972)	134,378	3,350,047	3,215,669
0100 Fund Balance - September 1 (Beginning)	1,626,782	1,626,782	1,626,782	-
3000 Fund Balance - August 31 (Ending)	\$ 1,414,810	\$ 1,761,160	\$ 4,976,829	\$ 3,215,669

## COMBINING STATEMENTS

MELISSA INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2014

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ (33,430)	\$ (91,744)	\$ (3,562)	\$ 2,642
1120	Investments - Current	-	-	-	-
1240	Receivables from Other Governments	33,430	98,144	3,562	3,026
1000	Total Assets	<u>\$ -</u>	<u>\$ 6,400</u>	<u>\$ -</u>	<u>\$ 5,668</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued Wages Payable	-	5,829	-	5,170
2200	Accrued Expenditures	-	571	-	498
2000	Total Liabilities	<u>-</u>	<u>6,400</u>	<u>-</u>	<u>5,668</u>
<b>FUND BALANCES</b>					
Committed Fund Balance:					
3545	Other Committed Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 6,400</u>	<u>\$ -</u>	<u>\$ 5,668</u>

255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	410 Instructional Materials Allotment	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ (15,294)	\$ (6,390)	\$ 10,294	\$ 33,164	\$ (104,320)
-	-	-	13,593	13,593
15,294	6,390	-	-	159,846
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,294</u>	<u>\$ 46,757</u>	<u>\$ 69,119</u>
\$ -	\$ -	\$ 10,294	\$ -	\$ 10,294
-	-	-	-	10,999
-	-	-	-	1,069
<u>-</u>	<u>-</u>	<u>10,294</u>	<u>-</u>	<u>22,362</u>
-	-	-	46,757	46,757
-	-	-	46,757	46,757
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,294</u>	<u>\$ 46,757</u>	<u>\$ 69,119</u>

MELISSA INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 303,364
5800	State Program Revenues	-	-	-	9,632
5900	Federal Program Revenues	93,466	209,305	7,348	186,967
5020	Total Revenues	<u>93,466</u>	<u>209,305</u>	<u>7,348</u>	<u>499,963</u>
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	93,466	209,305	7,348	-
0012	Instructional Resources and Media Services	-	-	-	-
0013	Curriculum and Instructional Staff Development	-	-	-	-
0023	School Leadership	-	-	-	-
0035	Food Services	-	-	-	579,145
0041	General Administration	-	-	-	-
0053	Data Processing Services	-	-	-	-
6030	Total Expenditures	<u>93,466</u>	<u>209,305</u>	<u>7,348</u>	<u>579,145</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	(79,182)
<b>OTHER FINANCING SOURCES (USES):</b>					
7915	Transfers In	-	-	-	79,182
1200	Net Change in Fund Balance	-	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	410 Instructional Materials Allotment	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 62,081	\$ 365,445
-	-	166,682	-	176,314
15,294	6,390	-	-	518,770
<u>15,294</u>	<u>6,390</u>	<u>166,682</u>	<u>62,081</u>	<u>1,060,529</u>
5,125	6,390	166,682	6,561	494,877
-	-	-	15,491	15,491
10,169	-	-	-	10,169
-	-	-	23,643	23,643
-	-	-	-	579,145
-	-	-	518	518
-	-	-	1,520	1,520
<u>15,294</u>	<u>6,390</u>	<u>166,682</u>	<u>47,733</u>	<u>1,125,363</u>
-	-	-	14,348	(64,834)
-	-	-	-	79,182
-	-	-	14,348	14,348
-	-	-	32,409	32,409
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,757</u>	<u>\$ 46,757</u>

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REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

MELISSA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FISCAL YEAR ENDED AUGUST 31, 2014

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2005 and prior years	\$ 1.500000	\$ 0.490000	\$ 221,386,292
2006	1.500000	0.410000	276,747,115
2007	1.370000	0.410000	321,650,622
2008	1.040000	0.495000	386,855,552
2009	1.040000	0.500000	422,807,599
2010	1.040000	0.500000	422,733,905
2011	1.040000	0.500000	417,006,205
2012	1.040000	0.500000	426,933,889
2013	1.040000	0.500000	438,642,628
2014 (School year under audit)	1.170000	0.370000	481,248,624
1000 TOTALS			

(10) Beginning Balance 9/1/2013	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2014
\$ 24,814	\$ -	\$ 215	\$ 70	\$ (1,889)	\$ 22,640
10,603	-	-	-	-	10,603
10,295	-	123	37	-	10,135
14,685	-	2,689	1,280	-	10,716
29,723	-	11,145	5,358	6,050	19,270
29,865	-	14,137	6,797	10,164	19,095
34,714	-	16,808	8,081	8,076	17,901
46,289	-	23,813	11,449	8,744	19,771
80,132	-	36,076	17,344	2,770	29,482
-	7,411,229	5,596,955	1,769,977	-	44,297
<u>\$ 281,120</u>	<u>\$ 7,411,229</u>	<u>\$ 5,701,961</u>	<u>\$ 1,820,393</u>	<u>\$ 33,915</u>	<u>\$ 203,910</u>

MELISSA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 400,000	\$ 320,417	\$ 303,364	\$ (17,053)
5800 State Program Revenues	5,000	5,000	9,632	4,632
5900 Federal Program Revenues	178,600	189,410	186,967	(2,443)
5020 Total Revenues	583,600	514,827	499,963	(14,864)
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0035 Food Services	583,600	594,827	579,145	15,682
6030 Total Expenditures	583,600	594,827	579,145	15,682
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(80,000)	(79,182)	818
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	80,000	79,182	(818)
1200 Net Change in Fund Balances	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

MELISSA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND  
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 2,759,423	\$ 1,909,423	\$ 1,843,880	\$ (65,543)
5800 State Program Revenues	656,872	656,872	713,484	56,612
5020 Total Revenues	3,416,295	2,566,295	2,557,364	(8,931)
<b>EXPENDITURES:</b>				
Debt Service:				
0071 Principal on Long Term Debt	929,757	1,114,757	1,114,757	-
0072 Interest on Long Term Debt	2,476,538	2,291,538	2,288,958	2,580
0073 Bond Issuance Cost and Fees	10,000	164,441	161,741	2,700
6030 Total Expenditures	3,416,295	3,570,736	3,565,456	5,280
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(1,004,441)	(1,008,092)	(3,651)
<b>OTHER FINANCING SOURCES (USES):</b>				
7901 Refunding Bonds Issued	-	9,024,000	9,024,720	720
7916 Premium or Discount on Issuance of Bonds	-	930,633	930,633	-
8940 Payment to Bond Refunding Escrow Agent (Use)	-	(9,766,192)	(9,766,192)	-
7080 Total Other Financing Sources (Uses)	-	188,441	189,161	720
1200 Net Change in Fund Balances	-	(816,000)	(818,931)	(2,931)
0100 Fund Balance - September 1 (Beginning)	1,127,844	1,127,844	1,127,844	-
3000 Fund Balance - August 31 (Ending)	\$ 1,127,844	\$ 311,844	\$ 308,913	\$ (2,931)

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FEDERAL AWARDS SECTION

**Morgan, Davis, & Company, P.C.**  
Post Office Box 8158  
Greenville, Texas 75404

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

Melissa Independent School District  
1904 Cooper Street  
Melissa, Texas 75454

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Melissa Independent School District, as of and for the year ended August 31, 2014 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 29, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Melissa Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Melissa Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Melissa Independent School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Melissa Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/ Morgan, Davis, & Company, P.C.*

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Morgan, Davis, & Company, P.C.  
Greenville, Texas

December 29, 2014

***Morgan, Davis, & Company, P.C.***

Post Office Box 8158

Greenville, Texas 75404

**Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance**

**Required by *OMB Circular A-133***

**Independent Auditor's Report**

Melissa Independent School District  
1904 Cooper Street  
Melissa, Texas 75454

**Report on Compliance for Each Major Federal Program**

We have audited Melissa Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Melissa Independent School District's major federal programs for the year ended August 31, 2014. Melissa Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Melissa Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Melissa Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, Melissa Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

**Report on Internal Control Over Compliance**

Management of Melissa Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Melissa Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Melissa Independent School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*/s/ Morgan, Davis, & Company, P.C.*

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Morgan, Davis, & Company, P.C.  
Greenville, Texas

December 29, 2014

MELISSA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2014

Program/Item	Findings Description
<b>Summary of Audit Results:</b>	
Type of Report on Financial Statements	Unmodified
Control Deficiencies	None
Material Weaknesses Involving Control Deficiencies	None
Noncompliance Material to the Financial Statements	None
Type of Report on Compliance with Major Programs	Unmodified Opinion
Findings and Questioned Costs for Federal Awards as Defined in Section.510(a), OMB Circular A-133	None
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
Low Risk Auditee Statements	The District was classified as a low risk auditee in the context of OMB Circular A-133.
Major Federal Programs	Special Education Cluster: IDEA Part B, Formula, CFDA#84.027 IDEA Part B, Preschool, CFDA#84.173
Pass-through Entity	Texas Education Agency

**Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with Generally Accepted Government Auditing Standards.**

There are no findings related to financial statements which are required to be reported in accordance with *Generally Accepted Auditing Standards*.

MELISSA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2014

(Prepared by the District's Administration)

There were no prior audit findings which required corrective action.

MELISSA INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED AUGUST 31, 2014

(Prepared by the District's Administration)

There were no corrective actions necessary for the year ended August 31, 2014.

MELISSA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2014

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	14610101057950	\$ 93,466
*IDEA - Part B, Formula	84.027	14660001043908	209,305
*IDEA - Part B, Preschool	84.173	14661001043908	7,348
Total Special Education Cluster (IDEA)			216,653
Title III, Part A - English Language Acquisition	84.365A	14615002057950	6,390
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	14694501057950	15,294
Total Passed Through State Department of Education			\$ 331,803
<b>TOTAL DEPARTMENT OF EDUCATION</b>			\$ 331,803
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Passed Through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778	14-043908	\$ 35,911
Total Passed Through Texas Dept of Human Services			\$ 35,911
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			\$ 35,911
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	14-043908	\$ 39,856
*National School Lunch Program - Cash Assistance	10.555	14-043908	125,084
*National School Lunch Prog. - Non-Cash Assistance	10.555	14-043908	22,027
Total CFDA Number 10.555			147,111
Total Child Nutrition Cluster			186,967
Total Passed Through the State Department of Agriculture			\$ 186,967
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			\$ 186,967
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ 554,681

\*Clustered Programs

MELISSA INDEPENDENT SCHOOL DISTRICT  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2014

1. For all federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance is generally accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred. Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred expenditures until earned.
3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions of Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement.
4. The District participates in numerous Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, in any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2014, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying financial statements for such contingencies.

SCHOOLS FIRST QUESTIONNAIRE

Melissa Independent School District

Fiscal Year 2014

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SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	93,524