

**MELISSA INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

MELISSA INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2012

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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, 2012 at a meeting of the Board of Trustees of such school district on the  22nd  day of  January , 2013.

*/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**

UNQUALIFIED OPINION 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**

Board of Trustees  
Melissa Independent School District  
1904 Cooper Street  
Melissa, Texas 75454

Members of the Board:

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 (the District) as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 11, and the budget comparison schedule for the General Fund on page 40 be presented to supplement the basic financial statements. Such information, although not a required 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Melissa Independent School District's financial statements as a whole. The combining statements, identified in the Table of Contents as Exhibits H-1 through H-2, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The 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, identified in the Table of Contents as Exhibits J-1 through J-3, is also presented for purposes of additional analysis and is not a required part of the financial statements. The combining statements, the schedule of expenditures of federal awards, and the TEA required schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, the schedule of expenditures of federal awards, and the TEA required schedules are fairly stated in all material respects in relation to the financial statements as a whole.

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

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Morgan, Davis, & Company, P.C.

December 7, 2012

MELISSA INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED AUGUST 31, 2012

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, 2012. Please read it in conjunction with the independent auditors' report on page 4, and the District's Basic Financial Statements which begin on page 12.

**FINANCIAL HIGHLIGHTS**

- The District's net assets decreased by \$1,519,804 as a result of this year's operations. Net assets as of August 31, 2012 were \$(572,252), of which \$2,515,883 were unrestricted net assets.
- During the year, the District had net expenses (after charges for services & operating grants) of \$13,764,091 that were \$1,519,804 more than the \$12,244,287 generated in tax, state foundation, investment, and other revenues for governmental programs.
- As of August 31, 2012, the District's combined governmental funds reported a fund balance of \$2,221,675 compared to \$3,808,640 for the last fiscal year. The General Fund reported a fund balance of \$2,101,919 this fiscal year compared to \$2,994,122 the last fiscal year.
- The District's total tax rate for the 2011-2012 school year was \$ 1.54 with \$ 1.04 for maintenance & operation and \$ 0.50 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 Assets 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 22) 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 TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

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

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

The analysis of the District's overall financial condition and operations begins on page 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 Assets includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the 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 assets and changes in them. The District's net assets (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Assets and the Statement of Activities, the District 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 Assets 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 Assets 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 Assets on page 21. 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 assets (Table I) and changes in net assets (Table II) of the District's governmental activities.

Net assets of the District's governmental activities decreased from \$1,199,719 last year to \$(572,252) at August 31, 2012. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased from \$3,351,975 last year to \$2,515,883 at August 31, 2012. Changes in net assets of the District's governmental activities was a \$821,052 decrease last year compared to a \$1,519,804 decrease at August 31, 2012.

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

	Governmental Activities 8/31/2012	Governmental Activities 8/31/2011	Net Change
Current and other assets	\$4,191,499	\$6,394,939	(\$2,203,440)
Capital assets	35,073,001	36,227,888	(1,154,887)
Total assets	<u>\$39,264,500</u>	<u>\$42,622,827</u>	<u>(\$3,358,327)</u>
Current and other liabilities	\$1,555,860	\$2,228,446	(\$672,586)
Long-term liabilities	38,280,892	39,194,662	(913,770)
Total liabilities	<u>\$39,836,752</u>	<u>\$41,423,108</u>	<u>(\$1,586,356)</u>
Net Assets:			
Invested in capital assets net of related debt	(\$3,121,014)	(\$2,724,920)	(\$396,094)
Restricted	32,879	572,664	(539,785)
Unrestricted	2,515,883	3,351,975	(836,092)
Total net assets	<u><u>(\$572,252)</u></u>	<u><u>\$1,199,719</u></u>	<u><u>(\$1,771,971)</u></u>



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

	Governmental Activities Yr Ended 8/31/2012	Governmental Activities Yr Ended 8/31/2011	Net Change
<b>Revenues:</b>			
<b>Program Revenues:</b>			
Charges for Services	\$607,779	\$588,963	\$18,816
Operating grants and contributions	1,230,865	1,641,899	(411,034)
<b>General Revenues:</b>			
Maintenance and operations taxes	4,439,950	4,336,706	103,244
Debt service taxes	2,134,832	2,085,190	49,642
State aid - formula grants	5,464,358	6,475,258	(1,010,900)
Grants & Contributions not restricted to specific functions	11,712	1,692	10,020
Investment Earnings	6,578	9,892	(3,314)
Miscellaneous	186,857	74,370	112,487
<b>Total Revenue</b>	<b>\$14,082,931</b>	<b>\$15,213,970</b>	<b>(\$1,131,039)</b>
<b>Expenses:</b>			
Instruction, curriculum and media services	\$7,949,779	\$7,783,975	\$165,804
Instructional and school leadership	1,042,200	1,170,862	(128,662)
Student support services	689,355	719,883	(30,528)
Child nutrition	577,415	553,493	23,922
Co curricular activities	752,828	559,280	193,548
General administration	857,465	999,123	(141,658)
Plant maintenance, security & data processing	1,897,388	2,043,951	(146,563)
Community services	0	0	0
Debt services	1,767,145	1,802,842	(35,697)
Payments to fiscal agents	28,215	370,312	(342,097)
Other intergovernmental charges	40,945	31,301	9,644
<b>Total Expenses</b>	<b>\$15,602,735</b>	<b>\$16,035,022</b>	<b>(\$432,287)</b>
<b>Increase in net assets before transfers and special items</b>	<b>(\$1,519,804)</b>	<b>(\$821,052)</b>	<b>(\$698,752)</b>
Transfers	0	0	0
Special Items	0	0	0
Prior Period Adjustment	(252,167)	0	(252,167)
Net assets at Beginning of Fiscal Year	1,199,719	2,020,771	(821,052)
<b>Net assets at End of Fiscal Year</b>	<b>(\$572,252)</b>	<b>\$1,199,719</b>	<b>(\$1,771,971)</b>

## THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$2,221,675 compared to \$3,808,640 for the last fiscal year. The District's General Fund reported a fund balance decrease of \$892,204, ending the year with \$2,101,919. The District's Special Revenue Funds reported a fund balance increase of \$1,921, ending the year with \$23,233. The District's Debt Service Fund reported a fund balance decrease of \$288,980, ending the year with \$2,285. The District's Capital Projects Funds reported a fund balance decrease of \$154,977, ending the year with \$86,877.

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 2011) 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, 2012, the District invested \$42,223 in capital assets, consisting of miscellaneous improvements .

Capital asset additions were as follows:

	Yr Ended 8/31/12	Yr Ended 8/31/11	Net Change
Land	\$0	\$0	\$0
Buildings & Improvements	42,223	36,686	5,537
Equipment & Vehicles	0	639,164	(639,164)
Total	<u>\$42,223</u>	<u>\$675,850</u>	<u>(\$633,627)</u>

### Debt:

At year-end August 31, 2012, the District had \$38,280,892 in bonds compared to \$39,194,662 last year. During the current fiscal year, the District issued Series 2012 refunding bonds totaling \$2,365,000 to refund Series 2001 bonds. The net present value of savings on the transaction was \$591,696. The new bonds are payable over the next 13 years at 2.00-3.25% 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 2013 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 2013. Amounts available for appropriation in the General Fund budget are \$2,101,919. The District has added no major new programs or initiatives to the 2013 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 ASSETS  
AUGUST 31, 2012

Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 532,547
1120 Current Investments	3,073,944
1220 Property Taxes Receivable (Delinquent)	288,908
1230 Allowance for Uncollectible Taxes	(4,393)
1240 Due from Other Governments	300,493
Capital Assets:	
1510 Land	2,469,565
1520 Buildings, Net	31,765,003
1530 Furniture and Equipment, Net	838,433
1000 Total Assets	39,264,500
<b>LIABILITIES</b>	
2110 Accounts Payable	83,186
2160 Accrued Wages Payable	191,555
2180 Due to Other Governments	1,277,514
2200 Accrued Expenses	3,605
Noncurrent Liabilities	
2501 Due Within One Year	910,000
2502 Due in More Than One Year	37,370,892
2000 Total Liabilities	39,836,752
<b>NET ASSETS</b>	
3200 Invested in Capital Assets, Net of Related Debt	(3,121,014)
3820 Restricted for Federal and State Programs	7,361
3850 Restricted for Debt Service	2,285
3870 Restricted for Campus Activities	23,233
3900 Unrestricted Net Assets	2,515,883
3000 Total Net Assets	\$ (572,252)

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, 2012

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense)
		3	4	Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	6 Primary Gov. Governmental Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 7,790,312	\$ 116,556	\$ 874,631	\$ (6,799,125)
12 Instructional Resources and Media Services	143,308	14,453	6,483	(122,372)
13 Curriculum and Staff Development	16,159	-	125	(16,034)
21 Instructional Leadership	327,193	-	17,758	(309,435)
23 School Leadership	715,007	30,352	28,306	(656,349)
31 Guidance, Counseling and Evaluation Services	90,400	-	3,354	(87,046)
33 Health Services	120,099	-	4,617	(115,482)
34 Student (Pupil) Transportation	478,856	-	12,526	(466,330)
35 Food Services	577,415	348,702	187,831	(40,882)
36 Extracurricular Activities	752,828	71,087	14,116	(667,625)
41 General Administration	857,465	20,544	34,300	(802,621)
51 Facilities Maintenance and Operations	1,576,743	6,085	34,771	(1,535,887)
53 Data Processing Services	320,645	-	11,585	(309,060)
72 Debt Service - Interest on Long Term Debt	1,759,755	-	-	(1,759,755)
73 Debt Service - Bond Issuance Cost and Fees	7,390	-	-	(7,390)
81 Capital Outlay	-	-	462	462
95 Payments to Juvenile Justice Alternative Ed. Prg.	28,215	-	-	(28,215)
99 Other Intergovernmental Charges	40,945	-	-	(40,945)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 15,602,735	\$ 607,779	\$ 1,230,865	(13,764,091)
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			4,439,950
DT	Property Taxes, Levied for Debt Service			2,134,832
SF	State Aid - Formula Grants			5,464,358
GC	Grants and Contributions not Restricted			11,712
IE	Investment Earnings			6,578
MI	Miscellaneous Local and Intermediate Revenue			186,857
TR	Total General Revenues			12,244,287
CN	Change in Net Assets			(1,519,804)
NB	Net Assets--Beginning			1,199,719
PA	Prior Period Adjustment			(252,167)
NE	Net Assets--Ending			\$ (572,252)

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2012

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 217,822	\$ 1,977	\$ 126,636	\$ 346,435
1120 Investments - Current	2,907,894	152,475	13,575	3,073,944
1220 Property Taxes - Delinquent	204,307	84,601	-	288,908
1230 Allowance for Uncollectible Taxes (Credit)	(3,107)	(1,286)	-	(4,393)
1240 Receivables from Other Governments	296,710	-	3,783	300,493
1260 Due from Other Funds	-	100,000	-	100,000
1000 Total Assets	<u>\$ 3,623,626</u>	<u>\$ 337,767</u>	<u>\$ 143,994</u>	<u>\$ 4,105,387</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
2110 Accounts Payable	\$ -	\$ -	\$ 26,523	\$ 26,523
2160 Accrued Wages Payable	191,555	-	-	191,555
2170 Due to Other Funds	100,000	-	-	100,000
2180 Due to Other Governments	1,025,347	252,167	-	1,277,514
2200 Accrued Expenditures	3,605	-	-	3,605
2300 Deferred Revenues	201,200	83,315	-	284,515
2000 Total Liabilities	<u>1,521,707</u>	<u>335,482</u>	<u>26,523</u>	<u>1,883,712</u>
Fund Balances:				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	7,361	7,361
3470 Capital Acquisition and Contractual Obligation	-	-	86,877	86,877
3480 Retirement of Long-Term Debt	-	2,285	-	2,285
Committed Fund Balance:				
3545 Other Committed Fund Balance	-	-	23,233	23,233
3600 Unassigned Fund Balance	2,101,919	-	-	2,101,919
3000 Total Fund Balances	<u>2,101,919</u>	<u>2,285</u>	<u>117,471</u>	<u>2,221,675</u>
4000 Total Liabilities and Fund Balances	<u>\$ 3,623,626</u>	<u>\$ 337,767</u>	<u>\$ 143,994</u>	<u>\$ 4,105,387</u>

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
AUGUST 31, 2012

<b>Total Fund Balances - Governmental Funds</b>	\$	2,221,675
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 assets. The net effect of this consolidation is to increase(decrease) net assets.		129,449
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 \$44,662,967 and the accumulated depreciation was \$8,435,079. In addition, long-term liabilities, including bonds payable of \$39,194,662, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		(2,966,774)
3 Current year capital outlays of \$42,223 and long-term debt principal payments of \$770,000 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 \$15,406 and amortization of bond premium of \$44,176 are recorded in the government-wide financial statements. The net effect of including the 2012 capital outlays and debt principal payments is to increase (decrease) net assets.		840,993
4 The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(1,197,110)
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 deferred revenue of \$284,515 as revenue, eliminating interfund transactions, reclassifying bond proceeds of \$115,000, 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 assets.		399,515
<b>19 Net Assets of Governmental Activities</b>	<b>\$</b>	<b>(572,252)</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, 2012

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 4,697,787	\$ 2,148,147	\$ 392,953	\$ 7,238,887
5800 State Program Revenues	5,896,980	18,696	79,286	5,994,962
5900 Federal Program Revenues	11,712	-	700,261	711,973
5020 Total Revenues	<u>10,606,479</u>	<u>2,166,843</u>	<u>1,172,500</u>	<u>13,945,822</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011 Instruction	6,515,003	-	651,003	7,166,006
0012 Instructional Resources and Media Services	119,973	-	12,483	132,456
0013 Curriculum and Instructional Staff Development	16,034	-	125	16,159
0021 Instructional Leadership	305,489	-	-	305,489
0023 School Leadership	633,662	-	26,644	660,306
0031 Guidance, Counseling and Evaluation Services	79,107	-	-	79,107
0033 Health Services	109,247	-	-	109,247
0034 Student (Pupil) Transportation	378,498	-	-	378,498
0035 Food Services	-	-	537,093	537,093
0036 Extracurricular Activities	685,952	-	-	685,952
0041 General Administration	779,589	-	147	779,736
0051 Facilities Maintenance and Operations	1,408,469	-	-	1,408,469
0053 Data Processing Services	298,500	-	-	298,500
<b>Debt Service:</b>				
0071 Principal on Long Term Debt	-	770,000	-	770,000
0072 Interest on Long Term Debt	-	1,788,525	-	1,788,525
0073 Bond Issuance Cost and Fees	-	84,476	-	84,476
<b>Capital Outlay:</b>				
0081 Facilities Acquisition and Construction	-	-	98,620	98,620
<b>Intergovernmental:</b>				
0095 Payments to Juvenile Justice Alternative Ed. Prg.	28,215	-	-	28,215
0099 Other Intergovernmental Charges	40,945	-	-	40,945
6030 Total Expenditures	<u>11,398,683</u>	<u>2,643,001</u>	<u>1,326,115</u>	<u>15,367,799</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(792,204)</u>	<u>(476,158)</u>	<u>(153,615)</u>	<u>(1,421,977)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7911 Capital Related Debt Issued (Regular Bonds)	-	2,375,092	-	2,375,092
7915 Transfers In	-	100,000	-	100,000
7916 Premium or Discount on Issuance of Bonds	-	198,946	-	198,946
8911 Transfers Out (Use)	(100,000)	-	-	(100,000)
8949 Other (Uses)	-	(2,486,860)	-	(2,486,860)
7080 Total Other Financing Sources (Uses)	<u>(100,000)</u>	<u>187,178</u>	<u>-</u>	<u>87,178</u>
1200 Net Change in Fund Balances	(892,204)	(288,980)	(153,615)	(1,334,799)
0100 Fund Balance - September 1 (Beginning)	2,994,123	543,432	271,086	3,808,641
1300 Prior Period Adjustment	-	(252,167)	-	(252,167)
3000 Fund Balance - August 31 (Ending)	<u>\$ 2,101,919</u>	<u>\$ 2,285</u>	<u>\$ 117,471</u>	<u>\$ 2,221,675</u>

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



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, 2012

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(1,334,799)
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 assets.		44,095
Current year capital outlays of \$42,223 and long-term debt principal payments of \$770,000 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 \$15,406 and amortization of bond premium of \$44,176 are recorded in the government-wide financial statements. The net effect of including the 2012 capital outlays and debt principal payments is to increase (decrease) net assets.		840,993
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(1,197,110)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue by \$12,017 to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying bond proceeds of \$115,000, 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 assets.		127,017
<b>Change in Net Assets of Governmental Activities</b>	<u>\$</u>	<u>(1,519,804)</u>

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
AUGUST 31, 2012

	Governmental Activities -
	Internal Service Fund
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 186,112
Total Assets	186,112
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	56,663
Total Liabilities	56,663
<b>NET ASSETS</b>	
Unrestricted Net Assets	129,449
Total Net Assets	\$ 129,449

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 ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2012

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 122,218
Total Operating Revenues	122,218
OPERATING EXPENSES:	
Other Operating Costs	78,123
Total Operating Expenses	78,123
Operating Income	44,095
Total Net Assets - September 1 (Beginning)	85,354
Total Net Assets - August 31 (Ending)	\$ 129,449

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, 2012

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 122,218
Cash Payments for Insurance Claims	(84,504)
Net Cash Provided by Operating Activities	37,714
Net Increase in Cash and Cash Equivalents	37,714
Cash and Cash Equivalents at Beginning of Year	148,398
Cash and Cash Equivalents at End of Year	\$ 186,112
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income:	\$ 44,095
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	(6,381)
Net Cash Provided by Operating Activities	\$ 37,714

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
AUGUST 31, 2012

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	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 45,611
Investments - Current	25,944
Total Assets	<u>\$ 71,555</u>
LIABILITIES	
Due to Student Groups	\$ 71,555
Total Liabilities	<u>\$ 71,555</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, 2012

**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 Assets 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 Assets, 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 Assets. 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. The District considers all revenues available if they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. 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. 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 Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

### **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 Funds** – 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.

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.

**Capital Projects Funds** – These governmental fund are established to account for proceeds from the sale of bonds and other resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishing and equipping of major capital facilities.

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. If student groups declare any unused resources surplus, they are transferred to the General Fund with a recommendation to the Board for an appropriate utilization through a budgeted program. 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 \$186,112 as of August 31, 2012.

## **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	5
Buses	10
Equipment	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, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt.

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 amount of issuance costs are reported as expenditures.

**11. Fund Balance**

In accordance with GASB 54 and school board policy, the five classifications of fund balance in the governmental fund financial statements are as follows:

Non-spendable fund balance means the portion of the fund balance that is not in expendable form, such as inventory or long-term receivables, or that is legally or contractually required to be maintained intact, such as self funded reserves programs.

Restricted fund balance includes amounts constrained to a specific purpose by the provider, such as a grantor.

Committed fund balance means the portion of the fund balance that is constrained to a specific intended purpose by school board action, and is therefore not available for future general expenditures unless amended by future board action.

Assigned fund balance means the portion of the fund balance that is spendable or available for appropriation but has been tentatively earmarked for some specific intended purpose by the Board, the Superintendent, or the Chief Financial Officer.

Unassigned fund balance includes amounts available for any legal purpose. This portion of the total fund balance in the general fund is available to finance future operating expenditures. The unassigned fund balance is the difference between the total fund balance and the total of the non-spendable, restricted, committed, and assigned fund balances.

As of August 31, 2012, the District's fund balances are classified as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<b>Restricted for:</b>				
State & Federal Grants			\$7,361	\$7,361
Capital Acquisition			86,877	86,877
Debt Service		2,285		2,285
<b>Committed to:</b>				
Construction	0			0
Campus Activity			23,233	23,233
<b>Unassigned</b>	2,101,919			2,101,919
<b>Total Fund Balances</b>	<u>\$2,101,919</u>	<u>\$2,285</u>	<u>\$117,471</u>	<u>\$2,221,675</u>

## 12. Functions

School Districts are required to report all expenses by function, except certain indirect expenses. General administration, 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, followed by committed, assigned, and unassigned in that order.

## 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, 2012, employees of the District were covered by a health insurance plan (the Plan). The District contributed \$372 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The contract between the District and the licensed insurer is renewable September 1, 2012, and the terms of coverage and premiums are included in the contractual agreement.

### **Workers Compensation Coverage**

The District sponsors a modified self-insurance plan (through Claims Administrative Services, Inc.) to provide workers compensation coverage to staff members. 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, 2012, to \$ 225,000 for any individual participant and an aggregate limit equal to \$ 5,000,000.

Estimates of claims payable and of claims incurred, but not reported at August 31, 2012, 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, 2012</u>	<u>Year Ended August 31, 2011</u>
Unpaid claims, beginning of fiscal year	\$63,044	\$31,028
Incurred claims (including IBNR's)	78,123	151,083
Claim payments	(84,504)	(119,067)
Unpaid claims, end of fiscal year	<u>\$56,663</u>	<u>\$63,044</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 assets. 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 Assets</u>
Land	\$2,469,565		\$2,469,565	
Buildings	40,854,976	(8,056,797)	32,798,179	
Equipment & Vehicles	1,338,426	(378,282)	960,144	
Change in Net Assets				\$36,227,888
<u>Long-term Liabilities at the Beginning of the year</u>			<u>Payable at the Beginning of the year</u>	
Bonds Payable			\$39,194,662	
Loans Payable			0	
Capital Leases Payable			0	
Change in Net Assets				(\$39,194,662)
Net Adjustment to Net Assets				(\$2,966,774)

**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 assets 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 asset balance and the change in net assets. The details of this adjustment are as follows:

<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current Year Capital Outlay</u>		
Land	\$0	
Buildings & Improvements	42,223	
Equipment & Vehicles	0	
Total Capital Outlay	\$42,223	\$42,223
<u>Debt Service Payments</u>		
Bond Principal	\$770,000	
Accretion on Capital Appreciation Bonds	(15,406)	
Amortization on Bond Premium	44,176	
Loan Principal	0	
Capital Lease Principal	0	
Total Principal Payments	\$798,770	798,770
Total Adjustment to Net Assets	\$840,993	\$840,993

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 Assets</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>		
Net Property Tax Revenue Adjustment	\$12,017	\$284,515
<u>Reclassify Bond Proceeds to Bonds Payable</u>		
Reclassify Bond Proceeds to Bonds Payable	\$115,000	\$115,000
Totals	\$127,017	\$399,515

**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, 2012 Fund Balance</u>	
Appropriated Budget Funds - Food Service	\$7,361
Nonappropriated Budget Funds-Campus Activity	23,233
All Special Revenue Funds	\$30,594

**Note D. Deposits and Investments**

At August 31, 2012, the carrying amount of the District's deposits (cash, certificates of deposit, and interest bearing savings accounts) was \$532,547. The District's cash deposits at August 31, 2012 and during the year ended August 31, 2012 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 \$765,608 and occurred during the month of February 2012.

c. The market value of securities pledged as of the date of the highest combined balance on deposit was \$881,465.

d. Total amount of FDIC coverage at the time of the highest combined balance was \$256,419.

The District's investments at August 31, 2012, were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Tex Star Investment Accounts	\$2,511,178	0.11
Tex Pool Investment Accounts	562,766	0.11
Total Fair Value	<u>\$3,073,944</u>	
Portfolio Weighted Average Maturity		0.11

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 Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

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

a. Foreign Currency Risk – This is defined as the risk that fluctuations in the foreign exchange rates will adversely affect the fair value of an investment. In accordance with its investment policy, the District does not invest in foreign currency and thus is not exposed to this risk.

b. Custodial Credit Risk - Deposits: For deposits, this is defined as the risk that in the event of the failure of a depository institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's policy regarding types of deposits allowed and collateral requirements is that the District will award a depository contract in accordance with state law which requires that any deposits held by the depository institution that are not insured by federal depository insurance will be collateralized with collateral for deposits held by the pledging financial institution's trust department or agent in the name of the District. The District is not exposed to custodial credit risk for its deposits because all are covered by depository insurance plus securities held by the pledging financial institution's trust department or agent in the name of the District.

c. Custodial Credit Risk - Investments: For an investment, this is defined as the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial credit risk for its investments because all certificates of deposit are covered by depository insurance plus securities held by the pledging financial institution's trust department or agent in the name of the District. The District's position in external investment pools (Tex Pool & Tex Star) is not subject to custodial credit risk.

d. Interest Rate Risk – This is defined as the risk of being trapped for an extended period with an interest rate that is lower than market resulting in a decline in market value of the investment. In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than six months.

e. Credit Risk – This is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. In accordance with its investment policy, the District limits its investments in debt securities to the top rating issued by nationally recognized statistical rating organizations. As of August 31, 2012, the District's investment in TexPool Investment Pool was rated AAAM by Standards & Poor's. TexPool Investment Pool is administered by the Comptroller of Public Accounts through the Texas Treasury Safekeeping Trust Company. Financial reports or additional information can be obtained through its website [www.texpool.com](http://www.texpool.com) or by calling them at 1-866-839-7665. As of August 31, 2012, the District's investment in Tex Star Investment Pool was rated AAAM by Standards & Poor's. Tex Star Investment Pool is administered by First Southwest Asset Management & JPMorgan Chase. Financial reports or additional information can be obtained through its website [www.texstar.org](http://www.texstar.org) or by calling them at 1-800-839-7827.

f. Concentration of Credit Risk – This is defined as the risk of loss attributed to the magnitude of the District's investment in a single issuer (positions of 5% or more in the securities of a single issuer). In accordance with its investment policy, the District does not allow for an investment in any one issuer that is in excess of 5% of the District's total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in external investment pools (Tex Pool & Tex Star) are excluded from this requirement.

Defaults and Recovery of Prior Period Losses:

There were no defaults or recovery of prior period losses during the year ended August 31, 2012.

#### **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 (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The assessed value of the tax roll on January 1, 2011, upon which the tax levy for the 2012 fiscal year was based, was \$426,933,889. The tax rates assessed for the year ended August 31, 2012 to finance general fund operations and the payment of principal & interest on general obligation bonds were \$ 1.04 and \$ 0.50 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, 2012 were 99.61% 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 E. Disaggregation of Receivables and Payables**

Receivables at August 31, 2012, 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	\$204,307	\$296,710	\$0	\$0	\$501,017
Debt Service Fund	84,601	0	100,000	0	184,601
Nonmajor Governmental Funds	0	3,763	0	0	3,763
Total Governmental Activities	<u>\$288,908</u>	<u>\$300,473</u>	<u>\$100,000</u>	<u>\$0</u>	<u>\$689,381</u>
Amounts not scheduled for collection during the subsequent year	<u>\$4,393</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,393</u>

Payables at August 31, 2012, 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	\$191,555	\$100,000	\$1,025,347	\$3,605	\$1,320,507
Debt Service Fund	0	0	0	252,167	0	252,167
Nonmajor Governmental Funds	26,523	0	0	0	0	26,523
Total Governmental Activities	<u>\$26,523</u>	<u>\$191,555</u>	<u>\$100,000</u>	<u>\$1,277,514</u>	<u>\$3,605</u>	<u>\$1,599,197</u>
Amounts not scheduled for collection during the subsequent year	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

#### **Note H. Capital Asset Activity**

Capital asset activity for the year ended August 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	\$2,469,565	\$0	\$0	\$2,469,565
Buildings & Improvements	40,854,976	42,223	0	40,897,199
Equipment & Vehicles	1,338,426	0	0	1,338,426
Totals at Historical Cost	<u>44,662,967</u>	<u>42,223</u>	<u>0</u>	<u>44,705,190</u>
Less accumulated depreciation for:				
Buildings & Improvements	(8,056,797)	(1,075,399)	0	(9,132,196)
Equipment & Vehicles	(378,282)	(121,711)	0	(499,993)
Total accumulated depreciation	<u>(8,435,079)</u>	<u>(1,197,110)</u>	<u>0</u>	<u>(9,632,189)</u>
Governmental Activities Capital Assets, Net	<u>\$36,227,888</u>	<u>(\$1,154,887)</u>	<u>\$0</u>	<u>\$35,073,001</u>

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



11 Instruction	\$643,707
12 Instructional Resources & Media Services	11,293
21 Instructional Leadership	22,586
23 School Leadership	56,465
31 Guidance, Counseling, & Evaluation Services	11,293
33 Health Services	11,293
34 Student (Pupil) Transportation	101,681
35 Food Services	45,172
36 Cocurricular/Extracurricular Activities	67,758
41 General Administration	79,052
51 Plant Maintenance & Operations	124,224
53 Data Processing Services	22,586
	<hr/>
Total Depreciation Expense	<u>\$1,197,110</u>

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

Long-term liability activity for the year ended August 31, 2012, was as follows:

	<u>Beginning</u>			<u>Ending</u>	<u>Amounts Due</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>within One</u>
					<u>Year</u>
Governmental Activities:					
General Obligation Bonds	\$39,194,662	\$2,365,000	(\$3,278,770)	\$38,280,892	\$910,000
Loans	0	0	0	0	0
Capital Leases	0	0	0	0	0
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Governmental Activities	<u>\$39,194,662</u>	<u>\$2,365,000</u>	<u>(\$3,278,770)</u>	<u>\$38,280,892</u>	<u>\$910,000</u>

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

The District has entered into a continuing disclosure undertaking to provide annual reports and material 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.

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 general obligation bonds for the year ended August 31, 2012 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 9/01/11</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Amounts Outstanding 8/31/12</u>
Unlimited Tax Bldg Bonds-Series 2001	4.75-6.25%	\$3,000,000	\$127,367	\$2,550,000	\$0	(\$2,550,000)	\$0
Unlimited Tax Bldg Bonds-Series 2003	3.75-5.25%	9,000,000	352,039	8,285,000	0	(125,000)	8,160,000
Unlimited Tax Bldg Bonds-Series 2004	4.50-6.00%	4,200,000	185,964	3,760,000	0	(85,000)	3,675,000
Unlimited Tax Bldg Bonds-Series 2005	4.30-6.00%	4,700,000	191,413	4,350,000	0	(85,000)	4,265,000
Unlimited Tax Bldg Bonds-Series 2006	4.05-6.00%	4,500,000	192,040	4,175,000	0	(90,000)	4,085,000
Unlimited Tax Bldg Bonds-Series 2007	4.00-5.25%	9,900,000	404,810	9,335,000	0	(210,000)	9,125,000
Unlimited Tax Bldg Bonds-Series 2008	4.00-5.25%	3,000,000	139,870	2,950,000	0	(50,000)	2,900,000
Unlimited Tax Bldg Bonds-Series 2009	2.00-5.20%	3,380,000	150,022	3,210,000	0	0	3,210,000
Capital Appreciation Bonds-Series 2009	2.45-4.625%	596,873	16,231	579,662	0	(83,770)	495,892
Unlimited Tax Refunding Bonds-Series 2012	2.00-3.25%	2,365,000	0	0	2,365,000	0	2,365,000
Totals							
			<u>\$1,759,756</u>	<u>\$39,194,662</u>	<u>\$2,365,000</u>	<u>(\$3,278,770)</u>	<u>\$38,280,892</u>

The capital appreciation bonds were originally recorded at their face value and have only been reduced as principal payments were paid. Since these bonds mature at different dates through the year 2018, for GASB Statement 34, the bonds are now included in bonds payable at their accreted value, for principal amounts due as of August 31, 2012.

During the current fiscal year, the District issued Series 2012 refunding bonds totaling \$2,365,000 to early call the Series 2001 bonds totaling \$2,480,000. The net present value of savings on the refunding transaction was \$591,696.

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, 2012.

Debt service requirements for 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>	
2013	\$910,000	\$1,649,198	\$2,559,198
2014	976,480	1,637,165	2,613,645
2015	1,038,448	1,576,872	2,615,320
2016	1,081,473	1,530,740	2,612,213
2017	1,130,017	1,484,465	2,614,482
2018-2022	6,389,474	6,676,791	13,066,265
2023-2027	7,845,000	5,276,569	13,121,569
2028-2032	9,920,000	3,404,478	13,324,478
2033-2037	8,745,000	1,041,438	9,786,438
2038-Maturity	245,000	11,637	256,637
Totals	<u>\$38,280,892</u>	<u>\$24,289,353</u>	<u>\$62,570,245</u>

Summary information for the capital appreciation bonds is as follows:

<u>Series</u>	<u>Capital Appreciation Bonds</u>	
	<u>Original Amount</u>	<u>Accreted Value, 8/31/12</u>
2009	\$388,522	\$495,892
Totals	<u>\$388,522</u>	<u>\$495,892</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, 2012.

Capital Leases:

There were no capital leases outstanding during the year ended August 31, 2012.

**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, 2011	\$0	\$0
Additions - New Entrants and Salary Increments	0	0
Deductions - Payments to Participants	0	0
Balance, August 31, 2012	<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 by the Texas state legislature. The state funding policy is as follows: (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; (2) A state statute prohibits benefit improvements or contribution reductions 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. State law provides for a member contribution rate of 6.40% for fiscal year 2012, 2011, and 2010, and a state contribution rate of 6.00% for fiscal year 2012, and 6.644% for fiscal years 2011 and 2010. In certain instances, the reporting district is required to make all or a portion of the state's 6.00% contribution. State contributions to TRS made on behalf of Melissa Independent School District's employees for the years ended August 31, 2012, 2011, and 2010 were \$451,318, \$498,897, and \$517,994, respectively. Melissa Independent School District paid additional state contributions for the years ended August 31, 2012, 2011, and 2010 in the amount of \$91,755, \$80,931, and \$80,756, respectively, on the salaries paid from federal and private grants and for the portion of the employees' salaries that exceeded the statutory minimum.

#### **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 post employment 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 state 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 that 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. For the years ended August 31, 2012, 2011, and 2010, the State of Texas contribution rate was 1.00%, the active member contribution rate was 0.65% and the school district contribution rate was 0.55% of the covered public school payroll. For the years ended August 31, 2012, 2011, and 2010, the State's contributions to TRS-Care made on behalf of Melissa Independent School District's employees were \$82,517, \$80,953, and \$87,069, respectively, the active member contributions were \$53,636, \$52,619, and \$56,595 respectively, and the school district's contributions were \$45,384, \$44,524, and \$47,888, respectively, which equaled the required contributions each year.

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

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. For the years ended August 31, 2012, 2011, and 2010, the State's contributions for Medicare Part D made on behalf of Melissa Independent School District's employees were \$21,825, \$18,941, and \$22,316, respectively.

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 who is not eligible for Medicare and is not covered by an active employee of the plan sponsor. This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first served basis for qualified employers that apply and become certified for the program. TRS has been certified for this program and has received funds from the ERRP program. These funds are allocated to the District using the same basis as the Medicare Part D on behalf payments. 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. Deferred Revenue**

Deferred revenue at August 31, 2012 consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Net Tax Revenue	\$201,200	\$0	\$83,315	\$284,515
Total Deferred Revenue	<u>\$201,200</u>	<u>\$0</u>	<u>\$83,315</u>	<u>\$284,515</u>

**Note Q. 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, 2012, 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	\$296,710	\$0	\$0	\$296,710
Nonmajor Governmental Funds	0	3,783	0	3,783
Totals	<u>\$296,710</u>	<u>\$3,783</u>	<u>\$0</u>	<u>\$300,493</u>

**Note R. Due to Other Governments**

As of August 31, 2012, the District had \$1,025,347 due to Texas Education Agency for 2011-2012 state foundation aid. The District also had \$155,814 due to TEA for Existing Debt Allotment and \$96,353 due to TEA for Instructional Facilities Allotment. The Texas Education Agency will deduct these amounts from 2012-2013 state funding.

**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, 2012 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.

**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 Fund</u>	<u>Totals</u>
Property Taxes	\$4,423,219		\$0	\$0	\$6,549,270
Penalties, Interest, & Other Tax					
Related Income	50,833	0	20,763	0	71,596
Investment Income	5,092	15	1,333	138	6,578
Services to Other LEAs	20,544	0	0	0	20,544
Tuition	113,183	0	0	0	113,183
Food Service Sales	0	348,703	0	0	348,703
Athletics	71,087	0	0	0	71,087
Co-Curricular	0	44,097	0	0	44,097
Other	13,829	0	0	0	13,829
<b>Totals</b>	<b>\$4,697,787</b>	<b>\$392,815</b>	<b>\$2,148,147</b>	<b>\$138</b>	<b>\$7,238,887</b>

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

Interfund balances at August 31, 2012 consisted of the following amounts:

**Due to Debt Service Fund from:**

General Fund	<u>\$100,000</u>
Total Due to Debt Service Fund from Other Funds	<u><u>\$100,000</u></u>

Interfund transfers for the year ended August 31, 2012, consisted of the following individual amounts:

**Transfers to Debt Service Fund from:**

General Fund	<u>\$100,000</u>
Total Transferred to Debt Service Fund from Other Funds	<u><u>\$100,000</u></u>

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

The District participates in shared services arrangements for Special Education 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 7, 2012, which is the date the financial statements were available to be issued.

**Note X. Prior Period Adjustments**

At August 31, 2012, the District made the following prior period adjustment:

For periods prior to September 1, 2011, the District was overpaid on prior years Existing Debt Allotment by \$155,814 and was overpaid on prior years Instructional Facilities Allotment by \$96,353. The total of \$252,167 is shown a prior period adjustment in the Debt Service Fund.

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, 2012

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	\$ 4,529,411	\$ 4,553,729	\$ 4,697,787	\$ 144,058
5800 State Program Revenues	7,537,643	7,131,972	5,896,980	(1,234,992)
5900 Federal Program Revenues	-	-	11,712	11,712
5020 Total Revenues	12,067,054	11,685,701	10,606,479	(1,079,222)
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	6,589,268	6,515,672	6,515,003	669
0012 Instructional Resources and Media Services	177,692	120,448	119,973	475
0013 Curriculum and Instructional Staff Development	112,826	16,124	16,034	90
0021 Instructional Leadership	312,375	306,315	305,489	826
0023 School Leadership	790,451	636,784	633,662	3,122
0031 Guidance, Counseling and Evaluation Services	189,730	80,762	79,107	1,655
0033 Health Services	155,298	110,628	109,247	1,381
0034 Student (Pupil) Transportation	290,084	392,163	378,498	13,665
0036 Extracurricular Activities	574,032	697,092	685,952	11,140
0041 General Administration	827,697	782,851	779,589	3,262
0051 Facilities Maintenance and Operations	1,637,267	1,524,966	1,408,469	116,497
0053 Data Processing Services	292,334	298,989	298,500	489
Intergovernmental:				
0095 Payments to Juvenile Justice Alternative Ed. Prg.	68,000	28,215	28,215	-
0099 Other Intergovernmental Charges	50,000	44,120	40,945	3,175
6030 Total Expenditures	12,067,054	11,555,129	11,398,683	156,446
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	130,572	(792,204)	(922,776)
<b>OTHER FINANCING SOURCES (USES):</b>				
8911 Transfers Out (Use)	-	(100,000)	(100,000)	-
7080 Total Other Financing Sources (Uses)	-	(100,000)	(100,000)	-
1200 Net Change in Fund Balances	-	30,572	(892,204)	(922,776)
0100 Fund Balance - September 1 (Beginning)	2,994,123	2,994,123	2,994,123	-
3000 Fund Balance - August 31 (Ending)	\$ 2,994,123	\$ 3,024,695	\$ 2,101,919	\$ (922,776)



COMBINING STATEMENTS

MELISSA INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2012

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	\$ -	\$ -	\$ -	\$ 3,578
1120	Investments - Current	-	-	-	-
1240	Receivables from Other Governments	-	-	-	3,783
1000	Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,361</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	7,361
3470	Capital Acquisition and Contractual Obligation	-	-	-	-
Committed Fund Balance:					
3545	Other Committed Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,361</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,361</u>

255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	285 ESEA I, A Improving Basic Program	287 Education Jobs Fund ARRA	410 Instructional Materials Allotment	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	694 Capital Proj. \$2.54 Million Bond Constr.
\$ -	\$ -	\$ -	\$ -	\$ 26,523	\$ 9,658	\$ 39,759	\$ 4,385
-	-	-	-	-	13,575	13,575	-
-	-	-	-	-	-	3,783	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,523</u>	<u>\$ 23,233</u>	<u>\$ 57,117</u>	<u>\$ 4,385</u>
\$ -	\$ -	\$ -	\$ -	\$ 26,523	\$ -	\$ 26,523	\$ -
-	-	-	-	26,523	-	26,523	-
-	-	-	-	-	-	7,361	-
-	-	-	-	-	-	-	4,385
-	-	-	-	-	23,233	23,233	-
-	-	-	-	-	23,233	30,594	4,385
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,523</u>	<u>\$ 23,233</u>	<u>\$ 57,117</u>	<u>\$ 4,385</u>

MELISSA INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2012

Data Control Codes	696 Capital Proj. \$9.9 Million Bond Constr.	697 Capital Proj. \$4.5 Million Bond Constr.	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ 82,492	\$ 86,877	\$ 126,636
1120	Investments - Current	-	-	-	13,575
1240	Receivables from Other Governments	-	-	-	3,783
1000	Total Assets	<u>\$ -</u>	<u>\$ 82,492</u>	<u>\$ 86,877</u>	<u>\$ 143,994</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ 26,523
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,523</u>
Fund Balances:					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	7,361
3470	Capital Acquisition and Contractual Obligation	-	82,492	86,877	86,877
Committed Fund Balance:					
3545	Other Committed Fund Balance	-	-	-	23,233
3000	Total Fund Balances	<u>-</u>	<u>82,492</u>	<u>86,877</u>	<u>117,471</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 82,492</u>	<u>\$ 86,877</u>	<u>\$ 143,994</u>

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MELISSA INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2012

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	\$ -	\$ -	\$ -	\$ 348,703
5800 State Program Revenues	-	-	-	2,134
5900 Federal Program Revenues	62,898	194,164	2,167	185,697
5020 Total Revenues	<u>62,898</u>	<u>194,164</u>	<u>2,167</u>	<u>536,534</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	62,898	194,164	2,167	-
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	-	-
0023 School Leadership	-	-	-	-
0035 Food Services	-	-	-	537,093
0041 General Administration	-	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	-	-
6030 Total Expenditures	<u>62,898</u>	<u>194,164</u>	<u>2,167</u>	<u>537,093</u>
1200 Net Change in Fund Balance	-	-	-	(559)
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,920</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,361</u>

255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	285 ESEA I, A Improving Basic Program	287 Education Jobs Fund ARRA	410 Instructional Materials Allotment	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	694 Capital Proj. \$2.54 Million Bond Constr.
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,112	\$ 392,815	\$ 21
-	-	-	-	77,152	-	79,286	-
11,558	3,089	103	240,585	-	-	700,261	-
11,558	3,089	103	240,585	77,152	44,112	1,172,362	21
11,558	2,964	103	240,585	77,152	2,917	594,508	-
-	-	-	-	-	12,483	12,483	-
-	125	-	-	-	-	125	-
-	-	-	-	-	26,644	26,644	-
-	-	-	-	-	-	537,093	-
-	-	-	-	-	147	147	-
-	-	-	-	-	-	-	62,716
11,558	3,089	103	240,585	77,152	42,191	1,171,000	62,716
-	-	-	-	-	1,921	1,362	(62,695)
-	-	-	-	-	21,312	29,232	67,080
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,233	\$ 30,594	\$ 4,385

MELISSA INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	696 Capital Proj. \$9.9 Million Bond Constr.	697 Capital Proj. \$4.5 Million Bond Constr.	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds	
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 13	\$ 104	\$ 138	\$ 392,953
5800	State Program Revenues	-	-	-	79,286
5900	Federal Program Revenues	-	-	-	700,261
5020	Total Revenues	<u>13</u>	<u>104</u>	<u>138</u>	<u>1,172,500</u>
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	56,495	-	56,495	651,003
0012	Instructional Resources and Media Services	-	-	-	12,483
0013	Curriculum and Instructional Staff Development	-	-	-	125
0023	School Leadership	-	-	-	26,644
0035	Food Services	-	-	-	537,093
0041	General Administration	-	-	-	147
Capital Outlay:					
0081	Facilities Acquisition and Construction	3,358	32,546	98,620	98,620
6030	Total Expenditures	<u>59,853</u>	<u>32,546</u>	<u>155,115</u>	<u>1,326,115</u>
1200	Net Change in Fund Balance	(59,840)	(32,442)	(154,977)	(153,615)
0100	Fund Balance - September 1 (Beginning)	<u>59,840</u>	<u>114,934</u>	<u>241,854</u>	<u>271,086</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ 82,492</u>	<u>\$ 86,877</u>	<u>\$ 117,471</u>



REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

MELISSA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FISCAL YEAR ENDED AUGUST 31, 2012

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2003 and prior years	\$ 1.500000	\$ 0.195620	\$ 180,168,866
2004	1.500000	0.378870	203,516,697
2005	1.500000	0.490000	221,386,291
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 (School year under audit)	1.040000	0.500000	426,933,889
1000 TOTALS			

(10) Beginning Balance 9/1/2011	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2012
\$ 29,511	\$ -	\$ 1,207	\$ 158	\$ (7,327)	\$ 20,819
8,231	-	20	5	(793)	7,413
9,762	-	-	-	(822)	8,940
15,044	-	180	49	(69)	14,746
16,387	-	167	50	(66)	16,104
16,131	-	383	182	(56)	15,510
30,260	-	1,977	950	(57)	27,276
40,320	-	9,877	4,749	(57)	25,637
111,675	-	36,815	17,700	(4,678)	52,482
-	6,574,782	4,372,593	2,102,208	-	99,981
<u>\$ 277,321</u>	<u>\$ 6,574,782</u>	<u>\$ 4,423,219</u>	<u>\$ 2,126,051</u>	<u>\$ (13,925)</u>	<u>\$ 288,908</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, 2012

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	\$ 315,000	\$ 330,000	\$ 348,703	\$ 18,703
5800 State Program Revenues	17,000	2,000	2,134	134
5900 Federal Program Revenues	208,200	232,850	185,697	(47,153)
5020 Total Revenues	<u>540,200</u>	<u>564,850</u>	<u>536,534</u>	<u>(28,316)</u>
<b>EXPENDITURES:</b>				
0035 Food Services	<u>540,200</u>	<u>564,850</u>	<u>537,093</u>	<u>27,757</u>
6030 Total Expenditures	<u>540,200</u>	<u>564,850</u>	<u>537,093</u>	<u>27,757</u>
1200 Net Change in Fund Balances	-	-	(559)	(559)
0100 Fund Balance - September 1 (Beginning)	<u>7,920</u>	<u>7,920</u>	<u>7,920</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 7,920</u>	<u>\$ 7,920</u>	<u>\$ 7,361</u>	<u>\$ (559)</u>

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, 2012

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	\$ 2,588,525	\$ 2,469,829	\$ 2,148,147	\$ (321,682)
5800	State Program Revenues	-	18,696	18,696	-
5020	Total Revenues	2,588,525	2,488,525	2,166,843	(321,682)
<b>EXPENDITURES:</b>					
Debt Service:					
0071	Principal on Long Term Debt	770,000	770,000	770,000	-
0072	Interest on Long Term Debt	1,788,525	1,788,525	1,788,525	-
0073	Bond Issuance Cost and Fees	30,000	107,086	84,476	22,610
6030	Total Expenditures	2,588,525	2,665,611	2,643,001	22,610
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(177,086)	(476,158)	(299,072)
<b>OTHER FINANCING SOURCES (USES):</b>					
7911	Capital Related Debt Issued (Regular Bonds)	-	2,365,000	2,375,092	10,092
7915	Transfers In	-	100,000	100,000	-
7916	Premium or Discount on Issuance of Bonds	-	198,946	198,946	-
8949	Other (Uses)	-	(2,486,860)	(2,486,860)	-
7080	Total Other Financing Sources (Uses)	-	177,086	187,178	10,092
1200	Net Change in Fund Balances	-	-	(288,980)	(288,980)
0100	Fund Balance - September 1 (Beginning)	543,432	543,432	543,432	-
1300	Prior Period Adjustment	(252,167)	(252,167)	(252,167)	-
3000	Fund Balance - August 31 (Ending)	\$ 291,265	\$ 291,265	\$ 2,285	\$ (288,980)

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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 *GOVERNMENTAL AUDITING STANDARDS*

**Independent Auditor's Report**

Board of Trustees  
Melissa Independent School District  
1904 Cooper Street  
Melissa, Texas 75454

Members of the Board:

We have audited 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, 2012, which collectively comprise the Melissa Independent School District's basic financial statements and have issued our report thereon dated December 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of Melissa Independent School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Melissa Independent School District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Melissa Independent School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reported that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

**Compliance and Other Matters**

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



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

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

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Morgan, Davis, & Company, P.C.

December 7, 2012

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

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

**Independent Auditor's Report**

Board of Trustees  
Melissa Independent School District  
1904 Cooper Street  
Melissa, Texas 75454

Members of the Board:

**Compliance**

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, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Melissa Independent School District's management. Our responsibility is to express an opinion on Melissa Independent School District's compliance based on our audit.

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

In our opinion, Melissa Independent School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012.

**Internal Control Over Compliance**

Management of Melissa Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Melissa Independent School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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

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

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

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Morgan, Davis, & Company, P.C.

December 7, 2012

MELISSA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2012

Program/Item	Findings Description
<b>Summary of Audit Results:</b>	
Type of Report on Financial Statements	Unqualified
Control Deficiencies	None
Material Weaknesses Involving Control Deficiencies	None
Noncompliance Material to the Financial Statements	None
Type of Report on Compliance with Major Programs	Unqualified 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	Education Jobs Fund, ARRA 84.410
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, 2012

(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, 2012

(Prepared by the District's Administration)

There were no corrective actions necessary for the year ended August 31, 2012.

MELISSA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2012

(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	12610101057950	\$ 62,898
*ESEA, Title I, A - ARRA -Improving Basic Programs	84.389	10551001057950	103
Total Title I, Part A Cluster			63,001
*IDEA - Part B, Formula	84.027	12660001043908	194,164
*IDEA - Part B, Preschool	84.173	12661001043808	2,167
Total Special Education Cluster (IDEA)			196,331
Title III, Part A - English Language Acquisition	84.365A	12615002057950	3,089
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	12694501057950	11,558
Education Jobs Fund- ARRA	84.410	11550101043908	240,585
Total Passed Through State Department of Education			\$ 514,564
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<b>\$ 514,564</b>
<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	12-043908	\$ 10,097
Total Passed Through Texas Dept of Human Services			\$ 10,097
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<b>\$ 10,097</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	12-043908	\$ 39,556
*National School Lunch Program - Cash Assistance	10.555	12-043908	128,752
*National School Lunch Prog. - Non-Cash Assistance	10.555	12-043908	17,389
Total CFDA Number 10.555			146,141
Total Child Nutrition Cluster			185,697
Total Passed Through the State Department of Agriculture			\$ 185,697
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<b>\$ 185,697</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 710,358</b>

\*Clustered Programs

MELISSA INDEPENDENT SCHOOL DISTRICT  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2012

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 – Provisional 6/97.

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, 2012, 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.

4. The General Fund had E-Rate program revenue of \$1,615 that is not considered federal financial assistance and is not included in the Schedule of Expenditures of Federal Awards.



SCHOOLS FIRST QUESTIONNAIRE

Melissa Independent School District

Fiscal Year 2012

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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.	107370