

**MELISSA INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2013**

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ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2013

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
Certificate of Board	3
Independent Auditors' Report	4
Management's Discussion and Analysis	6
 <b><u>Basic Financial Statements</u></b>	
Government Wide Statements:	
A-1 Statement of Net Position	13
Governmental Fund Financial Statements:	
C-1 Balance Sheet	14
C-2 Reconciliation for C-1	17
C-3 Statement of Revenues, Expenditures, and Changes in Fund Balance	18
C-4 Reconciliation for C-3	21
Proprietary Fund Financial Statements:	
D-1 Statement of Net Position	22
D-2 Statement of Revenues, Expenses, and Changes in Fund Net Position	23
D-3 Statement of Cash Flows	24
Fiduciary Fund Financial Statements:	
E-1 Statement of Fiduciary Net Position	25
Notes to the Financial Statements	26
 <b><u>Required Supplementary Information</u></b>	
G-1 Budgetary Comparison Schedule - General Fund	46
 <b><u>Combining Statements</u></b>	
Nonmajor Governmental Funds:	
H-1 Combining Balance Sheet	48
H-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	52
 <b><u>Required Texas Education Agency Schedules</u></b>	
J-1 Schedule of Delinquent Taxes Receivable	56
J-2 Budgetary Comparison Schedule - Child Nutrition Fund	58
J-3 Budgetary Comparison Schedule - Debt Service Fund	59
 <b><u>Federal Awards Section</u></b>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
	62
Independent Auditor's Report on Compliance for each Major Federal Program and on Internal Control over Compliance Required by <i>OMB Circular A-133</i>	
	64
Schedule of Findings and Questioned Costs	
	66
Schedule of Status of Prior Findings	
	67
Corrective Action Plan	
	68
K-1 Schedule of Expenditures of Federal Awards	69
Notes to Schedule of Expenditures of Federal Awards	70

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, 2013 at a meeting of the Board of Trustees of such school district on the  6th  day of  January , 2014.

*/s/ Rickie LaFon*

*/s/ Bruce Minchey*

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

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

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

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

Post Office Box 8158  
Greenville, Texas 75404

**Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information  
and Other Information**

**Independent Auditor's Report**

Melissa Independent School District  
1904 Cooper Street  
Melissa, Texas 75454

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Melissa Independent School District as of and for the year ended August 31, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Melissa Independent School District as of August 31, 2013 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Change in Accounting Principle***

As discussed in Note A-17 to the financial statements, in 2013, the Melissa Independent School District adopted new accounting guidance, GASB Statement 63 (*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, & Net Position*) and GASB Statement 65 (*Items Previously Reported as Assets & Liabilities*). Our opinion is not modified with respect to these matters.

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Melissa Independent School District's basic financial statements. The Combining Statements for Nonmajor Governmental Funds on pages 48-54, and the Schedule of Expenditures of Federal Awards on page 69, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Required Texas Education Agency Schedules (Exhibits J-1, J-2, & J-3, as listed in the table of contents) have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013 on our consideration of Melissa Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Melissa Independent School District's internal control over financial reporting and compliance.

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

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

December 16, 2013

MELISSA INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED AUGUST 31, 2013

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, 2013. 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 position decreased by \$1,093,717 as a result of this year's operations. Net position as of August 31, 2013 was \$(1,665,969), of which \$1,900,108 was unrestricted net position.
- During the year, the District had net expenses (after charges for services & operating grants) of \$14,502,548 that were \$1,093,717 more than the \$13,408,831 generated in tax, state foundation, investment, and other revenues for governmental programs.
- As of August 31, 2013, the District's combined governmental funds reported a fund balance of \$20,238,981 compared to \$2,221,675 for the last fiscal year. Included in this increase are bond proceeds of \$18,500,000. The General Fund reported a fund balance of \$1,626,782 this fiscal year compared to \$2,101,919 the last fiscal year.
- The District's total tax rate for the 2012-2013 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 Position and the Statement of Activities (on pages 12 and 13). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

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

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

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by 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 Position and the Statement of Activities***

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

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

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

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

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

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

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

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

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

## The District as Trustee

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the District's governmental activities decreased from \$(572,252) last year to \$(1,665,969) at August 31, 2013. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased from \$2,515,883 last year to \$1,900,108 at August 31, 2013. Changes in net position of the District's governmental activities was a \$1,519,804 decrease last year compared to a \$1,093,717 decrease at August 31, 2013.

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

	Governmental Activities 8/31/2013	Governmental Activities 8/31/2012	Net Change
Current and other assets	\$23,037,416	\$4,191,499	\$18,845,917
Capital assets	34,964,684	35,073,001	(108,317)
Total assets	<u>\$58,002,100</u>	<u>\$39,264,500</u>	<u>\$18,737,600</u>
Current and other liabilities	\$2,525,109	\$1,555,860	\$969,249
Long-term liabilities	57,142,960	38,280,892	18,862,068
Total liabilities	<u>\$59,668,069</u>	<u>\$39,836,752</u>	<u>\$19,831,317</u>
Net Position:			
Net investment in capital assets	(\$4,726,330)	(\$3,121,014)	(\$1,605,316)
Restricted	1,160,253	32,879	1,127,374
Unrestricted	1,900,108	2,515,883	(615,775)
Total net position	<u>(\$1,665,969)</u>	<u>(\$572,252)</u>	<u>(\$1,093,717)</u>



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

	Governmental Activities Yr Ended 8/31/2013	Governmental Activities Yr Ended 8/31/2012	Net Change
<b>Revenues:</b>			
<b>Program Revenues:</b>			
Charges for Services	\$658,206	\$607,779	\$50,427
Operating grants and contributions	1,099,368	1,230,865	(131,497)
<b>General Revenues:</b>			
Maintenance and operations taxes	4,561,716	4,439,950	121,766
Debt service taxes	2,193,380	2,134,832	58,548
State aid - formula grants	6,494,191	5,464,358	1,029,833
Grants & Contributions not restricted to specific functions	1,576	11,712	(10,136)
Investment Earnings	7,032	6,578	454
Miscellaneous	150,936	186,857	(35,921)
<b>Total Revenue</b>	<b>\$15,166,405</b>	<b>\$14,082,931</b>	<b>\$1,083,474</b>
<b>Expenses:</b>			
Instruction, curriculum and media services	\$8,581,428	\$7,949,779	\$631,649
Instructional and school leadership	974,245	1,042,200	(67,955)
Student support services	719,406	689,355	30,051
Child nutrition	588,575	577,415	11,160
Co curricular activities	645,184	752,828	(107,644)
General administration	847,807	857,465	(9,658)
Plant maintenance, security & data processing	1,740,186	1,897,388	(157,202)
Community services	0	0	0
Debt services	2,026,599	1,767,145	259,454
Payments to fiscal agents	93,473	28,215	65,258
Other intergovernmental charges	43,219	40,945	2,274
<b>Total Expenses</b>	<b>\$16,260,122</b>	<b>\$15,602,735</b>	<b>\$657,387</b>
<b>Increase in net position before transfers and special items</b>	<b>(\$1,093,717)</b>	<b>(\$1,519,804)</b>	<b>\$426,087</b>
Transfers	0	0	0
Special Items	0	0	0
Prior Period Adjustment	0	(252,167)	252,167
Net position at Beginning of Fiscal Year	(572,252)	1,199,719	(1,771,971)
<b>Net position at End of Fiscal Year</b>	<b>(\$1,665,969)</b>	<b>(\$572,252)</b>	<b>(\$1,093,717)</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 \$20,238,981 compared to \$2,221,675 for the last fiscal year. Included in this increase are bond proceeds of \$18,500,000. The District's General Fund reported a fund balance decrease of \$475,137, ending the year with \$1,626,782. The District's Special Revenue Funds reported a fund balance increase of \$1,815, ending the year with \$32,409. The District's Debt Service Fund reported a fund balance increase of \$1,125,559, ending the year with \$1,127,844. The District's Capital Projects Funds reported a fund balance increase of \$17,365,069, ending the year with \$17,451,946.

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 2012) 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, 2013, the District invested \$1,092,967 in capital assets, consisting of high school improvements, miscellaneous facility improvements, and technology equipment .

Capital asset additions were as follows:

	Yr Ended 8/31/13	Yr Ended 8/31/12	Net Change
Buildings & Improvements	\$879,304	\$42,223	\$837,081
Equipment & Vehicles	213,663	0	213,663
Total	<u>\$1,092,967</u>	<u>\$42,223</u>	<u>\$1,050,744</u>

### Debt:

At year-end August 31, 2013, the District had \$57,142,960 in bonds compared to \$38,280,892 last year. During the current fiscal year, the District issued Series 2013 totaling \$18,500,000. The new bonds are payable over the next 30 years at 3.00-5.00% interest.

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

The District's elected and appointed officials considered many factors when setting the fiscal-year 2014 budget, and tax rates. Several of those factors were the economy, the District's population growth, and unemployment. These factors were taken into account when adopting the General Fund budget for 2014. Amounts available for appropriation in the General Fund budget are \$1,626,782. The District has added no major new programs or initiatives to the 2014 budget.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Melissa Independent School District, 1904 Cooper Street, Melissa, Texas.

## BASIC FINANCIAL STATEMENTS

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2013

Data Control Codes	Governmental Activities
<hr/>	
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 699,059
1120 Current Investments	21,768,802
1220 Property Taxes Receivable (Delinquent)	281,120
1230 Allowance for Uncollectible Taxes	(3,335)
1240 Due from Other Governments	291,770
Capital Assets:	
1510 Land	2,469,565
1520 Buildings, Net	31,565,154
1530 Equipment and Vehicles, Net	929,965
1000 Total Assets	<u>58,002,100</u>
<b>LIABILITIES</b>	
2110 Accounts Payable	43,067
2160 Accrued Wages Payable	287,428
2180 Due to Other Governments	2,068,074
2200 Accrued Expenses	5,550
2300 Unearned Revenue	120,990
Noncurrent Liabilities	
2501 Due Within One Year	929,757
2502 Due in More Than One Year	56,213,203
2000 Total Liabilities	<u>59,668,069</u>
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	(4,726,330)
3850 Restricted for Debt Service	1,127,844
3870 Restricted for Campus Activities	32,409
3900 Unrestricted	1,900,108
3000 Total Net Position	<u>\$ (1,665,969)</u>

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, 2013

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 8,092,589	\$ 187,629	\$ 677,730	\$ (7,227,230)
12 Instructional Resources and Media Services	190,006	12,837	7,933	(169,236)
13 Curriculum and Staff Development	298,833	-	71,975	(226,858)
21 Instructional Leadership	134,099	-	6,543	(127,556)
23 School Leadership	840,146	30,258	32,893	(776,995)
31 Guidance, Counseling and Evaluation Services	172,190	-	10,887	(161,303)
33 Health Services	113,412	-	4,697	(108,715)
34 Student (Pupil) Transportation	433,804	-	14,180	(419,624)
35 Food Services	588,575	339,694	185,293	(63,588)
36 Extracurricular Activities	645,184	58,201	12,025	(574,958)
41 General Administration	847,807	4,585	30,838	(812,384)
51 Facilities Maintenance and Operations	1,431,393	25,002	32,762	(1,373,629)
53 Data Processing Services	308,793	-	11,612	(297,181)
72 Debt Service - Interest on Long Term Debt	1,761,398	-	-	(1,761,398)
73 Debt Service - Bond Issuance Cost and Fees	265,201	-	-	(265,201)
95 Payments to Juvenile Justice Alternative Ed. Prg.	93,473	-	-	(93,473)
99 Other Intergovernmental Charges	43,219	-	-	(43,219)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 16,260,122</u>	<u>\$ 658,206</u>	<u>\$ 1,099,368</u>	<u>(14,502,548)</u>
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			4,561,716
DT	Property Taxes, Levied for Debt Service			2,193,380
SF	State Aid - Formula Grants			6,494,191
GC	Grants and Contributions not Restricted			1,576
IE	Investment Earnings			7,032
MI	Miscellaneous Local and Intermediate Revenue			150,936
TR	Total General Revenues			<u>13,408,831</u>
CN	Change in Net Position			(1,093,717)
NB	Net Position - Beginning			<u>(572,252)</u>
NE	Net Position--Ending			<u>\$ (1,665,969)</u>

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2013

Data Control Codes	10 General Fund	50 Debt Service Fund	60 \$18.5 Million Bond Const.
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 312,545	\$ 55,481	\$ 170,776
1120 Investments - Current	3,063,815	1,410,228	17,281,170
1220 Property Taxes - Delinquent	194,873	86,247	-
1230 Allowance for Uncollectible Taxes (Credit)	(2,312)	(1,023)	-
1240 Receivables from Other Governments	282,318	-	-
1000 Total Assets	<u>\$ 3,851,239</u>	<u>\$ 1,550,933</u>	<u>\$ 17,451,946</u>
<b>LIABILITIES</b>			
2160 Accrued Wages Payable	\$ 287,428	\$ -	\$ -
2180 Due to Other Governments	1,730,209	337,865	-
2200 Accrued Expenditures	5,550	-	-
2300 Unearned Revenues	84,532	36,458	-
2000 Total Liabilities	<u>2,107,719</u>	<u>374,323</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	116,738	48,766	-
2600 Total Deferred Inflows of Resources	<u>116,738</u>	<u>48,766</u>	<u>-</u>
<b>FUND BALANCES</b>			
Restricted Fund Balance:			
3470 Capital Acquisition and Contractual Obligation	-	-	17,451,946
3480 Retirement of Long-Term Debt	-	1,127,844	-
Committed Fund Balance:			
3545 Other Committed Fund Balance	-	-	-
3600 Unassigned Fund Balance	1,626,782	-	-
3000 Total Fund Balances	<u>1,626,782</u>	<u>1,127,844</u>	<u>17,451,946</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 3,851,239</u>	<u>\$ 1,550,933</u>	<u>\$ 17,451,946</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 9,368	\$ 548,170
13,589	21,768,802
-	281,120
-	(3,335)
9,452	291,770
<u>\$ 32,409</u>	<u>\$ 22,886,527</u>
\$ -	\$ 287,428
-	2,068,074
-	5,550
-	120,990
<u>-</u>	<u>2,482,042</u>
-	165,504
-	165,504
-	17,451,946
-	1,127,844
32,409	32,409
-	1,626,782
<u>32,409</u>	<u>20,238,981</u>
<u>\$ 32,409</u>	<u>\$ 22,886,527</u>

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MELISSA INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2013

<b>Total Fund Balances - Governmental Funds</b>	\$	20,238,981
<b>1</b> The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase(decrease) net position.		107,822
<b>2</b> 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 \$44,705,190 and the accumulated depreciation was \$9,632,189. In addition, long-term liabilities, including bonds payable of \$38,280,892, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.		(3,207,891)
<b>3</b> Current year capital outlays of \$1,092,967 and long-term debt principal payments of \$910,000 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 \$21,608 and amortization of bond premiums of \$10,691 are recorded in the government-wide financial statements. The net effect of including the 2013 capital outlays and debt principal payments is to increase (decrease) net position.		1,992,050
<b>4</b> The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(1,201,284)
<b>5</b> Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue of \$165,504 as revenue, eliminating interfund transactions, reclassifying bond proceeds of \$18,500,000, and reclassifying bond premiums of \$1,261,151, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(19,595,647)
<b>19 Net Position of Governmental Activities</b>	<u>\$</u>	<u>(1,665,969)</u>

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, 2013

Data Control Codes	10 General Fund	50 Debt Service Fund	60 \$18.5 Million Bond Const.
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 5,015,134	\$ 2,276,081	\$ 1,173
5800 State Program Revenues	6,435,198	514,009	-
5900 Federal Program Revenues	31,576	-	-
5020 Total Revenues	<u>11,481,908</u>	<u>2,790,090</u>	<u>1,173</u>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
0011 Instruction	7,065,427	-	-
0012 Instructional Resources and Media Services	165,694	-	-
0013 Curriculum and Instructional Staff Development	215,460	-	-
0021 Instructional Leadership	122,548	-	-
0023 School Leadership	740,575	-	-
0031 Guidance, Counseling and Evaluation Services	157,178	-	-
0033 Health Services	101,861	-	-
0034 Student (Pupil) Transportation	331,564	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	588,077	-	-
0041 General Administration	762,492	-	-
0051 Facilities Maintenance and Operations	1,298,533	-	-
0053 Data Processing Services	285,690	-	-
<b>Debt Service:</b>			
0071 Principal on Long Term Debt	-	910,000	-
0072 Interest on Long Term Debt	-	1,750,481	-
0073 Bond Issuance Cost and Fees	-	265,201	-
<b>Capital Outlay:</b>			
0081 Facilities Acquisition and Construction	-	-	1,049,227
<b>Intergovernmental:</b>			
0095 Payments to Juvenile Justice Alternative Ed. Prg.	93,473	-	-
0099 Other Intergovernmental Charges	43,219	-	-
6030 Total Expenditures	<u>11,971,791</u>	<u>2,925,682</u>	<u>1,049,227</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(489,883)</u>	<u>(135,592)</u>	<u>(1,048,054)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
7911 Capital Related Debt Issued (Regular Bonds)	-	-	18,500,000
7915 Transfers In	24,706	-	-
7916 Premium or Discount on Issuance of Bonds	-	1,261,151	-
8911 Transfers Out (Use)	(9,960)	-	-
7080 Total Other Financing Sources (Uses)	<u>14,746</u>	<u>1,261,151</u>	<u>18,500,000</u>
1200 Net Change in Fund Balances	(475,137)	1,125,559	17,451,946
0100 Fund Balance - September 1 (Beginning)	<u>2,101,919</u>	<u>2,285</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 1,626,782</u>	<u>\$ 1,127,844</u>	<u>\$ 17,451,946</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 397,893	\$ 7,690,281
103,214	7,052,421
511,138	542,714
<u>1,012,245</u>	<u>15,285,416</u>
369,185	7,434,612
12,761	178,455
60,487	275,947
-	122,548
30,264	770,839
-	157,178
-	101,861
-	331,564
542,803	542,803
-	588,077
4,890	767,382
-	1,298,533
-	285,690
-	910,000
-	1,750,481
-	265,201
62,171	1,111,398
-	93,473
-	43,219
<u>1,082,561</u>	<u>17,029,261</u>
<u>(70,316)</u>	<u>(1,743,845)</u>
-	18,500,000
9,960	34,666
-	1,261,151
<u>(24,706)</u>	<u>(34,666)</u>
<u>(14,746)</u>	<u>19,761,151</u>
<u>(85,062)</u>	<u>18,017,306</u>
<u>117,471</u>	<u>2,221,675</u>
<u>\$ 32,409</u>	<u>\$ 20,238,981</u>

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MELISSA INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED AUGUST 31, 2013

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	18,017,306
 The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position.		(21,627)
 Current year capital outlays of \$1,092,967 and long-term debt principal payments of \$910,000 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 \$21,608 and amortization of bond premiums of \$10,691 are recorded in the government-wide financial statements. The net effect of including the 2013 capital outlays and debt principal payments is to increase (decrease) net position.		1,992,050
 Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(1,201,284)
 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue as revenue, adjusting current year revenue by \$119,011 to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying bond proceeds of \$18,500,000, and reclassifying bond premiums of \$1,261,151, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(19,880,162)
 <b>Change in Net Position of Governmental Activities</b>	<u>\$</u>	<u>(1,093,717)</u>

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
AUGUST 31, 2013

	Governmental Activities -
	Internal Service Fund
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 150,889
Total Assets	150,889
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	43,067
Total Liabilities	43,067
<b>NET POSITION</b>	
Unrestricted Net Position	107,822
Total Net Position	\$ 107,822

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2013

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 7,108
Total Operating Revenues	7,108
OPERATING EXPENSES:	
Other Operating Costs	28,735
Total Operating Expenses	28,735
Operating Income (Loss)	(21,627)
Total Net Position - September 1 (Beginning)	129,449
Total Net Position - August 31 (Ending)	\$ 107,822

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, 2013

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 7,108
Cash Payments for Insurance Claims	(42,331)
Net Cash Used for Operating Activities	(35,223)
Net Decrease in Cash and Cash Equivalents	(35,223)
Cash and Cash Equivalents at Beginning of Year	186,112
Cash and Cash Equivalents at End of Year	\$ 150,889
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$ (21,627)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	(13,596)
Net Cash Used for Operating Activities	\$ (35,223)

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



MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2013

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	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 78,489
Investments - Current	25,968
Total Assets	<u>\$ 104,457</u>
LIABILITIES	
Due to Student Groups	\$ 104,457
Total Liabilities	<u>\$ 104,457</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, 2013

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

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

**1. Reporting Entity**

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

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

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

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

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

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

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

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

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

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. 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 position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

### **4. Fund Accounting**

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

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

**General Fund** – This governmental fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full

potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities

**Debt Service 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.

**\$18.5 Million Bond Construction Fund** – This governmental fund is 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. 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 funds 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 \$150,889 as of August 31, 2013.

**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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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, 2013, the District's fund balances are classified as follows:

	<u>General Fund</u>	<u>Debt Service</u> <u>Fund</u>	<u>\$18.5 Million</u> <u>Bond</u> <u>Construction</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Totals</u>
<b>Restricted for:</b>					
Capital Acquisition			\$17,451,946		\$17,451,946
Debt Service		1,127,844			1,127,844
<b>Committed to:</b>					
Campus Activity				32,409	32,409
<b>Unassigned</b>	1,626,782				1,626,782
<b>Total Fund Balances</b>	<u>\$1,626,782</u>	<u>\$1,127,844</u>		<u>\$32,409</u>	<u>\$20,238,981</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, 2013, 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, 2013, 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, 2013, 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, 2013, 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, 2013</u>	<u>Year Ended August 31, 2012</u>
Unpaid claims, beginning of fiscal year	\$56,663	\$63,044
Incurred claims (including IBNR's)	28,735	78,123
Claim payments	(42,331)	(84,504)
Unpaid claims, end of fiscal year	<u>\$43,067</u>	<u>\$56,663</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.

## **17. Change in Accounting Principle**

The District implemented two statements of Governmental Accounting Standards Board (GASB) this year, number 63 (*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resource, and Net Position*) and number 65 (*Items Previously Reposted as Assets and Liabilities*). These two statements:

- Classified items that are a consumption of net assets applicable to a future reporting period as deferred resource outflows,
- Classified items that are an acquisition of net assets applicable to a future reporting period as deferred resource inflows,
- Renamed all "Statements of Net Assets" "Statements of Net Position",
- Required all bond issuance costs to be recorded as expenses in the year the bonds were issued,

- (e) Reclassified the effect of accounting changes adopted to conform to the provisions of Statement Number 63 retroactively in statements of net position and balance sheets, if practical, for all prior periods presented. In the period Statement Number 63 is first applied, the financial statements should disclose the nature of any reclassification and its effect.
- (f) Required reasons for not reclassifying statements of net position and balance sheet information for prior periods presented to be explained.

The effect of these two statements on the District’s 2013 financial statements is as follows:

Exhibit C-1 Deferred Inflows of Resources – “Unavailable Revenue-Property Taxes” \$165,504

**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 position:**

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of</u> <u>the year</u>	<u>Historic Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Value at the</u> <u>Beginning of the Year</u>	<u>Change in Net</u> <u>Position</u>
Land	\$2,469,565		\$2,469,565	
Buildings	40,897,199	(9,132,196)	31,765,003	
Equipment & Vehicles	1,338,426	(499,993)	838,433	
Change in Net Position				\$35,073,001
<u>Long-term Liabilities at the</u> <u>Beginning of the year</u>			<u>Payable at the</u> <u>Beginning of the year</u>	
Bonds Payable			\$38,280,892	
Loans Payable			0	
Capital Leases Payable			0	
Change in Net Position				(\$38,280,892)
Net Adjustment to Net Position				(\$3,207,891)

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

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net position balance and the change in net position. The details of this adjustment are as follows:



	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Current Year Capital Outlay</u>			
Buildings & Improvements	\$879,304		
Equipment & Vehicles	213,663		
Total Capital Outlay	<u>\$1,092,967</u>	\$1,092,967	\$1,092,967
<u>Debt Service Payments</u>			
Bond Principal	\$910,000		
Accretion on Capital Appreciation Bonds	(21,608)		
Amortization of Bond Premiums	10,691		
Loan Principal	0		
Capital Lease Principal	0		
Total Principal Payments	<u>\$899,083</u>	899,083	899,083
Total Adjustment to Net Position		<u>\$1,992,050</u>	<u>\$1,992,050</u>

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

	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Adjustments to Revenue and Unavailable Revenue</u>			
Net Property Tax Revenue Adjustment	(\$119,011)	(\$119,011)	\$165,504
<u>Reclassify Bond Proceeds to Bonds Payable</u>			
Reclassify Bond Proceeds to Bonds Payable	(\$19,761,151)	(\$19,761,151)	(\$19,761,151)
Totals		<u>(\$19,880,162)</u>	<u>(\$19,595,647)</u>

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

##### **Budgetary Data**

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

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

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

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

Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.

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

<u>August 31, 2013 Fund Balance</u>	
Appropriated Budget Funds - Food Service	\$0
Nonappropriated Budget Funds-Campus Activity	<u>32,409</u>
All Special Revenue Funds	<u><u>\$32,409</u></u>

**Note D. Deposits and Investments**

At August 31, 2013, the carrying amount of the District’s deposits (cash, certificates of deposit, and interest bearing savings accounts) was \$699,059. The District’s cash deposits at August 31, 2013 and during the year ended August 31, 2013 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 \$897,442 and occurred during the month of July 2013.
- c. The market value of securities pledged as of the date of the highest combined balance on deposit was \$1,387,913.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$255,980.

The District's investments at August 31, 2013, were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Tex Star Investment Accounts	\$19,795,975	0.11
Tex Pool Investment Accounts	<u>1,972,827</u>	0.11
Total Fair Value	<u><u>\$21,768,802</u></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, 2013, 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, 2013, 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, 2013.

#### **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, 2012, upon which the tax levy for the 2013 fiscal year was based, was \$438,642,628. The tax rates assessed for the year ended August 31, 2013 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, 2013 were 102.32% 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, 2013, 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	\$194,873	\$282,318	\$0	\$0	\$477,191
Debt Service Fund	86,247	0	0	0	86,247
Nonmajor Governmental Funds	0	9,452	0	0	9,452
Total Governmental Activities	<u>\$281,120</u>	<u>\$291,770</u>	<u>\$0</u>	<u>\$0</u>	<u>\$572,890</u>
Amounts not scheduled for collection during the subsequent year	\$3,335	\$0	\$0	\$0	\$3,335

Payables at August 31, 2013, 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	\$287,428	\$0	\$1,730,209	\$5,550	\$2,023,187
Debt Service Fund	0	0	0	337,865	0	337,865
Nonmajor Governmental Funds	0	0	0	0	0	0
Total Governmental Activities	<u>\$0</u>	<u>\$287,428</u>	<u>\$0</u>	<u>\$2,068,074</u>	<u>\$5,550</u>	<u>\$2,361,052</u>
Amounts not scheduled for collection during the subsequent year	\$0	\$0	\$0	\$0	\$0	\$0

**Note H. Capital Asset Activity**

Capital asset activity for the year ended August 31, 2013 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>
Governmental Activities:				
Land	\$2,469,565	\$0	\$0	\$2,469,565
Buildings & Improvements	40,897,199	879,304	0	41,776,503
Equipment & Vehicles	1,338,426	213,663	0	1,552,089
Totals at Historical Cost	<u>44,705,190</u>	<u>1,092,967</u>	<u>0</u>	<u>45,798,157</u>
Less accumulated depreciation for:				
Buildings & Improvements	(9,132,196)	(1,079,153)	0	(10,211,349)
Equipment & Vehicles	(499,993)	(122,131)	0	(622,124)
Total accumulated depreciation	<u>(9,632,189)</u>	<u>(1,201,284)</u>	<u>0</u>	<u>(10,833,473)</u>
Governmental Activities Capital Assets, Net	<u>\$35,073,001</u>	<u>(\$108,317)</u>	<u>\$0</u>	<u>\$34,964,684</u>

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

11 Instruction	\$646,083
12 Instructional Resources & Media Services	11,335
13 Curriculum & Instructional Staff Development	22,670
21 Instructional Leadership	11,335
23 School Leadership	68,009
31 Guidance, Counseling, & Evaluation Services	11,335
33 Health Services	11,335
34 Student (Pupil) Transportation	101,807
35 Food Services	45,339
36 Cocurricular/Extracurricular Activities	56,674
41 General Administration	79,344
51 Plant Maintenance & Operations	113,348
53 Data Processing Services	22,670
Total Depreciation Expense	<u>\$1,201,284</u>

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

Long-term liability activity for the year ended August 31, 2013, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts Due</u> <u>within One</u> <u>Year</u>
Governmental Activities:					
General Obligation Bonds	\$37,908,467	\$18,500,000	(\$910,000)	\$55,498,467	\$929,757
Accumulated Accretion on CABs	95,746	21,608	0	117,354	
Unamortized Bond Premiums	276,679	1,261,151	(10,691)	1,527,139	
Total Bonds Payable, Government-Wide	<u>\$38,280,892</u>	<u>\$19,782,759</u>	<u>(\$920,691)</u>	<u>\$57,142,960</u>	
Loans	0	0	0	0	
Capital Leases	0	0	0	0	
Total Governmental Activities	<u>\$38,280,892</u>	<u>\$19,782,759</u>	<u>(\$920,691)</u>	<u>\$57,142,960</u>	<u>\$929,757</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, 2013 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</u>		<u>Retired</u>	<u>Ending Amounts Outstanding 8/31/13</u>
				<u>9/01/12</u>	<u>Issued</u>		
Unlimited Tax Bldg Bonds-Series 2003	3.75-5.25%	\$9,000,000	\$345,476	\$8,160,000	\$0	(\$135,000)	\$8,025,000
Unlimited Tax Bldg Bonds-Series 2004	4.50-6.00%	4,200,000	180,864	3,675,000	0	(90,000)	3,585,000
Unlimited Tax Bldg Bonds-Series 2005	4.30-6.00%	4,700,000	186,312	4,265,000	0	(95,000)	4,170,000
Unlimited Tax Bldg Bonds-Series 2006	4.05-6.00%	4,500,000	186,640	4,085,000	0	(95,000)	3,990,000
Unlimited Tax Bldg Bonds-Series 2007	4.00-5.25%	9,900,000	393,785	9,125,000	0	(215,000)	8,910,000
Unlimited Tax Bldg Bonds-Series 2008	4.00-5.25%	3,000,000	137,870	2,900,000	0	(55,000)	2,845,000
Unlimited Tax Bldg Bonds-Series 2009	2.00-5.20%	3,380,000	150,023	3,210,000	0	(100,000)	3,110,000
Capital Appreciation Bonds-Series 2009	2.45-4.625%	596,873	0	123,467	0	0	123,467
Unlimited Tax Refunding Bonds-Series 2012	2.00-3.25%	2,365,000	68,228	2,365,000	0	(125,000)	2,240,000
Unlimited Tax Bldg Bonds-Series 2013	3.00-5.00%	18,495,000	101,283	0	18,495,000	0	18,495,000
Capital Appreciation Bonds-Series 2013	4.60%	5,000	0	0	5,000	0	5,000
Total General Obligation Bonds			\$1,750,481	\$37,908,467	\$18,500,000	(\$910,000)	\$55,498,467
Accumulated Accretion on CABs				95,746	21,608	0	117,354
Unamortized Bond Premiums on CABs				265,988	529,421	0	795,409
Unamortized Bond Premiums on GOBs				10,691	731,730	(10,691)	731,730
Total Bonds Payable, Government-Wide Financials				\$38,280,892	\$19,782,759	(\$920,691)	\$57,142,960

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

Summary information for the capital appreciation bonds is as follows:

<u>Series</u>	<u>Capital Appreciation Bonds</u>	
	<u>Stated Value</u>	<u>Accreted Value, 8/31/13</u>
2009	\$123,467	\$505,446
2013	\$5,000	\$535,784

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, 2013.

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>	
2014	\$929,757	\$2,476,538	\$3,406,295
2015	965,026	2,442,944	3,407,970
2016	1,005,365	2,399,498	3,404,863
2017	1,082,882	2,364,250	3,447,132
2018	1,160,437	2,315,253	3,475,690
2019-2023	7,025,000	10,344,483	17,369,483
2024-2028	8,550,000	8,814,771	17,364,771
2029-2033	10,575,000	6,786,119	17,361,119
2034-2038	10,505,000	5,879,380	16,384,380
2039-Maturity	13,700,000	1,714,100	15,414,100
Total General Obligation Bonds	<u>\$55,498,467</u>	<u>\$45,537,336</u>	<u>\$101,035,803</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, 2013.

Capital Leases:

There were no capital leases outstanding during the year ended August 31, 2013.

**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, 2012	\$0	\$0
Additions - New Entrants and Salary Increments	0	0
Deductions - Payments to Participants	0	0
Balance, August 31, 2013	<u>\$0</u>	<u>\$0</u>

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

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

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

Contribution rates and contributions for fiscal years 2013-2011 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the reporting district is required to make all or a portion of the state's and /or member's contribution on salaries paid from federal and private grants and on the portion of the employee's salaries that exceeded the statutory minimum.

Contribution Rates and Contribution Amounts

Year	Member Contributions		State On-Behalf Contributions		District Contributions
	Rate	Amount	Rate	Amount	Amount
2013	6.40%	\$558,666	6.400%	\$486,235	\$90,425
2012	6.40%	\$528,107	6.000%	\$451,318	\$91,755
2011	6.40%	\$518,099	6.644%	\$498,897	\$80,931

**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. Contribution rates and amounts are shown in the table below for fiscal years 2013-2011.

Contribution Rates and Contribution Amounts

Year	Member Contributions		State Contributions		District Contributions	
	Rate	Amount	Rate	Amount	Rate	Amount
2013	0.65%	\$56,740	0.500%	\$43,646	0.55%	\$48,010
2012	0.65%	\$53,636	1.000%	\$82,517	0.55%	\$45,384
2011	0.65%	\$52,619	1.000%	\$80,953	0.55%	\$44,524

**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, 2013, 2012, and 2011, the State’s contributions for Medicare Part D made on behalf of Melissa Independent School District’s employees were \$23,187, \$21,825, and \$18,941, 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, 2013 the ERRP contribution made on behalf of Melissa Independent School District’s employees was \$20,825.

**Note P. Unearned Revenue**

Unearned revenue at August 31, 2013 consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Net Tax Revenue	\$75,823	\$0	\$36,458	\$112,281
Tuition Revenue	8,709	0	0	8,709
Total Unearned Revenue	<u>\$84,532</u>	<u>\$0</u>	<u>\$36,458</u>	<u>\$120,990</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, 2013, 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	\$282,318	\$0	\$0	\$282,318
Nonmajor Governmental Funds	0	9,452	0	9,452
<b>Totals</b>	<b>\$282,318</b>	<b>\$9,452</b>	<b>\$0</b>	<b>\$291,770</b>

**Note R. Due to Other Governments**

As of August 31, 2013, the District had \$1,730,209 due to Texas Education Agency for 2012-2013 state foundation aid. The District also had \$286,714 due to TEA for Existing Debt Allotment and \$51,151 due to TEA for Instructional Facilities Allotment. The Texas Education Agency will deduct these amounts from 2013-2014 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, 2013 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</u>		<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals</u>
		<u>Funds</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	
Property Taxes	\$4,668,589		\$0	\$2,243,168	\$0	\$6,911,757
Penalties, Interest, & Other Tax						
Related Income	73,597	0	0	31,560	0	105,157
Investment Income	4,492	14	14	1,353	1,173	7,032
Tuition	143,618	0	0	0	0	143,618
Food Service Sales	0	340,189	340,189	0	0	340,189
Rents	25,003	0	0	0	0	25,003
Gifts & Bequests	15,975	0	0	0	0	15,975
Athletics	48,201	0	0	0	0	48,201
Co-Curricular	0	57,690	57,690	0	0	57,690
Other	35,659	0	0	0	0	35,659
<b>Totals</b>	<b>\$5,015,134</b>	<b>\$397,893</b>	<b>\$2,276,081</b>	<b>\$1,173</b>	<b>\$1,173</b>	<b>\$7,690,281</b>

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

Interfund balances at August 31, 2013 consisted of the following amounts:

None

Interfund transfers for the year ended August 31, 2013, consisted of the following individual amounts:

**Transfers to General Fund from:**

Nonmajor Governmental Funds	\$24,706
Total Transferred to General Fund from Other Funds	<u>\$24,706</u>

**Transfers to Nonmajor Governmental Funds from:**

General Fund	\$9,960
Total Transferred to Nonmajor Funds from Other Funds	<u>\$9,960</u>

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

The District participates in shared services arrangements for miscellaneous 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 16, 2013, which is the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTAL INFORMATION

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2013

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	\$ 4,989,289	\$ 4,964,427	\$ 5,015,134	\$ 50,707
5800	State Program Revenues	7,225,309	7,240,909	6,435,198	(805,711)
5900	Federal Program Revenues	50,000	50,000	31,576	(18,424)
5020	Total Revenues	12,264,598	12,255,336	11,481,908	(773,428)
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	6,056,577	7,528,826	7,065,427	463,399
0012	Instructional Resources and Media Services	228,098	165,882	165,694	188
0013	Curriculum and Instructional Staff Development	284,332	218,175	215,460	2,715
0021	Instructional Leadership	613,026	125,206	122,548	2,658
0023	School Leadership	740,144	749,925	740,575	9,350
0031	Guidance, Counseling and Evaluation Services	501,872	168,375	157,178	11,197
0033	Health Services	208,936	103,161	101,861	1,300
0034	Student (Pupil) Transportation	361,008	333,420	331,564	1,856
0036	Extracurricular Activities	318,351	588,756	588,077	679
0041	General Administration	987,826	777,432	762,492	14,940
0051	Facilities Maintenance and Operations	1,562,656	1,305,822	1,298,533	7,289
0053	Data Processing Services	296,772	287,272	285,690	1,582
Intergovernmental:					
0095	Payments to Juvenile Justice Alternative Ed.	50,000	93,473	93,473	-
0099	Other Intergovernmental Charges	55,000	43,219	43,219	-
6030	Total Expenditures	12,264,598	12,488,944	11,971,791	517,153
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(233,608)	(489,883)	(256,275)
<b>OTHER FINANCING SOURCES (USES):</b>					
7915	Transfers In	-	24,706	24,706	-
8911	Transfers Out (Use)	-	(12,000)	(9,960)	2,040
7080	Total Other Financing Sources (Uses)	-	12,706	14,746	2,040
1200	Net Change in Fund Balances	-	(220,902)	(475,137)	(254,235)
0100	Fund Balance - September 1 (Beginning)	2,101,919	2,101,919	2,101,919	-
3000	Fund Balance - August 31 (Ending)	\$ 2,101,919	\$ 1,881,017	\$ 1,626,782	\$ (254,235)

## COMBINING STATEMENTS

MELISSA INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2013

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	240 National Breakfast and Lunch Program
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ (5,951)	\$ -	\$ (3,501)
1120 Investments - Current	-	-	-
1240 Receivables from Other Governments	5,951	-	3,501
1000 Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>FUNDBALANCES</b>			
Committed Fund Balance:			
3545 Other Committed Fund Balance	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	404 Student Success Initiative	410 Instructional Materials Allotment	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	694 \$2.54 Million Bond Construction	697 \$4.35 Million Bond Construction
\$ -	\$ -	\$ -	\$ -	\$ 18,820	\$ 9,368	\$ -	\$ -
-	-	-	-	13,589	13,589	-	-
-	-	-	-	-	9,452	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,409</u>	<u>\$ 32,409</u>	<u>\$ -</u>	<u>\$ -</u>
-	-	-	-	32,409	32,409	-	-
-	-	-	-	32,409	32,409	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,409</u>	<u>\$ 32,409</u>	<u>\$ -</u>	<u>\$ -</u>

MELISSA INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2013

Data Control Codes	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
<b>ASSETS</b>		
1110 Cash and Cash Equivalents	\$ -	\$ 9,368
1120 Investments - Current	-	13,589
1240 Receivables from Other Governments	-	9,452
1000 Total Assets	<u>\$ -</u>	<u>\$ 32,409</u>
<b>FUNDBALANCES</b>		
Committed Fund Balance:		
3545 Other Committed Fund Balance	-	32,409
3000 Total Fund Balances	<u>-</u>	<u>32,409</u>
4000 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 32,409</u>

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MELISSA INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	240 National Breakfast and Lunch Program
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 340,189
5800 State Program Revenues	-	-	3,251
5900 Federal Program Revenues	87,446	211,464	182,042
5020 Total Revenues	<u>87,446</u>	<u>211,464</u>	<u>525,482</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	87,446	173,954	-
0012 Instructional Resources and Media Services	-	-	-
0013 Curriculum and Instructional Staff Development	-	37,510	-
0023 School Leadership	-	-	-
0035 Food Services	-	-	542,803
0041 General Administration	-	-	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	-
6030 Total Expenditures	<u>87,446</u>	<u>211,464</u>	<u>542,803</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(17,321)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
7915 Transfers In	-	-	9,960
8911 Transfers Out (Use)	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>9,960</u>
1200 Net Change in Fund Balance	-	-	(7,361)
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>7,361</u>
3000 Fund Balance - August 31 (Ending)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	404 Student Success Initiative	410 Instructional Materials Allotment	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	694 \$2.54 Million Bond Construction	697 \$4.35 Million Bond Construction
\$ -	\$ -	\$ -	\$ -	\$ 57,704	\$ 397,893	\$ -	\$ -
-	-	2,812	97,151	-	103,214	-	-
27,291	2,895	-	-	-	511,138	-	-
27,291	2,895	2,812	97,151	57,704	1,012,245	-	-
4,314	2,895	2,812	97,151	613	369,185	-	-
-	-	-	-	12,761	12,761	-	-
22,977	-	-	-	-	60,487	-	-
-	-	-	-	30,264	30,264	-	-
-	-	-	-	-	542,803	-	-
-	-	-	-	4,890	4,890	-	-
-	-	-	-	-	-	4,385	57,786
27,291	2,895	2,812	97,151	48,528	1,020,390	4,385	57,786
-	-	-	-	9,176	(8,145)	(4,385)	(57,786)
-	-	-	-	-	9,960	-	-
-	-	-	-	-	-	-	(24,706)
-	-	-	-	-	9,960	-	(24,706)
-	-	-	-	9,176	1,815	(4,385)	(82,492)
-	-	-	-	23,233	30,594	4,385	82,492
\$ -	\$ -	\$ -	\$ -	\$ 32,409	\$ 32,409	\$ -	\$ -

MELISSA INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
<b>REVENUES:</b>		
5700 Total Local and Intermediate Sources	\$ -	\$ 397,893
5800 State Program Revenues	-	103,214
5900 Federal Program Revenues	-	511,138
5020 Total Revenues	<u>-</u>	<u>1,012,245</u>
<b>EXPENDITURES:</b>		
Current:		
0011 Instruction	-	369,185
0012 Instructional Resources and Media Services	-	12,761
0013 Curriculum and Instructional Staff Development	-	60,487
0023 School Leadership	-	30,264
0035 Food Services	-	542,803
0041 General Administration	-	4,890
Capital Outlay:		
0081 Facilities Acquisition and Construction	<u>62,171</u>	<u>62,171</u>
6030 Total Expenditures	<u>62,171</u>	<u>1,082,561</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(62,171)</u>	<u>(70,316)</u>
<b>OTHER FINANCING SOURCES (USES):</b>		
7915 Transfers In	-	9,960
8911 Transfers Out (Use)	<u>(24,706)</u>	<u>(24,706)</u>
7080 Total Other Financing Sources (Uses)	<u>(24,706)</u>	<u>(14,746)</u>
1200 Net Change in Fund Balance	(86,877)	(85,062)
0100 Fund Balance - September 1 (Beginning)	<u>86,877</u>	<u>117,471</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ 32,409</u>

REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

MELISSA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FISCAL YEAR ENDED AUGUST 31, 2013

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2004 and prior years	\$ 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	1.040000	0.500000	426,933,889
2013 (School year under audit)	1.040000	0.500000	438,642,628
1000 TOTALS			



(10) Beginning Balance 9/1/2012	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2013
\$ 28,232	\$ -	\$ 759	\$ 192	\$ (7,016)	\$ 20,265
8,940	-	1,962	641	(1,788)	4,549
14,746	-	2,174	594	(1,375)	10,603
16,104	-	1,887	565	(3,357)	10,295
15,510	-	16,012	7,621	22,808	14,685
27,276	-	21,265	10,224	33,936	29,723
25,637	-	22,533	10,833	37,594	29,865
52,482	-	36,070	17,341	35,643	34,714
99,981	-	58,159	27,961	32,428	46,289
-	6,755,096	4,507,768	2,167,196	-	80,132
<u>\$ 288,908</u>	<u>\$ 6,755,096</u>	<u>\$ 4,668,589</u>	<u>\$ 2,243,168</u>	<u>\$ 148,873</u>	<u>\$ 281,120</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, 2013

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	\$ 324,780	\$ 345,155	\$ 340,189	\$ (4,966)
5800 State Program Revenues	2,000	2,000	3,251	1,251
5900 Federal Program Revenues	184,375	184,375	182,042	(2,333)
5020 Total Revenues	511,155	531,530	525,482	(6,048)
<b>EXPENDITURES:</b>				
0035 Food Services	511,155	543,530	542,803	727
6030 Total Expenditures	511,155	543,530	542,803	727
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(12,000)	(17,321)	(5,321)
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	12,000	9,960	(2,040)
7080 Total Other Financing Sources (Uses)	-	12,000	9,960	(2,040)
1200 Net Change in Fund Balances	-	-	(7,361)	(7,361)
0100 Fund Balance - September 1 (Beginning)	7,361	7,361	7,361	-
3000 Fund Balance - August 31 (Ending)	\$ 7,361	\$ 7,361	\$ -	\$ (7,361)

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, 2013

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	\$ 1,989,453	\$ 2,275,753	\$ 2,276,081	\$ 328
5800	State Program Revenues	600,000	600,000	514,009	(85,991)
5020	Total Revenues	2,589,453	2,875,753	2,790,090	(85,663)
<b>EXPENDITURES:</b>					
Debt Service:					
0071	Principal on Long Term Debt	910,000	910,000	910,000	-
0072	Interest on Long Term Debt	1,649,199	1,750,482	1,750,481	1
0073	Bond Issuance Cost and Fees	6,500	313,209	265,201	48,008
6030	Total Expenditures	2,565,699	2,973,691	2,925,682	48,009
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	23,754	(97,938)	(135,592)	(37,654)
<b>OTHER FINANCING SOURCES (USES):</b>					
7916	Premium or Discount on Issuance of Bonds	-	1,261,151	1,261,151	-
7080	Total Other Financing Sources (Uses)	-	1,261,151	1,261,151	-
1200	Net Change in Fund Balances	23,754	1,163,213	1,125,559	(37,654)
0100	Fund Balance - September 1 (Beginning)	2,285	2,285	2,285	-
3000	Fund Balance - August 31 (Ending)	\$ 26,039	\$ 1,165,498	\$ 1,127,844	\$ (37,654)

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FEDERAL AWARDS SECTION

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

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

**Independent Auditor's Report**

Melissa Independent School District  
1904 Cooper Street  
Melissa, Texas 75454

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Melissa Independent School District, as of and for the year ended August 31, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 16, 2013.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

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

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

December 16, 2013

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

**Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control  
Over Compliance Required by OMB Circular A-133**

**Independent Auditor's Report**

Melissa Independent School District  
1904 Cooper Street  
Melissa, Texas 75454

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

We have audited Melissa Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Melissa Independent School District's major federal programs for the year ended August 31, 2013. Melissa Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Melissa Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Melissa Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, Melissa Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013.

**Report on Internal Control Over Compliance**

Management of Melissa Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Melissa Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an



opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Melissa Independent School District's internal control over compliance.

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

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

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

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

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

December 16, 2013

MELISSA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2013

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	Child Nutrition Cluster: National School Breakfast Program, CFDA#10.553 National School Lunch Program, CFDA#10.555
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, 2013

(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, 2013

(Prepared by the District's Administration)

There were no corrective actions necessary for the year ended August 31, 2013.

MELISSA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2013

(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	13610101057950	\$ 87,446
IDEA - Part B, Formula	84.027	13660001043908	211,464
Title III, Part A - English Language Acquisition	84.365A	13615002057950	2,895
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	13694501057950	27,291
Total Passed Through State Department of Education			\$ 329,096
<b>TOTAL DEPARTMENT OF EDUCATION</b>			\$ 329,096
<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	13-04908	\$ 31,576
Total Passed Through Texas Dept of Human Services			\$ 31,576
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			\$ 31,576
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	13-043908	\$ 36,194
*National School Lunch Program - Cash Assistance	10.555	13-043908	126,004
*National School Lunch Prog. - Non-Cash Assistance	10.555	13-043908	19,844
Total CFDA Number 10.555			145,848
Total Child Nutrition Cluster			182,042
Total Passed Through the State Department of Agriculture			\$ 182,042
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			\$ 182,042
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ 542,714

\*Clustered Programs

MELISSA INDEPENDENT SCHOOL DISTRICT  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2013

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.
4. The District participates in numerous Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, in any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2013, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying financial statements for such contingencies.

SCHOOLS FIRST QUESTIONNAIRE

Melissa Independent School District

Fiscal Year 2013

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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.	117354