

MALAKOFF INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2009

MALAKOFF INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2009

<u>Exhibit</u>		<u>Page</u>
	Table of Contents	1
	Certificate of Board	3
	Independent Auditor's Report	4
	Management's Discussion and Analysis	6
	Basic Financial Statements:	
	Government - Wide Financial Statements:	
A-1	Statement of Net Assets	15
B-1	Statement of Activities	16
	Governmental Fund Financial Statements:	
C-1	Balance Sheet	17
C-2	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	18
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balances	19
C-4	Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
	Proprietary Fund Financial Statements:	
D-1	Statement of Net Assets	N/A
D-2	Statement of Revenues, Expenses, and Changes in Fund Assets	N/A
D-3	Statement of Cash Flows	N/A
	Fiduciary Fund Financial Statements:	
E-1	Statement of Fiduciary Net Assets	21
E-2	Statement of Changes in Fiduciary Net Assets	22
	Notes to the Financial Statements	23
	Required Supplementary Information:	
G-1	Budgetary Comparison Schedule - General Fund	46
	Combining Statements:	
	Nonmajor Governmental Funds:	
H-1	Combining Balance Sheet	47
H-2	Combining Statement of Revenues, Expenditures and Changes in Fund Balances	49

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FOR THE YEAR ENDED AUGUST 31, 2009

TABLE OF CONTENTS, CONTINUED

<u>Exhibit</u>		<u>Page</u>
Required TEA Schedules:		
J-1	Schedule of Delinquent Taxes Receivable	51
J-2	Schedule of Expenditures for Computation of Indirect Cost	52
J-3	Fund Balance and Cash Flow Calculation Worksheet	53
J-4	Budgetary Comparison Schedule - Child Nutrition Fund	54
J-5	Budgetary Comparison Schedule - Debt Service Fund	55
Compliance, Internal Control and Federal Awards:		
	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	56
	Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	58
	Schedule of Findings and Questioned Costs	60
	Schedule of Status of Prior Findings	62
	Corrective Action Plan	63
K-1	Schedule of Expenditures of Federal Awards	64
	Notes to the Schedule of Expenditures of Federal Awards	65

CERTIFICATE OF BOARD

Malakoff Independent School District
Name of School District

Henderson
County

107-906
Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and _____ approved _____ disapproved for the year ended August 31, 2009 at a meeting of the board of school trustees of such school district on the _____ day of _____, 2009.

Signature of Board Secretary

Signature of Board President

If the board of trustees disapproved of the auditor's report, the reason(s) for disapproving it is(are):
(attach list as necessary)

SMITH, LAMBRIGHT & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

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UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION
AND OTHER SUPPLEMENTARY INFORMATION
INCLUDING THE SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Independent Auditor's Report

Board of School Trustees
Malakoff Independent School District
1308 FM 3062
Malakoff, Texas 75148

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Malakoff Independent School District (the "District"), as of and for the year ended August 31, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

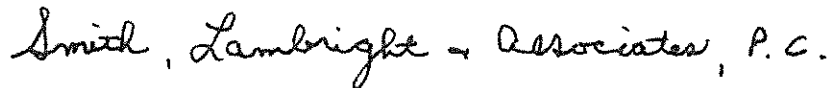
In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-5. Except for Exhibit J-3 (Fund Balance and Cash Flow Calculation Worksheet) which is marked UNAUDITED and on which we express no opinion, these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,



SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants

November 19, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS



Malakoff Independent School District

John Spies, Ed. D., Superintendent

1308 FM 3062

Malakoff, Texas 75148

Phone (903) 489-1317

Fax (903) 489-2566

Management's Discussion and Analysis

This section of the Annual Financial and Compliance Report for Malakoff Independent School District contains a discussion and analysis of the District's financial performance for the fiscal year ending August 31, 2009, as determined by the managers of Malakoff I.S.D. Please read it in conjunction with the independent auditor's report and the District's Basic Financial Statements.

Financial Highlights

The District's total net assets increased over the course of this year's operations.

Revenues generated were in excess of expenditures by approximately \$264,259 during the current year. This compares to last year when revenues exceeded expenditures by \$962,242. The increase in fund balance was due to the receipt of insurance recovery funds and expenditures being less than budgeted appropriations. Expenditures were below budgeted appropriations by approximately \$142,182.

Malakoff I.S.D. received a "Superior Achievement" rating on its financial accountability under the new Schools FIRST financial accountability rating system released this year by Texas Education Agency.

Using the Annual Report

The annual financial report consists of several parts. The government-wide financial statements provide information about the most significant funds of the District as a whole and include the Statement of Net Assets and the Statement of Activities. These statements present a long term view of the District's property, debt obligations, and other financial matters. They are presented in a manner that resembles financial reports of a business enterprise.

The fund financial statements give a view of the District's most significant funds in more detail than does the government-wide statements by reflecting the flow of current financial resources, supplying the basis for tax levies, and providing budget appropriations.

The fiduciary statements provide financial information concerning activities for which the District acts as trustee only.

Notes to the financial statements provide narrative explanations or additional information to assist in clarification and complete understanding of the combined financial statements.

The combining statements for non major funds are not required by TEA but provide even more detail about the individual funds. TEA Required Schedules, Compliance Internal Control and Federal Awards Sections of the report provide information pertaining to compliance issues, internal control over financial reporting, schedules of findings and questioned costs by the auditors, and schedules of federal award expenditures for the year ended August 31, 2009.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

This section of the financial statement gives an analysis of the overall financial condition of the District. The primary purpose of this portion of the statement is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets reflects the total assets and liabilities at the end of the year; the Statement of Activities includes all the revenue and expenditures generated by the year's operations. The accrual basis of accounting is applied to these activities.

The revenues are divided into those provided by grants and revenues provided by taxpayers or TEA. All District assets and liabilities are reported in this section, regardless of life or service (current/future).

The net assets of the District (difference between assets and liabilities) provide one measure of the District's financial health. A district whose net assets are increasing over time is one with improving financial health. Another measure of the overall health of the District is reflected in changes in average daily attendance, condition of facilities, and the property tax base.

The Statement of Net Assets and the Statement of Activities divide the District into two kinds of activities:

Governmental activities section which reports most of the District's basic services, including instruction, counseling, co-curricular activities, food service, transportation, maintenance, and general administration. Property taxes, fees, state revenues and federal grants finance most of these activities.

Trust/Fiduciary activities section includes student activities, scholarship fund and clearing funds. The District acts as overseer of these funds.

Reporting the District's Most Significant Funds

Fund Financial Statements

The most significant funds of the District are included in this section. The District is required to establish separate funds for grants. It also maintains separate funds to help control and manage funds for particular purposes such as campus activities, food services, and debt service.

Governmental Funds

Most of the District's basic services are reported in governmental funds. The modified accrual basis of accounting is used to report these activities. This method of accounting measures the receipt and disbursement of cash and financial assets that can be readily converted to cash. Governmental fund statements provide a detailed short-term view of the District's general operations and the basic services provided.

Budgeted Special Revenue Funds

This category of funds includes Food Service, Title I (A), Title II, (A & D), Title V, (A), Title VI, (B), Reading First Grant, Technology Fund, Pre-K, Tobacco Grant, Cops Grant, Vocational, Student Success Initiative, High School Allotment, Optional Extended Year Rural Technology Grant and Campus Activities Funds.

This group of funds has revenue resources including grants, federal programs, and state programs.

Debt Service Fund

The Debt Service fund accounts for bonded debt payments and the tax revenues that fund the debt.

The District as Trustee

All the fiduciary activities of the district are reported in separate Statements of Agency Funds. These resources are excluded from the District's other financial statements because the district cannot use these assets to finance operations. Its only responsibility in the disbursing of these funds is to ensure the assets are used for intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

GASB Statement #34 was implemented in 2002. This statement requires asset measurement with analysis of comparative balances and changes. Those comparisons are presented for both current and prior year. The analysis of net assets (Table I) and changes in net assets (Table II) focuses on current year data compared to last year data of the governmental activities of the District.

Total net assets of the district's governmental activities increased by \$264,262, as compared to last year. Total unrestricted assets were \$5,188,752 on August 31, 2009. These assets represent the part of net assets that can be used to finance day-to-day operations without debt or legal constraints. Two significant factors contributed to the increase in net assets:

- (1) The receipt of insurance recovery funds totaling \$113,954 (with the major amount of \$105,625 reflecting the final payment for the Middle School Roof repairs)
- (2) Expenditures were less than budget appropriations by approximately \$142,182

Total revenue for the District increased by \$173,025 . The total cost of all programs and services for the District increased by \$871,007.

The total cost for all governmental activities this year was \$14,004,690. Property taxes funded \$8,901,965 of this t as shown on Table II of this report.

The District's Funds

At the end of the year, the District reported a combined fund balance of \$4,803,277 (\$4,241,466

General Fund, \$515,476 Debt Service, \$981 Capital Projects, and \$45,354 Other Funds) in its governmental funds, a decrease of \$3,352,941 over last year due to the renovation project for the middle school. There is approximately \$725,000 remaining in construction costs due for the Middle School Constuction to be expended in the 2009-10 Budget. The General Fund reported a decrease of over \$330,707 for the year. This decrease is due mostly to the payment for the Middle School renovation from the remaining bond funds.

The Debt Service Fund had an increase of \$193,532 in fund balance due to a slightly higher percentage of taxes collected for debt service during the year than was projected.

The original budgeted revenue and appropriations for governmental funds netted "0" at the beginning of the fiscal year. At year end, realized revenues measured approximately 100% of budgeted estimated revenue while actual expenditures totaled about 99% of budgeted appropriations. This simply means that our revenue collections were approximately \$92,448 more than our budgeted estimates and the District spent \$142,182 less than budgeted expenditures.

Capital Assets and Debt Administration

Capital Assets

At the end of the school year, the District reported \$26,329,580 in capital assets. These assets include all rolling stock, facilities, and equipment. This amount represents an increase of \$2,897,625 as compared to last year. The additions to capital assets during the year included the improvements to the Gym/Administration Multi-Purpose Facility (\$106,399), the suburban (\$27,777), Malakoff Middle School Renovation (\$3,336,350) and repair of the High School Sprinkler System(\$149,263). Deletions totaling \$241,524 were removed from Capital Assets for the Middle School Auditori (\$87,324), and the sale of 4 buses and 1 pick-up truck(\$154,200).

Debt

The District had an outstanding amount of \$17,795,000 in bonded debt at year end. This category of debt represents the construction of the high school facility on Star Harbor Road (\$4,670,000), the construction of the new elementary schools in Malakoff and Tool (\$9,345,000) and the renovation projects for both the high school and middle school, transportation additions, and technology purchases (\$3,780,000).

At year end, the District had an outstanding amount of zero in capital leases, due to the final payment of the lease purchase agreement, consisting of four 71 passenger buses and one 36 passenger bus.

Economic Factors and Next Year's Budget/Rates

The budget for 2009-10 was based on many factors:

- (1) Chapter 41 Status (approx. \$1,653,478 recapture costs)
- (2) Increasing ADA
- (3) Increasing property values
- (4) Minimal population growth (district-wide)

Although the unemployment rate for the area registers below the state average, the total population for Texas has a projected increase of 2.7% from last year. Senior citizens comprise a large percentage of the District's population which carries the over-65 HS exemption for taxing purposes.

Only a very small percentage of the District's property tax base is attributed to industry or commercial interests. Average home values within the District have risen from \$55,280 in 1997 to \$179,115 in 2009. It is the Comptroller's Property Tax Report of high taxable values linked with low student enrollment that triggered the Chapter 41 status for the District in 2003.

The average daily attendance in the District has followed a downward trend from 1,116 in 1997-98 to 1,097 in 2007-08.

When the 2009-10 budget was adopted, all these indicators were considered. The current budget reflects an approximate increase of 4% over last year's total. A total of \$1,653,478 has been budgeted to cover recapture costs.

Teachers' salaries were increased due to their step raises, state mandates and a district adopted salary schedule. A salary increase was given to all other employees, resulting in an increase in personnel costs.

The revenues for the 2009-10 budget are primarily derived from property tax collection with State Foundation and Per Capita accounting for approximately 23% of total revenue. Charts on the following pages show revenue by source and expenditures by function (category).

No new major programs have been added by the District this year except for those funded by grants.

If the 2009-10 budget estimates are attained, a modest increase should be realized in fund balance at year end.

Contacting the District's Financial Management

This report is intended to assist citizens, taxpayers, investors, and creditors with the understanding of the financial status of the Malakoff Independent School District, how resources are managed and the accountability for funds received. If you have any questions concerning the report or need additional information, contact the District's business office at Malakoff I.S.D., 1308 FM 3062, Malakoff, TX 75148.

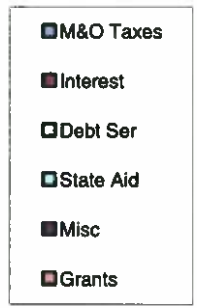
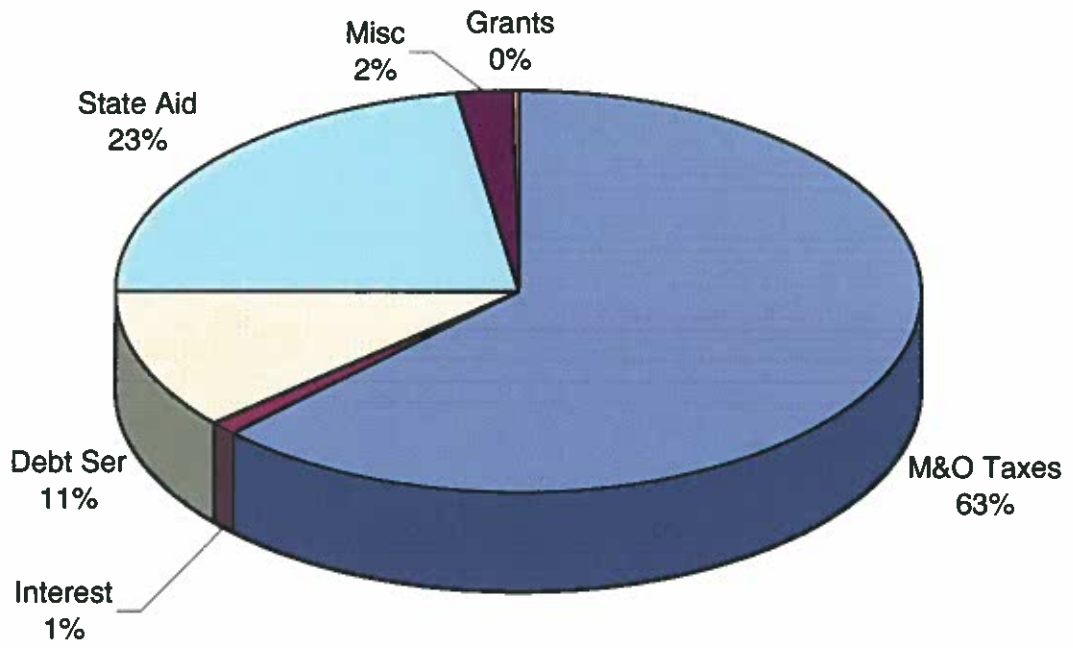
Table I
Malakoff Independent School District
Statement of Net Assets
August 31, 2009

<u>Governmental Activities</u>	<u>2007-08</u>	<u>2008-09</u>
ASSETS		
Cash and Cash Equivalents	598,694	506,052
Current Investments	7,656,010	6,534,026
Property Taxes Receivable (Del)	989,160	1,048,699
Allowance for Uncollectible Taxes	(49,458)	(52,435)
Due from Other Governments	314,972	158,326
Other Receivables, net	1,336	1,347
Deferred Expenses		564
Capitalized Bond & Other Debt Issuance Costs	290,001	269,883
Discount on Issuance of Debt	120,350	112,329
Capital Assets:		
Land	311,672	311,672
Buildings, net	22,515,499	25,324,794
Furniture and Equipment, net	469,475	693,114
Leased property Under Capital Leases, net	126,666	-
Construction in Progress	8,643	-
Total Assets	<u>33,353,020</u>	<u>34,908,371</u>
LIABILITIES		
Accounts Payable	750	3,192
Payroll Deductions & Withholdings	1,416	-
Accrued Wages Payable	283,514	344,538
Due to Other Governments	96,469	1,653,478
Accrued Expenditures or Expenses	67,647	57,688
Premium on Issuance of Debt	409,071	380,571
Deferred Revenues	25,000	387,120
Noncurrent Liabilities:		-
Due Within One Year	689,057	790,000
Due in More Than One Year	17,757,574	17,005,000
Total Liabilities	<u>19,330,498</u>	<u>20,621,587</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	4,986,604	8,536,221
Restricted for Federal and State Programs	37,670	25,439
Restricted for Debt Service	321,941	515,476
Restricted for Capital Projects	3,192,670	981
Restricted for Other Purposes	31,764	19,915
Unrestricted Net Assets	5,451,873	5,188,752
Total Net Assets	<u>14,022,522</u>	<u>14,286,784</u>

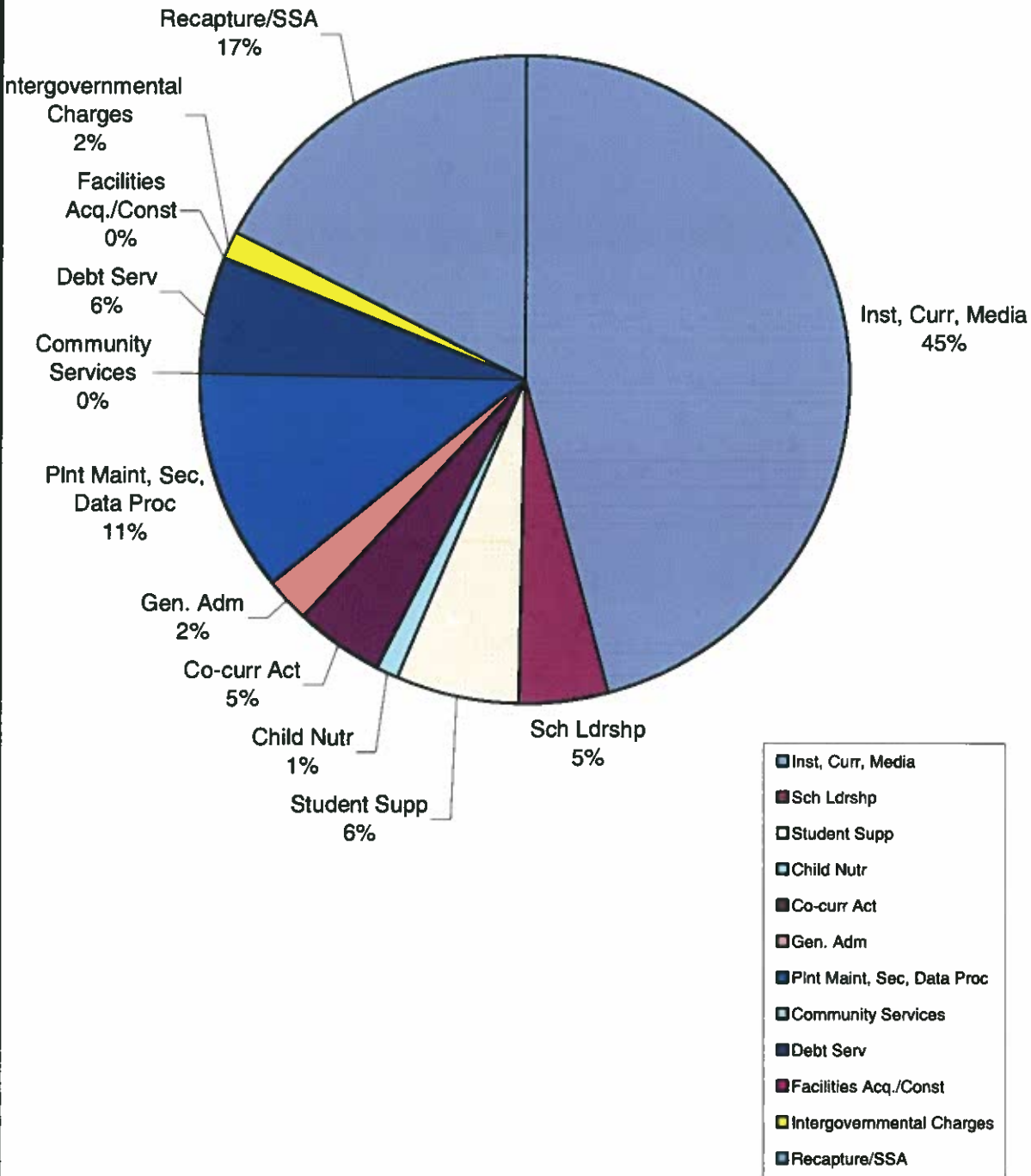
Table II
Malakoff Independent School District
Statement of Net Assets
August 31, 2009

<u>Governmental Activities</u>	<u>2007-08</u>	<u>2008-09</u>
Revenues:		
General Revenues;		
Maintenance & Operation Taxes	8,475,975	8,901,965
Debt Service Taxes	1,069,118	1,631,864
State Aid	4,018,916	3,201,999
Unrestricted Grants/Contributions	49,539	33,245
Investment Earnings	245,127	164,245
Miscellaneous Revenue	237,249	335,631
Special Item	-	-
Total Revenue	14,095,924	14,268,949
Expenses:		
Instructional, Curriculum, Media	6,507,254	6,399,741
Instructional/School Leadership	594,663	646,049
Student Support Services	817,908	849,424
Child Nutrition	150,053	141,439
Co-curricular Activities	558,963	635,327
General Administration	504,072	322,750
Plant Maint, Security, Data Proc	1,648,137	1,549,038
Community Services	71	144
Debt Services	665,162	806,148
Facilities Acquisition/Constr	-	-
Contr. Instr. Serv. Between Schools/Recapture	1,687,400	2,442,146
Other Governmental Charges		212,484
Total Expenses	13,133,683	14,004,690
Increase in Net Assets Before Transfers/Special Items	962,242	264,259
Net assets @ 09-01	13,060,280	14,022,525
Net Assets @ 08-31	14,022,522	14,286,784

Revenue by Source



Expense by Category



BASIC FINANCIAL STATEMENTS

MALAKOFF INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2009

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 506,052
1120 Current Investments	6,534,026
1220 Property Taxes Receivable (Delinquent)	1,048,699
1230 Allowance for Uncollectible Taxes	(52,435)
1240 Due from Other Governments	158,326
1290 Other Receivables, net	1,347
1410 Deferred Expenses	564
1420 Capitalized Bond and Other Debt Issuance Costs	269,883
1430 Discount on Issuance of Debt	112,329
Capital Assets:	
1510 Land	311,672
1520 Buildings, Net	25,324,794
1530 Furniture and Equipment, Net	693,114
1000 Total Assets	34,908,371
LIABILITIES	
2110 Accounts Payable	3,192
2160 Accrued Wages Payable	344,538
2180 Due to Other Governments	1,653,478
2200 Accrued Expenses	57,688
2300 Deferred Revenues	387,120
2440 Premium on Issuance of Bonds	380,571
Noncurrent Liabilities	
2501 Due Within One Year	790,000
2502 Due in More Than One Year	17,005,000
2000 Total Liabilities	20,621,587
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	8,536,221
3820 Restricted for Federal and State Programs	25,439
3850 Restricted for Debt Service	515,476
3860 Restricted for Capital Projects	981
3870 Restricted for Campus Activities	19,915
3900 Unrestricted Net Assets	5,188,752
3000 Total Net Assets	\$ 14,286,784

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

MALAKOFF INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2009

EXHIBIT B-1

Data Control Codes	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	1	3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 7,911,965	\$ 393,112	\$ 1,355,926	\$ (6,162,927)
12 Instructional Resources and Media Services	196,916	-	7,483	(189,433)
13 Curriculum and Instructional Staff Development	50,372	-	2,991	(47,381)
21 Instructional Leadership	78,554	-	3,055	(75,499)
23 School Leadership	591,757	-	21,207	(570,550)
31 Guidance, Counseling and Evaluation Services	211,704	-	10,783	(200,921)
33 Health Services	134,027	-	7,107	(126,920)
34 Student (Pupil) Transportation	540,610	-	19,027	(521,583)
35 Food Services	746,143	142,179	462,525	(141,439)
36 Extracurricular Activities	792,844	143,681	13,836	(635,327)
41 General Administration	338,691	-	15,941	(322,750)
51 Plant Maintenance and Operations	1,278,075	-	28,986	(1,249,089)
52 Security and Monitoring Services	47,266	-	2,880	(44,386)
53 Data Processing Services	268,515	-	12,952	(255,563)
61 Community Services	8,851	-	8,707	(144)
72 Debt Service - Interest on Long Term Debt	804,823	-	-	(804,823)
73 Debt Service - Bond Issuance Cost and Fees	1,325	-	-	(1,325)
91 Contracted Instructional Services Between Schools	2,176,406	-	-	(2,176,406)
93 Payments to Fiscal Agent/Member Districts of SSA	265,740	-	-	(265,740)
99 Other Intergovernmental Charges	212,484	-	-	(212,484)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 16,657,068	\$ 678,972	\$ 1,973,406	(14,004,690)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	8,901,965
DT	Property Taxes, Levied for Debt Service	1,631,864
SF	State Aid - Formula Grants	3,201,999
GC	Grants and Contributions not Restricted	33,245
IE	Investment Earnings	164,245
MI	Miscellaneous Local and Intermediate Revenue	335,631
TR	Total General Revenues	14,268,949
CN	Change in Net Assets	264,259
NB	Net Assets--Beginning	14,022,525
NE	Net Assets--Ending	\$ 14,286,784

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

MALAKOFF INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2009

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 456,846	\$ 34,064	\$ 981
1120 Investments - Current	5,045,366	481,412	1,007,248
1220 Property Taxes - Delinquent	942,912	105,787	-
1230 Allowance for Uncollectible Taxes (Credit)	(47,146)	(5,289)	-
1240 Due from Other Governments	60,900	-	-
1260 Due from Other Funds	1,007,248	-	-
1290 Other Receivables	1,347	-	-
1410 Deferred Expenditures	564	-	-
1000 Total Assets	<u>\$ 7,468,037</u>	<u>\$ 615,974</u>	<u>\$ 1,008,229</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2110 Accounts Payable	\$ 1,681	\$ -	\$ -
2160 Accrued Wages Payable	283,213	-	-
2170 Due to Other Funds	-	-	1,007,248
2180 Due to Other Governments	1,653,478	-	-
2200 Accrued Expenditures	5,313	-	-
2300 Deferred Revenues	1,282,886	100,498	-
2000 Total Liabilities	<u>3,226,571</u>	<u>100,498</u>	<u>1,007,248</u>
Fund Balances:			
Reserved For:			
3420 Retirement of Long Term Debt	-	515,476	-
3450 Food Service	-	-	-
3490 Other Purposes	-	-	981
Unreserved Designated For:			
3510 Construction	2,000,000	-	-
Unreserved and Undesignated:			
3600 Reported in the General Fund	2,241,466	-	-
3000 Total Fund Balances	<u>4,241,466</u>	<u>515,476</u>	<u>981</u>
4000 Total Liabilities and Fund Balances	<u>\$ 7,468,037</u>	<u>\$ 615,974</u>	<u>\$ 1,008,229</u>

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

Other Funds	Total Governmental Funds
\$ 14,161	\$ 506,052
-	6,534,026
-	1,048,699
-	(52,435)
97,426	158,326
-	1,007,248
-	1,347
-	564
<u>\$ 111,587</u>	<u>\$ 9,203,827</u>

\$ 1,511	\$ 3,192
61,325	344,538
-	1,007,248
-	1,653,478
3,397	8,710
-	1,383,384
<u>66,233</u>	<u>4,400,550</u>

-	515,476
14,248	14,248
31,106	32,087
-	2,000,000
-	2,241,466
<u>45,354</u>	<u>4,803,277</u>

<u>\$ 111,587</u>	<u>\$ 9,203,827</u>
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MALAKOFF INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS

AUGUST 31, 2009

Total Fund Balances - Governmental Funds \$ 4 803 277

**Amounts reported for governmental activities in the
Statement of Net Assets are different because:**

Data
Control
Codes

1	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 \$29,272,619 and the accumulated depreciation was \$5,840,663. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The long-term debt was \$18,446,631. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.	<u>4 985 325</u>
2	Other assets and liabilities related to long-term debt issuance are not reported in the governmental funds. At the beginning of the year, assets included unamortized debt issuance cost of \$290,002 and unamortized discount on issuance of debt of \$120,350. The liabilities included unamortized premium on issuance of debt of \$409,071. The net effect of these debt issuance assets and liabilities is to increase (decrease) net assets.	<u>1 281</u>
3	Current year capital outlays and long-term debt principal payments 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. The net effect of including the 2009 capital outlays and debt principal payments is to increase (decrease) net assets.	<u>4 306 332</u>
4	The 2009 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	<u>(782 651)</u>
5	Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	<u>973 220</u>
19	Net Assets of Governmental Activities	<u><u>\$ 14 286 784</u></u>

The accompanying notes are an integral part of this statement.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 9,704,043	\$ 1,648,509	\$ 35,390
5800 State Program Revenues	3,699,812	-	-
5900 Federal Program Revenues	31,396	-	-
5020 Total Revenues	13,435,251	1,648,509	35,390
EXPENDITURES:			
Current:			
0011 Instruction	6,428,640	-	7,854
0012 Instructional Resources and Media Services	179,971	-	-
0013 Curriculum and Instructional Staff Development	48,378	-	-
0021 Instructional Leadership	78,554	-	-
0023 School Leadership	570,777	-	-
0031 Guidance, Counseling and Evaluation Services	210,689	-	-
0033 Health Services	131,808	-	-
0034 Student (Pupil) Transportation	452,456	-	-
0035 Food Services	16,589	-	-
0036 Extracurricular Activities	603,312	-	-
0041 General Administration	323,138	-	-
0051 Facilities Maintenance and Operations	1,304,765	-	-
0052 Security and Monitoring Services	47,266	-	-
0053 Data Processing Services	268,515	-	-
0061 Community Services	546	-	-
Debt Service:			
0071 Debt Service - Principal on Long Term Debt	14,057	630,000	-
0072 Debt Service - Interest on Long Term Debt	132	823,290	-
0073 Debt Service - Bond Issuance Cost and Fees	-	1,685	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	124,847	-	3,476,971
Intergovernmental:			
0091 Contracted Instructional Services Between Schools	2,176,406	-	-
0093 Payments to Fiscal Agent/Member Districts of SSA	265,740	-	-
0099 Other Intergovernmental Charges	212,484	-	-
6030 Total Expenditures	13,459,070	1,454,975	3,484,825
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(23,819)	193,534	(3,449,435)
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	-	-	257,746
8911 Transfers Out (Use)	(297,347)	-	-
8949 Other (Uses)	(9,541)	-	-
7080 Total Other Financing Sources (Uses)	(306,888)	-	257,746
1200 Net Change in Fund Balances	(330,707)	193,534	(3,191,689)
0100 Fund Balance - September 1 (Beginning)	4,572,173	321,942	3,192,670
3000 Fund Balance - August 31 (Ending)	\$ 4,241,466	\$ 515,476	\$ 981

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

Other Funds	Total Governmental Funds
\$ 259,715	\$ 11,647,657
280,183	3,979,995
1,197,259	1,228,655
1,737,157	16,856,307
1,013,766	7,450,260
-	179,971
1,994	50,372
-	78,554
-	570,777
-	210,689
-	131,808
925	453,381
642,954	659,543
127,852	731,164
5,042	328,180
-	1,304,765
-	47,266
-	268,515
8,305	8,851
-	644,057
-	823,422
-	1,685
-	3,601,818
-	2,176,406
-	265,740
-	212,484
1,800,838	20,199,708
(63,681)	(3,343,401)
39,601	297,347
-	(297,347)
-	(9,541)
39,601	(9,541)
(24,080)	(3,352,942)
69,434	8,156,219
\$ 45,354	\$ 4,803,277

MALAKOFF 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, 2009

Total Net Change in Fund Balances - Governmental Funds	<u>\$ (3 352 942)</u>
 Amounts reported for governmental activities in the Statement of Activities are different because:	
Current year capital outlays and long-term debt principal payments 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. The net effect of removing the 2009 capital outlays and debt principal payments is to increase (decrease) net assets.	<u>4 306 332</u>
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	<u>(782 651)</u>
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	<u>93 520</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 264 259</u></u>

The accompanying notes are an integral part of this statement.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2009

EXHIBIT E-1

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ 13,312	\$ 20,729
Total Assets	<u>13,312</u>	<u>\$ 20,729</u>
LIABILITIES		
Due to Student Groups	-	\$ 20,729
Total Liabilities	<u>-</u>	<u>\$ 20,729</u>
NET ASSETS		
Restricted for Scholarships	<u>13,312</u>	
Total Net Assets	<u>13,312</u>	

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

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2009

	Private Purpose Trust Fund
ADDITIONS:	
Local and Intermediate Sources	\$ 10,000
Total Additions	<u>10,000</u>
DEDUCTIONS:	
Other Operating Costs	<u>8,000</u>
Total Deductions	<u>8,000</u>
Change in Net Assets	2,000
Total Net Assets - September 1 (Beginning)	<u>11,312</u>
Total Net Assets - August 31 (Ending)	<u><u>\$ 13,312</u></u>

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

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Malakoff 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.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting 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.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the 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 includes 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. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

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

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2009

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 and enterprise 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.

C. 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 fund types 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 operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2009

D. FUND ACCOUNTING

The District reports the following fund types:

Governmental Funds:

1. **General Fund** - The general fund is the District's primary operating fund and is always reported as a major fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Special Revenue Funds** - The District accounts 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.
3. **Debt Service Fund** - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
4. **Capital Projects Fund** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Fiduciary Funds:

5. **Private Purpose Trust Fund** - The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the scholarship fund.
6. **Agency Fund** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the student activity fund.

E. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

F. INVENTORIES

The District records purchases of supplies as expenditures.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2009

G. CAPITAL ASSETS

Capital assets, which include land, buildings, furniture and equipment are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual 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	50
Building Improvements	50
Land Improvements	10 -20
Vehicles	12
Furniture & Equipment	10

H. LONG TERM DEBT

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

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

I. RESERVED AND/OR DESIGNATED FUND BALANCES

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2009

J. RESTRICTED ASSETS

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

K. 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.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2009

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

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

<u>Capital Assets at the Beginning of the Year</u>	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Assets</u>
Land	\$ 311 672	\$	\$ 311 672	
Buildings & Improvements	27 320 156	4 804 656	22 515 500	
Furniture & Equipment	1 374 491	905 016	469 475	
Capital Leases	257 657	130 991	126 666	
Construction in Progress	<u>8 643</u>	<u></u>	<u>8 643</u>	
Totals	<u>\$ 29 272 619</u>	<u>\$ 5 840 663</u>		
Changes in Net Assets				<u>\$ 23 431 956</u>
 			<u>Payable at the Beginning of the Year</u>	
Long-term Liabilities at the Beginning of the year				
Bonds Payable		\$ 18 425 000		
Accretion Payable		7 574		
Capital Leases Payable		<u>14 057</u>		
Change in Net Assets				<u>18 446 631</u>
Net Adjustment to Net Assets				<u>\$ 4 985 325</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2009

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

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

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
Current Year Capital Outlay:			
Buildings & Improvements	\$ 3 628 535		
Furniture & Equipment	<u>33 740</u>		
Total Capital Outlay	<u>3 662 275</u>	<u>3 662 275</u>	<u>3 662 275</u>
Debt Principal Payments:			
Bond Principal	630 000		
Capital Lease Payments	<u>14 057</u>		
Total Principal Payments	<u>\$ 644 057</u>	<u>644 057</u>	<u>644 057</u>
Total Adjustment to Net Assets		<u>\$ 4 306 332</u>	<u>\$ 4 306 332</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2009

C. EXPLANATION OF OTHER DIFFERENCES

Another element of the reconciliation on Exhibits C-2 and 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 Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
Adjustments to Revenue and Deferred Revenue:			
Taxes Collected from Prior Year Levies	\$ 283 112	\$ (283 112)	\$
Uncollected taxes(assumed collectible) from Current Year Levy	339 673	339 673	339 673
Uncollected Taxes (assumed collectible) from Prior Year Levy	656 591		656 591
Accretion on Capital Appreciation Bonds:			
Current Year - Accrued	37 426	(37 426)	(37 426)
Current Year - Paid	45 000	45 000	45 000
Amortization of Bond Related Items:			
Bond Issue Costs	20 119	(20 119)	(20 119)
Discount on Issuance of Bonds	8 021	(8 021)	(8 021)
Premium on Issuance of Bonds	28 500	28 500	28 500
Accrued Interest on Debt:			
Prior Year	60 003	60 003	
Current Year	48 978	(48 978)	(48 978)
Capital Asset Adjustment	18 000	<u>18 000</u>	<u>18 000</u>
Total		<u>\$ 93 520</u>	<u>\$ 973 220</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2009

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. 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 Fund). 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 Exhibits J-4 and J-5.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose 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. The budget was amended as necessary during the year.
4. Each budget is controlled at the organizational level by the administration, appropriate department head or campus principal within Board allocations 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:

	August 31, 2009 Fund Balance
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 14 248
Nonappropriated Budget Funds	31 106
All Special Revenue Funds	\$ 45 354

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District made expenditures in excess of the budgeted amounts in two functional areas in the general fund. The variance in function 91 is due to the Chapter 41 costs based on the near final cost of recapture.

C. ENCUMBRANCE ACCOUNTING

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders or contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31, and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at August 31, 2009 that were subsequently provided for in the 2009 - 2010 budget.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2009

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. 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, and (9) bid solicitation preferences for certificates of deposit.

State statutes and Board policy authorize the District to invest in 1) Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.; 2) Certificates of deposit and share certificates as permitted by Government Code 2256.010.; 3) Fully collateralized repurchase agreements permitted by Government Code 2256.011.; 4) A securities lending program as permitted by Government Code 2256.015.; 5) Banker's acceptances as permitted by Government Code 2256.012.; 6) Commercial paper as permitted by Government Code 2256.013.; 7) No load money market mutual funds and no load mutual funds as permitted by Government Code 2256.014.; 8) A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.; and 9) Public funds investment pools as permitted by Government Code 2256.016.

In compliance with the Public Funds Investment Act, the District has adopted an investment policy. The District is in substantial compliance with the requirements of the Act and with local policies. The risks that the District may be subject are:

- a. Custodial Credit Risk - Deposits: This is the risk that in the event of a bank failure, the District's deposits, including checking, money market accounts and certificates of deposit, may not be returned to it.

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. During 2008-2009 the District's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the District and held by the District's agent.

The largest combined balances of cash, savings and time deposit accounts amounted to \$8,893,923 and occurred on March 10, 2009. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$9,893,912. The total amount of FDIC coverage at the time of the highest combined balance was \$500,000.

- b. Custodial Credit Risk - Investments: This is 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. Any investment that is both uninsured and unregistered is exposed to custodial credit risk if the investment is held by the counterparty, or if the investment is held by the counterparty's trust department or agent, but not in the name of the investor government. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Positions in external investment pools are not subject to custodial credit risk.
- c. Interest Rate Risk: Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2009

- d. Concentration of Credit Risk: Concentration risk is defined as positions of five percent or more in the securities of a single issuer. This is the issuer of the underlying investment, and not a pool. This does not apply to U.S. Government securities.

CASH DEPOSITS

At August 31, 2009, the amount of the District's cash balance in checking accounts was \$538,628. The cash balance in savings, time and certificate of deposit accounts was \$6,388,371. Cash on hand was \$1,465.

INVESTMENTS

The District's investments at August 31, 2009, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of Deposits	\$ 6 388 371	\$ 6 388 371	.0833
Texpool	<u>145 655</u>	<u>145 726</u>	.1205
Total Investments	<u>\$ 6 534 026</u>	<u>\$ 6 534 097</u>	

Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly the market value of the position in these pools is the same as the value of the shares in each pool, which approximates the carrying amount. The investment pools are organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

For the purpose of the statement of cash flows for proprietary fund types, if any, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2009

B. 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 upon receipt of the tax bill and are delinquent if not paid by 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. Delinquent taxes not paid by June 30 are subject to penalty and interest charges plus 15% delinquent collection fees for attorney costs. Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting 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.

The assessed value of the property tax roll upon which the levy for the 2008-2009 fiscal year was based, was \$898,223,315. The tax rates assessed for the year ended August 31, 2009 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$.98 and \$.18 per \$100 valuation, respectively, for a total of \$1.16 per \$100 valuation. Current tax collections for the year ended August 31, 2009 were 96.6% of the year end adjusted tax levy. As of August 31, 2009, property taxes receivable totaled \$942,912 and \$105,787 for the General and Debt Service Funds respectively.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2009

C. DUE FROM OTHER GOVERNMENTS

The District participates in 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, 2009 are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Funds</u>	<u>Total</u>
State Entitlements	\$ 59 916	\$	\$	\$	\$ 59 916
State Grants				9 424	9 424
Federal Grants				88 002	88 002
ESC7 - Head Start	984				984
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 60 900</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 97 426</u>	<u>\$ 158 326</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2009

D. INTERFUND BALANCES AND TRANSFERS

Interfund balances at August 31, 2009 consisted of the following individual fund amounts:

<u>Fund</u>	<u>Due From</u>	<u>Due to</u>
General Fund:		
Capital Projects Fund	<u>\$ 1 007 248</u>	<u>\$</u>
Capital Projects Fund:		
General Fund	<u>\$</u>	<u>\$ 1 007 248</u>
Totals	<u>\$ 1 007 248</u>	<u>\$ 1 007 248</u>

Interfund transfers for the year ended August 31, 2009 consisted of the following individual fund amounts:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund:		
Special Revenue Fund	\$	\$ 39 601
Capital Projects Fund		257 746
Total	<u>\$ 0</u>	<u>\$ 297 347</u>
Special Revenue Fund:		
General Fund	<u>\$ 39 601</u>	<u>\$ 0</u>
Capital Projects Fund:		
General Fund	<u>\$ 257 746</u>	<u>\$ 0</u>
Totals	<u>\$ 297 347</u>	<u>\$ 297 347</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2009

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2009, were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes	\$ 942 912	\$ 105 787	\$	\$	\$ 1 048 699
Other Governments	60 900			97 426	158 326
Other Funds	1 007 248				1 007 248
Other Receivables	<u>1 347</u>				<u>1 347</u>
Totals	<u>\$ 2 012 407</u>	<u>\$ 105 787</u>	<u>\$ 0</u>	<u>\$ 97 426</u>	<u>\$ 2 215 620</u>

Payables at August 31, 2009, were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Funds</u>	<u>Total</u>
Accounts Payable	\$ 1 681	\$	\$	\$ 1 511	\$ 3 192
Accrued Wages	283 213			61 325	344 538
Other Funds			1 007 248		1 007 248
Other Government	<u>1 653 478</u>				<u>1 653 478</u>
Totals	<u>\$ 1 938 372</u>	<u>\$ 0</u>	<u>\$ 1 007 248</u>	<u>\$ 62 836</u>	<u>\$ 3 008 456</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2009

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	\$ 311 672	\$ 0	\$ 0	\$ 311 672
Buildings & Improvements	27 320 156	3 628 535	(154 200)	30 803 134
Furniture & Equipment	1 374 491	33 740	8 643 18 000	1 683 888
Capital Leases	257 657		257 657	0
Construction in Progress	8 643		(8 643)	0
	<u>29 272 619</u>	<u>3 662 275</u>	<u>(136 200)</u>	<u>32 798 694</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	4 804 656	673 684	0	5 478 340
Furniture and Equipment	905 016	108 967	130 991 (154 200)	990 774
Capital Leases	130 991	0	(130 991)	0
	<u>5 840 663</u>	<u>782 651</u>	<u>(154 200)</u>	<u>6 469 114</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 23 431 956</u></u>	<u><u>\$ 2 879 624</u></u>	<u><u>\$ 18 000</u></u>	<u><u>\$ 26 329 580</u></u>

Depreciation expense was charged to governmental functions as follows:

11	Instruction	\$ 461 705
12	Instructional Resources and Media Services	16 945
23	School Leadership	20 980
31	Guidance, Counseling and Evaluation Services	1 015
33	Health Services	2 219
34	Student (Pupil) Transportation	87 229
35	Food Services	86 600
36	Cocurricular/Extracurricular Activities	89 457
41	General Administration	10 511
51	Plant Maintenance and Operations	5 990
	Total Depreciation Expense	<u><u>\$ 782 651</u></u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2009

G. BONDS PAYABLE

Bonded indebtedness of the District is reflected in the Long-Term Debt Account Group, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in bonds payable for the year ended August 31, 2009 is as follows:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Amounts Outstanding 9/1/08</u>	<u>Issued</u>	<u>Retired</u>	<u>Amounts Outstanding 8/31/09</u>	<u>Interest Current Year</u>
Unlimited Tax Refunding Bonds Series 2004	2.45% to 4.25%	\$ 5 204 999	\$ 4 900 000	\$	\$ 230 000	\$ 4 670 000	\$ 200 473
Unlimited Tax School Building Bonds Series 2005	3.0% to 5.0%	10 000 000	9 525 000		180 000	9 345 000	416 102
Unlimited Tax School Building Bonds Series 2008	3.59% to 4.0%	4 000 000	4 000 000		220 000	3 780 000	206 715
Totals			<u>\$ 18 425 000</u>	<u>\$ 0</u>	<u>\$ 630 000</u>	<u>\$17 795 000</u>	<u>\$ 823 290</u>

Debt service requirements are as follows:

<u>Year Ended August 31,</u>	<u>General Obligations</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 790 000	\$ 732 088	\$ 1 522 088
2011	900 000	700 325	1 600 325
2012	1 015 000	664 537	1 679 537
2013	1 140 000	624 462	1 764 462
2014	825 000	587 625	1 412 625
2015 - 2019	4 265 000	2 413 854	6 678 854
2020 - 2024	3 490 000	1 644 303	5 134 303
2025 - 2029	4 365 000	768 437	5 133 437
2030	1 005 000	22 613	1 027 613
Totals	<u>\$ 17 795 000</u>	<u>\$ 8 158 244</u>	<u>\$ 25 953 244</u>

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, 2009.

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As of August 31, 2009 \$4,615,000 of bonds considered defeased are still outstanding.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2009

H. CAPITAL LEASES PAYABLE

The proceeds of capital lease agreements are shown in the financial statements as Other Resources and lease payments are shown as debt services of the appropriate fund.

The District acquired five buses on November 24, 2003 under a long-term, noncancellable (capital) lease agreement, authorized under Texas Education Code Section 34.009. The capitalized cost in the General Capital Assets Account Group at August 31, 2008 was \$257,657. This capital lease was repaid during the current fiscal year. The effective interest rate was 3.75%.

A summary of changes in capital leases payable for the year ended August 31, 2009 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/08	Issued	Retired	Amounts Outstanding 8/31/09	Interest Current Year
Buses	3.75%	\$ 257 657	\$ 14 057	\$	\$ 14 057	\$	\$ 132
Totals			<u>\$ 14 057</u>	<u>\$ 0</u>	<u>\$ 14 057</u>	<u>\$ 0</u>	<u>\$ 132</u>

I. CHANGES IN LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended August 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable					
General Obligation Bonds	\$ 18 425 000	\$	\$ 630 000	\$ 17 795 000	\$ 790 000
Accretion Payable					
Capital Appreciation Bonds	\$ 7 574	\$ 37 426	\$ 45 000	\$ 0	\$ 0
Capital Leases Payable					
Buses	\$ 14 057	\$	\$ 14 057	\$ 0	\$ 0
Total Governmental Activities Long-term Liabilities	<u>\$ 18 446 631</u>	<u>\$ 37 426</u>	<u>\$ 689 057</u>	<u>\$ 17 795 000</u>	<u>\$ 790 000</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2009

J. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Funds	Total
Net Tax Revenue	\$ 895 766	\$ 100 498	\$	\$	\$ 996 264
State Foundation	387 120				387 120
Totals	<u>\$ 1 282 886</u>	<u>\$ 100 498</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1 383 384</u>

K. LOCAL AND INTERMEDIATE SOURCES OF REVENUES

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

	General Fund	Debt Service Fund	Capital Projects Fund	Other Funds	Total
Property Taxes	\$ 8 864 570	\$ 1 612 698	\$	\$	\$ 10 477 268
Penalties, Interest & Other					
Tax Related Income	165 014	24 040			189 054
Food Sales				142 179	142 179
Investment Income	115 630	11 771	35 390	1 456	164 247
Co-curricular Student					
Activities	22 259			114 422	136 681
Services to Other					
Districts	393 012				393 012
Other	143 558			1 658	145 216
Total	<u>\$ 9 704 043</u>	<u>\$ 1 648 509</u>	<u>\$ 35 390</u>	<u>\$ 259 715</u>	<u>\$ 11 647 657</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2009

L. COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (noncapitalized) lease agreements for equipment provided for minimum future rental payments as of August 31, 2009, as follows:

<u>Year Ended</u> <u>August 31</u>	<u>Total</u>
2010	\$ 29 906
2011	29 501
2012	29 179
2013	28 214
2014	<u>25 863</u>
Total Minimum Rentals	<u>\$ 142 663</u>
Rental Expenditures in Fiscal Year 2009	<u>\$ 3 364</u>

M. JOINT VENTURE SHARED SERVICE ARRANGEMENT

The District participates in a shared services arrangement for special education services with six other school districts. Although a portion of the shared services arrangement is attributable to the District's participation, 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 the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The District made payments to the fiscal agent of \$265,740.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2009

N. PENSION PLAN

Plan Description

The 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, Chapter 803 and 805, respectively. 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 writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy

The state contribution rate is 6.58% and the member contribution rate is 6.4%. (The state contribution rate for fiscal year 2007 was 6.0% and the member contribution rate was 6.4%.) In certain instances the District is required to make all or a portion of the state's 6.58% contribution. Contribution requirements are not actuarially determined but are legally established each biennium by the Legislature of the State of Texas.

The District's employees' contributions to the System for the years ending August 31, 2007, 2008, and 2009 were \$453,213, \$479,621 and \$497,036, respectively. Other contributions made from federal and private grants and from the district for salaries above the statutory minimum for the years ending August 31, 2007, 2008, and 2009 were \$103,490, \$112,265 and \$114,536, respectively.

The on behalf amounts contributed by the State, \$477,669, are reflected in the financial statements in the General Fund by respective function, in accordance with Governmental Accounting Standards Board Statement No. 24.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2009

O. SCHOOL DISTRICT RETIREE HEALTH PLAN

Plan Description

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides 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 TRS issues a publicly available financial report that includes financial statements and supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2009, 2008, 2007. Per Texas Insurance Code, Chapters 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school.

The District is allocated a portion of the Medicare Part D retiree drug subsidy that TRS-Care receives. The amount allocated on behalf for the year ended August 31, 2009 is estimated by TRS at \$18,295. This amount is reflected in the financial statements in accordance with Governmental Accounting Standards Board Statement No. 24.

P. COMPENSATED ABSENCES

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying general purpose financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying general purpose financial statements.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2009

Q. SELF-INSURED WORKERS' COMPENSATION

During the year ended August 31, 2009 the Malakoff Independent School District was a participant in the East Texas Educational Insurance Association's Workers' Compensation Self-insurance Joint Fund pursuant to Texas Labor Code Annotated Chapter 504 and Texas Government Code Ch. 791 (the Interlocal Cooperation Act).

The Board of Trustees of the plan and the plan supervisor, Claims Administrative Services, Inc., shall establish the proportionate contribution of each participant annually upon the actual loss experience and claims of the District, the experience rating modification of the District, the prorata costs or savings to the plan from the loss experience of all participants, and all reasonable and necessary administrative expenses of the plan. The proportionate contributions of all participants shall be combined into a self-insurance joint fund.

The District paid a fixed cost of \$38,364 to the plan supervisor for administration of claims, loss control, record keeping, and the cost of excess insurance. The loss fund maximum set aside in a separate account for claims not covered by excess insurance was established to be \$92,223 for the fiscal year. The self insurance retention maximum was \$225,000.

During the fiscal year, the District paid net claims of \$22,402 covering eighteen plan periods ending August 31, 2009, and has accrued \$2,193 as a liability for unpaid claims determined by the claims administrator.

R. CONSTRUCTION AND OTHER COMMITMENTS AND CONTINGENCIES

The District participates in numerous state and Federal grant programs which 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, if any, refunds of any money received may be required and the collectibility of any related receivable at August 31, 2009 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 provision has been recorded in the accompanying combined financial statements for such contingencies.

S. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During fiscal year 2009 the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

T. CHAPTER 41 DISTRICT

Beginning with the 2003 - 2004 fiscal year the District was a Chapter 41 District. The near final cost of options was \$2,156,232 as of August 31, 2009. These costs were paid to the Texas Education Agency.

REQUIRED SUPPLEMENTARY INFORMATION

MALAKOFF INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2009

EXHIBIT G-1

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 8,941,047	\$ 9,131,758	\$ 9,704,043	\$ 572,285
5800	State Program Revenues	4,177,772	4,177,772	3,699,812	(477,960)
5900	Federal Program Revenues	33,273	33,273	31,396	(1,877)
5020	Total Revenues	13,152,092	13,342,803	13,435,251	92,448
EXPENDITURES:					
Current:					
0011	Instruction	6,680,775	6,630,805	6,428,640	202,165
0012	Instructional Resources and Media Services	178,113	182,971	179,971	3,000
0013	Curriculum and Instructional Staff Development	50,924	50,924	48,378	2,546
0021	Instructional Leadership	78,952	78,952	78,554	398
0023	School Leadership	574,438	579,938	570,777	9,161
0031	Guidance, Counseling and Evaluation Services	212,794	212,794	210,689	2,105
0033	Health Services	131,810	131,810	131,808	2
0034	Student (Pupil) Transportation	472,069	490,069	452,456	37,613
0035	Food Services	14,953	16,589	16,589	-
0036	Extracurricular Activities	490,700	599,084	603,312	(4,228)
0041	General Administration	343,085	343,085	323,138	19,947
0051	Facilities Maintenance and Operations	1,386,547	1,313,205	1,304,765	8,440
0052	Security and Monitoring Services	5,528	50,788	47,266	3,522
0053	Data Processing Services	320,651	320,651	268,515	52,136
0061	Community Services	1,000	1,000	546	454
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	14,189	14,189	14,057	132
0072	Debt Service - Interest on Long Term Debt	132	132	132	-
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	129,159	124,847	4,312
Intergovernmental:					
0091	Contracted Instructional Services Between Schools	1,911,842	1,962,974	2,176,406	(213,432)
0093	Payments to Fiscal Agent/Member Districts of SSA	-	279,633	265,740	13,893
0099	Other Intergovernmental Charges	190,000	212,500	212,484	16
6030	Total Expenditures	13,058,502	13,601,252	13,459,070	142,182
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	93,590	(258,449)	(23,819)	234,630
OTHER FINANCING SOURCES (USES):					
7949	Other Resources	267,463	1,619,502	-	(1,619,502)
8911	Transfers Out (Use)	(268,830)	(1,268,830)	(297,347)	971,483
8949	Other (Uses)	(92,223)	(92,223)	(9,541)	82,682
7080	Total Other Financing Sources (Uses)	(93,590)	258,449	(306,888)	(565,337)
1200	Net Change in Fund Balances	-	-	(330,707)	(330,707)
0100	Fund Balance - September 1 (Beginning)	4,572,173	4,572,173	4,572,173	-
3000	Fund Balance - August 31 (Ending)	\$ 4,572,173	\$ 4,572,173	\$ 4,241,466	\$ (330,707)

COMBINING STATEMENTS

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2009

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA 1, A Improving Basic Program	240 National Breakfast and Lunch Program	242 Summer Feeding Program	
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ 2,694	\$ -
1240	Due from Other Governments	-	21,753	13,065	-
1000	Total Assets	<u>\$ -</u>	<u>\$ 21,753</u>	<u>\$ 15,759</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2110	Accounts Payable	\$ -	\$ -	\$ 1,511	\$ -
2160	Accrued Wages Payable	-	19,867	-	-
2200	Accrued Expenditures	-	1,886	-	-
2000	Total Liabilities	<u>-</u>	<u>21,753</u>	<u>1,511</u>	<u>-</u>
Fund Balances:					
Reserved For:					
3450	Food Service	-	-	14,248	-
3490	Other Purposes	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>14,248</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 21,753</u>	<u>\$ 15,759</u>	<u>\$ -</u>

EXHIBIT H-1 (Cont'd)

244 Vocational Ed Basic Grant	255 ESEA II,A Training and Recruiting	261 Reading First	262 Title II, D Education Technology	263 Title III, A English Lang. Acquisition	266 Title XIV ARRA State Stabilization	270 ESEA VI, Pt B Rural & Low Income	285 ESEA I, A ARRA Improve Basic Program
\$ -	\$ -	\$ (16,292)	\$ -	\$ -	\$ -	\$ -	\$ -
-	4,136	16,292	-	-	26,276	-	6,480
<u>\$ -</u>	<u>\$ 4,136</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,276</u>	<u>\$ -</u>	<u>\$ 6,480</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	3,776	-	-	-	25,778	-	6,353
-	360	-	-	-	498	-	127
-	4,136	-	-	-	26,276	-	6,480
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 4,136</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,276</u>	<u>\$ -</u>	<u>\$ 6,480</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2009

Data Control Codes	287 COPS Grant	401 Optional Extended Year Program	404 Student Success Initiative	411 Technology Allotment	
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ (398)	\$ (1,605)	\$ 681
1240	Due from Other Governments	-	398	2,415	1,344
1000	Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 810</u>	<u>\$ 2,025</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued Wages Payable	-	-	741	-
2200	Accrued Expenditures	-	-	69	-
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>810</u>	<u>-</u>
Fund Balances:					
Reserved For:					
3450	Food Service	-	-	-	-
3490	Other Purposes	-	-	-	2,025
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,025</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 810</u>	<u>\$ 2,025</u>

415 Kindergarten and Pre-K Grants	427 Tobacco / AED Grants	428 High School Allotment	429 Rural School Technology	461 Campus Activity Funds	499 Region VII Technology Grant	Total Nonmajor Governmental Funds
\$ 9,166	\$ -	\$ -	\$ -	\$ 19,915	\$ -	\$ 14,161
3,866	-	-	1,401	-	-	97,426
<u>\$ 13,032</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,401</u>	<u>\$ 19,915</u>	<u>\$ -</u>	<u>\$ 111,587</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,511
3,531	-	-	1,279	-	-	61,325
335	-	-	122	-	-	3,397
<u>3,866</u>	<u>-</u>	<u>-</u>	<u>1,401</u>	<u>-</u>	<u>-</u>	<u>66,233</u>
-	-	-	-	-	-	14,248
9,166	-	-	-	19,915	-	31,106
<u>9,166</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,915</u>	<u>-</u>	<u>45,354</u>
<u>\$ 13,032</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,401</u>	<u>\$ 19,915</u>	<u>\$ -</u>	<u>\$ 111,587</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA 1, A Improving Basic Program	240 National Breakfast and Lunch Program	242 Summer Feeding Program
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 145,186	\$ -
5800 State Program Revenues	-	-	4,021	-
5900 Federal Program Revenues	1,079	446,167	438,662	4,974
5020 Total Revenues	<u>1,079</u>	<u>446,167</u>	<u>587,869</u>	<u>4,974</u>
EXPENDITURES:				
Current:				
0011 Instruction	1,079	444,173	-	-
0013 Curriculum and Instructional Staff Development	-	1,994	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	639,701	3,253
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	1,721
0061 Community Services	-	-	-	-
6030 Total Expenditures	<u>1,079</u>	<u>446,167</u>	<u>639,701</u>	<u>4,974</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(51,832)	-
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	39,601	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>39,601</u>	<u>-</u>
1200 Net Change in Fund Balance	-	-	(12,231)	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>26,479</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,248</u>	<u>\$ -</u>

244 Vocational Ed Basic Grant	255 ESEA II, A Training and Recruiting	261 Reading First	262 Title II, D Education Technology	263 Title III, A English Lang. Acquisition	266 Title XIV ARRA State Stabilization	270 ESEA VI, Pt B Rural & Low Income	285 ESEA I, A ARRA Improve Basic Program
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
23,577	94,538	118,769	3,905	5,885	26,276	26,947	6,480
23,577	94,538	118,769	3,905	5,885	26,276	26,947	6,480
23,577	94,538	118,769	3,905	5,885	26,276	18,642	6,480
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	8,305	-
23,577	94,538	118,769	3,905	5,885	26,276	26,947	6,480
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	287 COPS Grant	401 Optional Extended Year Program	404 Student Success Initiative	411 Technology Allotment
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	3,984	16,854	32,640
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	-	3,984	16,854	32,640
EXPENDITURES:				
Current:				
0011 Instruction	-	3,059	16,854	29,319
0013 Curriculum and Instructional Staff Development	-	-	-	-
0034 Student (Pupil) Transportation	-	925	-	-
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	3,321
0061 Community Services	-	-	-	-
6030 Total Expenditures	-	3,984	16,854	32,640
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	-
7080 Total Other Financing Sources (Uses)	-	-	-	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	2,025
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ 2,025

415 Kindergarten and Pre-K Grants	427 Tobacco / AED Grants	428 High School Allotment	429 Rural School Technology	461 Campus Activity Funds	499 Region VII Technology Grant	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 114,529	\$ -	\$ 259,715
73,507	5,474	86,664	32,039	-	25,000	280,183
-	-	-	-	-	-	1,197,259
<u>73,507</u>	<u>5,474</u>	<u>86,664</u>	<u>32,039</u>	<u>114,529</u>	<u>25,000</u>	<u>1,737,157</u>
73,507	4,000	86,664	32,039	-	25,000	1,013,766
-	-	-	-	-	-	1,994
-	-	-	-	-	-	925
-	-	-	-	-	-	642,954
-	1,474	-	-	126,378	-	127,852
-	-	-	-	-	-	5,042
-	-	-	-	-	-	8,305
<u>73,507</u>	<u>5,474</u>	<u>86,664</u>	<u>32,039</u>	<u>126,378</u>	<u>25,000</u>	<u>1,800,838</u>
-	-	-	-	(11,849)	-	(63,681)
-	-	-	-	-	-	39,601
-	-	-	-	-	-	39,601
-	-	-	-	(11,849)	-	(24,080)
<u>9,166</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,764</u>	<u>-</u>	<u>69,434</u>
<u>\$ 9,166</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,915</u>	<u>\$ -</u>	<u>\$ 45,354</u>

REQUIRED TEA SCHEDULES

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2009

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2000 and prior years	Various	Various	\$ Various
2001	1.334600	0.120000	439,960,475
2002	1.392700	0.061900	470,455,795
2003	1.369200	0.085400	547,734,174
2004	1.377600	0.077000	606,092,190
2005	1.357800	0.076800	652,738,812
2006	1.350000	0.149000	724,375,236
2007	1.237000	0.140000	740,150,980
2008	1.030000	0.130000	827,706,767
2009 (School year under audit)	0.980000	0.180000	898,223,315
100 TOTALS			

(10) Beginning Balance 9/1/2008	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2009
\$ 157,499	\$ -	\$ 3,661	\$ 223	\$ (1,030)	\$ 152,585
31,348	-	1,493	134	(322)	29,399
37,572	-	2,570	114	(511)	34,377
46,815	-	5,090	317	(501)	40,907
60,803	-	7,403	414	(1,545)	51,441
71,804	-	8,169	462	(1,466)	61,707
92,426	-	7,711	851	(4,193)	79,671
152,700	-	31,187	3,530	(13,098)	104,885
338,193	-	159,683	20,154	(22,180)	136,176
-	10,419,390	8,637,604	1,586,499	162,264	357,551
<u>\$ 989,160</u>	<u>\$ 10,419,390</u>	<u>\$ 8,864,571</u>	<u>\$ 1,612,698</u>	<u>\$ 117,418</u>	<u>\$ 1,048,699</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2010-2011
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2009

FUNCTION 4I AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION, 99 - APPRAISAL DISTRICT COST

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 163,598	\$ 149,988	\$ 1,721	\$ -	\$ 315,307
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	10,958	-	-	-	-	-	10,958
6212	Audit Services	-	-	-	14,750	-	-	14,750
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	212,484	-	-	-	-	212,484
621X	Other Professional Services	-	-	50	7,879	500	-	8,429
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	800	9,730	-	-	10,530
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	-	8,776	-	8,776
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	1,771	-	5,050	2,058	2,821	-	11,700
6410	Travel, Subsistence, Stipends	9,737	-	2,859	762	-	-	13,358
6420	Ins. and Bonding Costs	4,438	-	-	-	-	-	4,438
6430	Election Costs	4,130	-	-	-	-	-	4,130
6490	Miscellaneous Operating	11,565	-	5,987	1,052	-	-	18,604
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 42,599	\$ 212,484	\$ 178,344	\$ 186,219	\$ 13,818	\$ -	\$ 633,464

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 15,259,907

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 185,304
Total Debt & Lease (6500)	(11)	14,188
Plant Maintenance (Function 51, 6100-6400)	(12)	1,272,085
Food (Function 35, 6341 and 6499)	(13)	269,201
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		186,219

SubTotal: 1,926,997

Net Allowed Direct Cost \$ 13,332,910

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 30,803,134
Historical Cost of Building over 50 years old	(16)	\$ 214,000
Amount of Federal Money in Building Cost (Net of #16)	(17)	\$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	\$ 1,683,888
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 69,198
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ -

(8) NOTE A: \$92,800 in Function 53 expenditures are included in this report on administrative costs.
 \$212,484 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
 GENERAL FUND AS OF AUGUST 31, 2009

UNAUDITED

1	Total General Fund Balance as of 8/31/09 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 4,241,466
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$ -	
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)	2,000,000	
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	2,568,998	
5	Estimate of one month's average cash disbursements during the regular school session (9/1/09-5/31/10).	1,184,499	
6	Estimate of delayed payments from state sources (58xx) including August payment delays	-	
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount.	-	
8	Estimate of delayed payments from federal sources (59xx)	88,002	
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	-	
10	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)		<u>5,841,499</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)		<u>\$ (1,600,033)</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 240,889	\$ 240,889	\$ 145,186	\$ (95,703)
5800 State Program Revenues	3,500	3,500	4,021	521
5900 Federal Program Revenues	339,082	396,144	438,662	42,518
5020 Total Revenues	583,471	640,533	587,869	(52,664)
EXPENDITURES:				
0035 Food Services	583,471	640,533	639,701	832
6030 Total Expenditures	583,471	640,533	639,701	832
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(51,832)	(51,832)
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	39,601	39,601
7080 Total Other Financing Sources (Uses)	-	-	39,601	39,601
1200 Net Change in Fund Balances	-	-	(12,231)	(12,231)
0100 Fund Balance - September 1 (Beginning)	26,479	26,479	26,479	-
3000 Fund Balance - August 31 (Ending)	\$ 26,479	\$ 26,479	\$ 14,248	\$ (12,231)

MALAKOFF INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 1,455,090	\$ 1,455,090	\$ 1,648,509	\$ 193,419
5020	Total Revenues	1,455,090	1,455,090	1,648,509	193,419
EXPENDITURES:					
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	675,000	675,000	630,000	45,000
0072	Debt Service - Interest on Long Term Debt	778,290	778,290	823,290	(45,000)
0073	Debt Service - Bond Issuance Cost and Fees	1,800	1,800	1,685	115
6030	Total Expenditures	1,455,090	1,455,090	1,454,975	115
1200	Net Change in Fund Balances	-	-	193,534	193,534
0100	Fund Balance - September 1 (Beginning)	321,942	321,942	321,942	-
3000	Fund Balance - August 31 (Ending)	\$ 321,942	\$ 321,942	\$ 515,476	\$ 193,534

COMPLIANCE, INTERNAL CONTROL AND FEDERAL AWARDS

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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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

Board of School Trustees
Malakoff Independent School District
1308 FM 3062
Malakoff, Texas 75148

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the District as of and for the year ended August 31, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 19, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

We noted certain matters that we reported to the Board of Trustees and management of the District in a separate letter dated November 19, 2009.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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*.

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

Respectfully submitted,

Smith, Lambright & Associates, P.C.

SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants

November 19, 2009

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA

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

Independent Auditor's Report

Board of School Trustees
Malakoff Independent School District
1308 FM 3062
Malakoff, Texas 75148

Members of the Board of Trustees:

Compliance

We have audited the compliance of the District with the types of compliance requirements described in the U. S Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2009. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2009.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the District's internal control over compliance.

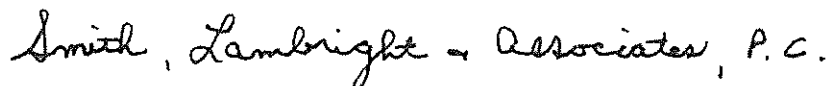
A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

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

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

SMITH, LAMBRIGHT & ASSOCIATES, P. C.



SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants

November 19, 2009

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2009

I. Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section _____.510 (a), OMB Circular A-133? _____ yes X no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	Child Nutrition Cluster:
10.553	School Breakfast Program
10.555	National School Lunch Program
10.559	Summer Food Service Program

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

Auditee qualified as low risk auditee? X yes _____ no

District Contact Person John Spies, Ed.D.
Superintendent

MALAKOFF INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED AUGUST 31, 2009

II. Financial Statement Findings

The audit disclosed no finding required to be reported.

III. Federal Awards Findings and Questioned Costs

The audit disclosed no finding required to be reported.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2009

N/A

MALAKOFF INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2009

N/A

MALAKOFF INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2009

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	09-610101107906	\$ 424,414
ESEA, Title I, Part A - Improving Basic Programs	84.010A	10-610101107906	21,753
Total CFDA Number 84.010A			446,167
Career and Technical - Basic Grant	84.048	09-420006107906	23,577
ESEA Title IV Safe & Drug Free Schools	84.186A	09-ESC Region 7	1,079
Title II, Part D -Enhancing Ed. Through Technology	84.318X	09-630001107906	3,905
Reading First	84.357	08-6455057110047	118,769
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	09-696001107906	26,947
Title III, A English Lang. Acquisition	84.365A	09-ESC Region 7	5,885
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	09-694501107906	90,402
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	10-694501107906	4,136
Total CFDA Number 84.367A			94,538
ESEA, Title I, A - ARRA - Improving Basic Programs	84.389	10-551001107906	6,480
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394	10-557001107906	26,276
Total Passed Through State Department of Education			\$ 753,623
TOTAL DEPARTMENT OF EDUCATION			\$ 753,623
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
School Breakfast Program*	10.553		\$ 112,927
National School Lunch Program - Cash Assistance*	10.555		292,696
National School Lunch Prog. - Non-Cash Assistance*	10.555		33,039
Total CFDA Number 10.555			325,735
Summer Feeding Program - Cash Assistance	10.559	TX 107 1003 SFSP	4,974
Total Passed Through the State Department of Agriculture			\$ 443,636
TOTAL DEPARTMENT OF AGRICULTURE			\$ 443,636
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,197,259

*Clustered Programs as required by Compliance Supplement March, 2009.

Note A - Funds received from ESC Region 7 for Head Start reimbursements of \$31,396 are not considered as federal financial assistance for purposes of this schedule. The program is reported as a federal program of ESC Region 7.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2009

Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A - 133, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.