

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2010

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ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2010

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FOR THE YEAR ENDED AUGUST 31, 2010

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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, 2010 at a meeting of the board of school trustees of such school district on the 24th day of January, 2011.

  
\_\_\_\_\_  
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  

---

Cheri E. Kirkland, CPA

P. O. Box 912  
505 E. Tyler  
Athens, Texas 75751  
(903) 675-5674  
FAX (903) 675-5676  
smithlambright.com

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, 2010, 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, 2010, 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.

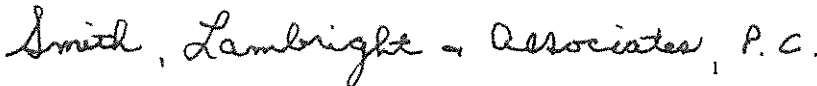
In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and 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 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 Budgetary Comparison Schedule - General Fund and 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 Budgetary Comparison Schedule - General Fund and 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 30, 2010

## 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, 2010, 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 \$798,369 during the current year. This compares to last year when revenues exceeded expenditures by \$264,259. 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 \$796,386.

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, 2010.



## **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 VI, (B), Technology Fund, Pre-K, Tobacco Grant, Region VII Tech Grant, Vocational, Student Success Initiative, ARRA Stimulus (Title I, (A) & Title II (D), Optional Extended Year, Rural Technology Grant, State Fiscal Stabilization 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 \$798,366, as compared to last year. Total unrestricted assets were \$4,181,100 on August 31, 2010. 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 \$61,937 (with the major amount of \$38,667 reflecting the Band Hall/Maintenance Shop damage)
- (2) Expenditures were less than budget appropriations by approximately \$796,386

Total revenue for the District decreased by \$801,327. The total cost of all programs and services for the District decreased by \$1,335,437. This variance was primarily due to the payment due for Recapture owed in 2008-09 and expended in 2009-10.

The total cost for all governmental activities this year was \$12,669,253. Property taxes funded \$9,646,264 of this total 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 \$3,789,207 (\$3,163,808 General Fund, \$593,322 Debt Service, and \$32,077 Other Funds) in its governmental funds, a decrease of \$1,014,070 over last year due to the completion of the renovation project for the middle school and \$923,142 owed to the General Fund from bond proceeds to be received in September, 2010. The General Fund reported a decrease of over \$1,077,658 for the year. This decrease is due mostly to the payment for the Middle School renovation from the remaining bond funds and will only decrease slightly with the receipt of payment from bond proceeds in September, 2010.

The Debt Service Fund had an increase of \$77,846 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 93% of budgeted estimated revenue while actual expenditures totaled about 87% of budgeted appropriations. This simply means that our revenue collections were approximately \$1,002,798 less than our budgeted estimates and the District spent \$1,799,184 less than budgeted expenditures.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

At the end of the school year, the District reported \$27,281,653 in capital assets. These assets include all rolling stock, facilities, and equipment. This amount represents an increase of \$952,073 as compared to last year. The additions to capital assets during the year included the completion of improvements to the Malakoff High School Stadium Renovation (\$418,752), Tennis Courts Addition (\$118,569), Ag Facility Addition (\$149,427), Middle School Field House (Boys) and Maintenance Shop Renovation (\$57,976), and High School Renovation in progress (\$80,729).

#### **Debt**

The District had an outstanding amount of \$17,252,765 in bonded debt at year end. This category of debt represents the construction of the high school facility on Star Harbor Road (\$4,430,000), the construction of the new elementary schools in Malakoff and Tool (\$9,155,000), the renovation projects for both the high school and middle school, transportation additions, and technology purchases (\$3,420,000) and an Unamortized Premium and Discount on Issuance of Debt (\$247,765).

## **Economic Factors and Next Year's Budget/Rates**

The budget for 2010-11 was based on many factors:

- (1) Chapter 41 Status (approx. \$1,595,819 recapture costs)
- (2) Increasing ADA
- (3) Minimal 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 1.5% 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 \$174,086 in 2010. 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 shown an upward trend from 1097 in 2007-08 to 1,121 in 2009-10.

When the 2010-11 budget was adopted, all these indicators were considered. The current budget reflects an approximate decrease of 3% over last year's total. This variance is largely due to the payment due (2009-10 for 2008-09) for Recapture cost for the previous school year. A total of \$1,595,819 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 2010-11 budget are primarily derived from property tax collection with State Foundation and Per Capita accounting for approximately 12% of total revenue. Charts on the following pages show revenue by source and expenditures by function (category).

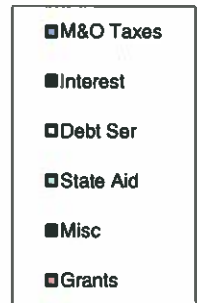
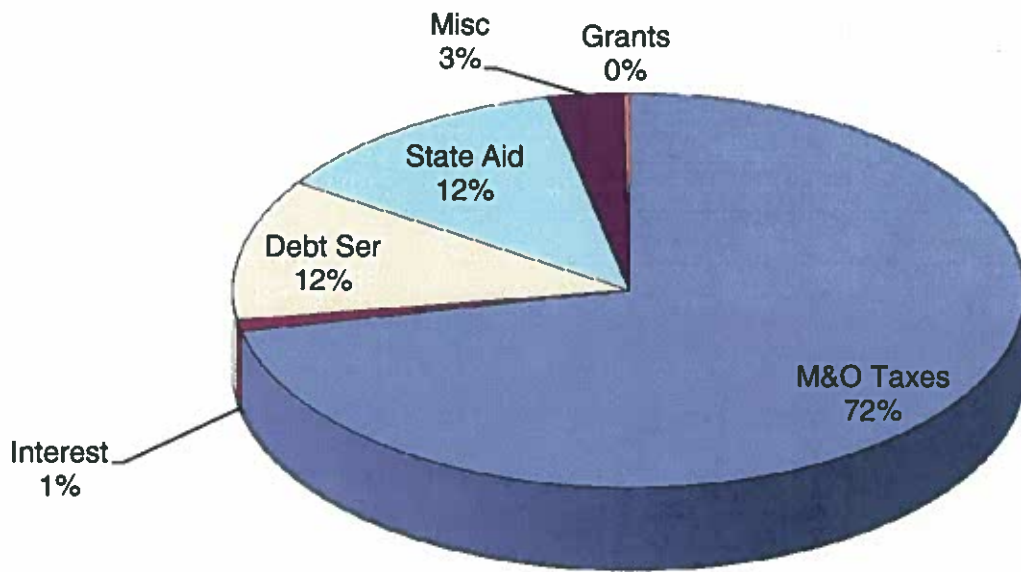
No new major programs have been added by the District this year except for those funded by grants.

If the 2010-11 budget estimates are attained, a modest increase should be realized in fund balance at year end.

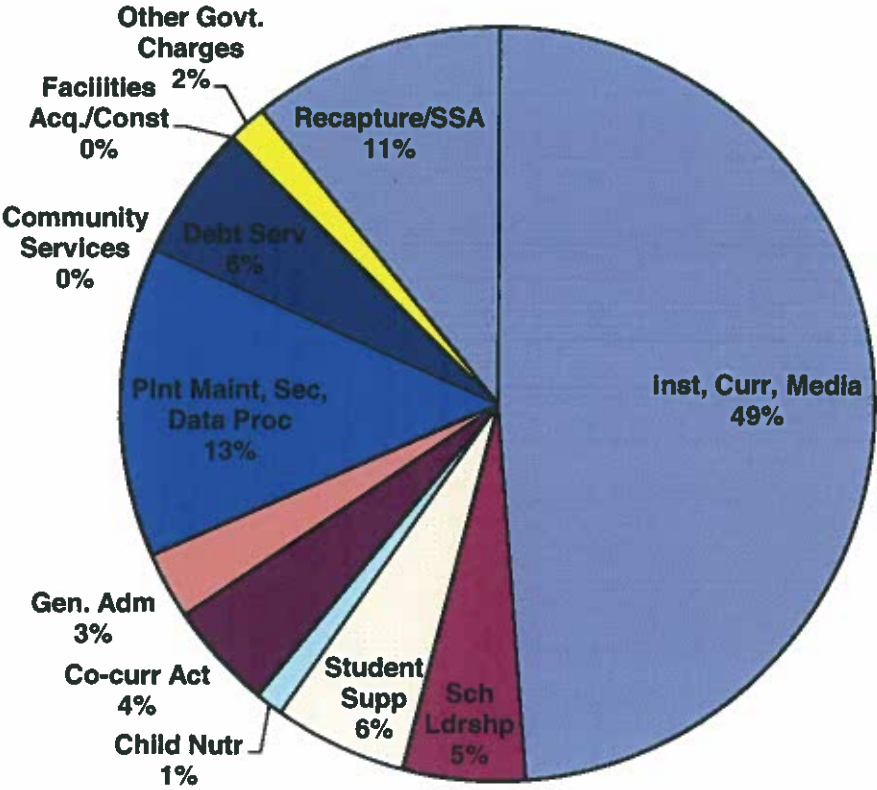
## **Contacting the District's Financial Management**

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.

### Revenue by Source



### Expense by Category



- Inst, Curr, Media
- Sch Ldrshp
- Student Supp
- Child Nutr
- Co-curr Act
- Gen. Adm
- Pint Maint, Sec, Data Proc
- Community Services
- Debt Serv
- Facilities Acq./Const
- Other Govt. Charges
- Recapture/SSA

Table I  
Malakoff Independent School District  
Statement of Net Assets  
August 31, 2010

<u>Governmental Activities</u>	<u>2008-09</u>	<u>2009-10</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	506,052	165,959
Current Investments	6,534,026	4,654,241
Property Taxes Receivable (Del)	1,048,699	1,120,174
Allowance for Uncollectible Taxes	(52,435)	(56,009)
Due from Other Governments	158,326	1,296,780
Other Receivables, net	1,347	-
Deferred Expenses	564	-
Capitalized Bond & Other Debt Issuance Costs	269,883	249,763
Discount on Issuance of Debt	112,329	-
Capital Assets:		
Land	311,672	311,672
Buildings, net	25,324,794	26,032,613
Furniture and Equipment, net	693,114	856,639
Construction in Progress	-	80,729
<b>Total Assets</b>	<b><u>34,908,371</u></b>	<b><u>34,712,561</u></b>
<b>LIABILITIES</b>		
Accounts Payable	3,192	4,561
Accrued Wages Payable	344,538	355,856
Due to Other Governments	1,653,478	125,114
Accrued Expenditures or Expenses	57,688	56,145
Premium on Issuance of Debt	380,571	-
Deferred Revenues	387,120	1,832,970
Noncurrent Liabilities:		
Due Within One Year	790,000	900,000
Due in More Than One Year	17,005,000	16,352,765
<b>Total Liabilities</b>	<b><u>20,621,587</u></b>	<b><u>19,627,411</u></b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	8,536,221	10,278,651
Restricted for Federal and State Programs	25,439	16,502
Restricted for Debt Service	515,476	593,322
Restricted for Campus Activities		15,575
Restricted for Capital Projects	981	-
Restricted for Other Purposes	19,915	-
Unrestricted Net Assets	5,188,752	4,181,100
<b>Total Net Assets</b>	<b><u>14,286,784</u></b>	<b><u>15,085,150</u></b>

Table II  
Malakoff Independent School District  
Statement of Net Assets  
August 31, 2010

<u>Governmental Activities</u>	<u>2008-09</u>	<u>2009-10</u>
<b>Revenues:</b>		
General Revenues;		
Maintenance & Operation Taxes	8,901,965	9,646,264
Debt Service Taxes	1,631,864	1,560,946
State Aid	3,201,999	1,684,641
Unrestricted Grants/Contributions	33,245	35,357
Investment Earnings	164,245	126,566
Miscellaneous Revenue	335,631	413,848
<b>Total Revenue</b>	<b>14,268,949</b>	<b>13,467,622</b>
Expenses:		
Instructional, Curriculum, Media	6,399,741	6,179,038
Instructional/School Leadership	646,049	664,522
Student Support Services	849,424	722,770
Child Nutrition	141,439	149,134
Co-curricular Activities	635,327	583,748
General Administration	322,750	365,521
Plant Maint, Security, Data Proc	1,549,038	1,685,562
Community Services	144	215
Debt Services	806,148	730,877
Facilities Acquisition/Constr		1,839
Contr. Instr. Serv. Between Schools/Recapture	2,442,146	1,375,665
Other Governmental Charges	212,484	210,362
<b>Total Expenses</b>	<b>14,004,690</b>	<b>12,669,253</b>
<b>Increase in Net Assets Before Transfers/Special Items</b>	<b>264,259</b>	<b>798,369</b>
<b>Net assets @ 09-01</b>	<b>14,022,525</b>	<b>14,286,781</b>
<b>Net Assets @ 08-31</b>	<b>14,286,784</b>	<b>15,085,150</b>



## BASIC FINANCIAL STATEMENTS

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
AUGUST 31, 2010

EXHIBIT A-1

Data Control Codes	Primary Government  Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 165,959
1120 Current Investments	4,654,241
1220 Property Taxes Receivable (Delinquent)	1,120,174
1230 Allowance for Uncollectible Taxes	(56,009)
1240 Due from Other Governments	1,296,780
1420 Capitalized Bond and Other Debt Issuance Costs	249,763
Capital Assets:	
1510 Land	311,672
1520 Buildings, Net	26,032,613
1530 Furniture and Equipment, Net	856,639
1580 Construction in Progress	80,729
1000 Total Assets	34,712,561
<b>LIABILITIES</b>	
2110 Accounts Payable	4,561
2160 Accrued Wages Payable	355,856
2180 Due to Other Governments	125,114
2200 Accrued Expenses	56,145
2300 Deferred Revenues	1,832,970
Noncurrent Liabilities	
2501 Due Within One Year	900,000
2502 Due in More Than One Year	16,352,765
2000 Total Liabilities	19,627,411
<b>NET ASSETS</b>	
3200 Invested in Capital Assets, Net of Related Debt	10,278,651
3820 Restricted for Federal and State Programs	16,502
3850 Restricted for Debt Service	593,322
3870 Restricted for Campus Activities	15,575
3900 Unrestricted Net Assets	4,181,100
3000 Total Net Assets	\$ 15,085,150

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, 2010

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
		3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
11 Instruction	\$ 8,241,938	\$ 433,546	\$ 1,874,238	\$ (5,934,154)
12 Instructional Resources and Media Services	205,516	-	7,772	(197,744)
13 Curriculum and Staff Development	50,634	-	3,494	(47,140)
21 Instructional Leadership	79,846	-	2,841	(77,005)
23 School Leadership	611,095	-	23,578	(587,517)
31 Guidance, Counseling and Evaluation Services	197,879	-	9,748	(188,131)
33 Health Services	138,109	-	7,280	(130,829)
34 Student (Pupil) Transportation	510,457	-	106,647	(403,810)
35 Food Services	777,793	122,827	505,832	(149,134)
36 Extracurricular Activities	668,945	74,122	11,075	(583,748)
41 General Administration	379,542	-	14,021	(365,521)
51 Plant Maintenance and Operations	1,392,685	-	28,809	(1,363,876)
52 Security and Monitoring Services	54,103	-	3,424	(50,679)
53 Data Processing Services	293,488	-	22,481	(271,007)
61 Community Services	9,440	-	9,225	(215)
72 Debt Service - Interest on Long Term Debt	729,983	-	-	(729,983)
73 Debt Service - Bond Issuance Cost and Fees	894	-	-	(894)
81 Capital Outlay	1,839	-	-	(1,839)
91 Contracted Instructional Services Between Schools	1,103,894	-	-	(1,103,894)
93 Payments related to Shared Services Arrangements	271,771	-	-	(271,771)
99 Other Intergovernmental Charges	210,362	-	-	(210,362)
<b>[TP] TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 15,930,213</b>	<b>\$ 630,495</b>	<b>\$ 2,630,465</b>	<b>(12,669,253)</b>

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		9,646,264
DT	Property Taxes, Levied for Debt Service		1,560,946
SF	State Aid - Formula Grants		1,684,641
GC	Grants and Contributions not Restricted		35,357
IE	Investment Earnings		126,566
MI	Miscellaneous Local and Intermediate Revenue		413,848
TR	<b>Total General Revenues</b>		<b>13,467,622</b>
CN	Change in Net Assets		798,369
NB	Net Assets--Beginning		14,286,781
NE	Net Assets--Ending		<b>\$ 15,085,150</b>

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

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2010

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 258,102	\$ 9,186	\$ -
1120 Investments - Current	4,070,105	584,136	-
1220 Property Taxes - Delinquent	1,001,534	118,640	-
1230 Allowance for Uncollectible Taxes (Credit)	(50,077)	(5,932)	-
1240 Receivables from Other Governments	1,101,756	-	-
1000 Total Assets	<u>\$ 6,381,420</u>	<u>\$ 706,030</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
2110 Accounts Payable	\$ 4,561	\$ -	\$ -
2160 Accrued Wages Payable	298,090	-	-
2180 Due to Other Governments	125,114	-	-
2200 Accrued Expenditures	5,554	-	-
2300 Deferred Revenues	2,784,293	112,708	-
2000 Total Liabilities	<u>3,217,612</u>	<u>112,708</u>	<u>-</u>
<b>Fund Balances:</b>			
<b>Reserved For:</b>			
3420 Retirement of Long Term Debt	-	593,322	-
3450 Food Service/Federal or State Funds	-	-	-
3490 Other Reserved/Restricted Fund Balance	-	-	-
<b>Unreserved Designated For:</b>			
3510 Construction	500,000	-	-
<b>Unreserved and Undesignated:</b>			
3600 Reported in the General Fund	2,663,808	-	-
3000 Total Fund Balances	<u>3,163,808</u>	<u>593,322</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 6,381,420</u>	<u>\$ 706,030</u>	<u>\$ -</u>

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

Other Funds	Total Governmental Funds
\$ (101,329)	\$ 165,959
-	4,654,241
-	1,120,174
-	(56,009)
195,024	1,296,780
<u>\$ 93,695</u>	<u>\$ 7,181,145</u>
\$ -	\$ 4,561
57,766	355,856
-	125,114
3,718	9,272
134	2,897,135
<u>61,618</u>	<u>3,391,938</u>
-	593,322
16,502	16,502
15,575	15,575
-	500,000
-	2,663,808
<u>32,077</u>	<u>3,789,207</u>
<u>\$ 93,695</u>	<u>\$ 7,181,145</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS

AUGUST 31, 2010

Total Fund Balances - Governmental Funds \$ 3 789 207

**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 \$32,798,694 and the accumulated depreciation was \$6,469,114. 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 \$17,795,000. 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>8 534 580</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 \$269,882 and unamortized discount on issuance of debt of \$112,328. The liabilities included unamortized premium on issuance of debt of \$380,572. The net effect of these debt issuance assets and liabilities is to increase (decrease) net assets.	<u>1 638</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 2010 capital outlays and debt principal payments is to increase (decrease) net assets.	<u>2 617 677</u>
4	The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	<u>(875 604)</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>1 017 652</u>
<b>19</b>	<b>Net Assets of Governmental Activities</b>	<u><u>\$ 15 085 150</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, 2010

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 10,534,514	\$ 1,601,188	\$ 1,936
5800 State Program Revenues	2,199,037	-	-
5900 Federal Program Revenues	33,539	-	-
5020 Total Revenues	<u>12,767,090</u>	<u>1,601,188</u>	<u>1,936</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	6,218,809	-	-
0012 Instructional Resources and Media Services	185,142	-	-
0013 Curriculum and Instructional Staff Development	47,760	-	-
0021 Instructional Leadership	79,846	-	-
0023 School Leadership	588,447	-	-
0031 Guidance, Counseling and Evaluation Services	196,234	-	-
0033 Health Services	135,318	-	-
0034 Student (Pupil) Transportation	408,421	-	168,448
0035 Food Services	17,802	-	-
0036 Extracurricular Activities	501,344	-	-
0041 General Administration	365,091	-	-
0051 Facilities Maintenance and Operations	1,394,656	-	-
0052 Security and Monitoring Services	69,879	-	-
0053 Data Processing Services	291,037	-	-
0061 Community Services	601	-	-
Debt Service:			
0071 Debt Service - Principal on Long Term Debt	-	790,000	-
0072 Debt Service - Interest on Long Term Debt	-	732,088	-
0073 Debt Service - Bond Issuance Cost and Fees	-	1,254	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	47,663	-	1,481,596
Intergovernmental:			
0091 Contracted Instructional Services Between Schools	1,103,894	-	-
0093 Payments to Fiscal Agent/Member Districts of SSA	271,771	-	-
0099 Other Intergovernmental Charges	210,362	-	-
6030 Total Expenditures	<u>12,134,077</u>	<u>1,523,342</u>	<u>1,650,044</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>633,013</u>	<u>77,846</u>	<u>(1,648,108)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
7915 Transfers In	-	-	1,647,127
8911 Transfers Out (Use)	(1,694,727)	-	-
8949 Other (Uses)	(15,944)	-	-
7080 Total Other Financing Sources (Uses)	<u>(1,710,671)</u>	<u>-</u>	<u>1,647,127</u>
1200 Net Change in Fund Balances	(1,077,658)	77,846	(981)
0100 Fund Balance - September 1 (Beginning)	<u>4,241,466</u>	<u>515,476</u>	<u>981</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 3,163,808</u>	<u>\$ 593,322</u>	<u>\$ -</u>

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

Other Funds	Total Governmental Funds
\$ 188,524	\$ 12,326,162
192,328	2,391,365
1,925,559	1,959,098
<u>2,306,411</u>	<u>16,676,625</u>
1,518,858	7,737,667
-	185,142
2,874	50,634
-	79,846
-	588,447
-	196,234
-	135,318
87,753	664,622
666,165	683,967
69,788	571,132
2,240	367,331
-	1,394,656
450	70,329
10,321	301,358
8,839	9,440
-	790,000
-	732,088
-	1,254
-	1,529,259
-	1,103,894
-	271,771
-	210,362
<u>2,367,288</u>	<u>17,674,751</u>
<u>(60,877)</u>	<u>(998,126)</u>
47,600	1,694,727
-	(1,694,727)
-	(15,944)
<u>47,600</u>	<u>(15,944)</u>
<u>(13,277)</u>	<u>(1,014,070)</u>
<u>45,354</u>	<u>4,803,277</u>
<u>\$ 32,077</u>	<u>\$ 3,789,207</u>



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, 2010

**Total Net Change in Fund Balances - Governmental Funds** \$ (1 014 070)

**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 2010 capital outlays and debt principal payments is to increase (decrease) net assets. 2 617 677

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. (875 604)

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. 70 366

**Change in Net Assets of Governmental Activities** \$ 798 369

The accompanying notes are an integral part of this statement.

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
AUGUST 31, 2010

EXHIBIT E-1

	Private Purpose Trust Funds	Agency Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 11,312	\$ 31,364
Total Assets	11,312	31,364
<b>LIABILITIES</b>		
Due to Student Groups	-	\$ 31,364
Total Liabilities	-	\$ 31,364
<b>NET ASSETS</b>		
Restricted for Scholarships	11,312	
Total Net Assets	\$ 11,312	

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, 2010

EXHIBIT E-2

	Private Purpose Trust Funds
<hr/>	
ADDITIONS:	
Local and Intermediate Sources	\$ 9,500
Total Additions	<u>9,500</u>
DEDUCTIONS:	
Other Operating Costs	2,000
Capital Outlay	9,500
Total Deductions	<u>11,500</u>
Change in Net Assets	(2,000)
Total Net Assets - September 1 (Beginning)	<u>13,312</u>
Total Net Assets - August 31 (Ending)	<u><u>\$ 11,312</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, 2010

**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, 2010

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, 2010

**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, 2010

**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, 2010

**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, 2010

**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	30 803 134	5 478 340	25 324 794	
Furniture & Equipment	1 683 888	990 774	693 114	
Construction in Progress	<u>0</u>	<u></u>	<u></u>	
Totals	<u>\$ 32 798 694</u>	<u>\$ 6 469 114</u>		
Changes in Net Assets				<u>\$ 26 329 580</u>
<u>Long-term Liabilities at the Beginning of the Year</u>			<u>Payable at the Beginning of the Year</u>	
Bonds Payable			\$ 17 795 000	
Change in Net Assets				<u>17 795 000</u>
Net Adjustment to Net Assets				<u>\$ 8 534 580</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**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:

	Amount	Adjustments to Changes in Net Assets	Adjustments to Net Assets
Current Year Capital Outlay:			
Buildings & Improvements	\$ 1 463 536		
Furniture & Equipment	283 412		
Construction in Progress	80 729		
Total Capital Outlay	1 827 677	1 827 677	1 827 677
Debt Principal Payments:			
Bond Principal	790 000		
Total Principal Payments	\$ 790 000	790 000	790 000
Total Adjustment to Net Assets		\$ 2 617 677	\$ 2 617 677

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**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	\$ 325 508	\$ (325 508)	\$
Uncollected taxes(assumed collectible) from Current Year Levy	393 409	393 409	393 409
Uncollected Taxes (assumed collectible) from Prior Year Levy	670 756		670 756
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	48 978	48 978	
Current Year	46 873	<u>(46 873)</u>	<u>(46 873)</u>
Total		<u>\$ 70 366</u>	<u>\$ 1 017 652</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**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:

	<u>August 31, 2010</u> <u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 6 789
Nonappropriated Budget Funds	<u>25 288</u>
All Special Revenue Funds	<u>\$ 32 077</u>

**B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The District made expenditures in excess of the budgeted amounts in two functional areas in the general fund in amounts that are immaterial to the total budget.

**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, 2010 that were subsequently provided for in the 2010 - 2011 budget.

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2010

**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 2256.0115.; 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 2009-2010 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 \$2,225,434 and occurred on January 4, 2010. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$4,026,180. The total amount of FDIC coverage at the time of the highest combined balance was \$500,000.

In addition to the depository bank, the District had funds invested at another bank. The largest combined balances of cash, savings and time deposit accounts amounted to \$10,572,016 and occurred on February 20, 2010. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$16,070,648. The total amount of FDIC Coverage at the time of the highest combined balance was \$500,000.

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

- 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.
- 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, 2010, the amount of the District's cash balance in checking accounts was \$208,385. The cash balance in savings, time and certificate of deposit accounts was \$4,642,538. Cash on hand was \$250.

INVESTMENTS

The District's investments at August 31, 2010, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Accounts	\$ 4 642 538	\$ 4 642 538	.0833
Texpool	<u>11 703</u>	<u>11 704</u>	.0767
Total Investments	<u>\$ 4 654 241</u>	<u>\$ 4 654 242</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, 2010

**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 2009-2010 fiscal year was based, was \$996,327,088. The tax rates assessed for the year ended August 31, 2010 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$.99 and \$.16 per \$100 valuation, respectively, for a total of \$1.15 per \$100 valuation. Current tax collections for the year ended August 31, 2010 were 96.3% of the year end adjusted tax levy. As of August 31, 2010, property taxes receivable totaled \$1,001,534 and \$118,640 for the General and Debt Service Funds respectively.

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**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, 2010 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	\$ 1 100 771	\$	\$	\$	\$ 1 100 771
State Grants				9 222	9 222
Federal Grants				185 802	185 802
ESC7 - Head Start	985				985
	<u>985</u>				<u>985</u>
Total	<u>\$ 1 101 756</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 195 024</u>	<u>\$ 1 296 780</u>



MALAKOFF INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2010

**D. INTERFUND BALANCES AND TRANSFERS**

Interfund balances at August 31, 2010 consisted of the following individual fund amounts:

<u>Fund</u>	<u>Due From</u>	<u>Due to</u>
General Fund:		
Capital Projects Fund	\$ _____	\$ _____
Capital Projects Fund:		
General Fund	\$ _____	\$ _____
Totals	<u>\$ 0</u>	<u>\$ 0</u>

Interfund transfers for the year ended August 31, 2010 consisted of the following individual fund amounts:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund:		
Special Revenue Fund	\$	\$ 47 600
Capital Projects Fund		<u>1 647 127</u>
Total	<u>\$</u>	<u>\$ 1 694 727</u>
Special Revenue Fund:		
General Fund	<u>\$ 47 600</u>	\$ _____
Capital Projects Fund:		
General Fund	<u>\$ 1 647 127</u>	\$ _____
Totals	<u>\$ 1 694 727</u>	<u>\$ 1 694 727</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**E. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at August 31, 2010, 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	\$ 1 001 534	\$ 118 640	\$	\$	\$ 1 120 174
Other Governments	<u>1 101 756</u>	<u></u>	<u></u>	<u>195 024</u>	<u>1 296 780</u>
Totals	<u>\$ 2 103 290</u>	<u>\$ 118 640</u>	<u>\$ 0</u>	<u>\$ 195 024</u>	<u>\$ 2 416 954</u>

Payables at August 31, 2010, 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	\$ 4 561	\$	\$	\$	\$ 4 561
Accrued Wages	298 090	<u></u>	<u></u>	57 766	355 856
Other Government	<u>125 114</u>	<u></u>	<u></u>	<u></u>	<u>125 114</u>
Totals	<u>\$ 427 765</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 57 766</u>	<u>\$ 485 531</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**F. CAPITAL ASSET ACTIVITY**

Capital asset activity for the District for the year ended August 31, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>					
Land	\$ 311 672	\$	\$	\$	\$ 311 672
Buildings & Improvements	30 803 134	1 463 536			32 266 670
Furniture & Equipment	1 683 888	281 717			1 965 605
Non-Depreciable Assets	0	1 695			1 695
Construction in Progress	<u>0</u>	<u>80 729</u>			<u>80 729</u>
Total at Historical Cost	<u>32 798 694</u>	<u>1 827 677</u>			<u>34 626 371</u>
<b>Less Accumulated Depreciation for:</b>					
Buildings & Improvements	5 478 340	755 717			6 234 057
Furniture and Equipment	<u>990 774</u>	<u>119 887</u>			<u>1 110 661</u>
Total Accumulated Depreciation	<u>6 469 114</u>	<u>875 604</u>			<u>7 344 718</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$26 329 580</u>	<u>\$ 952 073</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$27 281 653</u>

Depreciation expense was charged to governmental functions as follows:

11	Instruction	\$ 505 966
12	Instructional Resources and Media Services	20 374
23	School Leadership	22 648
31	Guidance, Counseling and Evaluation Services	1 645
33	Health Services	2 791
34	Student (Pupil) Transportation	101 355
35	Food Services	93 826
36	Cocurricular/Extracurricular Activities	107 313
41	General Administration	12 211
51	Plant Maintenance and Operations	5 375
52	Security and Monitoring Service	<u>2 100</u>
	<b>Total Depreciation Expense</b>	<u>\$ 875 604</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**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, 2010 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/09	Issued	Retired	Amounts Outstanding 8/31/10	Interest Current Year
Unlimited Tax Refunding Bonds Series 2004	2.45% to 4.25%	\$ 5 204 999	\$ 4 670 000	\$	\$ 240 000	\$ 4 430 000	\$ 191 073
Unlimited Tax School Building Bonds Series 2005	3.0% to 5.0%	10 000 000	9 345 000		190 000	9 155 000	408 703
Unlimited Tax School Building Bonds Series 2008	3.59% to 4.0%	4 000 000	3 780 000		360 000	3 420 000	132 312
Totals			<u>\$ 17 795 000</u>	<u>\$ 0</u>	<u>\$ 790 000</u>	<u>\$17 005 000</u>	<u>\$ 732 088</u>

Debt service requirements are as follows:

Year Ended August 31,	General Obligations		
	Principal	Interest	Total Requirements
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	855 000	554 875	1 409 875
2016 - 2020	4 050 000	2 244 924	6 294 924
2021 - 2025	3 640 000	1 494 320	5 134 320
2026 - 2030	4 580 000	555 088	5 135 088
Totals	<u>\$ 17 005 000</u>	<u>\$ 7 426 156</u>	<u>\$ 24 431 156</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, 2010.

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, 2010 \$4,395,000 of bonds considered defeased are still outstanding.

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**H. CHANGES IN LONG-TERM LIABILITIES**

Long-term liabilities activity for the year ended August 31, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable					
General Obligation Bonds	\$ 17 795 000	\$ _____	\$ 790 000	\$ 17 005 000	\$ 900 000
Total Governmental Activities Long-term Liabilities	<u>\$ 17 795 000</u>	<u>\$ 0</u>	<u>\$ 790 000</u>	<u>\$ 17 005 000</u>	<u>\$ 900 000</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**I. 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	\$ 951 457	\$ 112 708	\$	\$	\$ 1 064 165
State Foundation	1 832 836				1 832 836
Technology Allotment				134	134
<b>Totals</b>	<b><u>\$ 2 784 293</u></b>	<b><u>\$ 112 708</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 134</u></b>	<b><u>\$ 2 897 135</u></b>

**J. 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	\$ 9 590 573	\$ 1 548 736	\$	\$	\$ 11 139 309
Penalties, Interest & Other					
Tax Related Income	256 596	39 169			295 765
Food Sales				122 827	122 827
Investment Income	111 290	13 283	1 936	57	126 566
Co-curricular Student					
Activities	37 558			36 564	74 122
Services to Other					
Districts	431 071				431 071
Other	107 426			29 076	136 502
<b>Total</b>	<b><u>\$ 10 534 514</u></b>	<b><u>\$ 1 601 188</u></b>	<b><u>\$ 1 936</u></b>	<b><u>\$ 188 524</u></b>	<b><u>\$ 12 326 162</u></b>

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**K. COMMITMENTS UNDER OPERATING LEASES**

Commitments under operating (noncapitalized) lease agreements for equipment provided for minimum future rental payments as of August 31, 2010, as follows:

<u>Year Ended</u> <u>August 31</u>	<u>Total</u>
2011	\$ 33 490
2012	33 490
2013	33 490
2014	31 139
2015	<u>3 078</u>
<b>Total Minimum Rentals</b>	<b><u>\$ 134 687</u></b>
Rental Expenditures in Fiscal Year 2010	<u>\$ 30 412</u>

**L. 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 \$271,771.

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2010

**M. 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](http://www.trs.state.tx.us), under the TRS Publications heading.

Funding Policy

The state contribution rate is 6.644% and the member contribution rate is 6.4%. In certain instances the District is required to make all or a portion of the state's 6.644% 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, 2008, 2009, and 2010 were \$479,621, \$497,036 and \$508,187, 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, 2008, 2009, and 2010 were \$112,265, \$114,536 and \$115,991, respectively.

The on behalf amounts contributed by the State, \$492,629, 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, 2010

**N. 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](http://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 2010, 2009, 2008. 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, 2010 is estimated by TRS at \$19,949. This amount is reflected in the financial statements in accordance with Governmental Accounting Standards Board Statement No. 24.

**O. COMPENSATED ABSENCES**

District employees earn sick leave and personal leave according to legal and local policy. An employee who separates from employment with the District shall be eligible for reimbursement of state and local leave under the following conditions: (1) The employee is retiring from the District; (2) The employee provides advance written notice of intent to separate from employment. Contract employees must provide written notice at least 90 days before the last day of employment. Noncontract employees must provide written notice at least two weeks before the last day of employment; (3) The employee has at least five years of service with the District.

The employee shall be reimbursed for each day of state and local leave, to a maximum of 80 days, at a rate established by the Board. If the employee is reemployed with the District, days for which the employee received payment shall not be available to that employee.

The rate established by the Board shall be in effect until the Board adopts a new rate. Any changes to the rate shall apply beginning with the school year following the adoption of the rate change.

The amount of cumulative leave benefits at August 31, 2010 was \$61,425. The District paid benefits of \$6,875 during the current fiscal year.

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2010

**P. SELF-INSURED WORKERS' COMPENSATION**

During the year ended August 31, 2010 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 \$36,631 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 \$98,078 for the fiscal year. The self insurance retention maximum was \$250,000.

During the fiscal year, the District paid net claims of \$32,042 covering nineteen plan periods ending August 31, 2010, and has accrued \$3,612 as a liability for unpaid claims determined by the claims administrator.

**Q. 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, 2010 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.

**R. 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 2010 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.

**S. CHAPTER 41 DISTRICT**

Beginning with the 2003 - 2004 fiscal year the District was a Chapter 41 District. The cost of recapture was \$1,100,590 for the fiscal year ending August 31, 2010. These costs were paid to the Texas Education Agency.

**T. SUBSEQUENT EVENT**

On September 16, 2010 the District issued \$1,500,000 of Unlimited Tax School Building Bonds and \$5,400,000 of Unlimited Tax Qualified School Construction Bonds.

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, 2010

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 10,449,728	\$ 10,680,183	\$ 10,534,514	\$ (145,669)
5800	State Program Revenues	2,322,659	3,057,151	2,199,037	(858,114)
5900	Federal Program Revenues	31,509	32,554	33,539	985
5020	Total Revenues	12,803,896	13,769,888	12,767,090	(1,002,798)
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	6,716,730	6,394,843	6,218,809	176,034
0012	Instructional Resources and Media Services	182,149	186,601	185,142	1,459
0013	Curriculum and Instructional Staff Development	51,529	51,529	47,760	3,769
0021	Instructional Leadership	82,949	82,949	79,846	3,103
0023	School Leadership	607,583	607,583	588,447	19,136
0031	Guidance, Counseling and Evaluation Services	200,082	200,082	196,234	3,848
0033	Health Services	136,015	136,015	135,318	697
0034	Student (Pupil) Transportation	475,134	433,807	408,421	25,386
0035	Food Services	17,488	17,800	17,802	(2)
0036	Extracurricular Activities	520,522	508,706	501,344	7,362
0041	General Administration	343,090	366,744	365,091	1,653
0051	Facilities Maintenance and Operations	1,385,395	1,392,745	1,394,656	(1,911)
0052	Security and Monitoring Services	67,464	69,880	69,879	1
0053	Data Processing Services	316,000	306,000	291,037	14,963
0061	Community Services	500	601	601	-
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	47,664	47,663	1
Intergovernmental:					
0091	Contracted Instructional Services Between Schools	1,174,430	2,624,712	1,103,894	1,520,818
0093	Payments to Fiscal Agent/Member Districts of SSA	280,000	280,000	271,771	8,229
0099	Other Intergovernmental Charges	240,000	225,000	210,362	14,638
6030	Total Expenditures	12,797,060	13,933,261	12,134,077	1,799,184
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	6,836	(163,373)	633,013	796,386
<b>OTHER FINANCING SOURCES (USES):</b>					
7949	Other Resources	343,792	-	-	-
8911	Transfers Out (Use)	(252,550)	(1,769,505)	(1,694,727)	74,778
8949	Other (Uses)	(98,078)	(54,720)	(15,944)	38,776
7080	Total Other Financing Sources (Uses)	(6,836)	(1,824,225)	(1,710,671)	113,554
1200	Net Change in Fund Balances	-	(1,987,598)	(1,077,658)	909,940
0100	Fund Balance - September 1 (Beginning)	4,241,466	4,241,466	4,241,466	-
3000	Fund Balance - August 31 (Ending)	\$ 4,241,466	\$ 2,253,868	\$ 3,163,808	\$ 909,940

## COMBINING STATEMENTS

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2010

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	242 Summer Feeding Program	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ (7,054)	\$ (10,222)	\$ -
1240	Receivables from Other Governments	-	34,525	17,011	-
1000	Total Assets	<u>\$ -</u>	<u>\$ 27,471</u>	<u>\$ 6,789</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
2160	Accrued Wages Payable	\$ -	\$ 25,061	\$ -	\$ -
2200	Accrued Expenditures	-	2,410	-	-
2300	Deferred Revenues	-	-	-	-
2000	Total Liabilities	<u>-</u>	<u>27,471</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Reserved For:					
3450	Food Service/Federal or State Funds Restriction	-	-	6,789	-
3490	Other Reserved/Restricted Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>6,789</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 27,471</u>	<u>\$ 6,789</u>	<u>\$ -</u>

244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	266 Title XIV ARRA State Stabilization	270 ESEA VI, Pt B Rural & Low Income	279 Title II, D ARRA - Ed. Technology	283 IDEA, Pt. B ARRA Formula	285 ESEA I,A Improving Basic Program
\$ (2,299)	\$ (6,066)	\$ (642)	\$ (37,642)	\$ (6,139)	\$ -	\$ (8,380)	\$ (43,811)
2,299	10,327	642	62,130	6,139	-	8,380	44,349
<u>\$ -</u>	<u>\$ 4,261</u>	<u>\$ -</u>	<u>\$ 24,488</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 538</u>
\$ -	\$ 3,887	\$ -	\$ 24,013	\$ -	\$ -	\$ -	\$ 491
-	374	-	475	-	-	-	47
-	-	-	-	-	-	-	-
-	4,261	-	24,488	-	-	-	538
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 4,261</u>	<u>\$ -</u>	<u>\$ 24,488</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 538</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2010

Data Control Codes	397 Advanced Placement Incentives	401 Optional Extended Year Program	404 Student Success Initiative	411 Technology Allotment	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ (621)	\$ (697)	\$ 681
1240	Receivables from Other Governments	-	621	896	-
1000	Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 199</u>	<u>\$ 681</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
2160	Accrued Wages Payable	\$ -	\$ -	\$ 182	\$ -
2200	Accrued Expenditures	-	-	17	-
2300	Deferred Revenues	-	-	-	134
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>199</u>	<u>134</u>
Fund Balances:					
Reserved For:					
3450	Food Service/Federal or State Funds Restriction	-	-	-	547
3490	Other Reserved/Restricted Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>547</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 199</u>	<u>\$ 681</u>



415 Kindergarten and Pre-K Grants	427 Tobacco Free Grant	429 Rural School Technology	461 Campus Activity Funds	499 Region VII Technology Cooperative	Total Nonmajor Governmental Funds
\$ 9,166	\$ -	\$ (3,178)	\$ 15,575	\$ -	\$ (101,329)
4,036	-	3,669	-	-	195,024
<u>\$ 13,202</u>	<u>\$ -</u>	<u>\$ 491</u>	<u>\$ 15,575</u>	<u>\$ -</u>	<u>\$ 93,695</u>
\$ 3,684	\$ -	\$ 448	\$ -	\$ -	\$ 57,766
352	-	43	-	-	3,718
-	-	-	-	-	134
<u>4,036</u>	<u>-</u>	<u>491</u>	<u>-</u>	<u>-</u>	<u>61,618</u>
9,166	-	-	-	-	16,502
-	-	-	15,575	-	15,575
<u>9,166</u>	<u>-</u>	<u>-</u>	<u>15,575</u>	<u>-</u>	<u>32,077</u>
<u>\$ 13,202</u>	<u>\$ -</u>	<u>\$ 491</u>	<u>\$ 15,575</u>	<u>\$ -</u>	<u>\$ 93,695</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	242 Summer Feeding Program
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 123,076	\$ -
5800 State Program Revenues	-	-	4,146	-
5900 Federal Program Revenues	1,036	436,224	479,769	5,179
5020 Total Revenues	<u>1,036</u>	<u>436,224</u>	<u>606,991</u>	<u>5,179</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	1,036	434,939	-	-
0013 Curriculum and Instructional Staff Development	-	1,285	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	662,050	4,115
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	1,064
0052 Security and Monitoring Services	-	-	-	-
0053 Data Processing Services	-	-	-	-
0061 Community Services	-	-	-	-
6030 Total Expenditures	<u>1,036</u>	<u>436,224</u>	<u>662,050</u>	<u>5,179</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(55,059)	-
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	-	47,600	-
7080 Total Other Financing Sources (Uses)	-	-	47,600	-
1200 Net Change in Fund Balance	-	-	(7,459)	-
0100 Fund Balance - September 1 (Beginning)	-	-	14,248	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,789</u>	<u>\$ -</u>

244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	266 Title XIV ARRA State Stabilization	270 ESEA VI, Pt B Rural & Low Income	279 Title II, D ARRA - Ed. Technology	283 IDEA, Pt. B ARRA Formula	285 ESEA I,A Improving Basic Program
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
22,993	102,728	3,760	400,730	23,476	7,095	188,275	254,294
<u>22,993</u>	<u>102,728</u>	<u>3,760</u>	<u>400,730</u>	<u>23,476</u>	<u>7,095</u>	<u>188,275</u>	<u>254,294</u>
22,993	102,728	3,760	400,730	14,637	7,095	101,203	254,294
-	-	-	-	-	-	-	-
-	-	-	-	-	-	87,072	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	8,839	-	-	-
<u>22,993</u>	<u>102,728</u>	<u>3,760</u>	<u>400,730</u>	<u>23,476</u>	<u>7,095</u>	<u>188,275</u>	<u>254,294</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes	397 Advanced Placement Incentives	401 Optional Extended Year Program	404 Student Success Initiative	411 Technology Allotment
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	450	3,681	7,169	31,914
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>450</u>	<u>3,681</u>	<u>7,169</u>	<u>31,914</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	450	3,000	7,169	20,306
0013 Curriculum and Instructional Staff Development	-	-	-	1,589
0034 Student (Pupil) Transportation	-	681	-	-
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	1,176
0052 Security and Monitoring Services	-	-	-	-
0053 Data Processing Services	-	-	-	10,321
0061 Community Services	-	-	-	-
6030 Total Expenditures	<u>450</u>	<u>3,681</u>	<u>7,169</u>	<u>33,392</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,478)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	-	-	-	(1,478)
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,025</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 547</u>

415 Kindergarten and Pre-K Grants	427 Tobacco Free Grant	429 Rural School Technology	461 Campus Activity Funds	499 Region VII Technology Cooperative	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 65,448	\$ -	\$ 188,524
72,437	1,500	56,031	-	15,000	192,328
-	-	-	-	-	1,925,559
<u>72,437</u>	<u>1,500</u>	<u>56,031</u>	<u>65,448</u>	<u>15,000</u>	<u>2,306,411</u>
72,437	1,050	56,031	-	15,000	1,518,858
-	-	-	-	-	2,874
-	-	-	-	-	87,753
-	-	-	-	-	666,165
-	-	-	69,788	-	69,788
-	-	-	-	-	2,240
-	450	-	-	-	450
-	-	-	-	-	10,321
-	-	-	-	-	8,839
<u>72,437</u>	<u>1,500</u>	<u>56,031</u>	<u>69,788</u>	<u>15,000</u>	<u>2,367,288</u>
-	-	-	(4,340)	-	(60,877)
-	-	-	-	-	47,600
-	-	-	-	-	47,600
-	-	-	(4,340)	-	(13,277)
<u>9,166</u>	<u>-</u>	<u>-</u>	<u>19,915</u>	<u>-</u>	<u>45,354</u>
<u>\$ 9,166</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,575</u>	<u>\$ -</u>	<u>\$ 32,077</u>

REQUIRED TEA SCHEDULES

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED AUGUST 31, 2010

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2001 and prior years	Various	Various	\$ Various
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	0.980000	0.180000	898,223,315
2010 (School year under audit)	0.990000	0.160000	996,327,088
100 TOTALS			

(10) Beginning Balance 9/1/2009	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2010
\$ 181,984	\$ -	\$ 4,983	\$ 253	\$ (21,799)	\$ 154,949
34,377	-	1,788	79	(381)	32,129
40,907	-	2,477	155	(1,033)	37,242
51,441	-	5,800	324	(1,374)	43,943
61,707	-	7,281	412	(1,356)	52,658
79,671	-	9,450	1,043	(1,911)	67,267
104,885	-	19,482	2,205	(2,096)	81,102
136,176	-	28,085	3,545	(13,827)	90,719
357,551	-	161,046	29,580	(20,875)	146,050
-	11,457,762	9,350,181	1,511,140	(182,326)	414,115
<u>\$ 1,048,699</u>	<u>\$ 11,457,762</u>	<u>\$ 9,590,573</u>	<u>\$ 1,548,736</u>	<u>\$ (246,978)</u>	<u>\$ 1,120,174</u>



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

**FUNCTION 41 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	\$ -	\$ -	\$ 176,852	\$ 155,077	\$ 1,065	\$ -	\$ 332,994
6149	Leave for Separating Employees in Fn 41 & 53	-	-	(3,425)	6,850	-	-	3,425
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	12,208	-	-	-	-	-	12,208
6212	Audit Services	-	-	-	14,750	-	-	14,750
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	224,655	-	-	-	-	224,655
621X	Other Professional Services	-	-	-	9,770	-	-	9,770
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	981	-	-	12,735	-	-	13,716
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	-	10,317	-	10,317
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	1,906	-	7,560	3,242	-	-	12,708
6410	Travel, Subsistence, Stipends	10,182	-	1,888	946	-	-	13,016
6420	Ins. and Bonding Costs	5,580	-	-	-	-	-	5,580
6430	Election Costs	6,332	-	-	-	-	-	6,332
6490	Miscellaneous Operating	9,532	-	4,711	738	-	-	14,981
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	<b>TOTAL</b>	<b>\$ 46,721</b>	<b>\$ 224,655</b>	<b>\$ 187,586</b>	<b>\$ 204,108</b>	<b>\$ 11,382</b>	<b>\$ -</b>	<b>\$ 674,452</b>

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 14,501,364

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 168,132
Total Debt & Lease(6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	1,387,310
Food (Function 35, 6341 and 6499)	(13)	273,257
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		204,108

SubTotal:

2,032,807

Net Allowed Direct Cost

\$ 12,468,556

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 32,266,670
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)	\$ 1,965,605
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: \$96,759 in Function 53 expenditures are included in this report on administrative costs.

\$210,362 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, 2010

**UNAUDITED**

1	Total General Fund Balance as of 8/31/10 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 3,163,808
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)	500,000	
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	1,398,373	
5	Estimate of two month's average cash disbursements during the fiscal year.	2,579,780	
6	Estimate of delayed payments from state sources (58xx).	-	
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)	185,802	
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	Adjustment to meet Board Policy	-	
11	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)		4,663,955
12	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)		\$ (1,500,147)

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, 2010

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 223,000	\$ 175,400	\$ 123,076	\$ (52,324)
5800 State Program Revenues	3,500	3,500	4,146	646
5900 Federal Program Revenues	389,750	389,750	479,769	90,019
5020 Total Revenues	616,250	568,650	606,991	38,341
<b>EXPENDITURES:</b>				
0035 Food Services	616,250	664,162	662,050	2,112
6030 Total Expenditures	616,250	664,162	662,050	2,112
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(95,512)	(55,059)	40,453
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	47,600	47,600	-
7080 Total Other Financing Sources (Uses)	-	47,600	47,600	-
1200 Net Change in Fund Balances	-	(47,912)	(7,459)	40,453
0100 Fund Balance - September 1 (Beginning)	14,248	14,248	14,248	-
3000 Fund Balance - August 31 (Ending)	\$ 14,248	\$ (33,664)	\$ 6,789	\$ 40,453

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, 2010

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 1,523,888	\$ 1,523,888	\$ 1,601,188	\$ 77,300
5020	Total Revenues	1,523,888	1,523,888	1,601,188	77,300
<b>EXPENDITURES:</b>					
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	790,000	790,000	790,000	-
0072	Debt Service - Interest on Long Term Debt	732,088	732,088	732,088	-
0073	Debt Service - Bond Issuance Cost and Fees	1,800	1,800	1,254	546
6030	Total Expenditures	1,523,888	1,523,888	1,523,342	546
1200	Net Change in Fund Balances	-	-	77,846	77,846
0100	Fund Balance - September 1 (Beginning)	515,476	515,476	515,476	-
3000	Fund Balance - August 31 (Ending)	\$ 515,476	\$ 515,476	\$ 593,322	\$ 77,846

COMPLIANCE, INTERNAL CONTROL AND FEDERAL AWARDS

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

Marlin R. Smith, CPA  
J. W. Lambright, CPA  
\_\_\_\_\_  
Cheri E. Kirkland, CPA

P. O. Box 912  
505 E. Tyler  
Athens, Texas 75751  
(903) 675-5674  
FAX (903) 675-5676  
smithlambright.com

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, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 30, 2010. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

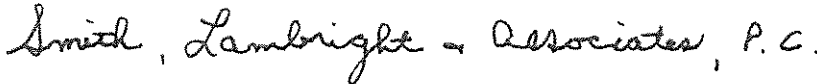
We noted certain matters that we reported to the Board of Trustees and management of the District in a separate letter dated November 30, 2010.

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.  
Certified Public Accountants

November 30, 2010

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

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

Cheri E. Kirkland, CPA

P. O. Box 912  
505 E. Tyler  
Athens, Texas 75751  
(903) 675-5674  
FAX (903) 675-5676  
smithlambright.com

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

Independent Auditor's Report

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

Members of the Board of Trustees:

Compliance

We have audited the District's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2010. 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*. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2010.



### Internal Control Over Compliance

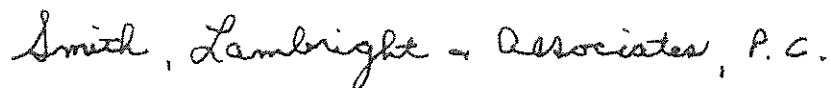
The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

This report is intended solely for the information and use of the 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.  
Certified Public Accountants

November 30, 2010

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED AUGUST 31, 2010

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
	Title I Cluster:
84.010	Title I Part A ESEA
84.389	Title I Part A Recovery Act
84.394	Title XIV ARRA

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, 2010

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, 2010

N/A

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED AUGUST 31, 2010

N/A

MALAKOFF INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2010

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs**	84.010A	10-610101107906	\$ 408,753
ESEA, Title I, Part A - Improving Basic Programs**	84.010A	11-610101107906	27,471
Total CFDA Number 84.010A			436,224
Career and Technical - Basic Grant	84.048	10-420006107906	22,993
ESEA Title IV, Pt. A - Safe and Drug-Free Schools	84.186A	10-691001092950	1,036
Title II, Part D -Enhancing Ed. Through Technology	84.318	10-630001107906	3,760
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	10-696001107906	23,476
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	10-694501107906	98,467
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	11-694501107906	4,261
Total CFDA Number 84.367A			102,728
Title II D Enhancing Ed. Through Technology - ARRA	84.386	10-553001107906	7,095
ESEA, Title I, A - ARRA - Improving Basic Prog.**	84.389	10-551001107906	253,756
ESEA, Title I, A - ARRA - Improving Basic Prog.**	84.389	11-551001107906	538
Total CFDA Number 84.389			254,294
IDEA, Part B, Formula - ARRA	84.391	10-660001107902	188,275
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394	10-557001107906	376,242
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394	11-557001107906	24,488
Total CFDA Number 84.394			400,730
Total Passed Through State Department of Education			\$ 1,440,611
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<b>\$ 1,440,611</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
School Breakfast Program*	10.553		\$ 120,590
National School Lunch Program - Cash Assistance*	10.555		322,522
National School Lunch Prog. - Non-Cash Assistance*	10.555		36,657
Total CFDA Number 10.555			359,179
Summer Feeding Program - Cash Assistance*	10.559	TX 107 1003 SFSP	5,179
Total Passed Through the State Department of Agriculture			\$ 484,948
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<b>\$ 484,948</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 1,925,559</b>

\*Clustered Programs as required by Compliance Supplement March, 2010.

\*\*Clustered Programs as required by Compliance Supplement March, 2010.

Note A - Funds received from ESC Region 7 for Head Start reimbursements of \$33,539 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, 2010

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.