

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

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ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2012

| <u>Exhibit</u> | | <u>Page</u> |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| | Table of Contents | 1 |
| | Certificate of Board | 3 |
| | Independent Auditor's Report | 4 |
| | Management's Discussion and Analysis | 6 |
| | Basic Financial Statements: | |
| | Government - Wide Financial Statements: | |
| A-1 | Statement of Net Assets | 15 |
| B-1 | Statement of Activities | 16 |
| | Governmental Fund Financial Statements: | |
| C-1 | Balance Sheet | 17 |
| C-2 | Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets | 18 |
| C-3 | Statement of Revenues, Expenditures, and Changes in Fund Balances | 19 |
| C-4 | Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities | 20 |
| | Proprietary Fund Financial Statements: | |
| D-1 | Statement of Net Assets | N/A |
| D-2 | Statement of Revenues, Expenses, and Changes in Fund Assets | N/A |
| D-3 | Statement of Cash Flows | N/A |
| | Fiduciary Fund Financial Statements: | |
| E-1 | Statement of Fiduciary Net Assets | 21 |
| E-2 | Statement of Changes in Fiduciary Net Assets | 22 |
| | Notes to the Financial Statements | 23 |
| | Required Supplementary Information: | |
| G-1 | Budgetary Comparison Schedule - General Fund | 51 |
| | Combining Statements: | |
| | Nonmajor Governmental Funds: | |
| H-1 | Combining Balance Sheet | 52 |
| H-2 | Combining Statement of Revenues, Expenditures and Changes in Fund Balances | 54 |

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FOR THE YEAR ENDED AUGUST 31, 2012

TABLE OF CONTENTS, CONTINUED

| <u>Exhibit</u> | | <u>Page</u> |
|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| | | |
| Required TEA Schedules: | | |
| J-1 | Schedule of Delinquent Taxes Receivable | 56 |
| J-2 | Schedule of Expenditures for Computation of Indirect Cost | 57 |
| J-3 | Fund Balance and Cash Flow Calculation Worksheet | 58 |
| J-4 | Budgetary Comparison Schedule - Child Nutrition Fund | 59 |
| J-5 | Budgetary Comparison Schedule - Debt Service Fund | 60 |
| | | |
| Compliance, Internal Control and Federal Awards: | | |
| | Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 61 |
| | 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 | 63 |
| | Schedule of Findings and Questioned Costs | 65 |
| | Schedule of Status of Prior Findings | 67 |
| | Corrective Action Plan | 68 |
| K-1 | Schedule of Expenditures of Federal Awards | 69 |
| | Notes to the Schedule of Expenditures of Federal Awards | 71 |


CERTIFICATE OF BOARD

Malakoff Independent School District
Name of School District

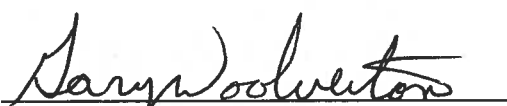
Henderson
County

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, 2012 at a meeting of the board of school trustees of such school district on the 24 day of January, 2013.



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

Independent Auditor's Report

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

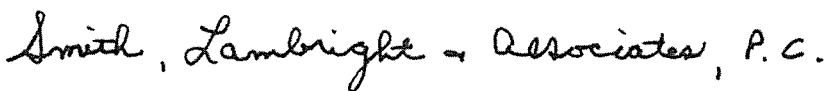
In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 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.

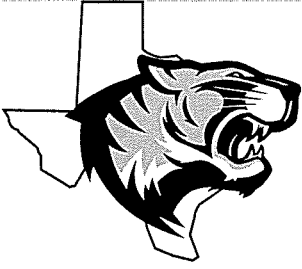
Respectfully submitted,



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

December 13, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS



Malakoff Independent School District

Randy Perry, 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, 2012, 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 \$1,545,819 during the current year. This compares to last year when revenues exceeded expenditures by \$586,235. The increase in fund balance was due to the receipt of foundation allotment for settle-up payment due from the state for the 2011-12 school year and expenditures being less than budgeted appropriations. Expenditures were below budgeted appropriations by approximately \$1,004,288.

Malakoff I.S.D. received a "Superior Achievement" rating on its financial accountability under the 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, 2012.

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 financial status of the District has increased or decreased 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, Vocational, Student Success Initiative, Education Jobs Fund, Rural Technology Grant, Cops Grant, and Campus Activities Funds. This group of funds has revenue resources including grants, federal programs and state programs.

Debt Service Fund

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

The District as Trustee

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Total net assets of the district's governmental activities increased by \$1,545,819, as compared to last year. Total unrestricted assets were \$6,987,097 on August 31, 2012. 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 foundation allotment for settle-up payment due from the state for the 2011-12 school year of approximately \$541,231

- (2) Expenditures were less than revenue receipts by approximately \$1,004,288

Total revenue for the District increased by \$363,521. The total cost of all programs and services for the District decreased by \$596,063. This variance was primarily due to the increase in debt payments and Recapture payments as well as the reduction in staff.

The total cost for all governmental activities this year was \$13,402,483. Property taxes funded \$9,711,969 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 \$8,699,246 (\$5,884,347

General Fund, \$620,529 Debt Service, \$2,017,429 Capital Projects and \$176,941 Other Funds) in its governmental funds, an increase of \$2,144,482 over last year.

The General Fund reported an increase of over \$1,148,649 for the year. The main reason for this increase is the revenue for the year was higher than the expenditures by \$1,004,288.

The Debt Service Fund had an decrease of \$72,019 in fund balance due to revenue for the year collected less than bond payments. This was an intentional strategy by the district to reduce fund balance for Debt Service.

The Other Funds has included in its total the fund balance for the Henderson County Shared Services Arrangement (HCSSA). Malakoff ISD became the fiscal agent for the HCSSA in the 2011-12 school year.

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 99% of budgeted estimated revenue while actual expenditures totaled about 93% of budgeted appropriations. This simply means that our revenue collections were approximately \$202,373 less than our budgeted estimates and the District spent \$1,004,288 less than budgeted expenditures.

Capital Assets and Debt Administration

Capital Assets

At the end of the school year, the District reported \$30,344,250 in capital assets. These assets include all rolling stock, facilities, and equipment. This amount represents an increase of \$620,490 as compared to last year. This reduction to capital assets during the year resulted primarily due to depreciation entries exceeding construction costs. Other items contributing to the reduction were the sale of the Administration Building on 813 E. Royall Blvd. (\$48,128.52) removal of the MAP Portable Building (\$,14,932.79) and the sale of two buses.

Debt

The District had an outstanding amount of \$23,315,609 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), an Unamortized Premium and Discount on Issuance of Debt (\$279,242), a Premium Discount on Issuance of Debt (\$1,039,954) and the renovation projects for Malakoff and Tool Elementary as well as Malakoff High School (\$7,071,321).

Economic Factors and Next Year's Budget/Rates

The budget for 2012-13 was based on many factors:

- (1) Chapter 41 Status (approx. \$1,642,795 recapture costs)
- (2) ADA remaining steady
- (3) Minimal increasing property values
- (4) Minimal population growth (district-wide)
- (5) Reduction in staff

Although the unemployment rate for the area registers below the state average, the total population for Texas has a projected increase of 1 % from last year. Senior citizens comprise a large percentage of the District's population which carries the over-65 Homestead 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 \$98,230 in 2002 to \$163,597 in 2012. 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 1,160 in 2007-08 to 1,245 in 2011-12.

When the 2012-13 budget was adopted, all these indicators were considered. The current budget reflects less than 1% decrease over last year's total. The budget remains steady largely due to the payment decrease for Chapter 41 (\$343,777) and budget cuts incurred to offset the decrease in the amount of state funding received from TEA.

A total of \$1,642,795 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 except the superintendent.

The revenues for the 2012-13 budget are primarily derived from property tax collection with State Foundation and Per Capita accounting for approximately 17% 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 2012-13 budget estimates are attained, a modest increase should be realized in fund balance at year end.

Contacting the District's Financial Management

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

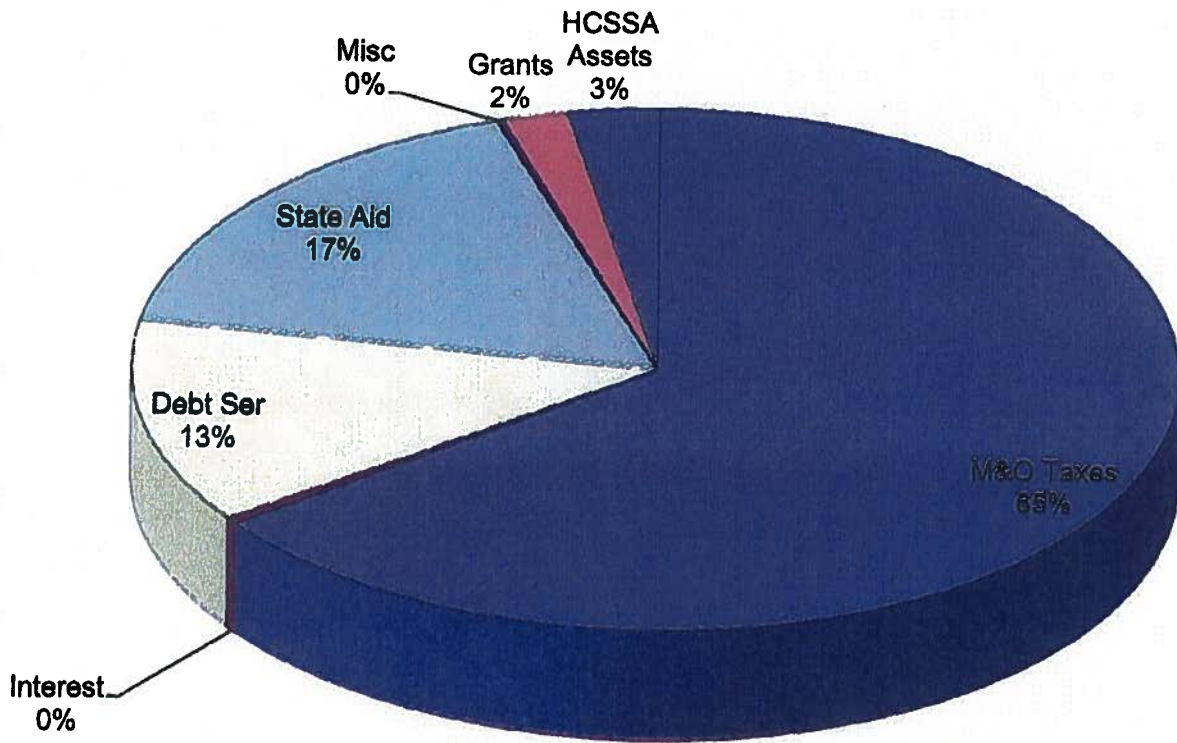
Table I
Malakoff Independent School District
Statement of Net Assets
August 31, 2012

| <u>Governmental Activities</u> | <u>2010-11</u> | <u>2011-12</u> |
|-------------------------------------------------|--------------------------|--------------------------|
| ASSETS | | |
| Cash and Cash Equivalents | 648,480 | 545,514 |
| Current Investments | 6,384,823 | 8,708,613 |
| Property Taxes Receivable (Del) | 1,145,128 | 1,220,700 |
| Allowance for Uncollectible Taxes (Credit) | (57,256) | (61,035) |
| Receivables from Other Governments | | 308,726 |
| Other Receivables, net | 950 | 800 |
| Due from Other Governments | 1,117,108 | - |
| Capitalized Bond & Other Debt Issuance Costs | 406,270 | 444,667 |
| Discount on Issuance of Debt | - | - |
| Capital Assets: | | |
| Land | 311,672 | 326,193 |
| Buildings, net | 29,819,787 | 29,234,311 |
| Furniture and Equipment, net | 833,281 | 726,755 |
| Construction in Progress | - | 56,991 |
| Total Assets | <u>40,610,243</u> | <u>41,512,235</u> |
| LIABILITIES | | |
| Accounts Payable | 6,617 | 21,926 |
| Accrued Wages Payable | 367,220 | 259,445 |
| Due to Other Governments | 221,404 | 125,114 |
| Accrued Expenditures or Expenses | 67,830 | 63,451 |
| Deferred Revenues | 991,546 | 451,386 |
| Noncurrent Liabilities: | | |
| Due Within One Year | 1,015,000 | 1,140,000 |
| Due in More Than One Year | 22,269,241 | 22,233,709 |
| Total Liabilities | <u>24,938,858</u> | <u>24,295,031</u> |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | 8,086,769 | 7,415,208 |
| Restricted for Federal and State Programs | 47,285 | 35,580 |
| Restricted for Debt Service | 692,548 | 620,529 |
| Restricted for Campus Activities | 12,070 | 36,007 |
| Restricted for Capital Projects | 1,067,163 | 2,017,429 |
| Restricted for Other Purposes | - | 105,354 |
| Unrestricted Net Assets | 5,765,550 | 6,987,097 |
| Total Net Assets | <u>15,671,385</u> | <u>17,217,204</u> |

Table II
Malakoff Independent School District
Statement of Net Assets
August 31, 2012

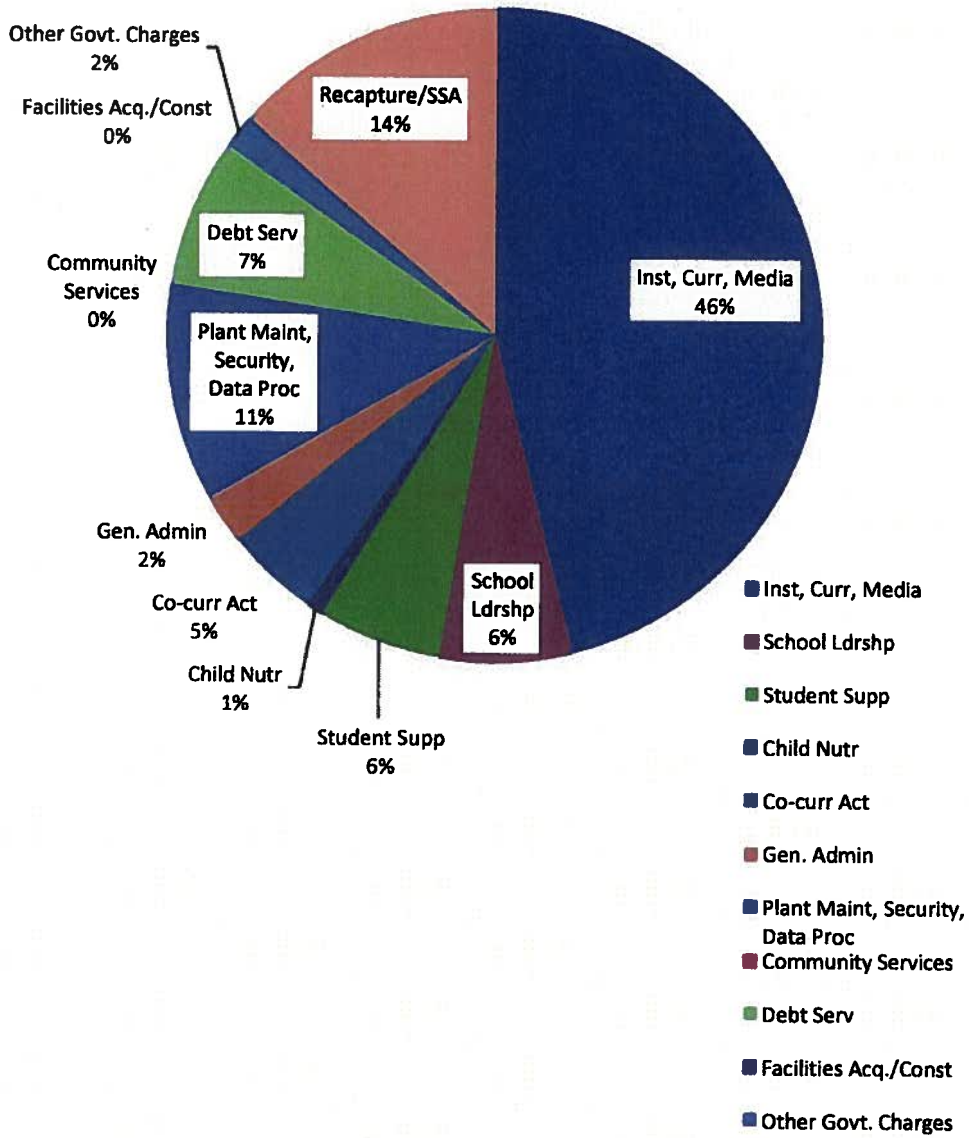
| <u>Governmental Activities</u> | <u>2010-11</u> | <u>2011-12</u> |
|------------------------------------------------------------------|-------------------|-------------------|
| Revenues: | | |
| General Revenues; | | |
| Maintenance & Operation Taxes | 9,430,359 | 9,711,969 |
| Debt Service Taxes | 1,966,514 | 1,906,469 |
| State Aid | 2,555,204 | 2,575,395 |
| Unrestricted Grants/Contributions | 297,284 | 299,727 |
| Investment Earnings | 89,485 | 57,676 |
| Miscellaneous Revenue | 245,935 | (30,644) |
| Special Item - SSA Assets Transferred In | | 427,710 |
| Total Revenue | 14,584,781 | 14,948,302 |
| | | |
| Expenses: | | |
| Instructional, Curriculum, Media | 6,624,850 | 6,179,561 |
| Instructional/School Leadership | 716,853 | 871,602 |
| Student Support Services | 873,435 | 809,946 |
| Child Nutrition | 143,549 | 110,689 |
| Co-curricular Activities | 625,164 | 622,161 |
| General Administration | 336,122 | 333,769 |
| Plant Maint, Security, Data Proc | 1,631,813 | 1,445,426 |
| Community Services | 183 | 432 |
| Debt Services | 1,003,525 | 991,050 |
| Facilities Acquisition/Constr | 5,495 | - |
| Contr. Instr. Serv. Between Schools/Recapture | 1,830,931 | 1,816,236 |
| Other Governmental Charges | 206,626 | 221,611 |
| Total Expenses | 13,998,546 | 13,402,483 |
| | | |
| Increase in Net Assets Before Transfers/Special Items | 586,235 | 1,545,819 |
| | | |
| Net assets @ 09-01 | 15,085,150 | 15,671,385 |
| | | |
| Net Assets @ 08-31 | 15,671,385 | 17,217,204 |

Revenue by Source



- M&O Taxes
- Interest
- Debt Ser
- State Aid
- Misc
- Grants
- HCSSA Assets

Expense by Category



BASIC FINANCIAL STATEMENTS

MALAKOFF INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2012

EXHIBIT A-1

| Data Control Codes | Primary Government Governmental Activities |
|------------------------------------------------------|------------------------------------------------------|
| ASSETS | |
| 1110 Cash and Cash Equivalents | \$ 545,514 |
| 1120 Current Investments | 8,708,613 |
| 1220 Property Taxes Receivable (Delinquent) | 1,220,700 |
| 1230 Allowance for Uncollectible Taxes | (61,035) |
| 1240 Due from Other Governments | 308,726 |
| 1290 Other Receivables, net | 800 |
| 1420 Capitalized Bond and Other Debt Issuance Costs | 444,667 |
| Capital Assets: | |
| 1510 Land | 326,193 |
| 1520 Buildings, Net | 29,234,311 |
| 1530 Furniture and Equipment, Net | 726,755 |
| 1580 Construction in Progress | 56,991 |
| 1000 Total Assets | 41,512,235 |
| LIABILITIES | |
| 2110 Accounts Payable | 21,926 |
| 2160 Accrued Wages Payable | 259,445 |
| 2180 Due to Other Governments | 125,114 |
| 2200 Accrued Expenses | 63,451 |
| 2300 Deferred Revenues | 451,386 |
| Noncurrent Liabilities | |
| 2501 Due Within One Year | 1,140,000 |
| 2502 Due in More Than One Year | 22,233,709 |
| 2000 Total Liabilities | 24,295,031 |
| NET ASSETS | |
| 3200 Invested in Capital Assets, Net of Related Debt | 7,415,208 |
| 3820 Restricted for Federal and State Programs | 35,580 |
| 3850 Restricted for Debt Service | 620,529 |
| 3860 Restricted for Capital Projects | 2,017,429 |
| 3870 Restricted for Campus Activities | 36,007 |
| 3890 Restricted for Other Purposes | 105,354 |
| 3900 Unrestricted Net Assets | 6,987,097 |
| 3000 Total Net Assets | \$ 17,217,204 |

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, 2012

EXHIBIT B-1

| Data Control Codes | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|------------------------------------------------------|----------------------|-------------------------|------------------------------------------|----------------------------------------------------------|
| | 1 | 3 | 4 | 6 |
| | Expenses | Charges for Services | Operating Grants and Contributions | Primary Gov. Governmental Activities |
| Primary Government: | | | | |
| GOVERNMENTAL ACTIVITIES: | | | | |
| 11 Instruction | \$ 8,577,401 | \$ 1,000,596 | \$ 1,637,831 | \$ (5,938,974) |
| 12 Instructional Resources and Media Services | 196,971 | - | 7,725 | (189,246) |
| 13 Curriculum and Staff Development | 52,439 | - | 1,098 | (51,341) |
| 21 Instructional Leadership | 281,154 | - | 10,511 | (270,643) |
| 23 School Leadership | 626,146 | - | 25,187 | (600,959) |
| 31 Guidance, Counseling and Evaluation Services | 436,254 | - | 219,565 | (216,689) |
| 33 Health Services | 144,324 | - | 7,527 | (136,797) |
| 34 Student (Pupil) Transportation | 470,963 | - | 14,503 | (456,460) |
| 35 Food Services | 797,436 | 134,655 | 552,092 | (110,689) |
| 36 Extracurricular Activities | 668,451 | 35,101 | 11,189 | (622,161) |
| 41 General Administration | 343,245 | - | 9,476 | (333,769) |
| 51 Facilities Maintenance and Operations | 1,207,540 | 2,183 | 28,296 | (1,177,061) |
| 52 Security and Monitoring Services | 51,285 | - | 42,031 | (9,254) |
| 53 Data Processing Services | 271,684 | - | 12,573 | (259,111) |
| 61 Community Services | 5,697 | - | 5,265 | (432) |
| 72 Debt Service - Interest on Long Term Debt | 981,056 | - | - | (981,056) |
| 73 Debt Service - Bond Issuance Cost and Fees | 9,994 | - | - | (9,994) |
| 91 Contracted Instructional Services Between Schools | 1,816,236 | - | - | (1,816,236) |
| 99 Other Intergovernmental Charges | 221,611 | - | - | (221,611) |
| [TP] TOTAL PRIMARY GOVERNMENT: | <u>\$ 17,159,887</u> | <u>\$ 1,172,535</u> | <u>\$ 2,584,869</u> | <u>(13,402,483)</u> |

| Data Control Codes | General Revenues: | | |
|--------------------------|----------------------------------------------|--|----------------------|
| | Taxes: | | |
| MT | Property Taxes, Levied for General Purposes | | 9,711,969 |
| DT | Property Taxes, Levied for Debt Service | | 1,906,469 |
| SF | State Aid - Formula Grants | | 2,575,395 |
| GC | Grants and Contributions not Restricted | | 299,727 |
| IE | Investment Earnings | | 57,676 |
| MI | Miscellaneous Local and Intermediate Revenue | | (30,644) |
| S1 | Special Item - SSA Assets Transferred In | | 427,710 |
| TR | Total General Revenues and Special Items | | <u>14,948,302</u> |
| CN | Change in Net Assets | | 1,545,819 |
| NB | Net Assets--Beginning | | 15,671,385 |
| NE | Net Assets--Ending | | <u>\$ 17,217,204</u> |

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

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

| Data Control Codes | 10 General Fund | 50 Debt Service Fund | 60 Capital Projects |
|-----------------------------------------------------|-----------------------|----------------------------|---------------------------|
| ASSETS | | | |
| 1110 Cash and Cash Equivalents | \$ 474,457 | \$ 6,846 | \$ 8,153 |
| 1120 Investments - Current | 6,085,654 | 613,683 | 2,009,276 |
| 1220 Property Taxes - Delinquent | 1,067,985 | 152,715 | - |
| 1230 Allowance for Uncollectible Taxes (Credit) | (53,399) | (7,636) | - |
| 1240 Receivables from Other Governments | 152,635 | - | - |
| 1260 Due from Other Funds | - | - | 80,730 |
| 1290 Other Receivables | 800 | - | - |
| 1000 Total Assets | <u>\$ 7,728,132</u> | <u>\$ 765,608</u> | <u>\$ 2,098,159</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| 2110 Accounts Payable | \$ 21,926 | \$ - | \$ - |
| 2160 Accrued Wages Payable | 226,582 | - | - |
| 2170 Due to Other Funds | - | - | 80,730 |
| 2180 Due to Other Governments | 125,114 | - | - |
| 2200 Accrued Expenditures | 4,191 | - | - |
| 2300 Deferred Revenues | 1,465,972 | 145,079 | - |
| 2000 Total Liabilities | <u>1,843,785</u> | <u>145,079</u> | <u>80,730</u> |
| Fund Balances: | | | |
| Restricted Fund Balance: | | | |
| 3450 Federal or State Funds Grant Restriction | - | - | - |
| 3470 Capital Acquisition and Contractual Obligation | - | - | 2,017,429 |
| 3480 Retirement of Long-Term Debt | - | 620,529 | - |
| 3490 Other Restricted Fund Balance | - | - | - |
| Committed Fund Balance: | | | |
| 3510 Construction | 2,000,000 | - | - |
| Assigned Fund Balance: | | | |
| 3590 Other Assigned Fund Balance | - | - | - |
| 3600 Unassigned Fund Balance | 3,884,347 | - | - |
| 3000 Total Fund Balances | <u>5,884,347</u> | <u>620,529</u> | <u>2,017,429</u> |
| 4000 Total Liabilities and Fund Balances | <u>\$ 7,728,132</u> | <u>\$ 765,608</u> | <u>\$ 2,098,159</u> |

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

| Other Funds | Total Governmental Funds |
|-------------------|--------------------------------|
| \$ 56,058 | \$ 545,514 |
| - | 8,708,613 |
| - | 1,220,700 |
| - | (61,035) |
| 156,091 | 308,726 |
| - | 80,730 |
| - | 800 |
| <u>\$ 212,149</u> | <u>\$ 10,804,048</u> |
| | |
| \$ - | \$ 21,926 |
| 32,863 | 259,445 |
| - | 80,730 |
| - | 125,114 |
| 2,345 | 6,536 |
| - | 1,611,051 |
| <u>35,208</u> | <u>2,104,802</u> |
| | |
| 35,580 | 35,580 |
| - | 2,017,429 |
| - | 620,529 |
| 105,354 | 105,354 |
| | |
| - | 2,000,000 |
| | |
| 36,007 | 36,007 |
| - | 3,884,347 |
| <u>176,941</u> | <u>8,699,246</u> |
| | |
| <u>\$ 212,149</u> | <u>\$ 10,804,048</u> |

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

EXHIBIT C-2

| | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-------------------|
| Total Fund Balances - Governmental Funds | \$ | 8,699,246 |
| | | |
| 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 \$39,287,200 and the accumulated depreciation was \$8,322,460. Other assets related to long term debt issuance are not reported in the governmental funds. At the beginning of the year, other assets included unamortized debt issuance cost of \$406,270. 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 \$23,284,241. The net effect of including the beginning balances for capital assets (net of depreciation), other assets and long-term debt in the governmental activities is to increase (decrease) net assets. | | 8,086,769 |
| | | |
| 2 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 2012 capital outlays and debt principal payments is to increase (decrease) net assets. | | 1,086,391 |
| | | |
| 3 The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. | | (1,053,019) |
| | | |
| 4 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. | | 397,817 |
| | | |
| 19 Net Assets of Governmental Activities | <u>\$</u> | <u>17,217,204</u> |

The notes to the financial statements 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, 2012

| Data Control Codes | 10 General Fund | 50 Debt Service Fund | 60 Capital Projects |
|----------------------------------------------------------------|-----------------------|----------------------------|---------------------------|
| REVENUES: | | | |
| 5700 Total Local and Intermediate Sources | \$ 10,276,633 | \$ 1,927,165 | \$ 6,401 |
| 5800 State Program Revenues | 3,059,106 | - | - |
| 5900 Federal Program Revenues | 332,864 | - | - |
| 5020 Total Revenues | <u>13,668,603</u> | <u>1,927,165</u> | <u>6,401</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| 0011 Instruction | 6,305,747 | - | - |
| 0012 Instructional Resources and Media Services | 173,776 | - | - |
| 0013 Curriculum and Instructional Staff Development | 52,439 | - | - |
| 0021 Instructional Leadership | 105,037 | - | - |
| 0023 School Leadership | 601,388 | - | - |
| 0031 Guidance, Counseling and Evaluation Services | 165,488 | - | - |
| 0033 Health Services | 138,870 | - | - |
| 0034 Student (Pupil) Transportation | 369,705 | - | - |
| 0035 Food Services | 17,842 | - | - |
| 0036 Extracurricular Activities | 447,839 | - | - |
| 0041 General Administration | 331,420 | - | - |
| 0051 Facilities Maintenance and Operations | 1,186,431 | - | - |
| 0052 Security and Monitoring Services | 9,695 | - | - |
| 0053 Data Processing Services | 269,584 | - | - |
| 0061 Community Services | 651 | - | - |
| Debt Service: | | | |
| 0071 Principal on Long Term Debt | - | 1,015,000 | - |
| 0072 Interest on Long Term Debt | - | 982,161 | - |
| 0073 Bond Issuance Cost and Fees | - | 2,023 | - |
| Capital Outlay: | | | |
| 0081 Facilities Acquisition and Construction | - | - | 56,135 |
| Intergovernmental: | | | |
| 0091 Contracted Instructional Services Between Schools | 1,816,236 | - | - |
| 0093 Payments to Fiscal Agent/Member Districts of SSA | 297,296 | - | - |
| 0099 Other Intergovernmental Charges | 221,611 | - | - |
| 6030 Total Expenditures | <u>12,511,055</u> | <u>1,999,184</u> | <u>56,135</u> |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>1,157,548</u> | <u>(72,019)</u> | <u>(49,734)</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| 7911 Capital Related Debt Issued (Regular Bonds) | - | - | 1,000,000 |
| 7916 Premium or Discount on Issuance of Bonds | - | - | 71,321 |
| 7949 Other Resources | - | - | - |
| 8949 Other (Uses) | (8,899) | - | (71,321) |
| 7080 Total Other Financing Sources (Uses) | <u>(8,899)</u> | <u>-</u> | <u>1,000,000</u> |
| 1200 Net Change in Fund Balances | 1,148,649 | (72,019) | 950,266 |
| 0100 Fund Balance - September 1 (Beginning) | 4,735,698 | 692,548 | 1,067,163 |
| 3000 Fund Balance - August 31 (Ending) | <u>\$ 5,884,347</u> | <u>\$ 620,529</u> | <u>\$ 2,017,429</u> |

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

| | Other Funds | Total Governmental Funds |
|----|----------------|--------------------------------|
| \$ | 865,770 | \$ 13,075,969 |
| | 116,857 | 3,175,963 |
| | 1,951,164 | 2,284,028 |
| | 2,933,791 | 18,535,960 |
| | 1,584,156 | 7,889,903 |
| | - | 173,776 |
| | - | 52,439 |
| | 166,808 | 271,845 |
| | - | 601,388 |
| | 266,985 | 432,473 |
| | - | 138,870 |
| | - | 369,705 |
| | 681,620 | 699,462 |
| | 85,099 | 532,938 |
| | 8 | 331,428 |
| | 27,048 | 1,213,479 |
| | 41,590 | 51,285 |
| | - | 269,584 |
| | 5,046 | 5,697 |
| | - | 1,015,000 |
| | - | 982,161 |
| | - | 2,023 |
| | 855 | 56,990 |
| | - | 1,816,236 |
| | 20,000 | 317,296 |
| | - | 221,611 |
| | 2,879,215 | 17,445,589 |
| | 54,576 | 1,090,371 |
| | - | 1,000,000 |
| | - | 71,321 |
| | 63,010 | 63,010 |
| | - | (80,220) |
| | 63,010 | 1,054,111 |
| | 117,586 | 2,144,482 |
| | 59,355 | 6,554,764 |
| \$ | 176,941 | \$ 8,699,246 |

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, 2012

| | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ | 2,144,482 |
| 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 2012 capital outlays and debt principal payments is to increase (decrease) net assets. | | 1,086,391 |
| Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets. | | (1,053,019) |
| 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. | | (632,035) |
| Change in Net Assets of Governmental Activities | \$ | 1,545,819 |

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

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

EXHIBIT E-1

| | Private Purpose Trust Fund | Agency Fund |
|-----------------------------|----------------------------------|----------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 10,061 | \$ 13,310 |
| Other Receivables | 251 | - |
| Total Assets | 10,312 | \$ 13,310 |
| LIABILITIES | | |
| Due to Student Groups | - | \$ 13,310 |
| Total Liabilities | - | \$ 13,310 |
| NET ASSETS | | |
| Restricted for Scholarships | 10,312 | |
| Total Net Assets | \$ 10,312 | |

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, 2012

EXHIBIT E-2

| | Private Purpose Trust Fund |
|--------------------------------------------|----------------------------------|
| <hr/> | |
| DEDUCTIONS: | |
| Other Operating Costs | \$ 1,000 |
| Total Deductions | <u>1,000</u> |
| Change in Net Assets | (1,000) |
| Total Net Assets - September 1 (Beginning) | <u>11,312</u> |
| Total Net Assets - August 31 (Ending) | <u><u>\$ 10,312</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, 2012

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, 2012

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, 2012

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, 2012

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.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

I. FUND BALANCE

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below:

1. Nonspendable fund balance - includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable.
2. Restricted Fund Balance - includes amounts that are restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions of enabling legislation.
3. Committed Fund Balance - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. Those committed amounts cannot be used for any other purposes unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
4. Assigned Fund Balance - includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the Board or by other officials to which the Board has delegated the authority to assign amounts to be used for specific purposes. When it is appropriate for fund balance to be assigned, the Board delegates the responsibility to assign funds to the Superintendent or his/her designee.
5. Unassigned Fund Balance - is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District will utilize funds in the following spending order: Restricted, Committed, Assigned and Unassigned.

J. 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, 2012

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 | 36 884 554 | 7 064 767 | 29 819 787 | |
| Furniture & Equipment | 2 090 974 | 1 257 693 | 833 281 | |
| Construction in Progress | | | | |
| Totals | <u>\$ 39 287 200</u> | <u>\$ 8 322 460</u> | | |
| Changes in Net Assets | | | | <u>\$ 30 964 740</u> |
| Other Assets <u>at the Beginning of the Year</u> | | | | |
| Capitalized Bond and Other Debt Issuance Cost | | | | <u>406 270</u> |
| Long-term Liabilities <u>at the Beginning of the Year</u> | | | <u>Payable at the Beginning of the Year</u> | |
| Bonds Payable | | | \$ 23 005 000 | |
| Premium on Issuance of Bonds | | | 375 526 | |
| Discount on Issuance of Bonds | | | <u>(96 285)</u> | |
| Change in Net Assets | | | | <u>(23 284 241)</u> |
| Net Adjustment to Net Assets | | | | <u>\$ 8 086 769</u> |

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2012

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

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

| | <u>Amount</u> | <u>Adjustments to Changes in Net Assets</u> | <u>Adjustments to Net Assets</u> |
|--------------------------------|---------------------|-----------------------------------------------------|--------------------------------------|
| Current Year Capital Outlay: | | | |
| Buildings & Improvements | \$ | | |
| Furniture & Equipment | 14 400 | | |
| Construction in Progress | <u>56 991</u> | | |
| Total Capital Outlay | <u>71 391</u> | <u>71 391</u> | <u>71 391</u> |
| Debt Principal Payments: | | | |
| Bond Principal | <u>1 015 000</u> | | |
| Total Principal Payments | <u>\$ 1 015 000</u> | <u>1 015 000</u> | <u>1 015 000</u> |
| Total Adjustment to Net Assets | | <u>\$ 1 086 391</u> | <u>\$ 1 086 391</u> |

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

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:

| | Amount | Adjustments to Change in Net Assets | Adjustments to Net Assets |
|-------------------------------------------------------------------|------------|-------------------------------------------|------------------------------|
| Adjustments to Revenue and Deferred Revenue: | | | |
| Taxes Collected from Prior Year Levies | \$ 239 904 | \$ (239 904) | \$ |
| Uncollected taxes (assumed collectible) from Current Year Levy | 311 697 | 311 697 | 311 697 |
| Uncollected Taxes (assumed collectible) from Prior Year Levy | 847 968 | | 847 968 |
| Reclassify Proceeds of Bonds: | | | |
| Bond Proceeds | 1 000 000 | (1 000 000) | (1 000 000) |
| Reclassify Bond Related Items: | | | |
| Bond Issuance Costs | 71 321 | 71 321 | 71 321 |
| Bond Issuance Premium | 71 321 | (71 321) | (71 321) |
| Amortization of Bond Related Items: | | | |
| Bond Issue Costs | 32 924 | (32 924) | (32 924) |
| Discount on Issuance of Bonds | 8 021 | (8 021) | (8 021) |
| Premium on Issuance of Bonds | 32 974 | 32 974 | 32 974 |
| Accrued Interest on Debt: | | | |
| Prior Year | 58 020 | 58 020 | |
| Current Year | 56 915 | (56 915) | (56 915) |
| Capital Asset Adjustments: | | | |
| SSA Assets Transferred In | 427 710 | 427 710 | 427 710 |
| Retirement and Adjustments | 66 572 | (66 572) | (66 572) |
| Compensated Absences | 58 100 | (58 100) | (58 100) |
| Total | | \$ (632 035) | \$ 397 817 |

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2012

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Fund). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund budget report appears in Exhibit G-1 and the other two reports are in Exhibits J-4 and J-5.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. The budget was amended as necessary during the year.
4. Each budget is controlled at the organizational level by the administration, appropriate department head or campus principal within Board allocations at the revenue and expenditure function /object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

| | August 31, 2012 Fund Balance |
|---------------------------------------------------------------|---------------------------------|
| Appropriated Budget Funds - Food Service Special Revenue Fund | \$ 35 580 |
| Nonappropriated Budget Funds | 141 361 |
| All Special Revenue Funds | \$ 176 941 |

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District made expenditures in excess of the budgeted amounts in functional areas in the general fund, food service program fund and debt service fund in amounts that were immaterial to the total budget.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

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, 2012 that were subsequently provided for in the 2012 - 2013 budget.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

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 2011-2012 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 \$1,876,607 and occurred on February 2, 2012. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$1,621,198. 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 \$13,457,593 and occurred on January 31, 2012. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$14,716,214. The total amount of FDIC Coverage at the time of the highest combined balance was \$750,000.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

- 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, 2012, the amount of the District's cash balance in checking accounts was \$568,635. The cash balance in savings, time and certificate of deposit accounts was \$8,687,849. Cash on hand was \$250.

INVESTMENTS

The District's investments at August 31, 2012, are shown below:

| <u>Investment Type</u> | <u>Cost</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (Years)</u> |
|------------------------|---------------------|---------------------|----------------------------------------------|
| Money Market Accounts | \$ 8 687 849 | \$ 8 687 849 | .0822 |
| Texpool | <u>20 764</u> | <u>20 765</u> | .104110 |
| Total Investments | <u>\$ 8 708 613</u> | <u>\$ 8 708 614</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, 2012

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 2011-2012 fiscal year was based, was \$1,009,768,728. The tax rates assessed for the year ended August 31, 2012 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$.97 and \$.19 per \$100 valuation, respectively, for a total of \$1.16 per \$100 valuation. Current tax collections for the year ended August 31, 2012 were 97.2% of the year end adjusted tax levy. As of August 31, 2012, property taxes receivable totaled \$1,067,985 and \$152,715 for the General and Debt Service Funds respectively.

C. RECEIVABLES 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, 2012 are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Receivables from Other Governments.

| | General Fund | Debt Service Fund | Capital Projects Fund | Other Funds | Total |
|--------------------|-------------------|-------------------------|-----------------------------|-------------------|-------------------|
| State Entitlements | \$ 68 548 | \$ | \$ | \$ | \$ 68 548 |
| State Grants | | | | 694 | 694 |
| Federal Grants | | | | 155 397 | 155 397 |
| ESC7 - Head Start | 815 | | | | 815 |
| State Chapter 41 | 83 272 | | | | 83 272 |
| | <u>83 272</u> | | | | <u>83 272</u> |
| Total | <u>\$ 152 635</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 156 091</u> | <u>\$ 308 726</u> |

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2012

D. INTERFUND BALANCES AND TRANSFERS

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

| <u>Fund</u> | <u>Due From</u> | <u>Due To</u> |
|------------------------|------------------|------------------|
| General Fund: | | |
| Special Revenue Fund | \$ _____ | \$ _____ |
| Special Revenue Fund: | | |
| General Fund | \$ _____ | \$ _____ |
| Capital Projects Fund: | | |
| Capital Projects Fund | \$ 80 730 | \$ 80 730 |
| Totals | <u>\$ 80 730</u> | <u>\$ 80 730</u> |

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

| <u>Fund</u> | <u>Transfer In</u> | <u>Transfer Out</u> |
|------------------------|--------------------|---------------------|
| General Fund: | | |
| Special Revenue Fund | \$ _____ | \$ _____ |
| Capital Projects Fund | _____ | _____ |
| Special Revenue Fund: | | |
| General Fund | \$ _____ | \$ _____ |
| Capital Projects Fund: | | |
| General Fund | \$ _____ | \$ _____ |
| Totals | <u>\$ 0</u> | <u>\$ 0</u> |

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2012, 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 | \$ 1 067 985 | \$ 152 715 | \$ | \$ | \$ 1 220 700 |
| Other Governments | 152 635 | | | 156 091 | 308 726 |
| Other Funds | | | 80 730 | | 80 730 |
| Other | <u>800</u> | | | | <u>800</u> |
| Totals | <u>\$ 1 221 420</u> | <u>\$ 152 715</u> | <u>\$ 80 730</u> | <u>\$ 156 091</u> | <u>\$ 1 610 956</u> |

Payables at August 31, 2012, 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 | \$ 21 926 | \$ | \$ | \$ | \$ 21 926 |
| Accrued Wages | 226 582 | | | 32 863 | 259 445 |
| Other Government | 125 114 | | | | 125 114 |
| Other Funds | | | <u>80 730</u> | | <u>80 730</u> |
| Totals | <u>\$ 373 622</u> | <u>\$ 0</u> | <u>\$ 80 730</u> | <u>\$ 32 863</u> | <u>\$ 487 215</u> |

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

F. CAPITAL ASSET ACTIVITY

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

| | Beginning Balance | SSA Asset Additions | Other Additions | Retirements | SSA Adjustments | Ending Balance |
|----------------------------------------------------|----------------------|---------------------------|---------------------|--------------------|--------------------|---------------------|
| Governmental Activities: | | | | | | |
| Land | \$ 311 672 | \$ | \$ | \$ (645) | \$ | \$ 311 027 |
| Buildings & Improvements | 36 884 554 | | | (62 417) | | 36 822 137 |
| Furniture & Equipment | 2 089 279 | | 14 400 | (71 792) | | 2 031 887 |
| Non-Depreciable Assets | 1 695 | | | | | 1 695 |
| Construction in Progress | | | 56 136 | | | 56 136 |
| Land - SSA | | 15 166 | | | | 15 166 |
| Buildings & Improvements - SSA | | 559 382 | | | | 559 382 |
| Furniture & Equipment - SSA | | 200 111 | | (188 531) | 17 306 | 28 886 |
| Construction in Progress - SSA | | | 855 | | | 855 |
| Total at Historical Cost | <u>39 287 200</u> | <u>774 659</u> | <u>71 391</u> | <u>(323 385)</u> | <u>17 306</u> | <u>39 827 171</u> |
| Less Accumulated Depreciation for: | | | | | | |
| Building & Improvements | 7 064 767 | | 915 512 | (25 300) | | 7 954 979 |
| Furniture & Equipment | 1 257 693 | | 120 926 | (71 792) | | 1 306 827 |
| Building & Improvements - SSA | | 178 244 | 13 985 | | | 192 229 |
| Furniture & Equipment - SSA | | 168 705 | 2 596 | (145 876) | 3 461 | 28 886 |
| Total Accumulated Depreciation | <u>8 322 460</u> | <u>346 949</u> | <u>1 053 019</u> | <u>(242 968)</u> | <u>3 461</u> | <u>9 482 921</u> |
| Governmental Activities Capital Assets, Net | <u>\$30 964 740</u> | <u>\$ 427 710</u> | <u>\$ (981 628)</u> | <u>\$ (80 417)</u> | <u>\$ 13 845</u> | <u>\$30 344 250</u> |

The District assumed the fiscal agent responsibilities of the Henderson County Shared Services Arrangement as of September 1, 2011. The effect on the financial statement is reported as a Special Item on Exhibit B-1.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

Depreciation expense was charged to governmental functions as follows:

| | | |
|----|----------------------------------------------|---------------------|
| 11 | Instruction | \$ 629 089 |
| 12 | Instructional Resources and Media Services | 23 195 |
| 23 | School Leadership | 24 758 |
| 31 | Guidance, Counseling and Evaluation Services | 1 910 |
| 33 | Health Services | 3 192 |
| 34 | Student (Pupil) Transportation | 98 662 |
| 35 | Food Services | 97 974 |
| 36 | Cocurricular/Extracurricular Activities | 141 213 |
| 41 | General Administration | 11 817 |
| 51 | Plant Maintenance and Operations | 2 528 |
| 52 | Data Processing Services | 2 100 |
| | | <u>2 100</u> |
| | Total Depreciation Expense | <u>\$ 1 036 438</u> |

SSA depreciation expense was charged to governmental functions as follow:

| | | |
|----|----------------------------------------------|---------------------|
| 11 | Instruction | \$ 309 |
| 21 | Instructional Leadership | 9 309 |
| 31 | Guidance, Counseling and Evaluation Services | 1 871 |
| 33 | Health Services | 2 262 |
| 34 | Student (Pupil) Transportation | 2 596 |
| 51 | Plant Maintenance and Operations | 234 |
| | | <u>234</u> |
| | Total Depreciation Expense | <u>\$ 16 581</u> |
| | | <u>\$ 1 053 019</u> |

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

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, 2012 is as follows:

| Description | Interest Rate Payable | Amounts Original Issue | Amounts Outstanding 9/1/11 | Issued | Retired | Amounts Outstanding 8/31/12 | Interest Current Year |
|------------------------------------------------------------------------|-----------------------------|------------------------------|----------------------------------|---------------------|---------------------|-----------------------------------|-----------------------------|
| Unlimited Tax School Building Bonds Series 2004 | 2.45% to 4.25% | \$ 5 204 999 | \$ 4 180 000 | \$ | \$ 260 000 | \$ 3 920 000 | \$ 171 073 |
| Unlimited Tax School Building Bonds Series 2005 | 3.0% to 5.0% | 10 000 000 | 8 960 000 | | 205 000 | 8 755 000 | 393 002 |
| Unlimited Tax School Building Bonds Series 2008 | 3.59% to 4.0% | 4 000 000 | 2 965 000 | | 550 000 | 2 415 000 | 100 462 |
| Unlimited Tax School Building Bonds Series 2010 | 4.0% | 1 500 000 | 1 500 000 | | | 1 500 000 | 60 000 |
| Unlimited Tax Qualified School Construction Bonds Series 2010 | 4.62% | 5 400 000 | 5 400 000 | | | 5 400 000 | 249 480 |
| Unlimited Tax School Building Bonds Series 2012 | 3.0% to 3.5% | 1 000 000 | 0 | 1 000 000 | | 1 000 000 | 8 144 |
| Totals | | | <u>\$ 23 005 000</u> | <u>\$ 1 000 000</u> | <u>\$ 1 015 000</u> | <u>\$ 22 990 000</u> | <u>\$ 982 161</u> |

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

Debt service requirements are as follows:

| Year Ended August 31, | General Obligations | | | | Federal Interest Rebate Amount "QSCB" |
|--------------------------|----------------------|---------------------|----------------------|-----------------------|---------------------------------------------|
| | Principal | Sinking Fund | Interest | Total Requirements | |
| 2013 | \$ 1 140 000 | \$ | \$ 966 517 | \$ 2 106 517 | \$ (249 480) |
| 2014 | 825 000 | 165 000 | 929 680 | 1 919 680 | (249 480) |
| 2015 | 855 000 | 165 000 | 896 930 | 1 916 930 | (249 480) |
| 2016 | 895 000 | 165 000 | 861 849 | 1 921 849 | (249 480) |
| 2017 | 930 000 | 165 000 | 824 984 | 1 919 984 | (249 480) |
| 2018 - 2022 | 3 590 000 | 2 370 000 | 3 641 596 | 9 601 596 | (1 247 400) |
| 2023 - 2027 | 4 565 000 | 2 370 000 | 2 484 980 | 9 419 980 | (873 180) |
| 2028 - 2030 | 4 790 000 | 0 | 310 437 | 5 100 437 | 0 |
| Totals | <u>\$ 17 590 000</u> | <u>\$ 5 400 000</u> | <u>\$ 10 916 973</u> | <u>\$ 33 906 973</u> | <u>\$ (3 367 980)</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, 2012.

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, 2012 \$3,920,000 of bonds considered defeased are still outstanding.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

H. CHANGES IN LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended August 31, 2012, 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 | \$ 23 005 000 | \$ 1 000 000 | \$ 1 015 000 | \$ 22 990 000 | \$ 1 140 000 |
| Premium (Discount) on Issuance of Bonds: | | | | | |
| Premium | 375 527 | 71 321 | 32 975 | 413 873 | |
| Discount | (96 285) | | (8 021) | (88 264) | |
| Compensated Absences | | 58 100 | | 58 100 | |
| Total Governmental Activities Long-term Liabilities | <u>\$ 23 284 242</u> | <u>\$ 1 129 421</u> | <u>\$ 1 039 954</u> | <u>\$ 23 373 709</u> | <u>\$ 1 140 000</u> |

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2012

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 | \$ 1 014 586 | \$ 145 079 | \$ | \$ | \$ 1 159 665 |
| State Foundation | 451 386 | | | | 451 386 |
| Totals | <u>\$ 1 465 972</u> | <u>\$ 145 079</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 1 611 051</u> |

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

J. FUND BALANCE

Fund Balance is classified as nonspendable, restricted, committed, assigned and/or unassigned. The individual fund balances of the District are:

| <u>Fund Balance</u> | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Capital Projects Fund</u> | <u>Other Funds</u> | <u>Total</u> |
|-------------------------|-------------------------|----------------------------------|--------------------------------------|------------------------|---------------------|
| Nonspendable | \$ | \$ | \$ | \$ | \$ |
| Total Nonspendable | | | | | 0 |
| Restricted: | | | | | |
| Federal Grants | | | | 35 580 | 35 580 |
| State Grants | | | | | |
| Debt Service | | 620 529 | | | 620 529 |
| Capital Projects | | | 2 017 429 | | 2 017 429 |
| SSA | | | | 105 354 | 105 354 |
| Total Restricted | | 620 529 | 2 017 429 | 140 934 | 2 778 892 |
| Committed: | | | | | |
| Construction | 2 000 000 | | | | 2 000 000 |
| Total Committed | 2 000 000 | | | | 2 000 000 |
| Assigned: | | | | | |
| Campus Activity | | | | 36 007 | 36 007 |
| Total Assigned | | | | 36 007 | 36 007 |
| Unassigned | 3 884 347 | | | | 3 884 347 |
| Total Fund Balances | <u>\$ 5 884 347</u> | <u>\$ 620 529</u> | <u>\$ 2 017 429</u> | <u>\$ 176 941</u> | <u>\$ 8 699 246</u> |

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

K. LOCAL AND INTERMEDIATE SOURCES OF REVENUES

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

| | General Fund | Debt Service Fund | Capital Projects Fund | Other Funds | Total |
|-----------------------------|----------------------|-------------------------|-----------------------------|-------------------|----------------------|
| Property Taxes | \$ 9 657 322 | \$ 1 889 323 | \$ | \$ | \$ 11 546 645 |
| Penalties, Interest & Other | | | | | |
| Tax Related Income | 108 264 | 18 964 | | | 127 228 |
| Food Sales | | | | 134 655 | 134 655 |
| Investment Income | 44 256 | 6 282 | 6 401 | 738 | 57 677 |
| Co-curricular Student | | | | | |
| Activities | 28 856 | | | 6 245 | 35 101 |
| Services to Other | | | | | |
| Districts | 395 255 | | | 604 591 | 999 846 |
| Other | 42 680 | 12 596 | | 119 541 | 174 817 |
| Total | \$ 10 276 633 | \$ 1 927 165 | \$ 6 401 | \$ 865 770 | \$ 13 075 969 |

L. COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (noncapitalized) lease agreements for equipment provided for minimum future rental payments as of August 31, 2012, as follows:

| Year Ended <u>August 31</u> | <u>Total</u> |
|-----------------------------------------|------------------|
| 2013 | \$ 33 490 |
| 2014 | 31 139 |
| 2015 | <u>\$ 3 078</u> |
| Total Minimum Rentals | <u>\$ 67 707</u> |
| Rental Expenditures in Fiscal Year 2012 | <u>\$ 33 490</u> |

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

M. JOINT VENTURE SHARED SERVICE ARRANGEMENT

The District is the fiscal agent for a Shared Service Arrangement (“SSA”) which provides special education services to member districts. In addition to the District, four other member districts are participants. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA’s Resource Guide, the District has accounted for the fiscal agent’s activities of the SSA in Special Revenue Fund No. 437, Shared Services Arrangements - Special Education and will be accounted for using Model 3 in the SSA section of the Resource Guide. The District also acts as fiscal agent for two federal revenue programs in Special Revenue Funds No. 313, IDEA - Part B, Formula, and No. 314, IDEA - Part B, Preschool. Expenditures of the SSA are summarized below:

| | <u>Fund 437</u> | <u>Fund 313</u> | <u>Fund 314</u> |
|-----------------|-------------------|-------------------|------------------|
| Malakoff ISD | \$ 289 363 | \$ 295 096 | \$ 5 716 |
| Cross Roads ISD | 127 320 | 129 842 | 2 515 |
| La Poynor ISD | 98 383 | 100 332 | 1 944 |
| Trinidad ISD | 34 723 | 35 411 | 686 |
| Murchison ISD | <u>28 936</u> | <u>29 509</u> | <u>572</u> |
| Totals | <u>\$ 578 725</u> | <u>\$ 590 190</u> | <u>\$ 11 433</u> |

The District participates in a shared services arrangement for special education services with four 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 \$297,296.

The District assumed the fiscal agent responsibilities of the Henderson County Shared Services Arrangement as of September 1, 2011.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

N. PENSION PLAN

Plan Description

The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapter 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS internet website, www.trstate.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, 2010, 2011 and 2012 were \$508,187, \$534,267 and \$538,719, 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, 2010, 2011 and 2012 were \$115,991, \$131,206 and \$125,432, respectively.

The on behalf amounts contributed by the State, \$516,848, are reflected in the financial statements in the General Fund by respective function, in accordance with Governmental Accounting Standards Board Statement No. 24.

O. HEALTH CARE

During the year ended August 31, 2012 employees of the Malakoff Independent School District were covered by the state sponsored health insurance plan. The district paid premiums of \$225 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents.

All premiums were paid to TRS-ActiveCare, the statewide health coverage program for public education employees administered by Blue Cross and Blue Shield of Texas and Medco Health. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and TRS ActiveCare (Blue Cross/Blue Shield) is renewable September 1 of each year and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for Blue Cross/Blue Shield are available for the most recent year and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

P. SCHOOL DISTRICT RETIREE HEALTH PLAN

Plan Description

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

Medicare Part D:

Federal Government Retiree Drug Subsidy - Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments must be recognized as equal revenues and expenditures/expenses by the District. The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire payroll reported by all reporting entities. The amount allocated on-behalf for the year ended August 31, 2012 is estimated by TRS at \$24,709.

Early Retiree Reinsurance Program - ERRP:

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependants regardless of age. An "early retiree" is defined as a plan participant aged 55-64 who is not eligible for Medicare and is not covered by an active employee of the plan sponsor. This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first served basis for qualified employers that apply and become certified for the program. TRS has been certified for this program and has received funds from the ERRP program. These funds will be allocated to reporting agencies using the same basis as the Medicare Part D - On-behalf Payments (GASB 24) The amount allocated on-behalf for the year ended August 31, 2012 is estimated by TRS at \$23,367.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

Q. 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 50 days, at a rate established by the Board; currently \$50. 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, 2012 was \$58,100 and are recorded in the Long Term Debt Account Group. The District paid benefits of \$15,262 during the current fiscal year.

R. SELF-INSURED WORKERS' COMPENSATION

During the year ended August 31, 2012 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 \$39,017 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 \$109,663 for the fiscal year. The self insurance retention maximum was \$250,000.

During the fiscal year, the District paid net claims of \$15,471 covering twenty-one plan periods ending August 31, 2012, and has accrued \$21,926 as a liability for unpaid claims determined by the claims administrator.

S. 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, 2012 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

MALAKOFF INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2012

T. 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 2012 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.

U. CHAPTER 41 DISTRICT

Beginning with the 2003 - 2004 fiscal year the District was a Chapter 41 District. The cost of recapture was \$1,814,536 for the fiscal year ending August 31, 2012. These costs were paid to the Texas Education Agency.

V. SUBSEQUENT EVENT

The District is continuing construction projects in the 2012-2013 fiscal year.

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, 2012

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|----------------------------------------------------------------|------------------|---------------|--------------------------------|------------------------------------------------------------|
| | Original | Final | | |
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ 10,293,327 | \$ 10,112,608 | \$ 10,276,633 | \$ 164,025 |
| 5800 State Program Revenues | 3,475,554 | 3,475,554 | 3,059,106 | (416,448) |
| 5900 Federal Program Revenues | 282,814 | 282,814 | 332,864 | 50,050 |
| 5020 Total Revenues | 14,051,695 | 13,870,976 | 13,668,603 | (202,373) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| 0011 Instruction | 6,691,346 | 6,691,537 | 6,305,747 | 385,790 |
| 0012 Instructional Resources and Media Services | 176,252 | 176,252 | 173,776 | 2,476 |
| 0013 Curriculum and Instructional Staff Development | 53,061 | 53,061 | 52,439 | 622 |
| 0021 Instructional Leadership | 101,259 | 104,981 | 105,037 | (56) |
| 0023 School Leadership | 623,149 | 623,149 | 601,388 | 21,761 |
| 0031 Guidance, Counseling and Evaluation Services | 207,253 | 207,253 | 165,488 | 41,765 |
| 0033 Health Services | 141,507 | 141,507 | 138,870 | 2,637 |
| 0034 Student (Pupil) Transportation | 458,049 | 423,049 | 369,705 | 53,344 |
| 0035 Food Services | 17,868 | 17,868 | 17,842 | 26 |
| 0036 Extracurricular Activities | 478,821 | 484,991 | 447,839 | 37,152 |
| 0041 General Administration | 346,739 | 365,239 | 331,420 | 33,819 |
| 0051 Facilities Maintenance and Operations | 1,344,127 | 1,344,127 | 1,186,431 | 157,696 |
| 0052 Security and Monitoring Services | 51,187 | 51,187 | 9,695 | 41,492 |
| 0053 Data Processing Services | 301,719 | 301,719 | 269,584 | 32,135 |
| 0061 Community Services | 1,000 | 1,000 | 651 | 349 |
| Intergovernmental: | | | | |
| 0091 Contracted Instructional Services Between Schools | 1,986,572 | 1,986,572 | 1,816,236 | 170,336 |
| 0093 Payments to Fiscal Agent/Member Districts of SSA | 309,000 | 309,000 | 297,296 | 11,704 |
| 0099 Other Intergovernmental Charges | 232,851 | 232,851 | 221,611 | 11,240 |
| 6030 Total Expenditures | 13,521,760 | 13,515,343 | 12,511,055 | 1,004,288 |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | 529,935 | 355,633 | 1,157,548 | 801,915 |
| OTHER FINANCING SOURCES (USES): | | | | |
| 8911 Transfers Out (Use) | (420,272) | (245,970) | - | 245,970 |
| 8949 Other (Uses) | (109,663) | (109,663) | (8,899) | 100,764 |
| 7080 Total Other Financing Sources (Uses) | (529,935) | (355,633) | (8,899) | 346,734 |
| 1200 Net Change in Fund Balances | - | - | 1,148,649 | 1,148,649 |
| 0100 Fund Balance - September 1 (Beginning) | 4,735,698 | 4,735,698 | 4,735,698 | - |
| 3000 Fund Balance - August 31 (Ending) | \$ 4,735,698 | \$ 4,735,698 | \$ 5,884,347 | \$ 1,148,649 |

COMBINING STATEMENTS

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

| Data Control Codes | 211 ESEA I, A Improving Basic Program | 240 National Breakfast and Lunch Program | 242 Summer Feeding Program | |
|--------------------------------------|------------------------------------------------|---------------------------------------------------|-------------------------------------|-------------|
| ASSETS | | | | |
| 1110 | Cash and Cash Equivalents | \$ (72,571) | \$ 23,097 | \$ - |
| 1240 | Receivables from Other Governments | 88,018 | 12,483 | - |
| 1000 | Total Assets | <u>\$ 15,447</u> | <u>\$ 35,580</u> | <u>\$ -</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| 2160 | Accrued Wages Payable | \$ 14,310 | \$ - | \$ - |
| 2200 | Accrued Expenditures | 1,137 | - | - |
| 2000 | Total Liabilities | <u>15,447</u> | <u>-</u> | <u>-</u> |
| Fund Balances: | | | | |
| Restricted Fund Balance: | | | | |
| 3450 | Federal or State Funds Grant Restriction | - | 35,580 | - |
| 3490 | Other Restricted Fund Balance | - | - | - |
| Assigned Fund Balance: | | | | |
| 3590 | Other Assigned Fund Balance | - | - | - |
| 3000 | Total Fund Balances | <u>-</u> | <u>35,580</u> | <u>-</u> |
| 4000 | Total Liabilities and Fund Balances | <u>\$ 15,447</u> | <u>\$ 35,580</u> | <u>\$ -</u> |

| 244 Career and Technical - Basic Grant | 255 ESEA II,A Training and Recruiting | 270 ESEA VI, Pt B Rural & Low Income | 287 Education Jobs Fund | 288 COPS Grant | 313 SSA IDEA, Part B Formula | 314 SSA IDEA, Part B Preschool | 404 Student Success Initiative |
|-------------------------------------------------|------------------------------------------------|-----------------------------------------------|----------------------------------|----------------------|---------------------------------------|-----------------------------------------|-----------------------------------------|
| \$ (12,033) | \$ (13,281) | \$ (7,293) | \$ - | \$ (7,915) | \$ (1,106) | \$ - | \$ - |
| 12,033 | 16,663 | 7,293 | - | 7,915 | 10,992 | - | 262 |
| <u>\$ -</u> | <u>\$ 3,382</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,886</u> | <u>\$ -</u> | <u>\$ 262</u> |
| \$ - | \$ 3,107 | \$ - | \$ - | \$ - | \$ 9,089 | \$ - | \$ 241 |
| - | 275 | - | - | - | 797 | - | 21 |
| - | 3,382 | - | - | - | 9,886 | - | 262 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| <u>\$ -</u> | <u>\$ 3,382</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,886</u> | <u>\$ -</u> | <u>\$ 262</u> |

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

| Data Control Codes | 410 State Textbook Fund | 411 Technology Allotment | 429 Rural School Technology | 437 SSA Special Education | |
|--------------------------------------|------------------------------------------|--------------------------------|--------------------------------------|------------------------------------|-------------------|
| ASSETS | | | | | |
| 1110 | Cash and Cash Equivalents | \$ - | \$ (432) | \$ - | \$ 111,585 |
| 1240 | Receivables from Other Governments | - | 432 | - | - |
| 1000 | Total Assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 111,585</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| 2160 | Accrued Wages Payable | \$ - | \$ - | \$ - | \$ 6,116 |
| 2200 | Accrued Expenditures | - | - | - | 115 |
| 2000 | Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,231</u> |
| Fund Balances: | | | | | |
| Restricted Fund Balance: | | | | | |
| 3450 | Federal or State Funds Grant Restriction | - | - | - | - |
| 3490 | Other Restricted Fund Balance | - | - | - | 105,354 |
| Assigned Fund Balance: | | | | | |
| 3590 | Other Assigned Fund Balance | - | - | - | - |
| 3000 | Total Fund Balances | <u>-</u> | <u>-</u> | <u>-</u> | <u>105,354</u> |
| 4000 | Total Liabilities and Fund Balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 111,585</u> |

| 461 Campus Activity Funds | Total Nonmajor Governmental Funds |
|------------------------------------|--------------------------------------------|
| \$ 36,007 | \$ 56,058 |
| - | 156,091 |
| <u>\$ 36,007</u> | <u>\$ 212,149</u> |
| \$ - | \$ 32,863 |
| - | 2,345 |
| <u>-</u> | <u>35,208</u> |
| - | 35,580 |
| - | 105,354 |
| <u>36,007</u> | <u>36,007</u> |
| <u>36,007</u> | <u>176,941</u> |
| <u>\$ 36,007</u> | <u>\$ 212,149</u> |

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

| Data Control Codes | 211 ESEA I, A Improving Basic Program | 240 National Breakfast and Lunch Program | 242 Summer Feeding Program |
|-------------------------------------------------------------------|------------------------------------------------|---------------------------------------------------|-------------------------------------|
| REVENUES: | | | |
| 5700 Total Local and Intermediate Sources | \$ - | \$ 135,665 | \$ - |
| 5800 State Program Revenues | - | 4,141 | - |
| 5900 Federal Program Revenues | 408,304 | 527,753 | 2,364 |
| 5020 Total Revenues | <u>408,304</u> | <u>667,559</u> | <u>2,364</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| 0011 Instruction | 408,304 | - | - |
| 0021 Instructional Leadership | - | - | - |
| 0031 Guidance, Counseling and Evaluation Services | - | - | - |
| 0035 Food Services | - | 679,264 | 2,356 |
| 0036 Extracurricular Activities | - | - | - |
| 0041 General Administration | - | - | 8 |
| 0051 Facilities Maintenance and Operations | - | - | - |
| 0052 Security and Monitoring Services | - | - | - |
| 0061 Community Services | - | - | - |
| Capital Outlay: | | | |
| 0081 Facilities Acquisition and Construction | - | - | - |
| Intergovernmental: | | | |
| 0093 Payments to Fiscal Agent/Member Districts of SSA | - | - | - |
| 6030 Total Expenditures | <u>408,304</u> | <u>679,264</u> | <u>2,364</u> |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>-</u> | <u>(11,705)</u> | <u>-</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| 7949 Other Resources | - | - | - |
| 7080 Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> |
| 1200 Net Change in Fund Balance | - | (11,705) | - |
| 0100 Fund Balance - September 1 (Beginning) | <u>-</u> | <u>47,285</u> | <u>-</u> |
| 3000 Fund Balance - August 31 (Ending) | <u>\$ -</u> | <u>\$ 35,580</u> | <u>\$ -</u> |

| 244 Career and Technical - Basic Grant | 255 ESEA II,A Training and Recruiting | 270 ESEA VI, Pt B Rural & Low Income | 287 Education Jobs Fund | 288 COPS Grant | 313 SSA IDEA, Part B Formula | 314 SSA IDEA, Part B Preschool | 404 Student Success Initiative |
|-------------------------------------------------|------------------------------------------------|-----------------------------------------------|----------------------------------|----------------------|---------------------------------------|-----------------------------------------|-----------------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | - | 262 |
| 21,395 | 82,575 | 28,467 | 237,093 | 41,590 | 590,190 | 11,433 | - |
| <u>21,395</u> | <u>82,575</u> | <u>28,467</u> | <u>237,093</u> | <u>41,590</u> | <u>590,190</u> | <u>11,433</u> | <u>262</u> |
| 21,395 | 82,575 | 23,421 | 237,093 | - | 381,814 | 11,433 | 262 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | 208,376 | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | 41,590 | - | - | - |
| - | - | 5,046 | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| <u>21,395</u> | <u>82,575</u> | <u>28,467</u> | <u>237,093</u> | <u>41,590</u> | <u>590,190</u> | <u>11,433</u> | <u>262</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, 2012

| Data Control Codes | 410 State Textbook Fund | 411 Technology Allotment | 429 Rural School Technology | 437 SSA Special Education |
|----------------------------------------------------------------|----------------------------------|--------------------------------|--------------------------------------|------------------------------------|
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ - | \$ - | \$ - | \$ 621,069 |
| 5800 State Program Revenues | 102,400 | 432 | 9,622 | - |
| 5900 Federal Program Revenues | - | - | - | - |
| 5020 Total Revenues | <u>102,400</u> | <u>432</u> | <u>9,622</u> | <u>621,069</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| 0011 Instruction | 102,400 | 432 | 9,622 | 305,405 |
| 0021 Instructional Leadership | - | - | - | 166,808 |
| 0031 Guidance, Counseling and Evaluation Services | - | - | - | 58,609 |
| 0035 Food Services | - | - | - | - |
| 0036 Extracurricular Activities | - | - | - | - |
| 0041 General Administration | - | - | - | - |
| 0051 Facilities Maintenance and Operations | - | - | - | 27,048 |
| 0052 Security and Monitoring Services | - | - | - | - |
| 0061 Community Services | - | - | - | - |
| Capital Outlay: | | | | |
| 0081 Facilities Acquisition and Construction | - | - | - | 855 |
| Intergovernmental: | | | | |
| 0093 Payments to Fiscal Agent/Member Districts of SSA | - | - | - | 20,000 |
| 6030 Total Expenditures | <u>102,400</u> | <u>432</u> | <u>9,622</u> | <u>578,725</u> |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | - | - | - | 42,344 |
| OTHER FINANCING SOURCES (USES): | | | | |
| 7949 Other Resources | - | - | - | 63,010 |
| 7080 Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>63,010</u> |
| 1200 Net Change in Fund Balance | - | - | - | 105,354 |
| 0100 Fund Balance - September 1 (Beginning) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 3000 Fund Balance - August 31 (Ending) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 105,354</u> |

| 461 Campus Activity Funds | | Total Nonmajor Governmental Funds | |
|------------------------------------|----------------|--------------------------------------------|------------------|
| \$ | 109,036 | \$ | 865,770 |
| | - | | 116,857 |
| | - | | 1,951,164 |
| | <u>109,036</u> | | <u>2,933,791</u> |
| | - | | 1,584,156 |
| | - | | 166,808 |
| | - | | 266,985 |
| | - | | 681,620 |
| | 85,099 | | 85,099 |
| | - | | 8 |
| | - | | 27,048 |
| | - | | 41,590 |
| | - | | 5,046 |
| | - | | 855 |
| | - | | 20,000 |
| | <u>85,099</u> | | <u>2,879,215</u> |
| | <u>23,937</u> | | <u>54,576</u> |
| | - | | 63,010 |
| | - | | 63,010 |
| | 23,937 | | 117,586 |
| | <u>12,070</u> | | <u>59,355</u> |
| \$ | <u>36,007</u> | \$ | <u>176,941</u> |

REQUIRED TEA SCHEDULES

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

| Last 10 Years Ended August 31 | (1) | (2) | (3) |
|----------------------------------|-------------|--------------|--------------------------------------------------------|
| | Tax Rates | | Assessed/Appraised Value for School Tax Purposes |
| | Maintenance | Debt Service | |
| 2003 and prior years | Various | Various | \$ Various |
| 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 | 0.990000 | 0.160000 | 996,327,088 |
| 2011 | 0.960000 | 0.200000 | 994,407,472 |
| 2012 (School year under audit) | 0.970000 | 0.190000 | 1,009,768,728 |
| 1000 TOTALS | | | |

| (10) Beginning Balance 9/1/2011 | (20) Current Year's Total Levy | (31) Maintenance Collections | (32) Debt Service Collections | (40) Entire Year's Adjustments | (50) Ending Balance 8/31/2012 |
|------------------------------------------|-----------------------------------------|------------------------------------|-------------------------------------|-----------------------------------------|----------------------------------------|
| \$ 220,736 | \$ - | \$ 5,283 | \$ 202 | \$ (17,443) | \$ 197,808 |
| 40,020 | - | 808 | 45 | (2,045) | 37,122 |
| 49,366 | - | 1,524 | 86 | (884) | 46,872 |
| 60,968 | - | 2,176 | 240 | (2,511) | 56,041 |
| 69,806 | - | 4,728 | 535 | (3,594) | 60,949 |
| 73,769 | - | 7,552 | 953 | (3,089) | 62,175 |
| 103,898 | - | 14,169 | 2,603 | (4,373) | 82,753 |
| 191,107 | - | 28,318 | 4,577 | (16,377) | 141,835 |
| 335,458 | - | 87,319 | 18,191 | (22,905) | 207,043 |
| - | 11,713,317 | 9,505,445 | 1,861,891 | (17,879) | 328,102 |
| <u>\$ 1,145,128</u> | <u>\$ 11,713,317</u> | <u>\$ 9,657,322</u> | <u>\$ 1,889,323</u> | <u>\$ (91,100)</u> | <u>\$ 1,220,700</u> |

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2013-2014
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2012

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION, 99 - APPRAISAL DISTRICT COST

| Account Number | Account Name | 1 (702) School Board | 2 (703) Tax Collections | 3 (701) Supt's Office | 4 (750) Indirect Cost | 5 (720) Direct Cost | 6 (other) Miscellaneous | 7 Total |
|----------------|-----------------------------------------------|----------------------------|-------------------------------|-----------------------------|-----------------------------|---------------------------|-------------------------------|-------------------|
| 611X-6146 | PAYROLL COSTS | \$ - | \$ - | \$ 149,003 | \$ 162,573 | \$ 9 | \$ - | \$ 311,585 |
| 6149 | Leave for Separating Employees in Fn 41 & 53 | - | - | - | 2,150 | - | - | 2,150 |
| 6149 | Leave - Separating Employees not in 41 & 53 | - | - | - | - | - | - | - |
| 6211 | Legal Services | 12,725 | - | - | - | - | - | 12,725 |
| 6212 | Audit Services | - | - | - | 15,500 | - | - | 15,500 |
| 6213 | Tax Appraisal/Collection - Appraisal in Fn 99 | - | 235,196 | - | - | - | - | 235,196 |
| 6214 | Lobbying | - | - | - | - | - | - | - |
| 621X | Other Professional Services | 17,116 | - | - | 9,132 | - | - | 26,248 |
| 6220 | Tuition and Transfer Payments | - | - | - | - | - | - | - |
| 6230 | Education Service Centers | - | - | 800 | 10,607 | - | - | 11,407 |
| 6240 | Contr. Maint. and Repair | - | - | - | - | - | - | - |
| 6250 | Utilities | - | - | - | - | - | - | - |
| 6260 | Rentals | - | - | - | - | 8,822 | - | 8,822 |
| 6290 | Miscellaneous Contr. | - | - | - | - | - | - | - |
| 6320 | Textbooks and Reading | - | - | - | - | - | - | - |
| 6330 | Testing Materials | - | - | - | - | - | - | - |
| 63XX | Other Supplies Materials | 1,250 | - | 3,218 | 1,872 | - | - | 6,340 |
| 6410 | Travel, Subsistence, Stipends | 2,760 | - | 4,855 | 388 | - | - | 8,003 |
| 6420 | Ins. and Bonding Costs | 3,995 | - | - | - | - | - | 3,995 |
| 6430 | Election Costs | - | - | - | - | - | - | - |
| 6490 | Miscellaneous Operating | 3,325 | - | 5,860 | 417 | 4,522 | - | 14,124 |
| 6500 | Debt Service | - | - | - | - | - | - | - |
| 6600 | Capital Outlay | - | - | - | - | - | - | - |
| 6000 | TOTAL | \$ 41,171 | \$ 235,196 | \$ 163,736 | \$ 202,639 | \$ 13,353 | \$ - | \$ 656,095 |

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 15,390,271

LESS: Deductions of Unallowable Costs

FISCAL YEAR

| | | |
|--------------------------------------------|------|-----------|
| Total Capital Outlay (6600) | (10) | \$ 15,255 |
| Total Debt & Lease(6500) | (11) | - |
| Plant Maintenance (Function 51, 6100-6400) | (12) | 1,204,779 |
| Food (Function 35, 6341 and 6499) | (13) | 294,723 |
| Stipends (6413) | (14) | - |
| Column 4 (above) - Total Indirect Cost | | 202,639 |

SubTotal:

1,717,396

Net Allowed Direct Cost

\$ 13,672,875

CUMULATIVE

| | | |
|-----------------------------------------------------------------------|------|---------------|
| Total Cost of Buildings before Depreciation (1520) | (15) | \$ 37,381,519 |
| 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) | \$ 2,062,468 |
| Historical Cost of Furniture & Equipment over 16 years old | (19) | \$ 121,019 |
| Amount of Federal Money in Furniture & Equipment (Net of #19) | (20) | \$ - |

(8) NOTE A: \$103,056 in Function 53 expenditures are included in this report on administrative costs.

\$221,611 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, 2012

EXHIBIT J-3

UNAUDITED

| | | | |
|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|--------------------|
| 1 | Total General Fund Balance as of 8/31/12 (Exhibit C-1 object 3000 for the General Fund Only) | | \$ 5,884,347 |
| 2 | Total Non-Spendable Fund Balance (from Exhibit C-1 - for the General Fund Only) | \$ - | |
| 3 | Total Restricted Fund Balance (from Exhibit C-1 - for the General Fund Only) | - | |
| 4 | Total Committed Fund Balance (from Exhibit C-1 - for the General Fund Only) | 2,000,000 | |
| 5 | Total Assigned Fund Balance (from Exhibit C-1 - for the General Fund Only) | - | |
| 6 | Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.) | 1,287,567 | |
| 7 | Estimate of two month's average cash disbursements during the fiscal year. | 2,449,270 | |
| 8 | Estimate of delayed payments from state sources (58xx). | - | |
| 9 | 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. | 7,802 | |
| 10 | Estimate of delayed payments from federal sources (59xx) | 155,397 | |
| 11 | 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) | - | |
| 12 | Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10+11) | | <u>5,900,036</u> |
| 13 | Excess (Deficit) Unassigned Fund Balance (Line 1 minus Line 12) | | <u>\$ (15,689)</u> |

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2012

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) | |
|----------------------------------------|-----------------------------------------------------------|------------|--------------------------------|------------------------------------------------------------|-------------|
| | Original | Final | | | |
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ 107,000 | \$ 107,000 | \$ 135,665 | \$ 28,665 |
| 5800 | State Program Revenues | 4,000 | 4,000 | 4,141 | 141 |
| 5900 | Federal Program Revenues | 506,000 | 506,000 | 527,753 | 21,753 |
| 5020 | Total Revenues | 617,000 | 617,000 | 667,559 | 50,559 |
| EXPENDITURES: | | | | | |
| 0035 | Food Services | 672,491 | 672,491 | 679,264 | (6,773) |
| 6030 | Total Expenditures | 672,491 | 672,491 | 679,264 | (6,773) |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | (55,491) | (55,491) | (11,705) | 43,786 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 7915 | Transfers In | 55,491 | 55,491 | - | (55,491) |
| 7080 | Total Other Financing Sources (Uses) | 55,491 | 55,491 | - | (55,491) |
| 1200 | Net Change in Fund Balances | - | - | (11,705) | (11,705) |
| 0100 | Fund Balance - September 1 (Beginning) | 47,285 | 47,285 | 47,285 | - |
| 3000 | Fund Balance - August 31 (Ending) | \$ 47,285 | \$ 47,285 | \$ 35,580 | \$ (11,705) |

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, 2012

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) | |
|--------------------------|----------------------------------------|--------------|--------------------------------|------------------------------------------------------------|------------|
| | Original | Final | | | |
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ 1,820,251 | \$ 1,820,251 | \$ 1,927,165 | \$ 106,914 |
| 5020 | Total Revenues | 1,820,251 | 1,820,251 | 1,927,165 | 106,914 |
| EXPENDITURES: | | | | | |
| Debt Service: | | | | | |
| 0071 | Principal on Long Term Debt | 1,075,000 | 1,075,000 | 1,015,000 | 60,000 |
| 0072 | Interest on Long Term Debt | 914,018 | 914,018 | 982,161 | (68,143) |
| 0073 | Bond Issuance Cost and Fees | 1,800 | 1,800 | 2,023 | (223) |
| 6030 | Total Expenditures | 1,990,818 | 1,990,818 | 1,999,184 | (8,366) |
| 1200 | Net Change in Fund Balances | (170,567) | (170,567) | (72,019) | 98,548 |
| 0100 | Fund Balance - September 1 (Beginning) | 692,548 | 692,548 | 692,548 | - |
| 3000 | Fund Balance - August 31 (Ending) | \$ 521,981 | \$ 521,981 | \$ 620,529 | \$ 98,548 |

COMPLIANCE, INTERNAL CONTROL AND FEDERAL AWARDS

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

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J. W. Lambright, CPA

Cheri E. Kirkland, CPA

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Athens, Texas 75751
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

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

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the District as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the District is responsible for establishing and maintaining effective 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.


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*.

We noted certain matters that we reported to the Board of Trustees and management of the District in a separate letter dated December 13, 2012.

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,

A handwritten signature in cursive script that reads "Smith, Lambright & Associates, P.C.".

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

December 13, 2012

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

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

Cheri E. Kirkland, CPA

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REPORT ON COMPLIANCE WITH REQUIREMENTS 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, 2012. 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, Audit of Stats, Local Government, and Non-Profit Organizations*. Those standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

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

Internal Control Over Compliance

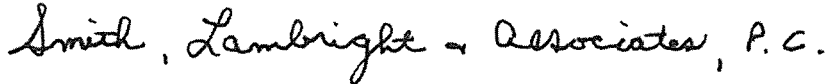
The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the 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

December 13, 2012

MALAKOFF INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2012

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 |
|-------------|------------------------------------|
| 84.027 | Special Education Cluster: |
| 84.123 | IDEA Part B Formula |
| | IDEA Part B Preschool |
| 84.410 | Education Jobs Fund |

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: Randy Perry
Superintendent

MALAKOFF INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED AUGUST 31, 2012

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, 2012

N/A

MALAKOFF INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2012

N/A

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

| (1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE | (2) Federal CFDA Number | (3) Pass-Through Entity Identifying Number | (4) Federal Expenditures |
|------------------------------------------------------------------------------|----------------------------------|-----------------------------------------------------|--------------------------------|
| U.S. DEPARTMENT OF EDUCATION | | | |
| <u>Passed Through State Department of Education</u> | | | |
| *ESEA, Title I, Part A - Improving Basic Programs | 84.010A | 12-610101107906 | \$ 392,857 |
| *ESEA, Title I, Part A - Improving Basic Programs | 84.010A | 13-610101107906 | 15,447 |
| Total CFDA Number 84.010A | | | 408,304 |
| Total Title I, Part A Cluster | | | 408,304 |
| **SSA - IDEA - Part B, Formula | 84.027 | 12-660001107906 | 580,304 |
| **SSA - IDEA - Part B, Formula | 84.027 | 13-660001107906 | 9,886 |
| Total CFDA Number 84.027 | | | 590,190 |
| **SSA - IDEA - Part B, Preschool | 84.173 | 12-661001107906 | 11,433 |
| Total Special Education Cluster (IDEA) | | | 601,623 |
| Career and Technical - Basic Grant | 84.048 | 12-420006107906 | 21,395 |
| ESEA, Title VI, Part B - Rural & Low Income Prog. | 84.358B | 12-696001107906 | 28,467 |
| ESEA, Title II, Part A, Teacher/Principal Training | 84.367A | 12-694501107906 | 79,193 |
| ESEA, Title II, Part A, Teacher/Principal Training | 84.367A | 13-694501107906 | 3,382 |
| Total CFDA Number 84.367A | | | 82,575 |
| Education Jobs Fund- ARRA | 84.410 | 11-550101107906 | 237,093 |
| Total Passed Through State Department of Education | | | \$ 1,379,457 |
| TOTAL DEPARTMENT OF EDUCATION | | | \$ 1,379,457 |
| U.S. DEPARTMENT OF JUSTICE | | | |
| <u>Direct Programs</u> | | | |
| COPS Grant | 16.540 | JA 2449101 | \$ 41,590 |
| Total Direct Programs | | | \$ 41,590 |
| TOTAL U.S. DEPARTMENT OF JUSTICE | | | \$ 41,590 |
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| <u>Passed Through the State Department of Agriculture</u> | | | |
| ***School Breakfast Program | 10.553 | | \$ 135,742 |
| ***National School Lunch Program-Cash Assistance | 10.555 | | 356,400 |
| ***National School Lunch Prog.-Non-Cash Assistance | 10.555 | | 35,611 |
| Total CFDA Number 10.555 | | | 392,011 |
| ***Summer Feeding Program-Cash Assistance | 10.559 | SFSP 00555 | 2,364 |
| Total Child Nutrition Cluster | | | 530,117 |
| Total Passed Through the State Department of Agriculture | | | \$ 530,117 |
| TOTAL DEPARTMENT OF AGRICULTURE | | | \$ 530,117 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 1,951,164 |

*Clustered Programs

**Clustered Programs

***Clustered Programs

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

| (1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE | (2) Federal CFDA Number | (3) Pass-Through Entity Identifying Number | (4) Federal Expenditures |
|------------------------------------------------------------------------------|----------------------------------|-----------------------------------------------------|--------------------------------|
|------------------------------------------------------------------------------|----------------------------------|-----------------------------------------------------|--------------------------------|

Note A - Funds received from ESC Region 7 for Head Start reimbursements of \$33,137 reported in the General Fund are not considered as federal financial assistance for purposes of this schedule. The program is reported as a federal program of ESC Region 7.

Note B - The District received a direct federal subsidy of \$249,480 for the federal interest rebate related to the Qualified School Construction Bonds. The subsidy is reported in the General Fund and is not considered as federal financial assistance for purposes of this schedule.

Note C - Funds received from the SHARS program of \$50,247 are included in the General Fund and are not considered as federal financial assistance for purposes of this schedule.

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

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.