

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

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FOR THE YEAR ENDED AUGUST 31, 2012

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CERTIFICATE OF BOARD

Fannindel Independent School District
Name of School District

Delta
County

060-914
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) X approved _____ disapproved for the year ended August 31, 2012 at a meeting of the Board of Trustees of such school district on the 14th day of January , 2013.

/s/ Charlene Crosby

/s/ Gwen Beeler

Signature of Board **Secretary**

Signature of Board **President**

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

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

UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION
AND OTHER SUPPLEMENTARY INFORMATION

Independent Auditor's Report

Board of Trustees
Fannindel Independent School District
601 West Main
Ladonia, Texas 75449

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fannindel Independent School District (the District) as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fannindel Independent School District as of August 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 11, and the budget comparison schedule for the General Fund on page 40 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fannindel Independent School District's financial statements as a whole. The combining statements, identified in the Table of Contents as Exhibits H-1 through H-2, are presented for purposes of additional analysis and are not a required part of the financial statements. The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information, identified in the Table of Contents as Exhibits J-1 through J-3, is also presented for purposes of additional analysis and is not a required part of the financial statements. The combining statements, and the TEA required schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, the schedule of expenditures of federal awards, and the TEA required schedules are fairly stated in all material respects in relation to the financial statements as a whole.

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

Morgan, Davis, & Company, P.C.

October 5, 2012

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

In this section of the Annual Financial and Compliance Report, we, the administrators of Fannindel Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2012. Please read it in conjunction with the independent auditors' report on page 4, and the District's Basic Financial Statements which begin on page 12.

FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$35,747 as a result of this year's operations. Net assets as of August 31, 2012 were \$1,928,879, of which \$895,319 were unrestricted net assets.
- During the year, the District had net expenses (after charges for services & operating grants) of \$1,951,841 that were \$35,747 less than the \$1,987,588 generated in tax, state foundation, investment, and other revenues for governmental programs.
- As of August 31, 2012, the District's combined governmental funds reported a fund balance of \$751,053 compared to \$769,153 for the last fiscal year. The General Fund reported a fund balance of \$742,582 this fiscal year compared to \$751,483 the last fiscal year.
- The District's total tax rate for the 2011-2012 school year was \$ 1.22 with \$ 1.17 for maintenance & operation and \$ 0.05 for debt service.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 12 and 13). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

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

The notes to the financial statements (starting on page 22) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 21. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net assets of the District's governmental activities increased from \$1,893,132 last year to \$1,928,879 at August 31, 2012. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased from \$886,500 last year to \$895,319 at August 31, 2012. Changes in net assets of the District's governmental activities was a \$38,714 increase last year compared to a \$35,747 increase at August 31, 2012.

Table I
Fannindel Independent School District
NET ASSETS

	Governmental Activities 8/31/2012	Governmental Activities 8/31/2011	Net Change
Current and other assets	\$1,018,155	\$1,197,670	(\$179,515)
Capital assets	2,394,463	2,412,522	(18,059)
Total assets	<u>\$3,412,618</u>	<u>\$3,610,192</u>	<u>(\$197,574)</u>
Current and other liabilities	\$114,365	\$293,500	(\$179,135)
Long-term liabilities	1,369,374	1,423,560	(54,186)
Total liabilities	<u>\$1,483,739</u>	<u>\$1,717,060</u>	<u>(\$233,321)</u>
Net Assets:			
Invested in capital assets net of related debt	\$1,025,089	\$988,962	\$36,127
Restricted	8,471	17,670	(9,199)
Unrestricted	895,319	886,500	8,819
Total net assets	<u>\$1,928,879</u>	<u>\$1,893,132</u>	<u>\$35,747</u>

Table II
Fannindel Independent School District
CHANGES IN NET ASSETS

	Governmental Activities Yr Ended 8/31/2012	Governmental Activities Yr Ended 8/31/2011	Net Change
Revenues:			
Program Revenues:			
Charges for Services	\$86,026	\$76,776	\$9,250
Operating grants and contributions	324,931	418,486	(93,555)
General Revenues:			
Maintenance and operations taxes	645,330	637,756	7,574
Debt service taxes	27,590	43,607	(16,017)
State aid - formula grants	1,276,922	1,274,414	2,508
Grants & Contributions not restricted to specific functions	9,930	6,068	3,862
Investment Earnings	7,892	16,339	(8,447)
Miscellaneous	18,266	70,476	(52,210)
Total Revenue	\$2,396,887	\$2,543,922	(\$147,035)
Expenses:			
Instruction, curriculum and media services	\$1,201,900	\$1,241,475	(\$39,575)
Instructional and school leadership	195,252	200,119	(4,867)
Student support services	161,621	149,928	11,693
Child nutrition	146,123	135,350	10,773
Co curricular activities	120,506	106,392	14,114
General administration	201,070	198,653	2,417
Plant maintenance, security & data processing	200,370	226,520	(26,150)
Community services	0	0	0
Debt services	47,664	166,283	(118,619)
Payments to fiscal agents	66,631	60,162	6,469
Other intergovernmental charges	21,661	20,326	1,335
Total Expenses	\$2,362,798	\$2,505,208	(\$142,410)
Increase in net assets before transfers and special items	\$34,089	\$38,714	(\$4,625)
Transfers	0	0	0
Special Items - Gain on Asset Sale	1,658	0	1,658
Net assets at Beginning of Fiscal Year	1,893,132	1,854,418	38,714
Net assets at End of Fiscal Year	\$1,928,879	\$1,893,132	\$35,747

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$751,053 compared to \$769,153 for the last fiscal year. The District's General Fund reported a fund balance decrease of \$8,901, ending the year with \$742,483. The District's Special Revenue Funds reported a fund balance increase of \$0, ending the year with \$0. The District's Debt Service Fund reported a fund balance decrease of \$9,199, ending the year with \$8,471.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments included amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2011) and amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

During the year ended August 31, 2012, the District invested \$115,685 in capital assets, consisting of the purchase of a scag rider, a suburban, and a school bus.

Capital asset additions were as follows:

	Yr Ended 8/31/12	Yr Ended 8/31/11	Net Change
Land	\$0	\$0	\$0
Buildings & Improvements	0	0	0
Equipment & Vehicles	115,685	32,134	83,551
Total	<u>\$115,685</u>	<u>\$32,134</u>	<u>\$83,551</u>

Debt:

At year-end August 31, 2012, the District had \$1,369,374 in bonds compared to \$1,423,560 last year. The District had no new borrowings during the current fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2013 budget, and tax rates. Several of those factors were the economy, the District's population growth, and unemployment. These factors were taken into account when adopting the General Fund budget for 2013. Amounts available for appropriation in the General Fund budget are \$317,582. The District has added no major new programs or initiatives to the 2013 budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Fannindel Independent School District, 601 West Main, Ladonia, Texas.

BASIC FINANCIAL STATEMENTS

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

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 747,910
1220 Property Taxes Receivable (Delinquent)	124,496
1230 Allowance for Uncollectible Taxes	(8,425)
1240 Due from Other Governments	154,174
Capital Assets:	
1510 Land	36,406
1520 Buildings, Net	2,197,235
1530 Furniture and Equipment, Net	160,822
1000 Total Assets	3,412,618
LIABILITIES	
2110 Accounts Payable	20,654
2160 Accrued Wages Payable	43,934
2180 Due to Other Governments	49,009
2200 Accrued Expenses	768
Noncurrent Liabilities	
2501 Due Within One Year	54,375
2502 Due in More Than One Year	1,314,999
2000 Total Liabilities	1,483,739
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	1,025,089
3850 Restricted for Debt Service	8,471
3900 Unrestricted Net Assets	895,319
3000 Total Net Assets	\$ 1,928,879

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

FANNINDEL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT B-1

Data	Program Revenues			Net (Expense)
Control	1	3	4	Revenue and
Codes	Expenses	Charges for	Operating	Changes in Net
		Services	Grants and	Assets
			Contributions	6
				Primary Gov.
				Governmental
				Activities

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 1,131,932	\$ 56,380	\$ 176,233	\$ (899,319)
12 Instructional Resources and Media Services	66,957	-	12,920	(54,037)
13 Curriculum and Staff Development	3,011	-	-	(3,011)
23 School Leadership	195,252	-	21,816	(173,436)
31 Guidance, Counseling and Evaluation Services	33,414	-	-	(33,414)
33 Health Services	20,365	-	1,051	(19,314)
34 Student (Pupil) Transportation	107,842	-	1,861	(105,981)
35 Food Services	146,123	10,313	105,347	(30,463)
36 Extracurricular Activities	120,506	5,749	1,538	(113,219)
41 General Administration	201,070	12,784	2,758	(185,528)
51 Facilities Maintenance and Operations	199,590	800	1,407	(197,383)
52 Security and Monitoring Services	780	-	-	(780)
72 Debt Service - Interest on Long Term Debt	47,364	-	-	(47,364)
73 Debt Service - Bond Issuance Cost and Fees	300	-	-	(300)
93 Payments related to Shared Services Arrangements	66,631	-	-	(66,631)
99 Other Intergovernmental Charges	21,661	-	-	(21,661)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 2,362,798	\$ 86,026	\$ 324,931	(1,951,841)

Data	General Revenues:		
Control	Taxes:		
Codes			
MT	Property Taxes, Levied for General Purposes		645,330
DT	Property Taxes, Levied for Debt Service		27,590
SF	State Aid - Formula Grants		1,276,922
GC	Grants and Contributions not Restricted		9,930
IE	Investment Earnings		7,892
MI	Miscellaneous Local and Intermediate Revenue		18,266
SI	Special Item - Gain on Asset Sale		1,658
TR	Total General Revenues and Special Items		1,987,588
CN	Change in Net Assets		35,747
NB	Net Assets--Beginning		1,893,132
NE	Net Assets--Ending		\$ 1,928,879

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

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

Data Control Codes	10 General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 774,934	\$ (72,466)	\$ 702,468
1220 Property Taxes - Delinquent	114,528	9,968	124,496
1230 Allowance for Uncollectible Taxes (Credit)	(7,750)	(675)	(8,425)
1240 Receivables from Other Governments	68,804	85,370	154,174
1000 Total Assets	<u>\$ 950,516</u>	<u>\$ 22,197</u>	<u>\$ 972,713</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2110 Accounts Payable	\$ 7,445	\$ 4,433	\$ 11,878
2160 Accrued Wages Payable	43,934	-	43,934
2180 Due to Other Governments	49,009	-	49,009
2200 Accrued Expenditures	768	-	768
2300 Deferred Revenues	106,778	9,293	116,071
2000 Total Liabilities	<u>207,934</u>	<u>13,726</u>	<u>221,660</u>
Fund Balances:			
Restricted Fund Balance:			
3480 Retirement of Long-Term Debt	-	8,471	8,471
Committed Fund Balance:			
3510 Construction	425,000	-	425,000
3600 Unassigned Fund Balance	317,582	-	317,582
3000 Total Fund Balances	<u>742,582</u>	<u>8,471</u>	<u>751,053</u>
4000 Total Liabilities and Fund Balances	<u>\$ 950,516</u>	<u>\$ 22,197</u>	<u>\$ 972,713</u>

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

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

Total Fund Balances - Governmental Funds	\$	751,053
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase(decrease) net assets.		36,666
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$4,332,416 and the accumulated depreciation was \$1,919,894. In addition, long-term liabilities, including bonds payable of \$1,423,560, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		988,962
3 Current year capital outlays of \$115,685 and long-term debt principal payments of \$22,863 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Accretion on capital appreciation bonds of \$31,323 is posted 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.		169,871
4 The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(133,744)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue of \$116,071 as revenue, eliminating interfund transactions, 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.		116,071
19 Net Assets of Governmental Activities	\$	1,928,879

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

FANNINDEL 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	Other Governmental Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 739,390	\$ 41,558	\$ 780,948
5800 State Program Revenues	1,276,377	90,099	1,366,476
5900 Federal Program Revenues	9,930	235,377	245,307
5020 Total Revenues	<u>2,025,697</u>	<u>367,034</u>	<u>2,392,731</u>
EXPENDITURES:			
Current:			
0011 Instruction	954,580	129,058	1,083,638
0012 Instructional Resources and Media Services	51,970	11,931	63,901
0013 Curriculum and Instructional Staff Development	3,011	-	3,011
0023 School Leadership	168,954	17,672	186,626
0031 Guidance, Counseling and Evaluation Services	31,422	-	31,422
0033 Health Services	19,437	-	19,437
0034 Student (Pupil) Transportation	152,581	-	152,581
0035 Food Services	-	141,118	141,118
0036 Extracurricular Activities	115,322	-	115,322
0041 General Administration	224,597	-	224,597
0051 Facilities Maintenance and Operations	199,914	-	199,914
0052 Security and Monitoring Services	780	-	780
Debt Service:			
0071 Principal on Long Term Debt	-	22,863	22,863
0072 Interest on Long Term Debt	-	78,687	78,687
0073 Bond Issuance Cost and Fees	-	300	300
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	66,631	-	66,631
0099 Other Intergovernmental Charges	21,661	-	21,661
6030 Total Expenditures	<u>2,010,860</u>	<u>401,629</u>	<u>2,412,489</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>14,837</u>	<u>(34,595)</u>	<u>(19,758)</u>
OTHER FINANCING SOURCES (USES):			
7912 Sale of Real and Personal Property	1,658	-	1,658
7915 Transfers In	-	25,396	25,396
8911 Transfers Out (Use)	(25,396)	-	(25,396)
7080 Total Other Financing Sources (Uses)	<u>(23,738)</u>	<u>25,396</u>	<u>1,658</u>
1200 Net Change in Fund Balances	(8,901)	(9,199)	(18,100)
0100 Fund Balance - September 1 (Beginning)	<u>751,483</u>	<u>17,670</u>	<u>769,153</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 742,582</u>	<u>\$ 8,471</u>	<u>\$ 751,053</u>

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

FANNIN DEL 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	\$	(18,100)
The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets.		13,564
Current year capital outlays of \$115,685 and long-term debt principal payments of \$22,863 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Accretion on capital appreciation bonds of \$31,323 is posted 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.		169,871
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.		(133,744)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue by \$4,156 to show the revenue earned from the current year's tax levy, eliminating interfund transactions, 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.		4,156
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>35,747</u>

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

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

	Governmental Activities -
	Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 45,442
Total Assets	<u>45,442</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	<u>8,776</u>
Total Liabilities	<u>8,776</u>
NET ASSETS	
Unrestricted Net Assets	<u>36,666</u>
Total Net Assets	<u><u>\$ 36,666</u></u>

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

FANNIN DEL INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2012

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 17,472
Total Operating Revenues	17,472
OPERATING EXPENSES:	
Other Operating Costs	3,908
Total Operating Expenses	3,908
Operating Income	13,564
Total Net Assets - September 1 (Beginning)	23,102
Total Net Assets - August 31 (Ending)	\$ 36,666

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

FANNINDEL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 17,472
Cash Payments for Insurance Claims	(9,230)
Net Cash Provided by Operating Activities	8,242
Net Increase in Cash and Cash Equivalents	8,242
Cash and Cash Equivalents at Beginning of Year	37,200
Cash and Cash Equivalents at End of Year	\$ 45,442
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income:	\$ 13,564
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	(5,322)
Net Cash Provided by Operating Activities	\$ 8,242

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

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

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 13,398
Total Assets	<u>\$ 13,398</u>
 LIABILITIES	
Due to Student Groups	\$ 13,398
Total Liabilities	<u>\$ 13,398</u>

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

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

Note A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

2. Government-Wide and Fund Financial Statements

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

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

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

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for

District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

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

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

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

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

4. Fund Accounting

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

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

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

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

Additionally, the District reports the following **nonmajor** fund types:

Governmental Fund Types:

Special Revenue Funds – These governmental funds are established to account for resources restricted to, or designated for, specific purposes by the District or a grantor in a Special Revenue Fund. Most federal and some state financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods. Project accounting is employed to maintain integrity of the various sources of funds.

The District's Food Service Fund is considered a special revenue fund since it meets the following criteria: (1) User fees are charged to supplement the National School Lunch Program, (2) The General Fund subsidizes the Food Service Program for all expenditures in excess of the National School Lunch Program, and (3) The District does not consider the Food Service Program completely self-supporting. Food Service fund balances are used exclusively for child nutrition program purposes.

Debt Service Fund – This governmental fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.

Proprietary Funds:

Internal Service Fund – This fund is established to account for revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis. The District's Internal Service Fund is for Workers Compensation Self-Insurance.

Fiduciary Funds:

Agency Funds – These funds are established to account for resources held for others in a custodial capacity. Financial resources for the Agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. If student groups declare any unused resources surplus, they are transferred to the General Fund with a recommendation to the Board for an appropriate utilization through a budgeted program. The District's Agency Funds are for Student Activity Funds.

5. Cash and Cash Equivalents

For purposes of the statement of cash flows for proprietary funds, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased. Cash and cash equivalents in the Internal Service fund was \$45,442 as of August 31, 2012.

6. Investments

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

7. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. The District purchases of supplies as expenditures. If any supplies are on hand at the end of the year, their cost is recorded as inventory and fund balance is reserved for the same amount.

8. Asset Capitalization and Useful Lives

Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual unit cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	39-50
Building Improvements	15-40
Vehicles	5
Buses	10
Equipment	7

9. Compensated Absences

It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

10. Long-Term Debt

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

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of bonded debt issued plus the premiums/discounts received on the issuance of bonds are reported as other financing sources. The amount of issuance costs are reported as expenditures.

11. Fund Balance

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

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

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

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

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

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

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

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Restricted for:			
Debt Service		\$8,471	\$8,471
Committed for:			
Construction	425,000		425,000
Unassigned	317,582		317,582
Total Fund Balances	<u>742,582</u>	<u>8,471</u>	<u>751,053</u>

12. Functions

School Districts are required to report all expenses by function, except certain indirect expenses. General administration, and other intergovernmental charges functions (data control codes 41, 53, and 99 respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.

13. Restricted Assets

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

14. Data Control Codes

The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide data base for policy development and funding plans.

15. Risk Management – Claims and Judgments

In the normal course of operations, the District is exposed to risks of loss from a number of sources including fire and casualty losses, errors or omissions by board members and employees, and injuries to employees during the course of performing their duties. The District attempts to cover these losses by the purchase of insurance. Significant losses are covered by commercial insurance for property and liability programs. For insured programs, there have been no significant reductions in coverage. Settlement amounts have not exceeded insurance coverage for the current year or the past three years.

Health Care Coverage

During the year ended August 31, 2012, employees of the District were covered by a health insurance plan (the Plan). The District contributed \$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 a licensed insurer. The contract between the District and the licensed insurer is renewable September 1, 2012, and the terms of coverage and premiums are included in the contractual agreement.

Workers Compensation Coverage

The District sponsors a modified self-insurance plan (through Claims Administrative Services, Inc.) to provide workers compensation coverage to staff members. Transactions related to the plan are accounted for in the Workers Compensation Insurance Fund (the "Fund"), an internal service fund of the District. The District makes all contributions to the fund. Claims Administrative Services, Inc. obtained excess loss insurance, which limited annual claims paid from the entire fund for the year ended August 31, 2012, to \$ 225,000 for any individual participant and an aggregate limit equal to \$ 5,000,000.

Estimates of claims payable and of claims incurred, but not reported at August 31, 2012, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due.

Changes in the balances of claims liabilities during the past two years are as follows:

	<u>Year Ended August 31, 2012</u>	<u>Year Ended August 31, 2011</u>
Unpaid claims, beginning of fiscal year	\$14,098	\$10,446
Incurred claims (including IBNR's)	3,908	16,192
Claim payments	(9,230)	(12,540)
Unpaid claims, end of fiscal year	<u>\$8,776</u>	<u>\$14,098</u>

16. Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note B. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

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

<u>Capital Assets at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Assets</u>
Land	\$36,406		\$36,406	
Buildings	3,765,049	(1,465,382)	2,299,667	
Equipment & Vehicles	530,961	(454,512)	76,449	
Change in Net Assets				\$2,412,522
<u>Long-term Liabilities at the Beginning of the year</u>			<u>Payable at the Beginning of the year</u>	
Bonds Payable			\$1,423,560	
Loans Payable			0	
Capital Leases Payable			0	
Change in Net Assets				(\$1,423,560)
Net Adjustment to Net Assets				<u>\$988,962</u>

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

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

<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current Year Capital Outlay</u>		
Land	\$0	
Buildings & Improvements	0	
Equipment & Vehicles	115,685	
Total Capital Outlay	<u>\$115,685</u>	\$115,685
<u>Debt Service Payments</u>		
Bond Principal	\$22,863	
Accretion on Capital Appreciation Bonds	\$31,323	
Loan Principal	0	
Capital Lease Principal	0	
Total Principal Payments	<u>\$54,186</u>	54,186
Total Adjustment to Net Assets		<u>\$169,871</u>

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

<u>Adjustments to Revenue and Deferred Revenue</u>	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
Net Property Tax Revenue Adjustment	\$4,156	\$4,156	\$116,071
Totals		<u>\$4,156</u>	<u>\$116,071</u>

Note C. Stewardship, Compliance, and Accountability

Budgetary Data

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

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

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

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

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

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

<u>August 31, 2012 Fund Balance</u>	
Appropriated Budget Funds - Food Service	\$0
Nonappropriated Budget Funds	<u>0</u>
All Special Revenue Funds	<u><u>\$0</u></u>

Note D. Deposits and Investments

At August 31, 2012, the carrying amount of the District's deposits (cash, certificates of deposit, and interest bearing savings accounts) was \$747,910. The District's cash deposits at August 31, 2012 and during the year ended August 31, 2012 were entirely covered by FDIC insurance or by pledged deposit collateral held by the District's agent bank in the District's name, or by letters of credit.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Patriot Bank, Honey Grove, Texas
- b. The highest combined balance of cash, savings, and time deposits accounts amounted to \$1,278,097 and occurred during the month of February 2012.
- c. The market value of securities pledged as of the date of the highest combined balance on deposit was \$1,750,000.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$354,991.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Tex Pool Investment Accounts	\$0	0.12
Total Fair Value	<u>\$0</u>	
Portfolio Weighted Average Maturity		0.12

District Policies and Legal and Contractual Provisions Governing Deposits and Investments:

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

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

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

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

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

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

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

Defaults and Recovery of Prior Period Losses:

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

Note E. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The assessed value of the tax roll on January 1, 2011, upon which the tax levy for the 2012 fiscal year was based, was \$55,157,407. The tax rates assessed for the year ended August 31, 2012 to finance general fund operations and the payment of principal & interest on general obligation bonds were \$ 1.17 and \$ 0.05 per \$ 100 valuation, respectively, for a total of \$ 1.22 per \$ 100 valuation. Current year (including prior year delinquent) tax collections for the year ended August 31, 2012 were 98.99% of the tax levy.

Note F. Delinquent Taxes Receivable

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Note E. Disaggregation of Receivables and Payables

Receivables at August 31, 2012, were as follows:

	<u>Property</u> <u>Taxes</u>	<u>Due from Other</u> <u>Governments</u>	<u>Due from</u> <u>Other Funds</u>	<u>Other</u>	<u>Total</u> <u>Receivables</u>
Governmental Activities:					
General Fund	\$114,528	\$68,804	\$0	\$0	\$183,332
Nonmajor Governmental Funds	9,968	85,370	0	0	95,338
Total Governmental Activities	<u>\$124,496</u>	<u>\$154,174</u>	<u>\$0</u>	<u>\$0</u>	<u>\$278,670</u>
Amounts not scheduled for collection during the subsequent year	\$8,425	\$0	\$0	\$0	\$8,425

Payables at August 31, 2012, were as follows:

	<u>Accounts</u>	<u>Salaries &</u> <u>Benefits</u>	<u>Due to</u> <u>Other</u> <u>Funds</u>	<u>Due to Other</u> <u>Governments</u>	<u>Other</u>	<u>Total</u> <u>Payables</u>
Governmental Activities:						
General Fund	\$7,445	\$43,934	\$0	\$49,009	\$768	\$101,156
Nonmajor Governmental Funds	4,433	0	0	0	0	4,433
Total Governmental Activities	<u>\$11,878</u>	<u>\$43,934</u>	<u>\$0</u>	<u>\$49,009</u>	<u>\$768</u>	<u>\$105,589</u>
Amounts not scheduled for collection during the subsequent year	\$0	\$0	\$0	\$0	\$0	\$0

Note H. Capital Asset Activity

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>
Governmental Activities:				
Land	\$36,406	\$0	\$0	\$36,406
Buildings & Improvements	3,765,049	0	0	3,765,049
Equipment & Vehicles	530,961	115,685	(13,800)	632,846
Totals at Historical Cost	<u>4,332,416</u>	<u>115,685</u>	<u>(13,800)</u>	<u>4,434,301</u>
Less accumulated depreciation for:				
Buildings & Improvements	(1,465,382)	(102,432)	0	(1,567,814)
Furniture & Equipment	(454,512)	(31,312)	13,800	(472,024)
Total accumulated depreciation	<u>(1,919,894)</u>	<u>(133,744)</u>	<u>13,800</u>	<u>(2,039,838)</u>
Governmental Activities Capital Assets, Net	<u>\$2,412,522</u>	<u>(\$18,059)</u>	<u>\$0</u>	<u>\$2,394,463</u>

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

11 Instruction	\$54,260
12 Instructional Resources & Media Services	3,192
23 School Leadership	9,575
31 Guidance, Counseling, & Evaluation Services	2,128
33 Health Services	1,064
34 Student (Pupil) Transportation	31,608
35 Food Services	7,447
36 Cocurricular/Extracurricular Activities	5,320
41 General Administration	9,575
51 Plant Maintenance & Operations	9,575
	<hr/>
Total Depreciation Expense	<u>\$133,744</u>

Note I. Changes in Long-Term Liabilities

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

	<u>Beginning</u>			<u>Ending</u>	<u>Amounts Due</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>within One</u>
					<u>Year</u>
Governmental Activities:					
General Obligation Bonds	\$1,423,560		\$0 (\$54,186)	\$1,369,374	\$54,374
Loans	0	0	0	0	0
Capital Leases	0	0	0	0	0
	<hr/>			<hr/>	
Total Governmental Activities	<u>\$1,423,560</u>	<u>\$0</u>	<u>(\$54,186)</u>	<u>\$1,369,374</u>	<u>\$54,374</u>

Note J. Bonds Payable & Debt Service Requirements

The District has entered into a continuing disclosure undertaking to provide annual reports and material notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

In the governmental fund financial statements, current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. The proceeds from the sale of bonds are shown in the governmental fund financial statements as Other Resources and principal payments are shown as expenditures.

A summary of changes in general obligation bonds for the year ended August 31, 2012 is as follows:

<u>Description</u>	<u>Interest</u>	<u>Amounts of</u>	<u>Interest</u>	<u>Beginning</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Amounts</u>
				<u>Amounts</u>			<u>Outstanding</u>
	<u>Rates</u>	<u>Original</u>	<u>Current Year</u>	<u>9/01/11</u>			<u>8/31/12</u>
	<u>Payable</u>	<u>Issue</u>					
Unltd Tax Refunding Bonds-Series 2011	2.00-4.00%	\$1,315,000	\$46,550	\$1,315,000	\$0	\$0	\$1,315,000
Capital Appreciation Bonds-Series 2011	0.50-1.15%	54,999	814	108,560	0	(54,186)	54,374
Totals			<u>\$47,364</u>	<u>\$1,423,560</u>	<u>\$0</u>	<u>(\$54,186)</u>	<u>\$1,369,374</u>

The capital appreciation bonds were originally recorded at their face value and have only been reduced as principal payments were paid. Since these bonds mature at different dates through the year 2013, for GASB Statement 34, the bonds are now included in bonds payable at their accreted value, for principal amounts due as of August 31, 2012.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2012.

Debt service requirements for bonds are as follows:

<u>Year Ending August 31,</u>	<u>General Obligation Bonds</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2013	\$54,374	\$47,176	\$101,550
2014	55,000	46,550	101,550
2015	55,000	45,450	100,450
2016	60,000	44,350	104,350
2017	60,000	43,000	103,000
2018-2022	325,000	187,950	512,950
2023-2027	390,000	122,200	512,200
2028-Maturity	370,000	38,000	408,000
Totals	<u>\$1,369,374</u>	<u>\$574,676</u>	<u>\$1,944,050</u>

Summary information for the capital appreciation bonds is as follows:

<u>Series</u>	<u>Capital Appreciation Bonds</u>	
	<u>Original Amount</u>	<u>Accreted Value, 8/31/12</u>
2011	\$11,130	\$54,374
Totals	<u>\$11,130</u>	<u>\$54,374</u>

Note K. Long Term Notes and Capital Leases Payable

Long-Term Notes:

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

Capital Leases:

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

Note L. Accumulated Unpaid Vacation and Sick Leave Benefits

District employees are entitled to certain compensated absences based upon their length of employment. Sick leave accrues at various rates established by the State of Texas and adopted by the Board of Trustees. Sick leave does not vest, but accumulates and is recorded as an expenditure as it is used and paid.

A summary of changes in the accumulated sick leave and vacation leave liability follows:

	<u>Sick Leave</u>	<u>Vacation Leave</u>
Balance, September 1, 2011	\$0	\$0
Additions - New Entrants and Salary Increments	0	0
Deductions - Payments to Participants	0	0
Balance, August 31, 2012	<u>\$0</u>	<u>\$0</u>

Note M. Defined Benefit Pension Plan (TRS)

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.00% of the member's annual compensation and a state contribution rate of not less than 6.00% and not more than 10.00% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.40% for fiscal year 2012, 2011, and 2010, and a state contribution rate of 6.00% for fiscal year 2012, and 6.644% for fiscal years 2011 and 2010. In certain instances, the reporting district is required to make all or a portion of the state's 6.00% contribution. State contributions to TRS made on behalf of Fannindel Independent School District's employees for the years ended August 31, 2012, 2011, and 2010 were \$60,923, \$73,134, and \$72,611, respectively. Fannindel Independent School District paid additional state contributions for the years ended August 31, 2012, 2011, and 2010 in the amount of \$14,393, \$10,097, and \$8,096, respectively, on the salaries paid from federal and private grants and for the portion of the employees' salaries that exceeded the statutory minimum.

Note N. School District Retiree Health Plan (TRS-Care)

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

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas state legislature. Texas Insurance Code Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectfully. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater that 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting optional coverage. For the years ended August 31, 2012, 2011, and 2010, the State of Texas contribution rate was 1.00%, the active member contribution rate was 0.65% and the school district contribution rate was 0.55% of the covered public school payroll. For the years ended August 31, 2012, 2011, and 2010, the State's contributions to TRS-Care made on behalf of Fannindel Independent School District's employees were \$10,652, \$11,141, and \$10,794, respectively, the active member contributions were \$6,924, \$7,242, and \$7,016 respectively, and the school district's contributions were \$5,859, \$6,128, and \$5,937, respectively, which equaled the required contributions each year.

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

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2012, 2011, and 2010, the State’s contributions for Medicare Part D made on behalf of Fannindel Independent School District’s employees were \$2,775, \$2,531, and \$2,671, respectively.

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependents regardless of age. An “early retiree” is defined as a plan participant aged 55-64 who is not eligible for Medicare and is not covered by an active employee of the plan sponsor. This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first served basis for qualified employers that apply and become certified for the program. TRS has been certified for this program and has received funds from the ERRP program. These funds are allocated to the District using the same basis as the Medicare Part D on behalf payments. For the year ended August 31, 2012 the ERRP contribution made on behalf of Fannindel Independent School District’s employees was \$2,624.

Note P. Deferred Revenue

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Net Tax Revenue	\$106,778	\$0	\$9,293	\$116,071
Total Deferred Revenue	<u>\$106,778</u>	<u>\$0</u>	<u>\$9,293</u>	<u>\$116,071</u>

Note Q. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2012, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Other Governments</u>	<u>Totals</u>
General Fund	\$63,290	\$0	\$5,514	\$68,804
Special Revenue Funds	8,644	76,499	0	85,143
Debt Service Fund	0	0	227	227
Totals	<u>\$71,934</u>	<u>\$76,499</u>	<u>\$5,741</u>	<u>\$154,174</u>

Note R. Due to Other Governments

As of August 31, 2012, the District had \$49,009 due to Texas Education Agency for 2011-2012 state foundation aid. The Texas Education Agency will deduct this amount from 2012-2013 state foundation aid.

Note S. Commitments and Contingencies

Litigation – The District may be subjected to loss contingencies arising principally in the normal course of operations. In the opinion of the administration, the outcome of any lawsuits will not have a material adverse effect on the accompanying financial statements and accordingly no provision for losses has been recorded.

Grant Programs – The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at August 31, 2012 may be impaired. In the opinion of the District, there are no significant contingent liabilities related to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Note T. Revenue from Local and Intermediate Sources

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Property Taxes	\$637,022	\$0	\$29,104	\$666,126
Penalties, Interest, & Other Tax				
Related Income	19,280	0	1,634	20,914
Investment Income	7,447	0	445	7,892
Gifts & Bequests	56,380	0	0	56,380
Food Service Sales	0	10,375	0	10,375
Athletics	5,749	0	0	5,749
Other	13,512	0	0	13,512
Totals	<u>\$739,390</u>	<u>\$10,375</u>	<u>\$31,183</u>	<u>\$780,948</u>

Note U. Interfund Balances & Transfers In and Out

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

None

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

Transfers to Nonmajor Governmental Funds from:

General Fund	<u>\$25,396</u>
Total Transfers to Nonmajor Funds from Other Funds	<u>\$25,396</u>

Note V. Joint Ventures – Shared Service Arrangements

The District participates in shared services arrangements for Special Education and Alternative Education Placement Services, with other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Fannindel Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

Note W. Subsequent Events

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through October 5, 2012, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

FANNINDEL 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	\$ 728,500	\$ 728,500	\$ 739,390	\$ 10,890
5800	State Program Revenues	1,233,804	1,233,804	1,276,377	42,573
5900	Federal Program Revenues	7,572	7,572	9,930	2,358
5020	Total Revenues	1,969,876	1,969,876	2,025,697	55,821
EXPENDITURES:					
Current:					
0011	Instruction	976,148	958,997	954,580	4,417
0012	Instructional Resources and Media Services	53,376	53,376	51,970	1,406
0013	Curriculum and Instructional Staff Development	14,000	5,000	3,011	1,989
0023	School Leadership	169,399	169,399	168,954	445
0031	Guidance, Counseling and Evaluation Services	30,966	31,966	31,422	544
0033	Health Services	18,244	20,244	19,437	807
0034	Student (Pupil) Transportation	88,297	154,464	152,581	1,883
0035	Food Services	3,360	-	-	-
0036	Extracurricular Activities	80,292	118,356	115,322	3,034
0041	General Administration	197,824	230,824	224,597	6,227
0051	Facilities Maintenance and Operations	228,158	208,158	199,914	8,244
0052	Security and Monitoring Services	2,100	2,100	780	1,320
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	67,000	67,000	66,631	369
0099	Other Intergovernmental Charges	21,700	21,700	21,661	39
6030	Total Expenditures	1,950,864	2,041,584	2,010,860	30,724
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	19,012	(71,708)	14,837	86,545
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	-	-	1,658	1,658
8911	Transfers Out (Use)	(19,011)	(29,011)	(25,396)	3,615
7080	Total Other Financing Sources (Uses)	(19,011)	(29,011)	(23,738)	5,273
1200	Net Change in Fund Balances	1	(100,719)	(8,901)	91,818
0100	Fund Balance - September 1 (Beginning)	751,483	751,483	751,483	-
3000	Fund Balance - August 31 (Ending)	\$ 751,484	\$ 650,764	\$ 742,582	\$ 91,818

COMBINING STATEMENTS

FANNINDEL 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	255 ESEA II, A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income
ASSETS				
1110 Cash and Cash Equivalents	\$ (31,013)	\$ 1,217	\$ (10,354)	\$ (13,975)
1220 Property Taxes - Delinquent	-	-	-	-
1230 Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240 Receivables from Other Governments	31,013	3,216	10,354	13,975
1000 Total Assets	<u>\$ -</u>	<u>\$ 4,433</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110 Accounts Payable	\$ -	\$ 4,433	\$ -	\$ -
2300 Deferred Revenues	-	-	-	-
2000 Total Liabilities	<u>-</u>	<u>4,433</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted Fund Balance:				
3480 Retirement of Long-Term Debt	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 4,433</u>	<u>\$ -</u>	<u>\$ -</u>

287 Education Jobs Fund ARRA	410 Instructional Materials Allotment	429 District Awards Teach Excellence	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ (17,941)	\$ -	\$ (8,644)	\$ (80,710)	\$ 8,244	\$ (72,466)
-	-	-	-	9,968	9,968
-	-	-	-	(675)	(675)
17,941	-	8,644	85,143	227	85,370
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,433</u>	<u>\$ 17,764</u>	<u>\$ 22,197</u>
\$ -	\$ -	\$ -	\$ 4,433	\$ -	\$ 4,433
-	-	-	-	9,293	9,293
-	-	-	4,433	9,293	13,726
-	-	-	-	8,471	8,471
-	-	-	-	8,471	8,471
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,433</u>	<u>\$ 17,764</u>	<u>\$ 22,197</u>

FANNINDEL 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	255 ESEA II, A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ 10,375	\$ -	\$ -
5800 State Program Revenues	-	673	-	-
5900 Federal Program Revenues	<u>67,552</u>	<u>104,674</u>	<u>17,672</u>	<u>3,970</u>
5020 Total Revenues	<u>67,552</u>	<u>115,722</u>	<u>17,672</u>	<u>3,970</u>
EXPENDITURES:				
Current:				
0011 Instruction	67,552	-	-	3,970
0012 Instructional Resources and Media Services	-	-	-	-
0023 School Leadership	-	-	17,672	-
0035 Food Services	-	141,118	-	-
Debt Service:				
0071 Principal on Long Term Debt	-	-	-	-
0072 Interest on Long Term Debt	-	-	-	-
0073 Bond Issuance Cost and Fees	-	-	-	-
6030 Total Expenditures	<u>67,552</u>	<u>141,118</u>	<u>17,672</u>	<u>3,970</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(25,396)</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	<u>-</u>	<u>25,396</u>	<u>-</u>	<u>-</u>
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>25,396</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	-	-	-	-
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>\$ -</u>

287 Education Jobs Fund ARRA	410 Instructional Materials Allotment	429 District Awards Teach Excellence	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 10,375	\$ 31,183	\$ 41,558
-	19,314	8,644	28,631	61,468	90,099
41,509	-	-	235,377	-	235,377
41,509	19,314	8,644	274,383	92,651	367,034
29,578	19,314	8,644	129,058	-	129,058
11,931	-	-	11,931	-	11,931
-	-	-	17,672	-	17,672
-	-	-	141,118	-	141,118
-	-	-	-	22,863	22,863
-	-	-	-	78,687	78,687
-	-	-	-	300	300
41,509	19,314	8,644	299,779	101,850	401,629
-	-	-	(25,396)	(9,199)	(34,595)
-	-	-	25,396	-	25,396
-	-	-	25,396	-	25,396
-	-	-	-	(9,199)	(9,199)
-	-	-	-	17,670	17,670
\$ -	\$ -	\$ -	\$ -	\$ 8,471	\$ 8,471

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REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

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

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2003 and prior years	\$ 1.486600	\$ 0.165000	\$ 24,927,356
2004	1.499030	0.150970	28,901,184
2005	1.499000	0.151000	30,817,323
2006	1.500000	0.151000	33,043,256
2007	1.370000	0.150000	37,548,564
2008	1.040000	0.180000	45,456,713
2009	1.040000	0.180000	52,935,430
2010	1.040000	0.140000	55,584,398
2011	1.170000	0.080000	54,509,034
2012 (School year under audit)	1.170000	0.050000	55,157,407
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
\$ 6,908	\$ -	\$ 69	\$ 8	\$ -	\$ 6,831
2,712	-	64	6	(20)	2,622
3,967	-	21	2	(26)	3,918
6,277	-	476	48	(26)	5,727
7,243	-	852	93	(27)	6,271
8,168	-	1,346	233	(24)	6,565
16,083	-	3,713	643	(193)	11,534
20,968	-	5,865	790	(838)	13,475
48,087	-	22,946	1,569	(1,557)	22,015
-	672,920	601,670	25,712	-	45,538
<u>\$ 120,413</u>	<u>\$ 672,920</u>	<u>\$ 637,022</u>	<u>\$ 29,104</u>	<u>\$ (2,711)</u>	<u>\$ 124,496</u>

FANNIN DEL 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	\$ 12,000	\$ 10,500	\$ 10,375	\$ (125)
5800 State Program Revenues	700	700	673	(27)
5900 Federal Program Revenues	96,000	102,500	104,674	2,174
5020 Total Revenues	108,700	113,700	115,722	2,022
EXPENDITURES:				
0035 Food Services	130,491	142,711	141,118	1,593
6030 Total Expenditures	130,491	142,711	141,118	1,593
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(21,791)	(29,011)	(25,396)	3,615
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	21,791	29,011	25,396	(3,615)
7080 Total Other Financing Sources (Uses)	21,791	29,011	25,396	(3,615)
1200 Net Change in Fund Balances	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

FANNIN DEL 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	\$ 31,800	\$ 31,800	\$ 31,183	\$ (617)
5800 State Program Revenues	61,290	70,150	61,468	(8,682)
5020 Total Revenues	93,090	101,950	92,651	(9,299)
EXPENDITURES:				
Debt Service:				
0071 Principal on Long Term Debt	22,863	22,863	22,863	-
0072 Interest on Long Term Debt	78,687	78,687	78,687	-
0073 Bond Issuance Cost and Fees	400	400	300	100
6030 Total Expenditures	101,950	101,950	101,850	100
1200 Net Change in Fund Balances	(8,860)	-	(9,199)	(9,199)
0100 Fund Balance - September 1 (Beginning)	17,670	17,670	17,670	-
3000 Fund Balance - August 31 (Ending)	\$ 8,810	\$ 17,670	\$ 8,471	\$ (9,199)

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COMPLIANCE & INTERNAL CONTROL SECTION

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

Independent Auditor's Report

Board of Trustees
Fannindel Independent School District
601 West Main
Ladonia, Texas 75449

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fannindel Independent School District as of and for the year ended August 31, 2012, which collectively comprise the Fannindel Independent School District's basic financial statements and have issued our report thereon dated October 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial 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 previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fannindel Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our

tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

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

Morgan, Davis, & Company, P.C.

October 5, 2012

FANNINDEL INDEPENDENT SCHOOL DISTRICT

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

<u>Program/Item</u>	<u>Findings Description</u>
Summary of Audit Results:	
Type of Report on Financial Statements	Unqualified
Control Deficiencies	None
Material Weaknesses Involving Control Deficiencies	None
Noncompliance Material to the Financial Statements	None

Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

There are no findings related to financial statements which are required to be reported in accordance with *Generally Accepted Auditing Standards*.

FANNINDEL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2012

(Prepared by the District's Administration)

There were no prior audit findings which required corrective action.

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

(Prepared by the District's Administration)

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

SCHOOLS FIRST QUESTIONNAIRE

Fannindel Independent School District

Fiscal Year 2012

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	43244