

**MESQUITE INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED AUGUST 31, 2013**

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## **INTRODUCTORY SECTION**

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## CERTIFICATE OF BOARD

MESQUITE INDEPENDENT SCHOOL DISTRICT

Name of School District

Dallas

County

057-914

Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) ✓ approved \_\_\_\_\_ disapproved for the year ended August 31, 2013 at the meeting of the Board of Trustees of such school district on the 13<sup>th</sup> day of January, 2014.



Signature of Board Secretary



Signature of Board President

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Mesquite Independent School District  
Mesquite, Texas

### **Report on the Financial Statements**

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

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

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

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

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and 53-55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

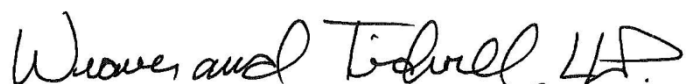
The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Weaver and Tidwell, LLP." The signature is written in a cursive, flowing style.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
January 9, 2014

## MESQUITE INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS AUGUST 31, 2013

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This section of Mesquite Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2013. Please read it in conjunction with the District's financial statements, which follow this section.

### Financial Highlights

#### Government wide

- The District's Total Net Position was \$212,717,833, unrestricted net position was \$38,220,840, net investments in capital assets was \$155,311,494, net position restricted for food service was \$7,221,052 and net position restricted for debt service was \$11,964,447.

#### Fund level statements

- The District's General Fund Balance was \$86,667,395, an increase of \$4,351,746 from the prior year.
- The District's Debt Service Fund Balance was \$11,964,447, a decrease of \$415,429 from the prior year.
- The District's Capital Projects Fund Balance was \$33,512,558 a decrease of \$22,917,035 from the prior year.
- The District's Food Service Special Revenue Fund Balance was \$7,221,052, an increase of \$626,232 from the prior year.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** *The government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (*governmental activities*) as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no business-type activities and no component units for which it is financially accountable. The government-wide financial statements can be found on pages 10-11 of this report.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2013**

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**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide more detailed information about the District's most significant funds-not the District as a whole.

- Some funds are required by State law and/or bond covenants.
- Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants.

All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds:** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The District maintains thirty-seven governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital projects fund, all three of which are considered to be major funds. Data from the other thirty-four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The District adopts an annual appropriated budget for its general fund, debt service fund and food service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 12-17 of this report.
- **Proprietary funds.** *Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. As mentioned above in the government-wide definition, the District has no *business-type activities* or *enterprise funds*. The second type of proprietary fund is the *internal service fund*. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses the *internal service fund* to report activities for its self-funded health and workers compensation insurance programs. The basic proprietary fund financial statements can be found on pages 18-20 of this report.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2013**

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- **Fiduciary funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The District is the trustee, or *fiduciary*, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets that can be found on pages 21-22. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

**Notes to the financial statements.** The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-52 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 53-55 of this report.

The combining statements referred to earlier in connection with non-major governmental funds, internal service funds and private purpose trust funds are presented immediately following the required supplementary information. Combining statements can be found on pages 56-62 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$212,717,833 as of August 31, 2013.

<b>The District's Net Position</b>			
	2013	2012	Difference
Current and other assets	\$ 166,242,482	\$199,408,882	\$(33,166,400)
Capital assets	\$467,086,238	\$451,904,525	\$15,181,713
Long-term investments	\$10,028,299	0	\$10,028,299
Total assets	\$643,357,019	\$651,313,407	\$(7,956,388)
Long-term liabilities outstanding	\$403,881,441	\$432,873,965	\$(28,992,524)
Other liabilities	\$26,757,745	\$31,101,532	\$(4,343,787)
Total liabilities	\$430,639,186	\$463,975,497	\$(33,336,311)
Net position:			
Net investments in capital assets	\$155,311,494	\$136,053,873	\$19,257,621
Restricted	\$19,185,499	\$17,496,102	\$1,689,397
Unrestricted	\$38,220,840	\$33,787,935	\$4,432,905
Total net position	\$212,717,833	\$187,337,910	\$25,379,923

**Governmental activities.** The District's total net position increased by \$25,379,923. The total cost of all *governmental activities* this year was \$343,654,788. The amount that our taxpayers paid for these activities through property taxes was \$83,180,850 or 24.2%.



**MESQUITE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2013**

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	<b>Changes in the District's Net Position</b>		
Revenues:	2013	2012	Difference
Program revenues:			
Charges for services	\$9,230,562	\$9,570,806	\$(340,244)
Operating grants & contributions	\$73,430,739	\$80,755,531	\$(7,324,792)
General revenues:			
Property taxes	\$83,180,850	\$86,182,569	\$(3,001,719)
State grants	\$201,315,635	\$187,530,691	\$13,784,944
Other	\$1,876,925	\$3,498,905	\$(1,621,980)
Total revenues	\$369,034,711	\$367,538,502	\$1,496,209
Expenses:			
Instruction	\$196,365,507	\$191,243,320	\$5,122,187
Instructional resources & media services	\$4,769,199	\$4,601,531	\$167,668
Curriculum & staff development	\$4,351,575	\$3,788,834	\$562,741
Instructional leadership	\$5,458,954	\$5,502,127	\$(43,173)
School leadership	\$16,885,220	\$16,169,800	\$715,420
Guidance, counseling & evaluation services	\$12,892,373	\$12,141,688	\$750,685
Social work services	\$225,955	\$218,358	\$7,597
Health services	\$3,390,367	\$3,345,176	\$45,191
Student (pupil) transportation	\$4,325,864	\$4,215,583	\$110,281
Food Services	\$19,643,591	\$18,868,239	\$773,014
Co-curricular/extracurricular activities	\$8,095,329	\$7,775,503	\$319,826
General administration	\$7,622,299	\$7,331,172	\$291,127
Plant maintenance & operations	\$29,007,421	\$29,235,647	\$(228,226)
Security and monitoring services	\$2,764,931	\$2,890,607	\$(123,338)
Data processing services	\$5,258,695	\$4,877,253	\$381,442
Community services	\$526,050	\$445,621	\$80,429
Debt service-interest on long-term debt	\$18,472,286	\$12,100,750	\$6,371,536
Bond Issuance Costs and Fees	\$476,916	\$942,438	\$(465,522)
Facilities acquisition & construction	\$534,443	\$414,811	\$119,632
Payments to juvenile justice alternative education program	\$32,148	\$22,686	\$9,462
Payments to tax increment fund	\$2,209,880	\$2,145,217	\$64,663
Other Intergovernmental Charges	\$345,785	\$351,960	\$(6,175)
Total expenses	\$343,654,788	\$328,628,321	\$15,026,467
Increase in Net Position	\$25,379,923	\$38,910,181	\$(13,530,258)
Beginning Net Position	\$187,337,910	\$141,556,160	\$45,781,750
Restatement	\$0	\$6,871,569	\$(6,871,569)
Ending Net Position	\$212,717,833	\$187,337,910	\$25,379,923

## Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

**Governmental funds.** The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved, undesignated fund balance* may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$139,587,596, a decrease of \$18,301,104. Approximately 60.7 percent or \$84,686,134 constitutes *unassigned fund balance*. The remainder of fund balance is designated to indicate that it is not

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2013**

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available for new spending as follows: nonspendable, inventory \$1,371,382, and deferred expenditures \$228,747; restricted, debt service \$11,964,447, food service \$7,038,342, capital acquisitions \$33,512,558, and state special revenue, \$50,195; committed, local special revenue, \$171,949; assigned, \$563,842.

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$84,686,134, while the total fund balance was \$86,667,395. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to the total fund expenditures. Unassigned fund balance represents 30.5 percent of the total general fund expenditures, while total fund balance represents 31.2 percent of that same amount.

**Proprietary funds.** As mentioned earlier, the District's proprietary funds provide detailed information concerning the District's health and workers compensation internal service funds.

Unrestricted net position at August 31, 2013, amounted to \$3,448,478.

**General Fund Budgetary Highlights**

The budget was amended August 12, 2013. The district made the following amendments to budgeted revenue:

- \$ 1,401,620 increase in local revenue
- \$ 3,351,010 increase in state revenue
- \$ 185,500 increase in federal revenue
- \$ 439,800 decrease in the resources due to transfer in

Following is a summary of amendments made to appropriations:

- \$ 230,595 decrease for instructional services
- \$ 795,120 decrease for instructional and school leadership
- \$ 661,445 decrease for student services
- \$ 301,840 decrease for general administration
- \$ 307,660 increase for support services
- \$ 135,280 increase for data processing
- \$ 86,940 increase for ancillary services
- \$ 2,283,260 increase for capital outlay
- \$ 838,920 decrease for intergovernmental charges

**Capital Asset and Debt Administration**

**Capital assets.** The District's investment in capital assets for its governmental activities as of August 31, 2013, amounts to \$467,086,238 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, and construction in progress.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2013**

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District's Capital Assets  
(net of depreciation)

	2013	2012	Difference
Land	\$15,493,423	15,493,423	\$0
Buildings and improvements	\$390,261,120	\$379,338,721	\$10,922,399
Furniture & equipment	\$50,272,538	\$46,271,051	\$4,001,487
Construction in progress	\$11,059,157	\$10,801,330	\$257,827
Totals at historical cost	\$467,086,238	\$451,904,525	\$15,181,713

**Long-term debt.** At the end of August 31, 2013, the District had total bonded debt outstanding of \$364,809,298, a decrease of \$30,032,919 from the prior year. There was one refunding of \$8,760,000 for the period ending August 31, 2013. The "AAA" long-term rating on the District's Texas' bonds reflects the Texas Permanent School Fund guarantee. The "AA" Standard & Poor's and "AA+" Fitch ratings on the District's unenhanced debt reflects the District's: 1) participation in the strong and growing Dallas area economy, 2) very strong administrative management, and 3) superior cash position.

Assessed values (AVs) have decreased an average of 2.5% annually from fiscal 2009-2013. Top ten taxpayers account for less than 5.9% of a diversified tax roll, where residential property comprises roughly 63.2% of the District's AV and commercial property accounts for approximately 36.8%. The economic base includes retail, telecommunications, manufacturing, warehousing, and distribution enterprises.

### **Economic Factors and Next Year's Budgets and Rates**

- The District's student attendance rate was 96.9 percent for 2013.
- The District's enrollment has experienced an increase of 2.19 percent.

#### **Budget for 2014**

- Local revenue decreased \$102,312, state aid increased \$25,715,839 and federal increased \$3,967,970 and other sources increased \$29,779,870 for a total net increase of \$55,393,397.
- Expenditures for 2014, increased \$26,866,772 due to raises or additional staff for salaries and supplies in every function of the school district, increased for debt service \$1,300,000, decreased for capital projects \$6,959,987, for a total net increase of \$21,206,785.

### **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 demonstrate 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 Services Department, Mesquite ISD, 405 E. Davis, Mesquite, Texas 75149.

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**EXHIBIT A-1**

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2013**

Data  
Control  
Codes

		<b>Governmental Activities</b>
		<hr/>
<b>ASSETS</b>		
1110	Cash and cash equivalents	\$ 29,108,383
1120	Investments	116,670,929
1220	Delinquent property taxes receivable	7,360,586
1230	Allowance for uncollectable taxes (credit)	(2,607,552)
1240	Due from other governments	4,211,258
1250	Accrued interest	414,357
1290	Other receivables (net)	1,358,293
1300	Inventories	1,697,400
1410	Prepaid expenditures or expenses	228,747
1420	Capital bond and other debt issuance costs	2,331,715
1421	Deferred outflow of resources	5,458,608
1490	Other current assets	9,758
Capital assets:		
1510	Land	15,493,423
1520	Buildings and improvements	600,112,642
1530	Furniture and equipment	116,976,610
1570	Accumulated depreciation	(276,555,594)
1580	Construction in progress	11,059,157
Noncurrent assets:		
1910	Long-term investments	10,028,299
1000	Total Assets	<hr/> 643,357,019 <hr/>
<b>LIABILITIES</b>		
2110	Accounts payable	5,162,301
2140	Interest payable	607,789
2150	Payroll deductions and withholdings	2,901,508
2160	Accrued wages payable	11,501,415
2200	Accrued expenditures or expenses	738,329
2300	Unearned revenue	387,795
2302	Derivative instrument	5,458,608
Noncurrent liabilities:		
2501	Due within one year	28,055,058
2502	Due in more than one year	375,826,383
2000	Total Liabilities	<hr/> 430,639,186 <hr/>
<b>NET POSITION</b>		
3200	Net investments in capital assets	155,311,494
Restricted for:		
3840	Food service	7,221,052
3850	Debt service	11,964,447
3900	Unrestricted net position	38,220,840
3000	Total net position	<hr/> \$ 212,717,833 <hr/>

The Notes to Financial Statements are  
an integral part of this statement.

## EXHIBIT B-1

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2013**

Data Control Codes	1	Program Revenues		Net (Expense)	
		3	4	Revenue and	
		Charges for	Operating	Changes in Net	
	Expenses	Services	Grants and	Position	
			Contributions	6	
				Governmental	
				Activities	
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 196,365,507	\$ 769,604	\$ 21,798,802	\$ (173,797,101)
12	Instructional resources and media services	4,769,199	-	257,956	(4,511,243)
13	Curriculum and staff development	4,351,575	-	1,533,409	(2,818,166)
21	Instructional leadership	5,458,954	-	2,909,998	(2,548,956)
23	School leadership	16,885,220	-	763,564	(16,121,656)
31	Guidance, counseling, and evaluation services	12,892,373	-	1,345,498	(11,546,875)
32	Social work services	225,955	-	66,446	(159,509)
33	Health services	3,390,367	-	152,414	(3,237,953)
34	Student transportation	4,325,864	-	276,470	(4,049,394)
35	Food service	19,643,591	4,745,236	15,483,098	584,743
36	Extracurricular activities	8,095,329	3,257,062	391,499	(4,446,768)
41	General administration	7,622,299	-	334,531	(7,287,768)
51	Plant maintenance and operations	29,007,421	458,660	1,430,737	(27,118,024)
52	Security and monitoring services	2,764,931	-	133,422	(2,631,509)
53	Data processing services	5,258,695	-	256,036	(5,002,659)
61	Community services	526,050	-	2,126,319	1,600,269
72	Interest on long-term debt	18,472,286	-	23,842,057	5,369,771
73	Bond issuance costs and fees	476,916	-	-	(476,916)
81	Facilities acquisition and construction	534,443	-	270,252	(264,191)
95	Payments to juvenile justice alternative education programs	32,148	-	-	(32,148)
97	Payments to Tax Increment Fund	2,209,880	-	58,231	(2,151,649)
99	Other intergovernmental charges	345,785	-	-	(345,785)
[TP] TOTAL PRIMARY GOVERNMENT:		343,654,788	9,230,562	73,430,739	(260,993,487)
Data	General Revenues:				
Control	Taxes				
Codes					
MT	Property Taxes, Levied for General Purposes				60,902,692
DT	Property Taxes, Levied for Debt Service				22,278,158
SF	State Aid - Formula Grants				201,315,635
GC	Miscellaneous Local and Intermediate Revenue				1,295,260
IE	Investment Earnings				581,665
TR	Total general revenues and special items				286,373,410
CN	Change in net position				25,379,923
NB	Net position-beginning				187,337,910
NE	Net position-ending				\$ 212,717,833

The Notes to Financial Statements are  
an integral part of this statement.

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**MESQUITE INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2013**

Data Control Codes		10	24	50
		General Fund	Food Service	Debt Service Fund
	<b>ASSETS</b>			
1110	Cash and cash equivalents	\$ 12,174,966	\$ 2,935,646	\$ 2,779,718
1120	Investments	91,544,738	5,527,356	9,148,961
1220	Property taxes delinquent	5,485,014	-	1,875,572
1230	Allowance for uncollectable taxes (credit)	(1,943,114)	-	(664,438)
1240	Due from other governments	1,925,243	356,698	-
1250	Accrued interest	367,953	23,657	13,393
1260	Due from other funds	7,222,478	198,572	-
1290	Other receivables	131,403	91,724	25,325
1300	Inventories	1,188,672	182,710	-
1410	Prepaid expenditures	228,747	-	-
1000	Total assets	<u>\$ 118,326,100</u>	<u>\$ 9,316,363</u>	<u>\$ 13,178,531</u>
	<b>LIABILITIES AND FUND BALANCES</b>			
	LIABILITIES:			
2110	Accounts payable	\$ 2,731,859	\$ 667,873	\$ -
2150	Payroll deductions and withholdings payable	2,901,508	-	-
2160	Accrued wages payable	11,250,471	250,944	-
2170	Due to other funds	11,041,935	981,138	2,949
2300	Unearned revenue	3,732,932	195,356	1,211,135
2000	Total liabilities	<u>31,658,705</u>	<u>2,095,311</u>	<u>1,214,084</u>
	FUND BALANCES:			
	Nonspendable			
3410	Inventories	1,188,672	182,710	-
3430	Prepaid expenditures	228,747	-	-
	Restricted			
3480	Debt service	-	-	11,964,447
3470	Capital acquisitions program	-	-	-
3450	Food service	-	7,038,342	-
3450	State Special Revenue	-	-	-
	Committed			
3545	Local Special Revenue	-	-	-
3590	Assigned	563,842	-	-
3600	Unassigned	84,686,134	-	-
3000	Total fund balances	<u>86,667,395</u>	<u>7,221,052</u>	<u>11,964,447</u>
4000	Total liabilities and fund balances	<u>\$ 118,326,100</u>	<u>\$ 9,316,363</u>	<u>\$ 13,178,531</u>

The Notes to Financial Statements are  
an integral part of this statement.



**EXHIBIT C-1**

<b>60</b>		<b>98</b>
<b>Capital Projects</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 4,576,735	\$ -	\$ 22,467,065
20,478,173	-	126,699,228
-	-	7,360,586
-	-	(2,607,552)
-	1,929,317	4,211,258
9,354	-	414,357
10,421,374	298,329	18,140,753
-	-	248,452
-	-	1,371,382
-	-	228,747
<u>\$ 35,485,636</u>	<u>\$ 2,227,646</u>	<u>\$ 178,534,276</u>
\$ 1,499,284	\$ 34,602	\$ 4,933,618
-	-	2,901,508
-	-	11,501,415
473,794	1,969,492	14,469,308
-	1,408	5,140,831
<u>1,973,078</u>	<u>2,005,502</u>	<u>38,946,680</u>
-	-	1,371,382
-	-	228,747
-	-	11,964,447
33,512,558	-	33,512,558
-	-	7,038,342
-	50,195	50,195
-	171,949	171,949
-	-	563,842
-	-	84,686,134
<u>33,512,558</u>	<u>222,144</u>	<u>139,587,596</u>
<u>\$ 35,485,636</u>	<u>\$ 2,227,646</u>	<u>\$ 178,534,276</u>

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

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>	\$ 139,587,596
The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	3,448,478
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental fund financial statements.	743,641,832
Accumulated depreciation has not been included in the governmental fund financial statements.	(276,555,594)
Bonds payable have not been included in the governmental fund financial statements.	(364,809,298)
Accreted interest for capital appreciation bonds have not been included in the governmental fund financial statements.	(27,905,921)
Unearned revenue in the fund financial statements was recorded as revenue in the district-wide financial statements.	4,753,036
Unused leave is accrued in the district-wide financial statements, whereas in the fund financial statements, an expenditure for unused leave is reported when due.	(1,617,750)
Interest is accrued on outstanding debt in the district-wide financial statements, whereas in the fund financial statements, an interest expenditure is reported when due.	(607,789)
Bond issuance costs reported as an expenditure in the fund financial statements are capitalized in the district-wide financial statements.	2,331,715
Discount on the issuance of bonds reported as net other financing uses on the fund financial statements is capitalized in the district-wide financial statements.	1,558,283
Premium on the issuance of bonds reported as net other financing sources on the fund financial statements is capitalized in the district-wide financial statements.	(23,935,764)
For debt refundings, the difference between the acquisition price and the net carrying amount of the debt has been deferred and amortized in the district-wide financial statements.	<u>12,829,009</u>
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<u><u>\$ 212,717,833</u></u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2013**

<b>Data Control Codes</b>		<b>10 General Fund</b>	<b>24 Food Service</b>	<b>50 Debt Service Fund</b>
<b>REVENUES</b>				
5700	Local and intermediate sources	\$ 67,574,437	\$ 4,765,025	\$ 22,601,520
5800	State program revenues	212,370,722	386,787	23,842,057
5900	Federal program revenues	2,266,362	15,067,077	-
5020	Total revenues	<u>282,211,521</u>	<u>20,218,889</u>	<u>46,443,577</u>
<b>EXPENDITURES</b>				
<b>CURRENT:</b>				
0011	Instruction	169,930,990	-	-
0012	Instructional resources and media services	5,001,647	-	-
0013	Curriculum and staff development	3,060,655	-	-
0021	Instructional leadership	4,242,730	-	-
0023	School leadership	15,389,605	-	-
0031	Guidance, counseling, and evaluation services	11,000,674	-	-
0032	Social work services	144,315	-	-
0033	Health services	3,094,733	-	-
0034	Student transportation	5,613,702	-	-
0035	Food service	593,611	19,245,989	-
0036	Extracurricular activities	7,782,758	-	-
0041	General administration	6,792,576	-	-
0051	Plant maintenance and operations	29,050,927	-	-
0052	Security and monitoring services	2,709,114	-	-
0053	Data processing services	5,198,767	-	-
0061	Community services	189,464	-	-
<b>DEBT SERVICE:</b>				
0071	Principal on long-term debt	-	-	30,032,919
0072	Interest on long-term debt	-	-	16,427,240
0073	Bond issuance costs and fees	-	-	520,696
<b>CAPITAL OUTLAY</b>				
0081	Facilities acquisition and construction	5,487,363	-	-
<b>INTERGOVERNMENTAL:</b>				
0095	Payments to juvenile justice alternative Ed. Prg	32,148	-	-
0097	Payments to tax increment fund	2,209,880	-	-
0099	Other intergovernmental expenditures	345,785	-	-
6030	Total expenditures	<u>277,871,444</u>	<u>19,245,989</u>	<u>46,980,855</u>
1100	Excess (deficiency) of revenues over expenditures	<u>4,340,077</u>	<u>972,900</u>	<u>(537,278)</u>
<b>OTHER FINANCING SOURCES (USES) :</b>				
7901	Refunding bonds issued	-	-	8,760,000
7912	Sale of real or personal property	34,247	-	-
7915	Transfers in	391,200	44,532	-
7916	Premium or discount on issuance of bonds	-	-	1,086,903
7949	Other resources	26,786	-	78,069
8911	Transfers out	(440,564)	(391,200)	-
8940	Payment to refund bonds	-	-	(9,803,123)
7080	Total other financing sources (uses)	<u>11,669</u>	<u>(346,668)</u>	<u>121,849</u>
1200	Net change in fund balances	4,351,746	626,232	(415,429)
0100	Fund balances--beginning	<u>82,315,649</u>	<u>6,594,820</u>	<u>12,379,876</u>
3000	Fund balances--ending	<u>\$ 86,667,395</u>	<u>\$ 7,221,052</u>	<u>\$ 11,964,447</u>

The Notes to Financial Statements are an integral part of this statement.

**EXHIBIT C-3**

<b>60 Capital Projects</b>	<b>Non-Major Governmental Funds</b>	<b>98 Total Governmental Funds</b>
\$ 144,866	\$ 211,577	\$ 95,297,425
-	3,291,872	239,891,438
-	17,015,614	34,349,053
<u>144,866</u>	<u>20,519,063</u>	<u>369,537,916</u>
-	17,425,936	187,356,926
-	6,869	5,008,516
-	1,033,672	4,094,327
-	776,105	5,018,835
1,630	23,306	15,414,541
-	804,022	11,804,696
-	59,339	203,654
-	-	3,094,733
-	-	5,613,702
-	3,380	19,842,980
-	6,537	7,789,295
369,109	-	7,161,685
-	-	29,050,927
-	866	2,709,980
-	-	5,198,767
-	325,790	515,254
-	-	30,032,919
-	-	16,427,240
-	-	520,696
23,062,015	-	28,549,378
-	-	32,148
-	-	2,209,880
-	-	345,785
<u>23,432,754</u>	<u>20,465,822</u>	<u>387,996,864</u>
<u>(23,287,888)</u>	<u>53,241</u>	<u>(18,458,948)</u>
-	-	8,760,000
-	-	34,247
-	141	435,873
-	-	1,086,903
370,853	-	475,708
-	-	(831,764)
-	-	(9,803,123)
<u>370,853</u>	<u>141</u>	<u>157,844</u>
(22,917,035)	53,382	(18,301,104)
<u>56,429,593</u>	<u>168,762</u>	<u>157,888,700</u>
<u>\$ 33,512,558</u>	<u>\$ 222,144</u>	<u>\$ 139,587,596</u>

**EXHIBIT C-4**

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

<b>TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$ (18,301,104)</b>
The District uses internal service funds to charge the costs of self-insurance to appropriate functions in other funds. The change in net position of internal service funds are reported as governmental activities.	357,319
Current year capital outlays are expenditures in the governmental fund financial statements, but they are shown as an increase in capital assets in the district-wide financial statements.	40,723,365
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources.	(24,362,692)
Current year bond proceeds are other financing sources in the governmental fund financial statements, but are shown as increases in long-term debt in the district-wide financial statements.	(8,760,000)
Current year long-term debt principal payments on bonded debt are expenditures in the governmental fund financial statements, but are shown as reductions in long-term debt in the district-wide financial statements.	30,032,919
Current year payments to refund debt are other uses in the fund financial statements, but are shown as reductions in long-term debt in the district-wide financial statements.	8,760,000
Unused leave is accrued in the district-wide financial statements, whereas in the fund financial statements an expenditure for unused leave is reported when due. This amount represents the change from prior year.	49,782
Current year increase in the accretion on capital appreciation bonds is not reflected in the governmental fund financial statements, but is shown as an increase in accreted interest on the district-wide financial statements.	(2,284,709)
Interest is accrued on outstanding debt in the district-wide financial statements, whereas in the governmental fund financial statements an interest expenditure is reported when due. This amount represents the current year change in accrued interest.	120,811
Bond issuance costs are recorded as expenditures in the governmental fund financial statements when debt is issued, but it is amortized over the term of the bonds in the district-wide financial statements. This amount represents current year addition to bond issuance costs of \$194,732 and amortization of current bond issue costs (\$151,614).	43,118
Premiums and discounts associated with bonds payable are reported as other sources/uses in the fund financial statements when bonds are issued. Amounts are reported net of amortization in the district-wide financial statements. The effect of current amortization of bond premiums (\$2,134,660) and bond discounts (\$165,966) was to increase net position.	1,968,694
Amortization of deferred refunding amount is not recognized in the governmental funds. The effect of recording current year's addition of \$1,356,733 and amortization of (\$1,043,992) is to increase net position	312,741
Current year additions to bond discounts (\$0) and current year additions to premium on bonds (\$1,086,903) are not reflected in the governmental fund financial statements, but are shown as a decrease in net position.	(1,086,903)
The net book value of capital assets disposed 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 disposals less cash proceeds is to decrease net position.	(1,178,960)
Revenue from property taxes is deferred in the governmental fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed net of an allowance for uncollectible accounts in the district-wide statements. This amount represents the current year change in deferred property taxes.	(1,014,458)
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ 25,379,923</b>

The Notes to Financial Statements are  
an integral part of this statement.

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

	<b>Governmental Activities-</b>
	<b>Internal Service Funds</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 6,641,318
Other receivables	163,776
Inventory	326,018
Due from other funds	131,166
Other current assets	9,758
<b>Total assets</b>	<b>7,272,036</b>
<b>CURRENT LIABILITIES:</b>	
Accounts payable	131,458
Due to other funds	2,953,771
Accrued expenses	738,329
<b>Total liabilities</b>	<b>3,823,558</b>
<b>NET POSITION</b>	
Unrestricted	3,448,478
<b>Total net position</b>	<b>\$ 3,448,478</b>

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

	<b>Governmental Activities-</b>
	<b>Internal Service Funds</b>
<b>OPERATING REVENUES:</b>	
Charges for services	\$ 6,825,484
<b>Total operating revenues</b>	<b>6,825,484</b>
<b>OPERATING EXPENSES:</b>	
Personal services	1,261,835
Contractual services	69,544
Other supplies and expenses	4,683,712
Insurance claims and expenses	714,972
Other operating costs	135,432
<b>Total operating expenses</b>	<b>6,865,495</b>
<b>Operating loss</b>	<b>(40,011)</b>
<b>NONOPERATING REVENUES:</b>	
Earnings from temporary deposits and investments	1,298
<b>Total nonoperating revenue</b>	<b>1,298</b>
<b>TRANSFERS IN</b>	<b>396,032</b>
<b>Change in net position</b>	<b>357,319</b>
<b>Total net position—beginning</b>	<b>3,091,159</b>
<b>Total net position—ending</b>	<b>\$ 3,448,478</b>



**MESQUITE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2013**

	<b>Governmental Activities-</b>
	<b>Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from transactions with other funds	\$ 6,883,863
Payments to suppliers	(5,058,387)
Payments to employees	(1,331,379)
Claims paid	(714,972)
<b>Net cash used in operating activities</b>	<b>(220,875)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Transfers in	396,032
<b>Net cash provided by non-capital financing activities</b>	<b>396,032</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment earnings	1,298
<b>Net cash provided by investing activities</b>	<b>1,298</b>
<b>Net increase in cash and cash equivalents</b>	<b>176,455</b>
<b>Balances—beginning of the year</b>	<b>6,464,863</b>
<b>Balances—end of the year</b>	<b>\$ 6,641,318</b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss	\$ (40,011)
Effect of increases and decreases in current assets and liabilities:	
Increase in inventory	(5,178)
Increase in other current assets	(163,776)
Decrease in interfund receivables	58,379
Decrease in accounts payable	(7,349)
Decrease in accrued expenses	(62,940)
<b>Net cash used in operating activities</b>	<b>\$ (220,875)</b>

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY FUND NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2013**

	<b>Private Purpose Trust Funds</b>	<b>Agency Fund</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 197,089	\$ 1,679,170
Due from other funds	-	97,225
<b>Total Assets</b>	<b>\$ 197,089</b>	<b>\$ 1,776,395</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 490	\$ -
Due to other funds	47,327	898,738
Due to student groups	-	877,657
<b>Total liabilities</b>	<b>47,817</b>	<b>\$ 1,776,395</b>
<b>NET POSITION</b>		
Unrestricted net position	149,272	
<b>Total net position and liabilities</b>	<b>\$ 197,089</b>	

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2013**

	<b>Private Purpose Trust Funds</b>
<b>ADDITIONS</b>	
Local and intermediate sources	\$ 16,464
<b>Total additions</b>	<u>16,464</u>
<b>DEDUCTIONS</b>	
Supplies and materials	5,620
Other operating costs	<u>28,577</u>
<b>Total deductions</b>	<u>34,197</u>
<b>LOSS BEFORE TRANSFERS</b>	<u>(17,733)</u>
Transfers out	(141)
<b>Change in net position</b>	<u>(17,874)</u>
<b>Net position September 1 (Beginning)</b>	<u>167,146</u>
<b>Net position August 31 (Ending)</b>	<u><u>\$ 149,272</u></u>

## **MESQUITE INDEPENDENT SCHOOL DISTRICT NOTES TO THE FINANCIAL STATEMENTS**

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Mesquite 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 (GASB) and other authoritative sources identified in the 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.

#### **Reporting Entity**

The Board of Trustees (the Board) is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) in its Statement No. 14, "The Financial Reporting Entity," as amended by GASB 39 "Determining Whether Certain Organizations Are Component Units." There are no component units included within the reporting entity.

#### **District-Wide and Fund Financial Statements**

The statement of net position and the statement of activities are district-wide financial statements. They report information on all of the Mesquite 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. The District has no business type activities 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 "operating grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational requirements of a given function. Examples include the grants under the Elementary and Secondary Education Act. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activities between governmental funds and proprietary funds appear as due to/due from on the governmental fund balance sheet and proprietary fund statement of net position and as other sources and other uses on the governmental fund statement of revenues, expenditures and changes in fund balance.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**District-Wide and Fund Financial Statements – Continued**

All interfund transactions between governmental funds and proprietary funds are eliminated on the district-wide statements. Interfund activities between governmental funds and fiduciary funds remain as payables/receivables on the district-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 district-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 result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be attributed specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The district-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 are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued**

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant and when all eligibility requirements have been met. 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 or if all eligibility requirements have not been met, grantors sometimes require the District to refund all or part of the unused amounts.

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.

**Fund Accounting**

**Governmental Funds:**

The District reports the following major governmental funds:

1. **General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Food Service Special Revenue Fund** – The food service fund is utilized to account for the activities of the school lunch and breakfast programs which are funded by federal grants as well as the summer feeding program which is locally funded.
3. **Debt Service Fund** – The debt service fund is utilized to account for the accumulation of resources and the payment of general long-term debt principal, interest, and related costs arising from general obligation bonds.
4. **Capital Projects Fund** – The capital projects fund is utilized to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived from proceeds of General Obligation Bonds and interest earned on such monies and local sources designated for such purposes.

Additionally, the District reports the following nonmajor fund type(s):

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Fund Accounting – Continued**

**Governmental Funds:**

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State and Local 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.

**Proprietary Funds:**

1. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District's Internal Service Funds are Health Insurance and Worker's Compensation.

**Fiduciary Funds:**

1. **Private Purpose Trust Funds** – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District as Private Purpose Trust Funds. The District's Private Purpose Trust Funds are the Meadows-O'Donnell Foundation, the Dairy Max and TASB Risk Grants and the Scholarship Fund.
2. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are the Student Activity Fund and the Payroll Clearing Fund.

**Cash and Cash Equivalents**

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

**Interfund Receivables and Payables**

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Fund Accounting – Continued**

**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 they were 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 District fiscal year.

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.

**Investments**

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

**Prepaid Expenses**

The District uses the purchases method to account for prepaid expenses. Under this method, prepaid expenditures are recorded in the year of payment.

**Supplies, Materials and Commodities**

Supplies, materials and commodities to be utilized in governmental funds are recorded as expenditures under the consumption method. Under the consumption method, costs are recorded as an expenditure in the period the items are utilized. Inventories are stated at cost utilizing the first-in, first-out method.



**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Fund Accounting – Continued**

**Capital Assets**

Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost or similar items purchased in one transaction of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost 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 with total project costs of \$100,000 or greater are capitalized as they are constructed.

Land improvements, 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	10-40
Building improvements	10-40
Furniture and equipment	5-10

**Liability for 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 vacation since the District does not have a policy to pay any amounts when employees separate from service with the District. Sick leave days are accumulated from year to year; however, only qualified employees are paid for sick leave days not taken upon retirement. Qualified employees are employees that have worked for the District five or more years and have met all other retirement age criteria. 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.

**Long-Term Debt**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Gains or losses on refunding are deferred and amortized over the lesser of the remaining life of the old debt or the life of the new debt using the straight line method. Bonds payable are reported net of the applicable bond premium or discount and gain or loss on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Fund Accounting – Continued**

**Long-Term Debt – Continued**

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

**Net position and Fund Balance**

**District-Wide Financial Statements**

When the District incurs an expense for which it may use either restricted or unrestricted net position, it uses restricted net position first unless unrestricted net position will have to be returned because they were not used. Net position on the Statement of Net position include the following:

Net investment in capital assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted for Food Service – The component of net position that reports the difference between assets and liabilities of the Food Service Fund that consists of assets with constraints placed on their use by the U.S. Department of Agriculture.

Restricted for Debt Service – The component of net position that reports the financial resources restricted to pay debt service on capital related debt less current accrual of interest.

Unrestricted – The component of net position that is not reported in Net investment in capital assets, Restricted for Food Service or Restricted for Debt Service.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Net position and Fund Balance – Continued**

**Governmental Fund Financial Statements**

The District has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54 are Nonspendable, Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of constraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In accordance with GASB 54, the District classifies governmental fund balances as follows:

Nonspendable – includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid items and long term receivables.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This classification includes amounts restricted under the child nutrition program, amounts restricted for retirement of long term debt, capital acquisitions and other state grants.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the highest level of decision making authority. Committed fund balance is reported pursuant to resolution passed by the District's Board of Trustees. This classification includes campus activity funds, and local special revenue funds.

Assigned – includes fund balance amounts that are self-imposed by the District to be used for a particular purpose. Fund balance can be assigned by the District's Board, the Superintendent, or the Assistant Superintendent of Business Services. This classification includes insurance deductibles, encumbrances, program start-up costs, projected budget deficit for subsequent years and other legal uses.

Unassigned – includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. It may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Net position and Fund Balance – Continued**

**Encumbrance Accounting**

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas Law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. Encumbrances are classified as restricted, committed or assigned in accordance with purpose restrictions. Special revenue fund and capital project fund encumbrances are included in restricted fund balance. General fund encumbrances are included in assigned fund balance.

Encumbrances outstanding at August 31, 2013 that were provided for in the subsequent year's budget are:

General fund	\$ 563,842
Non-major special revenue	20,033
Major special revenue	142,912
Capital project funds	1,044,039
	<u>\$ 1,770,826</u>

**Data Codes**

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

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimates as of August 31, 2013 will change.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Subsequent Events**

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through January 9, 2014, the date the financial statements were available to be issued.

**NOTE 2. CASH AND INVESTMENTS**

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

At August 31, 2013, the carrying amount of the District's cash deposits held at the depository bank was \$2,358,616 and the bank balance was \$5,163,743. The District's cash deposits at August 31, 2013 and during the year ended August 31, 2013 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

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

- a. Depository: Prosperity Bank.
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$53,415,740.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$46,683,760 and occurred during the month of August 2013.
- d. Total amount of FDIC coverage at the time of the highest combined balance was limited to \$250,000.

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.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 2. CASH AND INVESTMENTS – CONTINUED**

Statutes and the District's investment policy authorized the District to invest in the following investments as summarized in the table below:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. treasury obligations	2 Years	None	None
U.S. agencies securities	2 Years	None	None
Letters of credit	2 Years	None	None
Certificates of deposits	n/a	None	None
Repurchase agreements	90 Days	None	None
Securities lending program	1 Year	None	None
Banker's acceptance	270 Days	None	None
Commercial paper	270 Days	None	None
Money market mutual funds	90 Days	None	None
Mutual funds	2 Years	None	None
Guaranteed investment contracts	2 Years	None	None
Investment pools	n/a	None	None

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.

Cash and investments as of August 31, 2013 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents	\$ 29,108,383
Current investments	116,670,929
Long-term investments	10,028,299
Fiduciary funds:	
Cash and cash equivalents	<u>1,876,259</u>
Total cash and investments	<u><u>\$ 157,683,870</u></u>

Cash and investments as of August 31, 2013 consist of the following:

Cash on hand	\$ 22,431
Deposits with financial institutions	2,358,616
Investments	<u>155,302,823</u>
Total cash and investments	<u><u>\$ 157,683,870</u></u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 2. CASH AND INVESTMENTS – CONTINUED**

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The District has no specific limitations with respect to this metric.

As of August 31, 2013, the District had the following investments:

<u>Investment Type</u>		<u>Weighted Average Maturity</u>
U.S. Government Obligations	\$ 24,622,794	235 days
Certificates of Deposit	101,678,365	225 days
Investment Pool -LoneStar	2,372,533	57 days
Investment Pool -TexPool	6,183,721	49 days
Investment Pool -Texstar	20,445,410	49 days
Total	<u>\$ 155,302,823</u>	

As of August 31, 2013 the District did not invest in any securities which are highly sensitive to interest rate fluctuations.

**Disclosures Relating To Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the District's investment policy, or debt agreements, and the actual rating as of August 31, 2013 for each investment type.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
U.S. Government Obligations	\$ 24,622,794	N/A	N/A
Certificates of Deposit	101,678,365	N/A	N/A
Investment Pool -LoneStar	2,372,533	N/A	AAA
Investment Pool -TexPool	6,183,721	N/A	AAAm
Investment Pool -Texstar	20,445,410	N/A	AAAm
Total	<u>\$ 155,302,823</u>		

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 2. CASH AND INVESTMENTS – CONTINUED**

**Concentration of Credit Risk**

Concentration of credit risk is the risk associated with holding investments that are not in pools and in excess of 5% of the total portfolio. As of August 31, 2013, the District held 43% of their portfolio in certificates of deposit and 34% in U.S. government obligations. The District controls this risk by laddering the portfolio, limiting the final maturity of each investment between six months and three years through its investment policy with most purchases with maturities less than two years.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

As of August 31, 2013 the District deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

The District is a voluntary participant in various investment pools organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Public Funds Investment Act allows eligible entities of the State of Texas to jointly invest their funds in permitted investments. The District invests in the following investment pools:

TEXPOOL: The Comptroller of Public Accounts (the Comptroller) is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company (the Trust Company) which is authorized to operate TexPool. Pursuant to the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. (Federated) under an agreement with the Comptroller, acting on behalf of the Trust Company. The Comptroller maintains oversight of the services provided to TexPool by Federated. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy and approves any fee increases. As required by the Public Funds Investment Act, the Advisory Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.



**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 2. CASH AND INVESTMENTS – CONTINUED**

**Custodial Credit Risk – Continued**

TEXSTAR: JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. serve as co-administrators for TEXSTAR under an agreement with the TEXSTAR board of directors. JPMorgan Fleming Asset Management (USA), Inc. provides investment services, and First Southwest Asset Management, Inc. provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JPMorgan Chase Bank and/or its subsidiary J.P. Morgan Investor Services Co. The primary objectives of TEXSTAR are, in order of priority, preservation and protection of principal, maintenance of sufficient liquidity to meet participants' needs, diversification to avoid unreasonable or avoidable risks, and yield.

LONESTAR: The LoneStar Investment Pool is an investment pool available to governmental entities. The pool was established under the guidance of the Texas Public Funds Investment Act. A board of directors made up of members of the pool is responsible for the overall operation of the pool. The Board has employed various third party organizations to assist in the operations. These third parties are as follows: American Beacon Advisors and BNY Mellon Cash Investment Strategies-Investment Managers, RBC Wealth Management- Investment Consultant, Bank of New York Mellon- Custodian, First Public- Administration. In combination with these third party organizations, the pool has received an AAAM rating from Standard & Poor's. This rating allows the pool to meet the standards required by the Texas Public Funds Investment Act.

Additionally, the pools operated in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. The pools use amortized cost rather than the market value to report net assets to compute share prices.

**NOTE 3. DUE FROM OTHER GOVERNMENTS**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2013, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 3. DUE FROM OTHER GOVERNMENTS – CONTINUED**

Furthermore, there are times when overpayment is received from a State Agency and money may be due to other governments.

	General Fund	Major Special Revenue Funds	Non-Major Special Revenue Funds	Total
State entitlement	\$ 279,092	\$ -	\$ -	\$ 279,092
State grants	-	356,698	17,169	373,867
Federal grants	1,646,151	-	1,912,148	3,558,299
	<u>\$ 1,925,243</u>	<u>\$ 356,698</u>	<u>\$ 1,929,317</u>	<u>\$ 4,211,258</u>

**NOTE 4. OTHER RECEIVABLES**

Other receivables as of August 31, 2013, for the District's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate are as follows:

	General Fund	Food Service Fund	Debt Service Fund	Total
TAMU rent and utilities	\$ 38,608	-	\$ -	\$ 38,608
City of Mesquite utilities	40,910	-	-	40,910
Mesquite Council of PTA's	2,299	-	-	2,299
Taxes receivable	-	-	25,325	25,325
Scoreboard	32,500	-	-	32,500
Refunds/miscellaneous	15,546	-	-	15,546
Dallas Zoo	665	-	-	665
PAMS	-	91,724	-	91,724
KEOM-Radio ads	875	-	-	875
	<u>\$ 131,403</u>	<u>\$ 91,724</u>	<u>\$ 25,325</u>	<u>\$ 248,452</u>

District-wide other receivables includes \$47,327 due from to the Private Purpose Trust Funds and \$898,738 due from the Agency Fund, as these funds are not presented as part of the District's operations.

District-wide other receivables also includes \$163,776 due from the City of Mesquite to the Internal Service Funds for the City's portion of costs of running the District's Health Clinic.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund balances at August 31, 2013 consisted of the following individual fund receivables and payables:

Due to Fund	Due from Fund	Amount
General Fund	Capital Projects	\$ 473,224
General Fund	Food Service	888,377
General Fund	Internal Service	2,953,368
General Fund	Debt Service	2,949
General Fund	Non-major Special Revenue	1,959,743
General Fund	Trust and Agency	944,817
Capital Projects	General Fund	10,419,863
Capital Projects	Food Service	1,511
Non-major Special Revenue	General Fund	297,356
Non-major Special Revenue	Trust and Agency	403
Non-major Special Revenue	Capital Projects	570
Food Service	General Fund	189,077
Food Service	Non-major Special Revenue	8,247
Food Service	Internal Service	403
Food Service	Trust and Agency	845
Internal Service	General Fund	82,522
Internal Service	Food Service	48,644
Trust and Agency	General Fund	53,117
Trust and Agency	Non-major Special Revenue	1,502
Trust and Agency	Food Service	42,606
		<u>\$ 18,369,144</u>

All amounts due are scheduled to be repaid within one year.

Interfund transfers for the year ended August 31, 2013 were as follows:

Transfer From	Transfer To	Amount	Reason
General	Food Service	\$ 44,532	Food Service Transfer
General	Internal Service Fund	396,032	Internal Service Transfer
Food Service	General	391,200	Food Service Transfer
Fiduciary Fund	Non-Major Special Revenue Fund	141	Close out Private Purpose Trust Fund
		<u>\$ 831,905</u>	

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 6. CAPITAL ASSET ACTIVITY**

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

<u>Governmental Activities:</u>	<u>Primary Government</u>				<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	
Non-depreciable assets					
Land	\$ 15,493,423	\$ -	\$ -		\$ 15,493,423
Construction in progress	10,801,330	26,454,696	-	(26,196,869)	11,059,157
Total non-depreciable assets	26,294,753	26,454,696	-	(26,196,869)	26,552,580
Depreciable assets					
Buildings and improvements	577,602,422	-	(3,686,649)	26,196,869	600,112,642
Furniture and equipment	103,127,899	14,268,669	(419,958)		116,976,610
Total depreciable assets	680,730,321	14,268,669	(4,106,607)	26,196,869	717,089,252
Less accumulated depreciation for:					
Buildings and improvements	198,263,700	14,156,771	(2,568,949)	-	209,851,522
Furniture and equipment	56,856,849	10,205,921	(358,698)	-	66,704,072
Total accumulated depreciation	255,120,549	24,362,692	(2,927,647)	-	276,555,594
Total capital assets, net	\$ 451,904,525	\$ 16,360,673	\$ (1,178,960)	\$ -	\$ 467,086,238

Depreciation expense was charged to governmental functions as follows:

<u>Governmental Function</u>	<u>Depreciation</u>
Instruction	\$ 16,664,624
Instructional resources and media services	390,467
Curriculum development and instructional staff development	255,616
Instructional leadership	459,784
School leadership	1,494,912
Guidance, counseling and evaluation services	1,082,438
Social work services	20,391
Health services	299,826
Student (pupil) transportation	307,757
Food services	704,185
Cocurricular/extracurricular activities	321,076
General administration	478,281
Plant maintenance and operations	1,320,695
Security and monitoring service	148,507
Data processing services	375,697
Community services	24,662
Construction	13,774
Total depreciation expense	<u>\$ 24,362,692</u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 7. UNEARNED REVENUE**

Unearned revenue reported in the governmental funds at year end consisted of the following:

	General Fund	Debt Service Fund	Food Service Fund	Non-Major Governmental Funds	Total
Tax revenue	\$ 3,541,901	\$ 1,211,135	-	\$ -	\$ 4,753,036
Cheerleader receipts	184,593	-	-	-	184,593
Athletic ticket sales	6,438	-	-	-	6,438
State grant awards	-	-	-	1,408	1,408
Prepaid PAMS	-	-	195,356	-	195,356
	<u>\$ 3,732,932</u>	<u>\$ 1,211,135</u>	<u>\$ 195,356</u>	<u>\$ 1,408</u>	<u>\$ 5,140,831</u>

Tax revenue reported as unearned revenue in the governmental funds is recorded as revenue in the district-wide financial statements. Accordingly, unearned tax revenue is excluded in the district-wide financial statements.

**NOTE 8. LONG-TERM DEBT**

**Unlimited Tax Bonds**

The District issues unlimited tax bonds for the governmental activities to provide funds for the acquisition and construction of major capital facilities. Unlimited tax bonds are direct obligations and pledge the full faith and credit of the District. Bonded indebtedness of the District is reflected in the government-wide financial statements. Current requirements for principal and interest expenditures are payable solely from future revenues of the Debt Service Fund which consists principally of property taxes collected by the District and interest earnings.

The District has five issues containing zero coupon bonds. Accordingly, the accretion of interest on these zero coupon bonds has been recorded in the district-wide financial statements. Accreted interest increased on these bonds during the current year in the amount of \$2,284,709.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

Unlimited tax bonds outstanding as of August 31, 2013 are as follows:

Purpose and Lawful Authority	Interest Rate	Final Maturity	Amount of Original Issue	Amounts Outstanding 08/31/13
Unlimited Tax School Building Bonds, Series 2000	4.45 to 6.00%	2021	\$ 40,000,000	\$ 18,233,754
Unlimited Tax School Building Bonds, Series 2001 QZAB	0.00%	2015	3,759,224	547,719
Variable Rate School Building Unlimited Tax Bonds, Series 2003A	4.46%	2029	30,000,000	29,145,000
Unlimited Tax Refunding Bonds, Series 2004	3.25 to 5.00%	2015	13,965,000	3,370,000
Unlimited Tax School Building and Refunding Bonds, Series 2004A	4.00 to 5.25%	2030	49,025,000	10,895,000
Unlimited Tax Refunding Bonds, Series 2005	2.50 to 5.00%	2020	40,344,982	35,710,003
Unlimited Tax School Building and Refunding Bonds, Series 2005A	3.50 to 5.28%	2031	114,815,180	54,173,344
Unlimited Tax School Building Bonds, Series 2006	4.50 to 5.00%	2031	28,765,000	24,005,000
Unlimited Tax School Building and Refunding Bonds, Series 2007	4.50 to 5.23%	2032	70,520,219	46,630,219
Unlimited Tax School Building and Refunding Bonds, Series 2008	3.00 to 4.00%	2019	13,090,000	3,660,000
Unlimited Tax School Building Bonds, Series 2009	2.50 to 4.63%	2033	24,735,000	23,880,000
Unlimited Tax School Building Bonds, Series 2010-A	2.00 to 5.00%	2035	45,965,000	44,750,000
Unlimited Tax Refunding Bonds, Series 2010-B	2.25 to 5.00%	2025	27,978,394	25,470,000
Unlimited Tax Refunding Bonds, Series 2012	2.00 to 5.00%	2031	36,409,259	35,579,259
Unlimited Tax Refunding Bonds, Series 2013	3.00 to 3.50%	2026	8,760,000	8,760,000
Total bonded debt principal payable				<u>\$ 364,809,298</u>

**Interest Rate Swap**

As a means to lower its borrowing costs when compared against fixed-rate bonds at the time of issuance in August 2003, the District entered into an interest rate swap in connection with its \$30 million Series 2003-A variable-rate school building unlimited tax bonds. The intention of the swap was to effectively change the District's variable interest rate on the bonds to a synthetic fixed rate of 4.458%.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

**Interest Rate Swap – Continued**

The bonds and the related swap agreement mature on August 1, 2029, and the swap's notional amount of \$30 million matches the \$30 million variable-rate bonds. The swap was entered at the same time the bonds were issued (August 2003).

Under the swap, the District pays the counterparty a fixed payment of 4.458% and receives a variable payment based on The Bond Market Association Municipal Swap Index (BMA), which was 0.17% at August 31, 2013.

Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$5,458,608 as of August 31, 2013. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the District's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

As of August 31, 2013, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA- by Fitch Ratings, A+ by Standard & Poor's and Aa3 by Moody's Investor Service as of August 31, 2013. To mitigate the potential for credit risk, if the counterparty's credit quality falls below BBB/Baa3, the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

The District shall have the right to optionally terminate the swap agreement at any time over the term of the agreement at the then prevailing market value of the swap. The counterparty shall not have the elective right to terminate the swap agreement as no termination option was priced into the terms of the swap at inception. As rates vary, variable-rate bond interest payments and net swap payments will vary.

The District implemented GASB 53, Accounting and Financial Reporting for Derivative Instruments. This standard established a comprehensive framework for measurement, recognition, and disclosure of derivatives. Under this guidance, derivative instruments associated with hedgeable items that are determined to be effective in reducing exposures to identified financial risks are considered hedging derivative instruments. Effectiveness is determined by considering whether changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. In these instances, hedge accounting should be applied.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

**Interest Rate Swap – Continued**

Under hedge accounting, the changes in fair values of the hedging derivative instrument are reported as either deferred inflows or deferred outflows in the District's statement of net position. The following table summarizes the fair value balances and notional amounts of the District's derivative instruments:

		Changes in Fair Value		Fair Value at August 31, 2013		
		Classification	Amount	Classification	Amount	Notional
Governmental activities						
2003-A Swap						
(Cash flow hedge)	Deferred inflow		<u>\$ 3,647,660</u>	Debt	<u>\$ (5,458,608)</u>	<u>\$ 29,145,000</u>

The consistent critical terms method was utilized to determine the effectiveness of this instrument.

**Debt Service Requirements**

Debt service requirements are as follows:

Year Ending August 31	Variable - Rate Bonds				Total Requirements
	Principal	Interest	Interest Rate Swaps, Net		
2014	\$ 110,000	\$ 1,281,797	\$ 17,487		\$ 1,409,284
2015	115,000	1,276,959	17,421		1,409,380
2016	120,000	1,271,902	17,352		1,409,254
2017	130,000	1,266,624	17,280		1,413,904
2018	135,000	1,260,907	17,202		1,413,109
2019-2023	12,620,000	5,210,971	71,091		17,902,062
2024-2028	15,590,000	2,187,785	29,847		17,807,632
2029-2030	325,000	14,294	195		339,489
	<u>\$ 29,145,000</u>	<u>\$ 13,771,238</u>	<u>\$ 187,875</u>		<u>\$ 43,104,113</u>



**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

**Debt Service Requirements – Continued**

Debt service requirements to maturity are as follows (excluding maturities on the 2003-A issue, which is reflected above):

Year Ending August 31	General Obligation		Total Requirements
	Principal	Interest	
2014	\$ 26,716,027	\$ 13,287,663	\$ 40,003,690
2015	28,990,976	12,394,945	41,385,921
2016	27,796,557	11,513,760	39,310,317
2017	28,448,384	10,558,246	39,006,630
2018	23,874,043	11,684,324	35,558,367
2019-2023	83,312,803	58,138,491	141,451,294
2024-2028	70,688,261	39,965,983	110,654,244
2029-2033	40,507,247	28,624,255	69,131,502
2034-2035	5,330,000	403,000	5,733,000
	<u>\$ 335,664,298</u>	<u>\$ 186,570,667</u>	<u>\$ 522,234,965</u>

There are a number of limitations and restrictions contained in the unlimited tax school building and refunding bond indenture. The District is in compliance with all significant limitations and restrictions at August 31, 2013.

During 2013, there was an early redemption of the Series 2000 Variable Rate School Building Unlimited Tax Bonds totaling \$4,000,000.

**Refunding**

In prior years and the current year, the District defeased certain unlimited tax school building bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As of August 31, 2013, \$86,842,060 of bonds considered defeased are still outstanding.

During the year ended August 31, 2013, the District issued \$8,760,000 of Unlimited Tax Refunding Bonds plus a premium of \$1,086,903 and a transfer of prior issue debt service funds of \$150,952. Of these amounts, \$9,803,123 was used to purchase U.S. Government Securities that were placed in an irrevocable trust with an escrow agent to provide for all future debt payments of the refunded bonds. The reacquisition price exceeded the carrying amount of the refunded debt by \$1,356,733. This amount is being amortized over the remaining life of the debt and is classified as a reduction of long-term debt. This advanced refunding was undertaken to reduce total debt service payments through the year 2031 by \$2,010,250 and resulted in a gross economic gain of \$1,736,832.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

Changes in Long-Term Liabilities:

	Beginning Balance	Additions	Reductions	Refunded Current Year	Ending Balance	Due Within One Year
Government activities						
Bonded debt payable	\$ 394,842,217	\$ 8,760,000	\$ (30,032,919)	\$ (8,760,000)	\$ 364,809,298	\$ 26,826,027
Deferred loss on refunding	(12,516,268)	(1,356,733)	1,043,992	-	(12,829,009)	-
	382,325,949	7,403,267	(28,988,927)	(8,760,000)	351,980,289	26,826,027
Accreted interest	25,621,212	2,284,709	-	-	27,905,921	976,732
Premium on bonds	24,983,521	1,086,903	(2,134,660)	-	23,935,764	-
Bond discount	(1,724,249)	-	165,966	-	(1,558,283)	-
Compensated absences	1,667,532	248,408	(298,190)	-	1,617,750	252,299
Long-term liabilities	<u>\$ 432,873,965</u>	<u>\$ 11,023,287</u>	<u>\$ (31,255,811)</u>	<u>\$ (8,760,000)</u>	<u>\$ 403,881,441</u>	<u>\$ 28,055,058</u>

Compensated absences are liquidated in the general fund and all other long-term liabilities are liquidated in the Debt Service Fund.

**NOTE 9. GENERAL FUND FEDERAL SOURCE REVENUES**

During the current year, general fund federal source revenues consisted of the following:

Program or Source	CFDA Number	Amount	Total Grant or Entitlement
Medicaid and administrative consortium	N/A	\$ 46,062	\$ 46,062
Selective reserve educational assistance	N/A	510,298	510,298
School health and related services	N/A	1,710,002	1,710,002
		<u>\$ 2,266,362</u>	<u>\$ 2,266,362</u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 10. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES**

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

	General Fund	Food Service Fund	Debt Service Fund	Capital Projects Fund	Non-Major Governmental	Total
Taxes, current	\$ 60,562,225	\$ -	\$ 22,128,544	\$ -	\$ -	\$ 82,690,769
Taxes, prior years	659,843	-	230,639	-	-	890,482
Penalties and interest	443,890	-	170,169	-	-	614,059
Tax increment fund	58,231	-	-	-	-	58,231
Investment earnings	343,544	19,789	72,168	144,866	-	580,367
Insurance recovery	90,913	-	-	-	-	90,913
Tuition from patrons	769,604	-	-	-	-	769,604
Athletic activities	844,093	-	-	-	-	844,093
Rent	458,660	-	-	-	-	458,660
Food service activities	-	4,652,194	-	-	-	4,652,194
Gifts and bequests	145,162	-	-	-	211,577	356,739
Extra/cocurricular	1,842,214	-	-	-	-	1,842,214
Enterprising revenues	570,753	93,042	-	-	-	663,795
Other	785,305	-	-	-	-	785,305
	<u>\$ 67,574,437</u>	<u>\$ 4,765,025</u>	<u>\$ 22,601,520</u>	<u>\$ 144,866</u>	<u>\$ 211,577</u>	<u>\$ 95,297,425</u>

**NOTE 11. DEFINED BENEFIT PENSION PLAN**

**Plan Description**

The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. It is a cost-sharing public employee retirement system (PERS), with one exception: all risk and costs are not shared by the employer. By statute, the State of Texas contributes to the retirement system an amount equal to the current authorized rate times the aggregate annual compensation of all members of the retirement system during the fiscal year. For members of the retirement system entitled to the minimum salary for certain school personnel under § 16.056, Texas Education Code, the District shall pay the state's contribution on the portion of the member's salary that exceeds the statutory minimum. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

**Types of Employees Covered**

All employees of public, state-supported educational institutes in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Subtitle C § 822.002 are covered by TRS membership.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 11. DEFINED BENEFIT PENSION PLAN – CONTINUED**

**Benefit Provisions**

The Teacher Retirement System of Texas administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas. It operates primarily under the provisions of Texas Constitution, Article XVI, § 67 and Texas Government Code, Title 8, Subtitle C. The system also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapter 803 and Chapter 805, respectively.

**Service Retirement:**

- 1) Normal
  - a) Age 65 with 5 years of service
  - b) Any combination of age plus years of service which equals 80 with at least 5 years of service
- 2) Reduced
  - a) Age 55 with at least 5 years of service
  - b) Any age below 50 with 30 years of service

A member is fully vested after five years of creditable service and entitled to any benefit for which eligibility requirements have been met.

**Funding Policy**

Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (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 6.4% for fiscal years 2013, 2012 and 2011, and a state contribution rate of 6.4% for fiscal year 2013, and 6.0% and 6.644% for fiscal years 2012 and 2011, respectively. State contributions made on behalf of the District's employees for the years ended August 31, 2013, 2012 and 2011 were \$11,049,021, \$11,519,384, and \$11,578,718, respectively. The District paid additional state contributions for the years ended August 31, 2013, 2012 and 2011 in the amount of \$2,243,949 \$1,959,334, and \$2,456,664, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

## **MESQUITE INDEPENDENT SCHOOL DISTRICT NOTES TO THE FINANCIAL STATEMENTS**

### **NOTE 12. RETIREE HEALTH PLAN**

#### **Plan Description**

The Mesquite Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The 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 Web site at [www.trs.state.tx.us](http://www.trs.state.tx.us), by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas 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 Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 0.5% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal year 2013, while rates were set at 1.0%, 0.65% and 0.55%, respectively, for fiscal years 2012 and 2011. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2013, 2012, and 2011, the State's contributions to TRS-Care were \$1,022,329, \$1,963,072, and \$2,011,078, respectively, the active member contributions were \$1,329,027, \$1,275,997, and \$1,307,201, respectively, and the school district's contributions were \$1,013,859, \$1,079,690, and \$1,106,093, respectively, which equaled the required contributions each year. In addition, the State of Texas contributed \$534,062, \$511,486, and \$465,352 in 2013, 2012 and 2011, respectively, for on-behalf payments for Medicare Part D, as well as \$0 and \$483,701 in 2013 and 2012, respectively, for the Early Retiree Reinsurance Program.

### **NOTE 13. RISK MANAGEMENT**

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 13. RISK MANAGEMENT – CONTINUED**

**Health Care Coverage**

The District employees are eligible to purchase health insurance through TRS-Active Care which is the statewide health plan for public education employees established by the 77th Texas Legislature and is a fully insured plan administered by Blue Cross and Blue Shield of Texas.

During the year ended August 31, 2013, the District funded benefit credits of \$297 per month per participating employee to the health insurance internal service fund.

The District contribution, along with the employee contribution made through payroll deduction, was used to pay the premiums for the insurance plans chosen by the employee.

**Workers' Compensation Coverage**

Beginning September 1, 1993, the District established a self-insurance plan for workers' compensation benefits. Prior to this time, the District was a member of the Texas Association of School Boards Workers' Compensation Self-Insurance Fund (the Fund). The Fund will continue to be liable for all claims before September 1, 1993.

Claims are paid by a third party administrator acting on behalf of the District under the terms of a contractual agreement. Administrative fees are included within the provisions of that agreement. According to state statute, the District is protected against unanticipated catastrophic claims and aggregate loss by coverage carried through Midwest Employers Casualty, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code.

Coverage was in effect for specific occurrences exceeding \$500,000.

The costs associated with these self-insurance plans are reported as interfund transactions to the extent of amounts actuarially determined. Accordingly, they are treated as operating revenues of the Internal Service Funds and operating expenditures of the General Fund and the Special Revenue Funds. The liabilities of the workers' compensation self-insurance plan totaled \$738,269 and includes incurred but not reported claims. These liabilities reported in the funds at August 31, 2013 are based on the requirements of Governmental Accounting Standards Board No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 13. RISK MANAGEMENT – CONTINUED**

**Workers' Compensation Coverage – Continued**

These liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Workers' compensation liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time were computed by an actuary and are reported at their present value using expected future investment yield assumption of 3%.

Changes in the medical and workers' compensation claims liability amounts in fiscal 2013 and 2012 were:

Self-Insurance Liability	Beginning of Fiscal Year Liability	Claims and Changes in Estimates	Less: Claim Payments	Balance at Fiscal Year-End
2012 - medical	\$ 691,045	\$ (349,898)	\$ 341,147	\$ -
2013 - medical	-	-	-	-
2012 - workers' compensation	934,544	665,688	798,963	801,269
2013 - workers' compensation	801,269	714,972	777,912	738,329

**NOTE 14. COMMITMENTS AND CONTINGENCIES**

**Litigation**

The District is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a materially adverse effect on the accompanying basic 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. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at August 31, 2013 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 14. COMMITMENTS AND CONTINGENCIES – CONTINUED**

**Future Construction**

The funds in the Capital Projects Fund will be used for future school construction and renovation. Commitments on outstanding construction contracts for future school construction and renovations totaled \$52,741,287 at August 31, 2013.

**NOTE 15. SHARED SERVICE AGREEMENTS**

**Deaf Education**

The District is the fiscal agent for the Deaf Education program with the following member districts: Garland Independent School District, Forney Independent School District, Kaufman Independent School District, Red Oak Independent School District, Rockwall Independent School District, Royse City Independent School District, Sunnyvale Independent School District, Terrell Independent School District, and Wills Point Independent School District. Mesquite Independent School District acts as the fiscal agent and provides services for the member districts. The District's expenditures for the year ended August 31, 2013, totaled \$2,116,261.

**NOTE 16. NEW ACCOUNTING PRONOUNCEMENTS**

The GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities, which will be effective for periods beginning after December 15, 2012. The Statement reclassifies certain items that were previously reported as assets and liabilities, as deferred outflows or inflows of resources, and recognizes these items as outflows or inflows of resources. This statement applies to all state and local governmental entities. The District will evaluate the impact of the standard on its Financial Statements and will take the necessary steps to implement it.

The GASB issued Statement No. 67, Financial Reporting for Pension Plans, which will be effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting of state and local governmental pension plans with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement applies to all state and governmental entities and amends Statements 25 and 50. The District will evaluate the impact of the standard on its Financial Statements and will take the necessary steps to implement it.

The GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, which will be effective for periods beginning after June 15, 2014. The objective of this Statement is to improve accounting and financial reporting of state and local governmental pension plans. This Statement applies to all state and governmental entities and replaces Statements 27 and 50. The District will evaluate the impact of the standard on its Financial Statements and will take the necessary steps to implement it.



**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 16. NEW ACCOUNTING PRONOUNCEMENTS - CONTINUED**

The GASB issued Statement No. 69, Governmental Combinations and Disposals of Government Operations, which will be effective for periods beginning after December 15, 2013. The objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. The District will evaluate the impact of the standard on its Financial Statements and will take the necessary steps to implement it.

The GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, which will be effective for periods beginning after June 15, 2013. The objective of this Statement is to require a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. The District will evaluate the impact of the standard on its Financial Statements and will take the necessary steps to implement it.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2013**

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance With Final Budget Under or (Over)
		Original	Final	GAAP BASIS	
REVENUES					
5700	Local and intermediate sources	\$ 66,545,820	\$ 67,947,440	\$ 67,574,437	\$ (373,003)
5800	State program revenues	208,550,590	211,901,600	212,370,722	469,122
5900	Federal program revenues	1,435,000	1,620,500	2,266,362	645,862
5020	Total revenues	276,531,410	281,469,540	282,211,521	741,981
EXPENDITURES					
CURRENT:					
0011	Instruction	170,331,205	170,411,520	169,930,990	480,530
0012	Instructional resources and media services	4,798,020	5,117,530	5,001,647	115,883
0013	Curriculum and staff development	3,765,790	3,135,370	3,060,655	74,715
0021	Instructional leadership	4,661,340	4,244,390	4,242,730	1,660
0023	School leadership	15,790,210	15,412,040	15,389,605	22,435
0031	Guidance, counseling, and evaluation services	11,645,000	11,035,340	11,000,674	34,666
0032	Social work services	227,350	145,680	144,315	1,365
0033	Health services	3,300,720	3,125,480	3,094,733	30,747
0034	Student transportation	4,867,100	5,794,150	5,613,702	180,448
0035	Food service	662,500	610,040	593,611	16,429
0036	Extracurricular activities	7,629,775	7,975,310	7,782,758	192,552
0041	General administration	7,158,880	6,857,040	6,792,576	64,464
0051	Plant maintenance and operations	29,585,430	29,696,860	29,050,927	645,933
0052	Security and monitoring services	2,920,700	3,116,930	2,709,114	407,816
0053	Data processing services	5,138,950	5,274,230	5,198,767	75,463
0061	Community services	113,850	200,790	189,464	11,326
CAPITAL OUTLAY					
0081	Facilities acquisition and construction	1,787,500	5,670,760	5,487,363	183,397
INTERGOVERNMENTAL:					
0095	Payments to juvenile justice alternative ed. prg	140,000	45,080	32,148	12,932
0097	Payments to tax increment fund	2,950,000	2,210,000	2,209,880	120
0099	Other intergovernmental	350,000	346,000	345,785	215
6030	Total expenditures	277,824,320	280,424,540	277,871,444	2,553,096
1100	Excess (deficiency) of revenues over expenditures	(1,292,910)	1,045,000	4,340,077	3,295,077
OTHER FINANCING SOURCES (USES):					
7912	Sale of real or personal property	30,000	30,000	34,247	4,247
7915	Transfers in	870,800	431,000	391,200	(39,800)
7949	Other (Uses)	-	-	26,786	26,786
8911	Transfers out	(600,000)	(505,000)	(440,564)	64,436
7080	Total other financing sources (uses)	300,800	(44,000)	11,669	55,669
1200	Net change in fund balances	(992,110)	1,001,000	4,351,746	3,350,746
0100	Fund balances--beginning	82,315,649	82,315,649	82,315,649	-
3000	Fund balances--ending	\$ 81,323,539	\$ 83,316,649	\$ 86,667,395	\$ 3,350,746

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
CHILD NUTRITION PROGRAM  
FOR THE YEAR ENDED AUGUST 31, 2013**

Data Control Codes		Budgeted Amounts		Actual	Variance With
		Original	Final	Amounts GAAP BASIS	Final Budget Under or (Over)
REVENUES					
5700	Local and intermediate sources	\$ 5,373,700	\$ 4,778,640	\$ 4,765,025	\$ (13,615)
5800	State program revenues	341,700	639,310	386,787	(252,523)
5900	Federal program revenues	14,564,400	15,060,380	15,067,077	6,697
5020	Total revenues	20,279,800	20,478,330	20,218,889	(259,441)
EXPENDITURES					
CURRENT:					
0035	Food service	19,408,950	19,570,500	19,245,989	324,511
0052	Security and monitoring services	-	-	-	-
6030	Total expenditures	19,408,950	19,570,500	19,245,989	324,511
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	44,532	(44,532)
8911	Transfers out	(870,800)	(355,460)	(391,200)	35,740
7080	Total other financing sources (uses)	(870,800)	(355,460)	(346,668)	(8,792)
1200	Net change in fund balances	50	552,370	626,232	73,862
0100	Fund balances--beginning	6,594,820	6,594,820	6,594,820	-
3000	Fund balances--ending	\$ 6,594,870	\$ 7,147,190	\$ 7,221,052	\$ 73,862

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

**NOTE 1. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information**

The Board of Education adopts an “appropriated budget” on a basis consistent with generally accepted accounting principles for the General Fund, Debt Service Fund and the Food Service Fund. This District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds.

The following procedures are followed in establishing the budgetary data:

1. Prior to August 20 of the preceding fiscal year, 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 of Education is then called for the purpose of adopting the proposed budget after ten days public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board of Education. 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. Significant amendments were made to the following functional areas:

<u>Function</u>	<u>Increase (Decrease)</u>
Revenue:	
Local Revenues	\$ 1,401,620
State Revenues	3,351,010
Expense:	
Facilities Acquisition and Construction	3,883,260

4. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board of Education. All budget appropriations lapse at year-end.
5. The Texas Education Agency requires these budgets to be filled with the Texas Education Agency on a designated date through the Public Education Information Management System (PEIMS). The budget should not exceed any functional expenditure category under the TEA requirements. The original and final amended versions of these budgets are used in this report.

## **COMBINING STATEMENTS AND SCHEDULES**

## EXHIBIT G-1

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

	<b>289 Other Federal Special Revenue Funds</b>	<b>429 Other State Special Revenue Funds</b>	<b>499 Local Special Revenue Funds</b>	<b>Total Nonmajor Governmental Funds</b>
<b>ASSETS</b>				
Due from other governments	\$ 1,912,148	\$ 17,169	\$ -	\$ 1,929,317
Due from other funds	45,425	62,619	190,285	298,329
<b>Total assets</b>	<u>\$ 1,957,573</u>	<u>\$ 79,788</u>	<u>\$ 190,285</u>	<u>\$ 2,227,646</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 27,972	\$ 1,368	\$ 5,262	\$ 34,602
Due to other funds	1,929,601	26,817	13,074	1,969,492
Unearned revenues	-	1,408	-	1,408
<b>Total liabilities</b>	<u>1,957,573</u>	<u>29,593</u>	<u>18,336</u>	<u>2,005,502</u>
<b>Fund balances</b>				
<b>Restricted</b>				
State Special Revenue	-	50,195	-	50,195
<b>Committed</b>				
Local Special Revenue	-	-	171,949	171,949
<b>Total fund balances</b>	<u>-</u>	<u>50,195</u>	<u>171,949</u>	<u>222,144</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,957,573</u>	<u>\$ 79,788</u>	<u>\$ 190,285</u>	<u>\$ 2,227,646</u>



**EXHIBIT G-2**

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

	<b>289 Other Federal Special Revenue Funds</b>	<b>429 Other State Special Revenue Funds</b>	<b>499 Local Special Revenue Funds</b>	<b>Total Nonmajor Governmental Funds</b>
<b>REVENUES</b>				
Total local and intermediate sources	\$ -	\$ -	\$ 211,577	\$ 211,577
State program revenues	-	3,291,872	-	3,291,872
Federal program revenues	17,015,614	-	-	17,015,614
<b>Total revenues</b>	<u>17,015,614</u>	<u>3,291,872</u>	<u>211,577</u>	<u>20,519,063</u>
<b>EXPENDITURES</b>				
Current:				
11 Instruction	14,096,942	3,211,059	117,935	17,425,936
12 Instructional resources and media services	-	175	6,694	6,869
13 Curriculum and staff development	998,062	5,348	30,262	1,033,672
21 Instructional leadership	776,105	-	-	776,105
23 School leadership	23,306	-	-	23,306
31 Guidance, counseling, and evaluation services	731,001	73,021	-	804,022
32 Social work services	59,339	-	-	59,339
35 Food service	-	-	3,380	3,380
36 Extracurricular activities	4,203	-	2,334	6,537
52 Security and monitoring services	866	-	-	866
61 Community services	325,790	-	-	325,790
<b>Total expenditures</b>	<u>17,015,614</u>	<u>3,289,603</u>	<u>160,605</u>	<u>20,465,822</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>-</u>	<u>2,269</u>	<u>50,972</u>	<u>53,241</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>-</u>	<u>-</u>	<u>141</u>	<u>141</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>141</u>	<u>141</u>
Net change in fund balances	-	2,269	51,113	53,382
<b>Fund balances—beginning</b>	<u>-</u>	<u>47,926</u>	<u>120,836</u>	<u>168,762</u>
<b>Fund balances—ending</b>	<u><u>\$ -</u></u>	<u><u>\$ 50,195</u></u>	<u><u>\$ 171,949</u></u>	<u><u>\$ 222,144</u></u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF NET POSITION  
INTERNAL SERVICE FUNDS  
AUGUST 31, 2013**

	<b>780 Health Insurance Fund</b>	<b>790 Workers Compensation Fund</b>	<b>Total Internal Service fund</b>
<b>ASSETS</b>			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 1,383,173	\$ 5,258,145	\$ 6,641,318
Other receivables	163,776	-	163,776
Inventory	326,018	-	326,018
Due from other funds	73,771	57,395	131,166
Other current assets	-	9,758	9,758
<b>Total assets</b>	<u>1,946,738</u>	<u>5,325,298</u>	<u>7,272,036</u>
<b>LIABILITIES</b>			
CURRENT LIABILITIES:			
Accounts payable	130,642	816	131,458
Due to other funds	9,235	2,944,536	2,953,771
Accrued expenses	-	738,329	738,329
<b>Total liabilities</b>	<u>139,877</u>	<u>3,683,681</u>	<u>3,823,558</u>
<b>NET POSITION</b>			
Unrestricted	<u>1,806,861</u>	<u>1,641,617</u>	<u>3,448,478</u>
<b>Total net position</b>	<u><u>\$ 1,806,861</u></u>	<u><u>\$ 1,641,617</u></u>	<u><u>\$ 3,448,478</u></u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2013**

	<b>780 Health Insurance Fund</b>	<b>790 Workers Compensation Fund</b>	<b>Total Internal Service Fund</b>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 5,825,484	\$ 1,000,000	\$ 6,825,484
<b>Total operating revenues</b>	<u>5,825,484</u>	<u>1,000,000</u>	<u>6,825,484</u>
<b>OPERATING EXPENSES:</b>			
Personal services	1,083,381	178,454	1,261,835
Professional and contractual services	52,839	16,705	69,544
Supplies and materials	4,678,408	5,304	4,683,712
Insurance claims and expenses	-	714,972	714,972
Other operating costs	5,833	129,599	135,432
<b>Total operating expenses</b>	<u>5,820,461</u>	<u>1,045,034</u>	<u>6,865,495</u>
<b>Operating income (loss)</b>	<u>5,023</u>	<u>(45,034)</u>	<u>(40,011)</u>
<b>NONOPERATING REVENUES:</b>			
Earnings from temporary deposits and investments	1,199	99	1,298
<b>Total nonoperating revenue</b>	<u>1,199</u>	<u>99</u>	<u>1,298</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	6,222	(44,935)	(38,713)
Transfers in	396,032	-	396,032
<b>Total transfers</b>	396,032	-	396,032
<b>Change in net position</b>	402,254	(44,935)	357,319
<b>Net position—beginning</b>	<u>1,404,607</u>	<u>1,686,552</u>	<u>3,091,159</u>
<b>Net position—ending</b>	<u>\$ 1,806,861</u>	<u>\$ 1,641,617</u>	<u>\$ 3,448,478</u>

**EXHIBIT G-5**

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2013**

	<b>780 Health Insurance Fund</b>	<b>790 Workers Compensation Fund</b>	<b>Total Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from transactions with other funds	\$ 5,753,868	\$ 1,129,995	\$ 6,883,863
Payments to suppliers	(4,860,612)	(197,775)	(5,058,387)
Payments to employees	(1,136,220)	(195,159)	(1,331,379)
Claims paid	-	(714,972)	(714,972)
<b>Net cash provided by (used in) operating activities</b>	<b>(242,964)</b>	<b>22,089</b>	<b>(220,875)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Transfers in	396,032	-	396,032
<b>Net cash provided by non-capital financing activities</b>	<b>396,032</b>	<b>-</b>	<b>396,032</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment earnings	1,199	99	1,298
<b>Net cash provided by investing activities</b>	<b>1,199</b>	<b>99</b>	<b>1,298</b>
<b>Net increase in cash and cash equivalents</b>	<b>154,267</b>	<b>22,188</b>	<b>176,455</b>
<b>Balances—beginning of the year</b>	<b>1,228,906</b>	<b>5,235,957</b>	<b>6,464,863</b>
<b>Balances—end of the year</b>	<b>\$ 1,383,173</b>	<b>\$ 5,258,145</b>	<b>\$ 6,641,318</b>
<b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>			
Operating income (loss)	\$ 5,023	\$ (45,034)	\$ (40,011)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Increase in inventory	(5,178)	-	(5,178)
Increase in other current assets	(163,776)	-	(163,776)
(Increase) decrease in interfund receivables	(71,616)	129,995	58,379
Increase (decrease) in accounts payable	(7,417)	68	(7,349)
Decrease in accrued expenses	-	(62,940)	(62,940)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (242,964)</b>	<b>\$ 22,089</b>	<b>\$ (220,875)</b>

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF NET POSITION  
PRIVATE PURPOSE TRUST FUNDS  
AUGUST 31, 2013**

	<b>806 Meadows O'Donnell Foundation</b>	<b>807 Dairy Max Grant</b>	<b>808 TASB Risk Grant</b>	<b>810 Scholarship Fund</b>	<b>Total Private Purpose Trust Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 13,750	\$ -	\$ 403	\$ 182,936	\$ 197,089
<b>Total assets</b>	<u>\$ 13,750</u>	<u>\$ -</u>	<u>\$ 403</u>	<u>\$ 182,936</u>	<u>\$ 197,089</u>
<b>LIABILITIES</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ 490	\$ 490
Due to other funds	13,654	-	403	33,270	47,327
<b>Total liabilities</b>	<u>13,654</u>	<u>-</u>	<u>403</u>	<u>33,760</u>	<u>47,817</u>
<b>NET POSITION</b>					
Unrestricted net position	96	-	-	149,176	149,272
<b>Total net position</b>	<u>96</u>	<u>-</u>	<u>-</u>	<u>149,176</u>	<u>149,272</u>
<b>Total liabilities and net position</b>	<u>\$ 13,750</u>	<u>\$ -</u>	<u>\$ 403</u>	<u>\$ 182,936</u>	<u>\$ 197,089</u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
PRIVATE PURPOSE TRUST FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2013**

	<b>806 Meadows O'Donnell Foundation</b>	<b>807 Dairy Max Grant</b>	<b>808 TASB Risk Grant</b>	<b>810 Scholarship Fund</b>	<b>Total Private Purpose Trust Funds</b>
<b>ADDITIONS</b>					
Local and intermediate sources	\$ -	\$ -	\$ -	\$ 16,464	\$ 16,464
<b>Total additions</b>	-	-	-	16,464	16,464
<b>DEDUCTIONS</b>					
Supplies and materials	3,270	-	-	2,350	5,620
Capital expenditures	-	-	-	-	-
Other operating costs	6,022	-	-	22,555	28,577
<b>Total deductions</b>	9,292	-	-	24,905	34,197
<b>LOSS BEFORE TRANSFERS</b>	(9,292)	-	-	(8,441)	(17,733)
Transfers out	-	(141)	-	-	(141)
<b>Total transfers</b>	-	(141)	-	-	(141)
<b>Changes in net position</b>	(9,292)	(141)	-	(8,441)	(17,874)
<b>Net position September 1 (beginning)</b>	9,388	141	-	157,617	167,146
<b>Net position August 31 (ending)</b>	\$ 96	\$ -	\$ -	\$ 149,176	\$ 149,272

## **REQUIRED TEA SCHEDULES**

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

Last Ten Years Ended August 31	1	2	3
	Tax Rates		Net Assessed/Appraised Value For School Tax Purposes
	Maintenance	Debt Service	
2004 and prior years	various	various	various
2005	1.3700	0.3000	\$ 6,033,355,295
2006	1.4400	0.3200	6,290,139,249
2007	1.4500	0.3124	6,581,607,326
2008	1.3257	0.3423	6,933,850,462
2009	1.0067	0.37	6,947,938,555
2010	1.0400	0.3600	6,557,685,613
2011	1.0400	0.3800	6,230,166,386
2012	1.0400	0.3800	6,108,497,389
2013 (School year under audit)	1.0400	0.3800	5,974,344,054

**1000 TOTALS**

9000 - Portion of Row 1000 for Taxes Paid  
into Tax Increment Zone Under Chapter 311, Tax Code (Function 97)



**EXHIBIT H-1**

<b>10</b> Beginning Balance 09/01/12	<b>20</b> Current Year's Total Levy	<b>31</b> Maintenance Total Collections	<b>32</b> Debt Service Total Collections	<b>40</b> Entire Year's Adjustments	<b>50</b> Ending Balance 08/31/13
\$ 2,178,334		\$ 35,481	\$ 13,411	\$ (18,410)	\$ 2,111,032
403,931		13,736	3,052	(2,890)	384,253
458,394		21,113	4,550	(5,993)	426,738
457,830		42,679	11,019	(5,635)	398,497
405,437		32,898	12,094	(686)	359,759
530,192		66,156	22,900	(1,393)	439,743
703,899		98,349	35,935	2,132	571,747
912,443		137,012	50,062	(97,380)	627,989
1,218,041		212,420	77,615	(167,179)	760,827
-	84,374,630	60,562,222	22,128,545	(403,862)	1,280,001
<u>\$ 7,268,501</u>	<u>\$ 84,374,630</u>	<u>\$ 61,222,066</u>	<u>\$ 22,359,183</u>	<u>\$ (701,296)</u>	<u>\$ 7,360,586</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,618,504</u>	<u>\$ 591,376</u>	<u>\$ -</u>	<u>\$ -</u>

EXHIBIT H-2

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COSTS FOR  
2012-2013 - GENERAL AND SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2013  
UNAUDITED**

**FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION**

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ 70,373	\$ -	\$ 618,695	\$ 4,500,282	\$ 907,822	\$ -	\$ 6,097,172
6211	Legal Services	-	-	-	-	76,616	-	76,616
6212	Audit Services	-	-	-	102,000	-	-	102,000
6213	Tax Appraisal and Collection	-	376,302	-	-	-	-	376,302
621X	Other Prof. Services	-	-	-	42,900	-	-	42,900
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	51,662	135	4,500	-	56,297
6240	Contr. Maint. and Repair	-	-	-	-	108,050	-	108,050
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	2,139	100,355	10,612	-	113,106
6290	Miscellaneous Contr.	-	-	20,286	118,738	185,716	-	324,740
6310	Fuel	-	-	4,595	71,152	-	-	75,747
6320	Textbooks and Reading	348	-	10,030	4,162	402	-	14,942
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	1,434	-	23,172	334,344	17,747	-	376,697
6410	Travel, Subsistence, Stipends	26,540	-	23,321	52,361	3,628	-	105,850
6420	Ins. and Bonding Costs	-	-	2,033	-	161,528	-	163,561
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	3,489	-	96,863	338,824	31,744	-	470,920
6600	Miscellaneous Other	-	-	-	-	-	319,268	319,268
6000	TOTAL	<u>\$ 102,184</u>	<u>\$ 376,302</u>	<u>\$ 852,796</u>	<u>\$ 5,665,253</u>	<u>\$ 1,508,365</u>	<u>\$ 319,268</u>	<u>\$ 8,824,168</u>

Total expenditures/expenses for General and Special Revenue Funds  
(plus Food Service Enterprise Fund if present)

\$ 317,583,255

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	10	\$17,659,721
Total Debt & Lease (6500)	11	-
Plant Maintenance (Function 51, 6100-6400)	12	27,691,459
Food (Function 35, 6341 and 6499)	13	11,624,942
Stipends (6413)	14	-
Column 4 (above) - Total Indirect Cost		<u>5,665,253</u>

Subtotal:

62,641,375

Net Allowed Direct Cost

\$ 254,941,880

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	15	600,112,642
Historical Cost of Buildings over 50 years old	16	-
Amount of Federal Money in building Cost (Net of #16)	17	-
Total Cost of Furniture & Equipment before Depreciation (1530&1540)	18	116,976,610
Historical Cost of Furniture & Equipment over 16 years old	19	5,172,858
Amount of Federal Money in Furniture & Equipment (Net of #19)	20	-

(8) Note A - \$2,031,593 in Function 53 expenditures are included in this report as administrative costs.

## EXHIBIT H-3

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED AUGUST 31, 2013**

Data Control Codes		Budgeted Amounts		Actual Amounts GAAP BASIS	Variance With Final Budget Under or (Over)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 21,515,170	\$ 22,664,300	\$ 22,601,520	\$ (62,780)
5800	State program revenues	23,021,500	23,842,060	23,842,057	(3)
5020	Total revenues	44,536,670	46,506,360	46,443,577	(62,783)
EXPENDITURES					
CURRENT:					
DEBT SERVICE:					
0071	Principal on long-term debt	26,000,000	29,869,500	30,032,919	(163,419)
0072	Interest on long-term debt	18,000,000	18,000,000	16,427,240	1,572,760
0073	Bond issuance costs and fees	400,000	400,000	520,696	(120,696)
6030	Total expenditures	44,400,000	48,269,500	46,980,855	1,288,645
1100	Excess (deficiency) of revenues over expenditures	136,670	(1,763,140)	(537,278)	(1,225,862)
OTHER FINANCING SOURCES (USES) :					
7901	Refunding bonds issued	-	-	8,760,000	(8,760,000)
7916	Premium or discount on issuance of bonds	-	-	1,086,903	(1,086,903)
7949	Other resources	-	174,000	78,069	95,931
8940	Payment to bond refunding fund	-	-	(9,803,123)	9,803,123
7080	Total other financing sources (uses)	-	174,000	121,849	52,151
1200	Net change in fund balances	136,670	(1,589,140)	(415,429)	(1,173,711)
0100	Fund balances--beginning	12,379,876	12,379,876	12,379,876	-
3000	Fund balances--ending	\$ 12,516,546	\$ 10,790,736	\$ 11,964,447	\$ (1,173,711)

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## **FEDERAL AWARDS SECTION**

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Mesquite Independent School District  
Mesquite, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mesquite Independent School District (the District), as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 9, 2014.

**Internal Control over Financial Reporting**

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

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

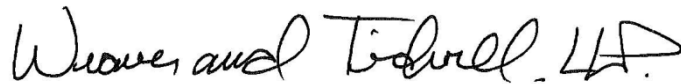
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Weaver and Tidwell, L.L.P." with a stylized flourish at the end.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
January 9, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

Board of Trustees  
Mesquite Independent School District  
Mesquite, Texas

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

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

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

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

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

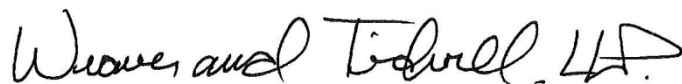
## Report on Internal Control Over Compliance

The administration of Mesquite Independent School District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Mesquite Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mesquite Independent School District's internal control over compliance.

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

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

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



WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
January 9, 2014

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED AUGUST 31, 2013**

**I. Summary of the Auditor's Results:**

Financial Statements

- a. An unqualified opinion was issued on the financial statements.
- b. Internal control over financial reporting:
- Material weakness(es) identified? \_\_\_\_\_Yes      X  No
  - Significant deficiency(ies) identified that are not considered a material weakness? reported \_\_\_\_\_Yes      X  None
- c. Noncompliance material to financial statements noted \_\_\_\_\_Yes      X  No

Major Programs

- d. Internal control over major programs:
- Material weakness(es) identified? \_\_\_\_\_Yes      X  No
  - Significant deficiency(ies) identified that are not considered a material weakness? \_\_\_\_\_Yes      X  None
- e. An unqualified opinion was issued on compliance for major programs.
- f. Any audit findings disclosed that were required to be reported under Section 510(a) or OMB Circular A-133. \_\_\_\_\_Yes      X  No
- g. Identification of major programs:
- |   |         |
|---|---------|
| ESEA Title I, Part A – Improving Basic Programs | 84.010  |
| ESEA Title II, Part A                           | 84.367A |
- h. The dollar threshold used to distinguish between Type A and Type B programs. \$979,172
- i. Auditee qualified as a low-risk auditee.   X  Yes    \_\_\_\_\_No

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED AUGUST 31, 2013**

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

None were noted in current year.

**III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above**

None were noted in current year.

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED AUGUST 31, 2013**

**FINDINGS FROM YEAR ENDED AUGUST 31, 2012**

**None were noted in the prior year.**

## EXHIBIT I-1

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

{1}	{2}	{3}	{4}
Federal/ State Grantor	CFDA Number	Pass-Through Grantor/ Program Title	Federal Expenditures
<b>U.S. Department of Defense</b>			
Direct Program:			
Selective Reserve Educational Assistance Program	12.609		\$ 510,298
<b>U.S. Department of Education</b>			
<b>Passed Through State Department of Education:</b>			
Carl D. Perkins Basic Formula Grant	84.048A	10420006057914	500,324
ESEA Title 1 Part A-Improving Basic Programs	84.010A	10610101057914	7,474,385
ESEA Title 1 Part C-Education of Migratory Children	84.011	10615001057950	7,490
IDEA -Part B, Formula	84.027A	106600010579146600	6,611,029
IDEA -Part B, Deaf	84.027A	106600010579146601	97,751
IDEA -Part B, Discretionary (Deaf)	84.027A	106600020579146673	95,521
IDEA -Part B, High Cost	84.027A	136600060579146000	439,665
Total CFDA Number 84.027			<u>7,243,966</u>
IDEA -Part B, Preschool Deaf	84.173A	106610010579146611	13,237
IDEA -Part B, Preschool	84.173A	106610010579146610	122,267
Total CFDA Number 84.173			<u>135,504</u>
IDEA -Part C, Early Intervention Deaf	84.181A	103911010579143911	2,607
ESEA Title II, Part A	84.367A	10694501057950	906,800
Title III - Part A - English Language Acquisitions and Enhancement	84.365	10671001057950	725,577
Grants for State Assessments and Related Activities	84.369A	69550902	18,961
Total Passed Through State Department of Education			<u>17,015,614</u>
<b>U.S. Department of Health and Human Services</b>			
Direct Program:			
Medicaid Administrative Claiming Program (MAC)	93.778		46,062
<b>U.S. Department of Agriculture</b>			
<b>Passed Through State Department of Agriculture:</b>			
National School Lunch Program - Cash	10.555		11,320,597
National School Lunch Program - Commodities	10.555		1,163,990
School Breakfast Program	10.553		2,582,490
Total Passed Through State Department of Education			<u>15,067,077</u>
Total Federal Assistance			<u><u>\$ 32,639,051</u></u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS**

**NOTE 1.** For all Federal programs, the District uses the fund types specified in Texas Education Agency's ***Financial Accountability System Resource Guide***. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.

**NOTE 2.** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for interest not matured on long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

**NOTE 3.** The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement - Provisional 6/97.

**NOTE 4.** School Health and Related Services-NHIC reimbursements of \$1,710,002, which are recorded as federal revenue in the general fund, are not considered federal awards for purpose of this schedule.