

MESQUITE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2011

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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, 2011 at a meeting of the Board of Trustees of such school district on the 9th day of January, 2012.



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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mesquite Independent School District (the District) as of and for the year ended August 31, 2011 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administration. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2011, and the respective changes in financial position and the cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

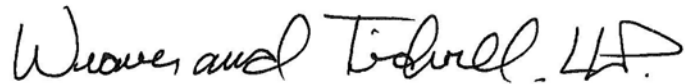
In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and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

The accompanying management's discussion and analysis and the budgetary comparison schedule-general fund as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Mesquite Independent School District

Page 2

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

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 5, 2012

MESQUITE INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS AUGUST 31, 2011

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, 2011. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights

Government wide

- The District's Total Net Assets was \$141,556,160, unrestricted net assets was \$15,298,865, net assets invested in capital assets, net of related debt was \$108,397,707, net assets restricted for food service was \$5,566,742 and net assets restricted for debt service was \$12,292,846

Fund level statements

- The District's General Fund Balance was \$77,549,332, an \$8,307,349 increase from the prior year.
- The District's Debt Service Fund Balance was \$13,644,651, an increase of \$1,995,038 from the prior year.
- The District's Capital Projects Fund Balance was \$66,420,192 a decrease of \$14,949,004 from the prior year.
- The District's Food Service Special Revenue Fund Balance was \$5,566,761, a decrease of \$231,122 over 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 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 assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 9-10 of this report.

**MESQUITE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2011**

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 nonmajor 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 11-16 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 (terminated in 2011) and workers compensation insurance programs. The basic proprietary fund financial statements can be found on pages 17-19 of this report.

**MESQUITE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2011**

- **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 20-21. 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 22-49 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 50-51 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining statements can be found on pages 52-58 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 \$141,556,160 as of August 31, 2011.

The District's Net Assets			
	2011	2010	Difference
<u>Current and other assets</u>	\$ 199,035,068	\$202,990,895	\$(3,955,827)
<u>Capital assets</u>	\$441,857,114	\$433,477,843	\$8,379,271
<u>Total assets</u>	\$640,892,182	\$636,468,738	\$4,423,444
<u>Long-term liabilities</u>			
<u>outstanding</u>	\$473,650,400	\$495,517,600	\$(21,867,200)
<u>Other liabilities</u>	\$25,685,622	\$23,446,858	\$2,238,764
<u>Total liabilities</u>	\$499,336,022	\$518,964,458	\$(19,628,436)
<u>Net assets:</u>			
<u>Invested in capital assets,</u>			
<u>net of related debt</u>	\$108,397,707	\$92,000,368	\$16,397,339
<u>Restricted</u>	\$17,859,588	\$17,079,796	\$779,792
<u>Unrestricted</u>	\$15,298,865	\$8,424,116	\$6,874,749
<u>Total net assets</u>	\$141,556,160	\$117,504,280	\$24,051,880

Governmental activities. The District's total net assets increased by \$24,051,880. The total cost of all *governmental activities* this year was \$350,056,334. The amount that our taxpayers paid for these activities through property taxes was \$87,884,998 or 25.1%.

**MESQUITE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2011**

	Changes in the District's Net Assets		
Revenues:	2011	2010	Difference
<u>Program revenues:</u>			
Charges for services	\$10,034,369	\$10,311,357	(\$276,988)
Operating grants & contributions	\$93,530,055	\$93,275,754	\$254,301
<u>General revenues:</u>			
Property taxes	\$87,884,998	\$92,392,641	\$(4,507,643)
State grants	\$178,334,334	\$173,180,452	\$5,153,882
Other	\$4,324,458	\$2,391,820	\$1,932,638
Total revenues	\$374,108,214	\$371,552,024	\$2,556,190
<u>Expenses:</u>			
Instruction	\$194,821,829	\$197,468,758	\$(2,646,929)
<u>Instructional resources & media services</u>			
Curriculum & staff development	\$5,356,864	\$5,440,134	\$(83,270)
Instructional leadership	\$5,629,608	\$5,510,114	\$119,494
School leadership	\$6,050,557	\$5,292,972	\$757,585
School leadership	\$16,803,553	\$16,844,775	\$(41,222)
<u>Guidance, counseling & evaluation services</u>			
Social work services	\$12,551,332	\$12,033,805	\$517,527
Health services	\$225,690	\$219,644	\$6,046
Student (pupil) transportation	\$3,379,472	\$3,399,058	\$(19,586)
Food Services	\$4,101,959	\$4,161,481	\$(59,522)
Cocurricular/extracurricular activities	\$18,282,384	\$16,987,706	\$1,294,678
General administration	\$8,740,917	\$8,708,218	\$32,699
Plant maintenance & operations	\$7,470,626	\$8,432,972	\$(962,346)
Security and monitoring services	\$30,872,163	\$30,179,201	\$692,962
Data processing services	\$2,843,685	\$2,786,399	\$57,286
Community services	\$6,894,773	\$4,371,453	\$2,523,320
Community services	\$440,359	\$403,671	\$36,688
<u>Debt service-interest on long-term debt</u>			
Bond Issuance Costs and Fees	\$22,161,729	\$22,816,203	\$(654,474)
Facilities acquisition & construction	\$390,135	\$1,024,948	\$(634,813)
Facilities acquisition & construction	\$372,552	\$286,688	\$85,864
<u>Payments to juvenile justice alternative education program</u>			
Payments to tax increment fund	\$17,100	\$40,920	(\$23,820)
Other Intergovernmental Charges	\$2,282,800	\$2,689,425	(\$406,625)
Total expenses	\$366,247	\$378,932	\$(12,685)
Total expenses	\$350,056,334	\$349,477,477	\$578,857
Increase in Net Assets	\$24,051,880	\$22,074,547	\$1,977,333
Beginning Net Assets	\$117,504,280	\$95,429,733	\$22,074,547
Ending Net Assets	\$141,556,160	\$117,504,280	\$24,051,880

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, *unassigned 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 \$163,383,003 a decrease of \$4,924,491. Approximately 46 percent or \$74,652,250 constitutes *unassigned fund balance*. The remainder of fund balance is designated to indicate that it is not available for new spending as follows: nonspendable, inventory \$1,584,971, and deferred expenditures \$249,897; restricted, debt service \$13,644,651, food service \$5,326,074, capital acquisitions \$66,420,192, and state special revenue, \$20,173; committed, local special revenue, \$154,966; assigned, \$1,329,829.

**MESQUITE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2011**

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 \$74,652,250, while the total fund balance was \$77,549,332. 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 29.2 percent of the total general fund expenditures, while total fund balance represents 30.3 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 assets at August 31, 2011, amounted to \$2,763,057.

General Fund Budgetary Highlights

The budget was amended August 8, 2011. The district made the following amendments to budgeted revenue:

- \$ 5,199,576 increase in local revenue
- \$15,657,253 decrease in state revenue
- \$ 1,461,150 increase in federal revenue
- \$ 43,130 increase in other resources due to transfer in

Following is a summary of amendments made to appropriations:

- \$16,958,225 decrease for instructional services
- \$ 1,787,900 decrease for instructional and school leadership
- \$ 511,475 increase for student services
- \$ 542,601 decrease for general administration
- \$ 1,036,220 decrease for support services
- \$ 2,087,803 increase for data processing
- \$ 45,350 decrease for ancillary services
- \$ 5,830,850 increase for capital outlay
- \$ 1,131,300 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, 2011, amounts to \$441,857,114 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, construction in progress, and long-term investments.

**MESQUITE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2011**

District's Capital Assets (net of depreciation)

	2011	2010	Difference
Land	\$15,356,085	15,768,013	\$(411,928)
Buildings and improvements	\$372,021,285	\$368,326,582	\$3,694,703
Furniture & equipment	\$47,673,297	\$46,011,162	\$1,662,135
Construction in progress	\$6,806,447	\$3,372,086	\$3,434,361
Totals at historical cost	\$441,857,114	\$433,477,843	\$9,728,239

Long-term debt. At the end of August 31, 2011, the District had total bonded debt outstanding of \$423,944,495, a decrease of \$24,691,213 from the prior year. There were no new issues or refundings for the period ending August 31, 2011. 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 .08% annually from fiscal 2007-2011. Top ten taxpayers account for less than 6.1% of a diversified tax roll, where residential property comprises roughly 65.1% of the District's AV and commercial property accounts for approximately 34.9%. 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 2011.
- The District's enrollment has experienced an increase of 1.27 percent.

Budget for 2012

- Local revenue increased \$533,708, state aid decreased \$9,491,936 and federal aid decreased \$4,767,089 and other sources decreased \$749,750 for a total net decrease of \$14,475,067.
- Expenditures for 2012, decreased \$14,393,238 due to cuts for salaries and supplies in every function of the school district, increased for debt service \$510,000, increased for capital projects \$5,159,261, for a total net decrease of \$8,723,977.

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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**MESQUITE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2011**

Data
Control
Codes

			Governmental Activities
	ASSETS		
1110	Cash and cash equivalents	\$	99,638,819
1120	Current investments		76,978,743
1220	Delinquent property taxes receivable		7,498,836
1230	Allowance for uncollectable taxes (credit)		(1,618,427)
1240	Due from other governments		9,045,861
1250	Accrued interest		365,524
1290	Other receivables (net)		2,799,121
1300	Inventories		1,922,775
1410	Deferred expenditures or expenses		249,897
1420	Capital bond and other debt issuance costs		2,140,446
1490	Other current assets		13,473
	Capital assets:		
1510	Land		15,356,085
1520	Buildings and improvements		558,923,777
1530	Furniture and equipment		96,192,058
1570	Accumulated depreciation		(235,421,253)
1580	Construction in progress		6,806,447
1000	Total Assets		640,892,182
	LIABILITIES		
2110	Accounts payable		7,478,544
2140	Interest payable		817,469
2150	Payroll deductions and withholdings		2,538,689
2160	Accrued wages payable		12,759,269
2200	Accrued expenditures or expenses		1,625,589
2300	Unearned revenue		466,062
	Noncurrent liabilities:		
2501	Due within one year		27,702,153
2502	Due in more than one year		445,948,247
2000	Total Liabilities		499,336,022
	NET ASSETS		
3200	Invested in capital assets, net of related debt		108,397,707
	Restricted for:		
3840	Food service		5,566,742
3850	Debt service		12,292,846
3900	Unrestricted net assets		15,298,865
3000	Total net assets		\$ 141,556,160

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

MESQUITE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		3	4		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 194,821,829	\$ 828,790	\$ 41,120,468	\$ (152,872,571)
12	Instructional resources and media services	5,356,864	-	699,991	(4,656,873)
13	Curriculum and staff development	5,629,608	-	1,474,331	(4,155,277)
21	Instructional leadership	6,050,557	-	4,650,078	(1,400,479)
23	School leadership	16,803,553	-	2,438,780	(14,364,773)
31	Guidance, counseling, and evaluation services	12,551,332	-	2,564,906	(9,986,426)
32	Social work services	225,690	-	72,476	(153,214)
33	Health services	3,379,472	-	371,151	(3,008,321)
34	Student transportation	4,101,959	-	460,469	(3,641,490)
35	Food service	18,282,384	5,257,115	13,211,856	186,587
36	Extracurricular activities	8,740,917	3,484,767	500,066	(4,756,084)
41	General administration	7,470,626	-	376,775	(7,093,851)
51	Plant maintenance and operations	30,872,163	463,697	1,683,880	(28,724,586)
52	Security and monitoring services	2,843,685	-	370,161	(2,473,524)
53	Data processing services	6,894,773	-	415,742	(6,479,031)
61	Community services	440,359	-	1,914,836	1,474,477
72	Interest on long-term debt	22,161,729	-	20,787,898	(1,373,831)
73	Bond issuance costs and fees	390,135	-	-	(390,135)
81	Facilities acquisition and construction	372,552	-	348,636	(23,916)
95	Payments to juvenile justice alternative education programs	17,100	-	-	(17,100)
97	Payments to Tax Increment Fund	2,282,800	-	67,555	(2,215,245)
99	Other intergovernmental charges	366,247	-	-	(366,247)
	[TP] TOTAL PRIMARY GOVERNMENT:	<u>350,056,334</u>	<u>10,034,369</u>	<u>93,530,055</u>	<u>(246,491,910)</u>
Data Control Codes	General Revenues:				
MT	Taxes				
DT	Property Taxes, Levied for General Purposes			64,402,705	
SF	Property Taxes, Levied for Debt Service			23,482,293	
GC	State Aid - Formula Grants			178,334,334	
IE	Miscellaneous Local and Intermediate Revenue			3,006,135	
TR	Investment Earnings			1,318,323	
CN	Total general revenues and special items			<u>270,543,790</u>	
NB	Change in net assets			24,051,880	
NE	Net assets-beginning			<u>117,504,280</u>	
	Net assets-ending			<u>\$ 141,556,160</u>	

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

**MESQUITE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2011**

Data Control Codes		10 General Fund	50 Debt Service Fund
		<u> </u>	<u> </u>
	ASSETS		
1110	Cash and cash equivalents	\$ 39,617,557	\$ 10,597,537
1120	Current investments	51,981,760	2,989,401
1220	Property taxes delinquent	5,605,537	1,893,299
1230	Allowance for uncollectable taxes (credit)	(1,209,808)	(408,619)
1240	Due from other governments	1,118,576	-
1250	Accrued interest	148,884	28,140
1260	Due from other funds	12,938,954	-
1290	Other receivables	460,453	50,733
1300	Inventories	1,344,306	-
1410	Deferred expenditures	222,947	-
		<u> </u>	<u> </u>
1000	Total assets	<u>\$ 112,229,166</u>	<u>\$ 15,150,491</u>
	LIABILITIES AND FUND BALANCES		
	LIABILITIES:		
2110	Accounts payable	\$ 4,673,336	\$ 5,250
2150	Payroll deductions and withholdings payable	2,538,689	-
2160	Accrued wages payable	12,452,420	-
2170	Due to other funds	10,408,907	15,909
2300	Deferred revenue	4,606,482	1,484,681
		<u> </u>	<u> </u>
2000	Total liabilities	34,679,834	1,505,840
	FUND BALANCES:		
	Nonspendable		
3410	Inventories	1,344,306	-
3430	Deferred expenditures	222,947	-
	Restricted		
3480	Debt service	-	13,644,651
3470	Capital acquisitions program	-	-
3450	Food service	-	-
3450	State Special Revenue	-	-
	Committed		
3545	Local Special Revenue	-	-
3590	Assigned	1,329,829	-
3600	Unassigned	74,652,250	-
		<u> </u>	<u> </u>
3000	Total fund balances	77,549,332	13,644,651
		<u> </u>	<u> </u>
4000	Total liabilities and fund balances	<u>\$ 112,229,166</u>	<u>\$ 15,150,491</u>

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

EXHIBIT C-1

60	Non-Major Governmental Funds	98 Total Governmental Funds
Capital Projects		
\$ 37,895,097	\$ 5,157,364	\$ 93,267,555
20,014,000	1,993,582	76,978,743
-	-	7,498,836
-	-	(1,618,427)
-	7,927,285	9,045,861
161,211	27,289	365,524
9,779,975	510,831	23,229,760
-	-	511,186
-	240,665	1,584,971
-	26,950	249,897
<u>\$ 67,850,283</u>	<u>\$ 15,883,966</u>	<u>\$ 211,113,906</u>
\$ 1,268,708	\$ 1,437,691	\$ 7,384,985
-	-	2,538,689
-	306,849	12,759,269
161,383	8,115,290	18,701,489
-	255,308	6,346,471
<u>1,430,091</u>	<u>10,115,138</u>	<u>47,730,903</u>
-	240,665	1,584,971
-	26,950	249,897
-	-	13,644,651
66,420,192	-	66,420,192
-	5,326,074	5,326,074
-	20,173	20,173
-	154,966	154,966
-	-	1,329,829
-	-	74,652,250
<u>66,420,192</u>	<u>5,768,828</u>	<u>163,383,003</u>
<u>\$ 67,850,283</u>	<u>\$ 15,883,966</u>	<u>\$ 211,113,906</u>

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**MESQUITE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
AUGUST 31, 2011**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 163,383,003
The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	2,763,057
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental fund financial statements.	677,278,367
Accumulated depreciation has not been included in the governmental fund financial statements.	(235,421,253)
Bonds payable have not been included in the governmental fund financial statements, which includes \$6,871,569 of deferred outflows related to the 2003-A interest rate swap.	(430,816,064)
Accreted interest for capital appreciation bonds have not been included in the governmental fund financial statements.	(25,797,049)
Deferred revenue in the fund financial statements was recorded as revenue in the district-wide financial statements.	5,880,409
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.	(1,680,803)
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.	(817,469)
Bond issuance costs reported as an expenditure in the fund financial statements are capitalized in the district-wide financial statements.	2,140,446
Discount on the issuance of bonds reported as net other financing sources on the fund financial statements is capitalized in the district-wide financial statements.	2,204,079
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.	(24,610,435)
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>7,049,872</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 141,556,160</u></u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011**

Data Control Codes		10 General Fund	50 Debt Service Fund
REVENUES			
5700	Local and intermediate sources	\$ 72,047,287	\$ 23,568,558
5800	State program revenues	189,960,873	20,787,898
5900	Federal program revenues	1,756,322	-
5020	Total revenues	<u>263,764,482</u>	<u>44,356,456</u>
EXPENDITURES			
CURRENT:			
0011	Instruction	147,187,983	-
0012	Instructional resources and media services	5,055,384	-
0013	Curriculum and staff development	3,993,214	-
0021	Instructional leadership	4,309,639	-
0023	School leadership	13,818,332	-
0031	Guidance, counseling, and evaluation services	9,611,105	-
0032	Social work services	149,549	-
0033	Health services	2,902,032	-
0034	Student transportation	4,795,184	-
0035	Food service	591,013	-
0036	Extracurricular activities	8,423,252	-
0041	General administration	6,660,551	-
0051	Plant maintenance and operations	29,759,768	-
0052	Security and monitoring services	2,486,669	-
0053	Data processing services	7,349,402	-
0061	Community services	70,981	-
DEBT SERVICE:			
0071	Principal on long-term debt	-	24,691,213
0072	Interest on long-term debt	-	17,280,070
0073	Bond issuance costs and fees	-	390,135
CAPITAL OUTLAY			
0081	Facilities acquisition and construction	6,163,077	-
INTERGOVERNMENTAL:			
0095	Payments to juvenile justice alternative Ed. Prg	17,100	-
0097	Payments to tax increment fund	2,282,800	-
0099	Other intergovernmental expenditures	366,247	-
6030	Total expenditures	<u>255,993,282</u>	<u>42,361,418</u>
1100	Excess (deficiency) of revenues over expenditures	<u>7,771,200</u>	<u>1,995,038</u>
OTHER FINANCING SOURCES (USES) :			
7912	Sale of real or personal property	34,542	-
7915	Transfers in	870,800	-
7949	Other resources	28,588	-
8911	Transfers out	(397,781)	-
7080	Total other financing sources (uses)	<u>536,149</u>	<u>-</u>
1200	Net change in fund balances	8,307,349	1,995,038
0100	Fund balances--beginning	69,241,983	11,649,613
3000	Fund balances--ending	<u>\$ 77,549,332</u>	<u>\$ 13,644,651</u>

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

EXHIBIT C-3

60 Capital Projects	Non-Major Governmental Funds	98 Total Governmental Funds
\$ 490,677	\$ 5,444,989	\$ 101,551,511
-	5,954,317	216,703,088
-	52,231,931	53,988,253
<u>490,677</u>	<u>63,631,237</u>	<u>372,242,852</u>
-	37,288,288	184,476,271
48,557	449,362	5,553,303
-	1,416,848	5,410,062
-	1,281,728	5,591,367
73,247	1,683,194	15,574,773
-	2,021,263	11,632,368
-	64,017	213,566
18,929	206,042	3,127,003
-	189,572	4,984,756
14,814	17,825,621	18,431,448
-	31,828	8,455,080
392,088	-	7,052,639
419,985	426	30,180,179
-	229,493	2,716,162
-	-	7,349,402
-	350,629	421,610
-	-	24,691,213
-	-	17,280,070
-	-	390,135
16,050,466	-	22,213,543
-	-	17,100
-	-	2,282,800
-	-	366,247
<u>17,018,086</u>	<u>63,038,311</u>	<u>378,411,097</u>
<u>(16,527,409)</u>	<u>592,926</u>	<u>(6,168,245)</u>
1,092,981	-	1,127,523
-	-	870,800
485,424	-	514,012
-	(870,800)	(1,268,581)
<u>1,578,405</u>	<u>(870,800)</u>	<u>1,243,754</u>
(14,949,004)	(277,874)	(4,924,491)
81,369,196	6,046,702	168,307,494
<u>\$ 66,420,192</u>	<u>\$ 5,768,828</u>	<u>\$ 163,383,003</u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES -
GOVERNMENTAL FUNDS
AUGUST 31, 2011**

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ (4,924,491)
The District uses internal service funds to charge the costs of self-insurance to appropriate functions in other funds. The change in net assets of internal service funds are reported as governmental activities.	(895,806)
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.	32,549,823
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources.	(22,758,859)
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.	24,691,213
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.	121,539
Current year increase in the accretion on capital appreciation bonds is not reflected in the governmental fund financial statements, but is shown as increases in accreted interest on the district-wide financial statements.	(3,809,330)
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.	(25,780)
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 amortization of bond issue costs	(565,063)
Premiums and discounts associated with bonds payable are reported as 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 (\$1,561,296) and bond discounts (\$130,166) was to increase net assets.	1,431,130
Amortization of deferred refunding amount is not recognized in the governmental funds. The effect of recording current year's amortization is to decrease net assets.	(579,447)
Current year increase in the fair value of the 2003-A interest rate swap is not reflected in the governmental fund financial statements but is shown as an addition to long term debt in the district-wide statements.	12,095
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 is to decrease net assets.	(1,411,693)
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.	216,549
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 24,051,880</u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2011**

	Governmental Activities-
	Internal Service Funds
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 6,371,264
Other receivables	169,761
Inventory	337,804
Due from other funds	60,797
Other current assets	13,473
Total assets	6,953,099
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	36,255
Due to other funds	2,528,198
Accrued expenses	1,625,589
Total liabilities	4,190,042
NET ASSETS	
Unrestricted	2,763,057
Total net assets	\$ 2,763,057

**MESQUITE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011**

	Governmental Activities-
	Internal Service Funds
OPERATING REVENUES:	
Charges for services	\$ 13,064,748
Total operating revenues	13,064,748
OPERATING EXPENSES:	
Personal services	1,222,237
Contractual services	118,214
Other supplies and expenses	6,066,891
Insurance claims and expenses	6,830,469
Other operating costs	127,802
Total operating expenses	14,365,613
Operating loss	(1,300,865)
NONOPERATING REVENUES:	
Earnings from temporary deposits and investments	7,278
Total nonoperating revenue	7,278
TRANSFERS IN	397,781
Change in net assets	(895,806)
Total net assets—beginning	3,658,863
Total net assets—ending	\$ 2,763,057

**MESQUITE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011**

	Governmental Activities-
	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from transactions with other funds	\$ 13,391,415
Payments to suppliers	(8,180,993)
Payments to employees	(1,340,451)
Claims paid	(6,830,469)
Net cash used in operating activities	(2,960,498)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers in	397,781
Net cash provided by non-capital financing activities	397,781
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	7,278
Net cash provided by investing activities	7,278
Net decrease in cash and cash equivalents	(2,555,439)
Balances—beginning of the year	8,926,703
Balances—end of the year	\$ 6,371,264
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,300,865)
Effect of increases and decreases in current assets and liabilities:	
Decrease in inventory	114,003
Decrease in other current assets	717,901
Decrease in interfund receivables	330,382
Increase in accounts payable	18,752
Decrease in accrued expenses	(2,840,671)
Net cash used in operating activities	\$ (2,960,498)

**MESQUITE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY FUND NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2011**

	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 190,269	\$ 2,756,285
Due from other funds	-	57,304
Total Assets	<u>\$ 190,269</u>	<u>\$ 2,813,589</u>
LIABILITIES		
Accounts payable	\$ 3,011	\$ -
Due to other funds	28,567	2,089,607
Due to student groups	-	723,982
Total liabilities	31,578	<u>\$ 2,813,589</u>
NET ASSETS		
Unrestricted net assets	<u>158,691</u>	
Total net assets and liabilities	<u>\$ 190,269</u>	

**MESQUITE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011**

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Local and intermediate sources	\$ 34,038
Total additions	<u>34,038</u>
DEDUCTIONS	
Supplies and materials	3,891
Capital expenditures	1,657
Other operating costs	<u>22,903</u>
Total deductions	<u>28,451</u>
Change in net assets	5,587
Net assets September 1 (Beginning)	<u>153,104</u>
Net assets August 31 (Ending)	<u><u>\$ 158,691</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 it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) in its Statement No. 14, "The Financial Reporting Entity," 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 assets 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 a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

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

**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 internal service 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 tied 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. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements.

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. **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.
3. **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):

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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Accounting – Continued

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. The District's Private Purpose Trust Funds are the Meadows-O'Donnell Foundation, the Dairy Max, 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).

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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Accounting – Continued

Property Taxes – Continued

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

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, cost is recorded as an expenditure in the period the items are utilized. Inventories are stated at cost utilizing the first-in, first-out method.

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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Accounting – Continued

Capital Assets – Continued

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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. 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. Gains or losses on refunding are not recognized in the governmental fund financial statements.

Net Assets and Fund Balance

District-Wide Financial Statements

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

Invested in Capital Assets, Net of Related Debt – The component of net assets 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 assets 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 assets that reports the financial resources restricted to pay debt service on capital related debt less current accrual of interest.

Unrestricted – The component of net assets and liabilities that is not reported in Net Assets Invested in Capital Assets, Net of Related Debt, Net Assets Restricted for Food Service or Net Assets Restricted for Debt Service.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Assets 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 Assets 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.

Encumbrances outstanding at August 31, 2011 that were provided for in the subsequent year’s budget are:

General fund	\$ 1,329,829
Special revenue fund - food service	215,092
Capital project funds	<u>1,382,522</u>
Total	<u><u>\$ 2,927,443</u></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, 2011 will change.

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

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, 2011, the carrying amount of the District's cash deposits held at the depository bank was \$4,050,148 and the bank balance was \$4,335,483. The District's cash deposits at August 31, 2011 and during the year ended August 31, 2011 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 \$65,760,308.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$59,736,515 and occurred during the month of September 2011.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$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:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. treasury obligations	10 Years	None	None
U.S. agencies securities	10 Years	None	None
Letters of credit	10 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	5 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, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 99,638,819
Current investments	76,978,743
Fiduciary funds:	
Cash and cash equivalents	<u>2,946,554</u>
Total cash and investments	<u><u>\$ 179,564,116</u></u>

Cash and investments as of August 31, 2011 consist of the following:

Cash on hand	\$ 19,767
Deposits with financial institutions	4,050,148
Investments	<u>175,494,201</u>
Total cash and investments	<u><u>\$ 179,564,116</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, 2011, the District had the following investments:

<u>Investment Type</u>		<u>Weighted Average Maturity</u>
U.S. Government Obligations	\$ 76,978,743	485 days
Certificates of Deposit	80,681,225	250 days
Investment Pool -LoneStar	706,969	38 days
Investment Pool -TexPool	14,023,410	46 days
Investment Pool -Texstar	<u>3,103,854</u>	48 days
Total	<u>\$ 175,494,201</u>	

As of August 31, 2011 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, 2011 for each investment type.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
U.S. Government Obligations	\$ 76,978,743	N/A	N/A
Certificates of Deposit	80,681,225	N/A	N/A
Investment Pool -LoneStar	706,969	N/A	AAA
Investment Pool -TexPool	14,023,410	N/A	AAAm
Investment Pool -Texstar	<u>3,103,854</u>	N/A	AAAm
Total	<u>\$ 175,494,201</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, 2011, the District held 46% of their portfolio in certificates of deposit and 44% 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, 2011 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 nets 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, 2011, 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. Furthermore, there are times when overpayment is received from a State Agency and money may be due to other governments.

	General Fund	Non-Major Governmental Funds	Total
State entitlement	\$ 1,091,566	\$ -	\$ 1,091,566
State grants	-	3,231,828	3,231,828
Federal grants	27,010	4,695,457	4,722,467
	<u>\$ 1,118,576</u>	<u>\$ 7,927,285</u>	<u>\$ 9,045,861</u>

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

NOTE 4. OTHER RECEIVABLES

Other receivables as of August 31, 2011, for the District's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate are as follows:

	General Fund	Debt Service Fund	Internal Service Fund	Trust & Agency Funds	Total
TAMU rent and utilities	\$ 58,671	\$ -	\$ -	\$ -	\$ 58,671
City of Mesquite utilities	45,241	-	-	-	45,241
City crossing guard	151,395	-	-	-	151,395
Taxes receivable	152,719	50,733	-	-	203,452
Visa revenue share	24,471	-	-	-	24,471
Scoreboard	5,625	-	-	-	5,625
Health	-	-	169,761	-	169,761
Amounts due from trust and agency funds	22,331	-	-	2,118,174	2,140,505
	<u>\$ 460,453</u>	<u>\$ 50,733</u>	<u>\$ 169,761</u>	<u>\$ 2,118,174</u>	<u>\$ 2,799,121</u>

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at August 31, 2011 consisted of the following individual fund receivables and payables:

Due to Fund	Due from Fund	Amount
General Fund	Capital Projects Fund	\$ 161,383
General Fund	Debt Service Fund	15,909
General Fund	Non-major Governmental	8,115,290
General Fund	Internal Service	2,528,198
General Fund	Trust and Agency	2,118,174
Capital Projects Fund	General Fund	9,779,975
Non-major Governmental	General Fund	510,831
Internal Service	General Fund	60,797
Trust and Agency	General Fund	57,304
		<u>\$ 23,347,861</u>

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

Interfund transfers for the year ended August 31, 2011 were as follows:

Transfer From	Transfer To	Amount	Reason
General	Internal Service Fund	\$ 397,781	Internal Service Transfer
Non-major Governmental	General	870,800	Food Service Transfer
		<u>\$ 1,268,581</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, 2011, 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	\$ 15,768,013	\$ -	\$ (411,928)	\$ -	\$ 15,356,085
Construction in progress	3,372,086	21,533,117	-	(18,098,756)	6,806,447
Total non-depreciable assets	<u>19,140,099</u>	<u>21,533,117</u>	<u>(411,928)</u>	<u>(18,098,756)</u>	<u>22,162,532</u>
Depreciable assets					
Buildings and improvements	542,055,052	-	(1,230,031)	18,098,756	558,923,777
Furniture and equipment	86,502,599	11,016,706	(1,327,247)	-	96,192,058
Total depreciable assets	<u>628,557,651</u>	<u>11,016,706</u>	<u>(2,557,278)</u>	<u>18,098,756</u>	<u>655,115,835</u>
Less accumulated depreciation for:					
Buildings and improvements	173,728,470	13,610,255	(436,233)	-	186,902,492
Furniture and equipment	40,491,437	9,148,604	(1,121,280)	-	48,518,761
Total accumulated depreciation	<u>214,219,907</u>	<u>22,758,859</u>	<u>(1,557,513)</u>	<u>-</u>	<u>235,421,253</u>
Total capital assets, net	<u>\$ 433,477,843</u>	<u>\$ 9,790,964</u>	<u>\$ (1,411,693)</u>	<u>\$ -</u>	<u>\$ 441,857,114</u>

Depreciation expense was charged to governmental functions as follows:

<u>Governmental Function</u>	<u>Depreciation</u>
Instruction	\$ 15,517,821
Instructional resources and media services	384,381
Curriculum development and instructional staff development	264,278
Instructional leadership	481,192
School leadership	1,393,635
Guidance, counseling and evaluation services	970,185
Social work services	19,102
Health services	279,885
Student (pupil) transportation	276,154
Food services	651,178
Cocurricular/extracurricular activities	305,188
General administration	445,816
Plant maintenance and operations	1,279,406
Security and monitoring service	136,408
Data processing services	320,035
Community services	21,614
Construction	12,581
Total depreciation expense	<u>\$ 22,758,859</u>

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

NOTE 7. DEFERRED REVENUE

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

	General Fund	Debt Service Fund	Non-Major Governmental Funds	Total
Tax revenue	\$ 4,395,728	\$ 1,484,681	\$ -	\$ 5,880,409
Cheerleader receipts	200,040	-	-	200,040
Athletic ticket sales	10,714	-	-	10,714
State grant awards	-	-	1,380	1,380
Prepaid PAMS	-	-	253,928	253,928
	<u>\$ 4,606,482</u>	<u>\$ 1,484,681</u>	<u>\$ 255,308</u>	<u>\$ 6,346,471</u>

Tax revenue reported as deferred revenue in the governmental funds is recorded as revenue in the district-wide financial statements. Accordingly, deferred 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 four issues containing zero coupon bonds. Accordingly, the accretion of interest on these zero coupon bonds has been recorded in the district-wide financial statements. Interest accreted on these bonds during the current year in the amount of \$3,809,330.

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

NOTE 8. LONG-TERM DEBT – CONTINUED

Unlimited tax bonds outstanding as of August 31, 2011 are as follows:

Purpose and Lawful Authority	Interest Rate	Final Maturity	Amount of Original Issue	Amounts Outstanding 08/31/11
Unlimited Tax School Building Bonds, Series 2000	Variable	2025	\$ 40,000,000	\$ 25,233,757
Unlimited Tax School Building Bonds, Series 2001 QZAB	0.00%	2015	3,759,224	1,079,759
Unlimited Tax School Building and Refunding Bonds, Series 2003	1.519 to 5.5%	2022	38,259,999	22,500,000
Variable Rate School Building Unlimited Tax Bonds, Series 2003A	Variable	2029	30,000,000	29,350,000
Unlimited Tax Refunding Bonds, Series 2004	3.25 to 5.00%	2013	13,965,000	12,525,000
Unlimited Tax School Building and Refunding Bonds, Series 2004A	4.00 to 5.25%	2015	49,025,000	25,765,000
Unlimited Tax Refunding Bonds, Series 2005	2.50 to 5.00%	2020	40,344,982	39,004,982
Unlimited Tax School Building and Refunding Bonds, Series 2005A	3.50 to 5.28%	2031	114,815,180	82,842,384
Unlimited Tax School Building Bonds, Series 2006	4.50 to 5.00%	2031	28,765,000	25,605,000
Unlimited Tax School Building and Refunding Bonds, Series 2007	4.50 to 5.23%	2032	70,520,219	56,200,219
Unlimited Tax School Building and Refunding Bonds, Series 2008	4.00%	2019	13,090,000	5,160,000
Unlimited Tax School Building Bonds, Series 2009	2.50 to 4.25%	2033	24,735,000	24,735,000
Unlimited Tax School Building Bonds, Series 2010-A	4.00 to 5.00%	2035	45,965,000	45,965,000
Unlimited Tax Refunding Bonds, Series 2010-B	2.25 to 5.00%	2025	27,978,394	27,978,394
Total bonded debt principal payable				<u>\$ 423,944,495</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 0.21% at August 31, 2011.

Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$6,871,569 as of August 31, 2011. 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, 2011, 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 and Standard & Poor's and Aa1 by Moody's Investor Service as of August 31, 2011. 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 assets. 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, 2011		
	Classification	Amount	Classification	Amount	Notional
Governmental activities					
2003-A Swap					
(Cash flow hedge)	Deferred outflow	\$ 12,095	Debt	\$ (6,871,569)	\$ 29,350,000

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			
	Principal	Interest	Interest Rate Swaps, Net	Total Requirements
2012	\$ 100,000	\$ 1,246,788	\$ 61,635	\$ 1,408,423
2013	105,000	1,242,540	61,425	1,408,965
2014	110,000	1,238,079	61,205	1,409,284
2015	115,000	1,233,407	60,973	1,409,380
2016	120,000	1,228,522	60,732	1,409,254
2017-2021	7,520,000	5,778,342	285,653	13,583,995
2022-2026	14,310,000	3,355,282	165,869	17,831,151
2027-2029	6,970,000	467,918	23,131	7,461,049
	<u>\$ 29,350,000</u>	<u>\$ 15,790,878</u>	<u>\$ 780,623</u>	<u>\$ 45,921,501</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):

<u>Year Ending August 31</u>	<u>General Obligation</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2012	\$ 25,376,516	\$ 17,376,245	\$ 42,752,761
2013	25,916,361	16,820,719	42,737,080
2014	26,721,027	14,466,994	41,188,021
2015	29,052,303	13,534,326	42,586,629
2016	27,846,557	12,582,867	40,429,424
2017-2021	109,572,321	65,911,304	175,483,625
2022-2026	81,967,928	43,507,036	125,474,964
2027-2031	53,232,859	44,586,922	97,819,781
2032-2035	14,908,623	5,378,882	20,287,505
	<u>\$ 394,594,495</u>	<u>\$ 234,165,295</u>	<u>\$ 628,759,790</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, 2011.

Defeased

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, 2011, \$111,180,000 of bonds considered defeased are still outstanding.

**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	\$ 448,635,708	\$ -	\$ (24,691,213)	\$ -	\$ 423,944,495	\$ 25,476,516
Deferred loss on refunding	(7,629,319)	-	579,447	-	(7,049,872)	-
	441,006,389	-	(24,111,766)	-	416,894,623	25,476,516
Deferred outflow - interest rate swap	6,883,664	-	(12,095)	-	6,871,569	-
Accreted interest	21,987,719	3,809,330	-	-	25,797,049	2,019,017
Premium on bonds	26,171,731	-	(1,561,296)	-	24,610,435	-
Bond discount	(2,334,245)	-	130,166	-	(2,204,079)	-
Compensated absences	1,802,342	176,287	(297,826)	-	1,680,803	206,620
Long-term liabilities	<u>\$ 495,517,600</u>	<u>\$ 3,985,617</u>	<u>\$ (25,852,817)</u>	<u>\$ -</u>	<u>\$ 473,650,400</u>	<u>\$ 27,702,153</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	\$ 42,284	\$ 42,284
Medicaid reimbursement	N/A	492,616	492,616
Selective reserve educational assistance	N/A	1,221,422	1,221,422
		<u>\$ 1,756,322</u>	<u>\$ 1,756,322</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	Debt Service Fund	Capital Projects Fund	Non- Major Governmental	Total
Taxes, current	\$ 62,752,215	\$ 22,928,736	\$ -	\$ -	\$ 85,680,951
Taxes, prior years	762,625	260,034	-	-	1,022,659
Penalties and interest	742,241	222,598	-	-	964,839
Tax increment fund	67,555	-	-	-	67,555
Investment earnings	667,213	157,190	456,879	29,763	1,311,045
Insurance recovery	767,909	-	-	-	767,909
Tuition from patrons	828,790	-	-	-	828,790
Athletic activities	860,119	-	-	-	860,119
Rent	463,697	-	-	-	463,697
Food service activities	-	-	-	5,172,228	5,172,228
Gifts and bequests	179,473	-	-	158,112	337,585
Extra/cocurricular	1,861,299	-	-	-	1,861,299
Enterprising revenues	763,349	-	-	84,886	848,235
Other	1,330,802	-	33,798	-	1,364,600
	<u>\$ 72,047,287</u>	<u>\$ 23,568,558</u>	<u>\$ 490,677</u>	<u>\$ 5,444,989</u>	<u>\$ 101,551,511</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, 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 2011, 2010 and 2009, and a state contribution rate of 6.644% for fiscal years 2011 and 2010 and 6.58% for fiscal year 2009. State contributions made on behalf of the District's employees for the years ended August 31, 2011, 2010 and 2009 were \$11,578,718, \$11,323,596, and \$10,687,181, respectively. The District paid additional state contributions for the years ended August 31, 2011, 2010 and 2009 in the amount of \$2,456,664, \$2,354,860, and \$2,452,921, 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 TRS 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, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2011, 2010 and 2009. 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, 2011, 2010, and 2009, the State's contributions to TRS-Care were \$2,011,078, \$1,978,823, and \$1,883,566, respectively, the active member contributions were \$1,307,201, \$1,286,235, and \$1,224,318, respectively, and the school district's contributions were \$1,106,093, \$1,088,353, and \$1,035,961, respectively, which equaled the required contributions each year. In addition, the State of Texas contributed \$465,352, \$493,160 and \$417,293 in 2011, 2010 and 2009, respectively, for on-behalf payments for Medicare Part D.

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 terminated the previously established health self insurance plan (Plan) on December 31, 2010; and, entered the State Teacher Retirement health plan (TRS ActiveCare) beginning January 1, 2011. The plan will continue to pay claims through December 31, 2011.

The District had a contract for excess risk coverage (stop loss insurance) with HM Life Insurance Company, which limited the Districts exposure on individual health claims and aggregate plan claims incurred between January 1, 2009 and January 1, 2011.

Claims incurred during the above period were subject to an individual stop-loss of \$250,000 per participant annually and \$2,000,000 lifetime maximum benefits. Individual employee health claims were self-funded up to \$250,000 annually; and, claims in the aggregate were self-funded up to an aggregate district wide attachment point of \$21,819,430.

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 medical and workers' compensation self-insurance plans (\$691,045 and \$934,544, respectively) include incurred but not reported claims. These liabilities reported in the funds at August 31, 2011 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

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

NOTE 13. RISK MANAGEMENT – CONTINUED

Workers' Compensation Coverage – Continued

been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. 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 2011 and 2010 were:

Self-Insurance Liability	Beginning of Fiscal Year Liability	Claims and Changes in Estimates	Less: Claim Payments	Balance at Fiscal Year-End
2010 - medical	\$ 3,492,642	\$ 15,772,369	\$ 15,629,538	\$ 3,635,473
2011 - medical	3,635,473	5,243,944	8,188,372	691,045
2010 - workers' compensation	887,205	740,776	797,194	830,787
2011 - workers' compensation	830,787	1,003,166	899,409	934,544

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, 2011 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 \$38,918,105 at August 31, 2011.

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, 2010, totaled \$1,482,980.

NOTE 16. SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through January 5, 2012, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**MESQUITE INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
AUGUST 31, 2011**

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance With Final Budget Under or (Over)
		Original	Final	GAAP BASIS	
REVENUES					
5700	Local and intermediate sources	\$ 64,297,974	\$ 69,497,550	\$ 72,047,287	\$ 2,549,737
5800	State program revenues	203,315,123	187,657,870	189,960,873	2,303,003
5900	Federal program revenues	300,000	1,761,150	1,756,322	(4,828)
5020	Total revenues	<u>267,913,097</u>	<u>258,916,570</u>	<u>263,764,482</u>	<u>4,847,912</u>
EXPENDITURES					
CURRENT:					
0011	Instruction	164,707,330	148,579,900	147,187,983	1,391,917
0012	Instructional resources and media services	4,953,500	5,061,900	5,055,384	6,516
0013	Curriculum and staff development	3,860,175	4,073,700	3,993,214	80,486
0021	Instructional leadership	4,437,550	4,328,900	4,309,639	19,261
0023	School leadership	15,499,750	13,820,500	13,818,332	2,168
0031	Guidance, counseling, and evaluation services	10,309,250	9,707,200	9,611,105	96,095
0032	Social work services	141,400	151,600	149,549	2,051
0033	Health services	3,152,750	2,904,800	2,902,032	2,768
0034	Student transportation	4,624,150	5,080,200	4,795,184	285,016
0035	Food service	574,000	595,900	591,013	4,887
0036	Extracurricular activities	7,783,875	8,657,200	8,423,252	233,948
0041	General administration	7,047,100	6,663,400	6,660,551	2,849
0051	Plant maintenance and operations	30,176,500	29,828,500	29,759,768	68,732
0052	Security and monitoring services	2,680,700	2,551,200	2,486,669	64,531
0053	Data processing services	4,147,000	7,449,300	7,349,402	99,898
0061	Community services	121,850	76,500	70,981	5,519
CAPITAL OUTLAY					
0081	Facilities acquisition and construction	335,150	6,166,000	6,163,077	2,923
INTERGOVERNMENTAL:					
0095	Payments to juvenile justice alternative ed. prg	240,000	28,700	17,100	11,600
0097	Payments to tax increment fund	3,200,000	2,283,000	2,282,800	200
0099	Other intergovernmental	370,000	367,000	366,247	753
6030	Total expenditures	<u>268,362,030</u>	<u>258,375,400</u>	<u>255,993,282</u>	<u>2,382,118</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(448,933)</u>	<u>541,170</u>	<u>7,771,200</u>	<u>7,230,030</u>
OTHER FINANCING SOURCES (USES):					
7912	Sale of real or personal property	20,000	20,000	34,542	14,542
7915	Transfers in	870,800	913,930	870,800	(43,130)
7949	Other (Uses)	-	-	28,588	28,588
8911	Transfers out	-	(526,300)	(397,781)	128,519
7080	Total other financing sources (uses)	<u>890,800</u>	<u>407,630</u>	<u>536,149</u>	<u>128,519</u>
1200	Net change in fund balances	441,867	948,800	8,307,349	7,358,549
0100	Fund balances--beginning	69,241,983	69,241,983	69,241,983	-
3000	Fund balances--ending	<u>\$ 69,683,850</u>	<u>\$ 70,190,783</u>	<u>\$ 77,549,332</u>	<u>\$ 7,358,549</u>

**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 GAAP for the General Fund, Debt Service Fund and the Food Service Fund, a component of the Federal Special Revenue 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:

Revenue:

State Revenues	\$	(15,657,253)
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Expense:

Instruction	(16,127,430)
School Leadership	(1,679,250)
Data Processing Services	3,302,300
Facilities Acquisition and Construction	5,830,850
Payments to Tax Increment Fund	(917,000)

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 in 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

**MESQUITE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2011**

	289 Other Federal Special Revenue Funds	429 Other State Special Revenue Funds	499 Local Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 5,157,364	\$ -	\$ -	\$ 5,157,364
Current Investments	1,993,582	-	-	1,993,582
Due from other governments	4,695,457	3,231,828	-	7,927,285
Accrued interest	27,289	-	-	27,289
Due from other funds	169,862	170,586	170,383	510,831
Inventory	240,665	-	-	240,665
Deferred expenditures	-	26,950	-	26,950
Total assets	\$ 12,284,219	\$ 3,429,364	\$ 170,383	\$ 15,883,966
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,424,729	\$ 10,130	\$ 2,832	\$ 1,437,691
Accrued wages payable	306,849	-	-	306,849
Due to other funds	4,731,974	3,370,731	12,585	8,115,290
Deferred revenues	253,928	1,380	-	255,308
Total liabilities	6,717,480	3,382,241	15,417	10,115,138
Fund balances				
Nonspendable				
Investments in inventory	240,665	-	-	240,665
Deferred expenditures	-	26,950	-	26,950
Restricted				
Food Services	5,326,074	-	-	5,326,074
State Special Revenue	-	20,173	-	20,173
Committed				
Local Special Revenue	-	-	154,966	154,966
Total fund balances	5,566,739	47,123	154,966	5,768,828
Total liabilities and fund balances	\$ 12,284,219	\$ 3,429,364	\$ 170,383	\$ 15,883,966

**MESQUITE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011**

	289 Other Federal Special Revenue Funds	429 Other State Special Revenue Funds	499 Local Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES				
Total local and intermediate sources	\$ 5,286,877	\$ -	\$ 158,112	\$ 5,444,989
State program revenues	369,100	5,585,217	-	5,954,317
Federal program revenues	52,231,931	-	-	52,231,931
Total revenues	57,887,908	5,585,217	158,112	63,631,237
EXPENDITURES				
Current:				
11 Instruction	32,212,618	4,935,094	140,576	37,288,288
12 Instructional resources and media services	426,374	15,592	7,396	449,362
13 Curriculum and staff development	1,049,031	351,489	16,328	1,416,848
21 Instructional leadership	1,269,099	12,629	-	1,281,728
23 School leadership	1,515,148	168,046	-	1,683,194
31 Guidance, counseling, and evaluation services	1,906,849	114,414	-	2,021,263
32 Social work services	64,017	-	-	64,017
33 Health services	203,123	2,919	-	206,042
34 Student transportation	187,211	-	2,361	189,572
35 Food service	17,825,621	-	-	17,825,621
36 Extracurricular activities	9,965	-	21,863	31,828
51 Plant maintenance and operations	426	-	-	426
52 Security and monitoring services	229,493	-	-	229,493
61 Community services	349,256	1,373	-	350,629
Total expenditures	57,248,231	5,601,556	188,524	63,038,311
Excess (deficiency) of revenues over expenditures	639,677	(16,339)	(30,412)	592,926
OTHER FINANCING SOURCES (USES)				
Transfers out	(870,800)	-	-	(870,800)
Total other financing sources and uses	(870,800)	-	-	(870,800)
Net change in fund balances	(231,123)	(16,339)	(30,412)	(277,874)
Fund balances—beginning	5,797,862	63,462	185,378	6,046,702
Fund balances—ending	\$ 5,566,739	\$ 47,123	\$ 154,966	\$ 5,768,828

**MESQUITE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
AUGUST 31, 2011**

	780 Health Insurance Fund	790 Workers Compensation Fund	Total Internal Service fund
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 1,144,852	\$ 5,226,412	\$ 6,371,264
Other receivables	169,761	-	169,761
Inventory	337,804	-	337,804
Due from other funds	37,873	22,924	60,797
Other current assets	-	13,473	13,473
Total assets	1,690,290	5,262,809	6,953,099
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable	21,487	14,768	36,255
Due to other funds	5,155	2,523,043	2,528,198
Accrued expenses	691,045	934,544	1,625,589
Total liabilities	717,687	3,472,355	4,190,042
NET ASSETS			
Unrestricted	972,603	1,790,454	2,763,057
Total net assets	\$ 972,603	\$ 1,790,454	\$ 2,763,057

**MESQUITE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011**

	780 Health Insurance Fund	790 Workers Compensation Fund	Total Internal Service Fund
OPERATING REVENUES:			
Charges for services	\$ 12,164,748	\$ 900,000	\$ 13,064,748
Total operating revenues	12,164,748	900,000	13,064,748
OPERATING EXPENSES:			
Personal services	985,484	236,753	1,222,237
Professional and contractual services	101,986	16,228	118,214
Supplies and materials	6,060,041	6,850	6,066,891
Insurance claims and expenses	5,817,310	1,013,159	6,830,469
Other operating costs	7,901	119,901	127,802
Total operating expenses	12,972,722	1,392,891	14,365,613
Operating loss	(807,974)	(492,891)	(1,300,865)
NONOPERATING REVENUES:			
Earnings from temporary deposits and investments	2,908	4,370	7,278
Total nonoperating revenue	2,908	4,370	7,278
LOSS BEFORE TRANSFERS	(805,066)	(488,521)	(1,293,587)
Transfers in	397,781	-	397,781
Total transfers	397,781	-	397,781
Change in net assets	(407,285)	(488,521)	(895,806)
Net assets—beginning	1,379,888	2,278,975	3,658,863
Net assets—ending	\$ 972,603	\$ 1,790,454	\$ 2,763,057

**MESQUITE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011**

	780 Health Insurance Fund	790 Workers Compensation Fund	Total Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from transactions with other funds	\$ 12,132,444	\$ 1,258,971	\$ 13,391,415
Payments to suppliers	(8,158,760)	(22,233)	(8,180,993)
Payments to employees	(1,087,470)	(252,981)	(1,340,451)
Claims paid	(5,817,310)	(1,013,159)	(6,830,469)
Net cash used in operating activities	<u>(2,931,096)</u>	<u>(29,402)</u>	<u>(2,960,498)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers in	397,781	-	397,781
Net cash provided by non-capital financing activities	<u>397,781</u>	<u>-</u>	<u>397,781</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment earnings	2,908	4,370	7,278
Net cash provided by investing activities	<u>2,908</u>	<u>4,370</u>	<u>7,278</u>
Net decrease in cash and cash equivalents	(2,530,407)	(25,032)	(2,555,439)
Balances—beginning of the year	<u>3,675,259</u>	<u>5,251,444</u>	<u>8,926,703</u>
Balances—end of the year	<u>\$ 1,144,852</u>	<u>\$ 5,226,412</u>	<u>\$ 6,371,264</u>
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (807,974)	\$ (492,891)	\$ (1,300,865)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Decrease in inventory	114,003	-	114,003
Increase (decrease) in other current assets	721,616	(3,715)	717,901
Decrease (increase) in interfund receivables	(32,304)	362,686	330,382
Increase in accounts payable	17,991	761	18,752
Increase (decrease) in accrued expenses	(2,944,428)	103,757	(2,840,671)
Net cash used in operating activities	<u>\$ (2,931,096)</u>	<u>\$ (29,402)</u>	<u>\$ (2,960,498)</u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
AUGUST 31, 2011**

	806 Meadows O'Donnell Foundation	807 Dairy Max Grant	808 TASB Risk Grant	810 Scholarship Fund	Total Private Purpose Trust Funds
ASSETS					
Cash and cash equivalents	\$ 14,681	\$ 141	\$ 4,609	\$ 170,838	\$ 190,269
Total assets	<u>\$ 14,681</u>	<u>\$ 141</u>	<u>\$ 4,609</u>	<u>\$ 170,838</u>	<u>\$ 190,269</u>
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ 1,657	\$ 1,354	\$ 3,011
Due to other funds	3,078	-	2,507	22,982	28,567
Total liabilities	<u>3,078</u>	<u>-</u>	<u>4,164</u>	<u>24,336</u>	<u>31,578</u>
NET ASSETS					
Unrestricted net assets	11,603	141	445	146,502	158,691
Total net assets	<u>11,603</u>	<u>141</u>	<u>445</u>	<u>146,502</u>	<u>158,691</u>
Total liabilities and net assets	<u>\$ 14,681</u>	<u>\$ 141</u>	<u>\$ 4,609</u>	<u>\$ 170,838</u>	<u>\$ 190,269</u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011**

	806 Meadows O'Donnell Foundation	807 Dairy Max Grant	808 TASB Risk Grant	810 Scholarship Fund	Total Private Purpose Trust Funds
ADDITIONS					
Local and intermediate sources	\$ 4,000	\$ -	\$ 3,000	\$ 27,038	\$ 34,038
Total additions	<u>4,000</u>	<u>-</u>	<u>3,000</u>	<u>27,038</u>	<u>34,038</u>
DEDUCTIONS					
Supplies and materials	1,900	-	991	1,000	3,891
Capital expenditures	-	-	1,657	-	1,657
Other operating costs	1,967	-	-	20,936	22,903
Total deductions	<u>3,867</u>	<u>-</u>	<u>2,648</u>	<u>21,936</u>	<u>28,451</u>
Changes in net assets	133	-	352	5,102	5,587
Net assets September 1 (beginning)	<u>11,470</u>	<u>141</u>	<u>93</u>	<u>141,400</u>	<u>153,104</u>
Net assets August 31 (ending)	<u>\$ 11,603</u>	<u>\$ 141</u>	<u>\$ 445</u>	<u>\$ 146,502</u>	<u>\$ 158,691</u>

REQUIRED TEA SCHEDULES

**MESQUITE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2011**

Last Ten Years Ended August 31	Tax Rates		3 Net Assessed/Appraised Value For School Tax Purposes
	1 Maintenance	2 Debt Service	
2002 and prior years	various	various	various
2003	1.3200	0.3000	5,525,759,030
2004	1.3700	0.3000	5,883,576,335
2005	1.4400	0.3200	6,033,355,295
2006	1.4500	0.3124	6,290,139,249
2007	1.3257	0.3423	6,581,607,326
2008	1.0067	0.3700	6,933,850,462
2009	1.0400	0.3600	6,947,938,555
2010	1.0400	0.3800	6,557,685,613
2011 (School year under audit)	1.0400	0.3800	6,230,166,386

1000 TOTALS

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

EXHIBIT H-1

10 Beginning Balance 09/01/10	20 Current Year's Total Levy	31 Maintenance Total Collections	32 Debt Service Total Collections	40 Entire Year's Adjustments	50 Ending Balance 08/31/11
\$ 1,509,058		\$ 14,777	\$ 4,674	\$ 2,241	\$ 1,491,848
344,034		8,427	1,915	(914)	332,778
397,642		9,462	2,071	(939)	385,170
458,813		17,867	3,970	(990)	435,986
535,637		28,169	6,071	883	502,280
575,770		56,178	14,504	(1,078)	504,010
595,211		75,220	27,652	(12,075)	480,264
938,379		140,791	48,735	(75,125)	673,728
1,772,158		411,735	150,442	(189,023)	1,020,958
-	87,516,423	62,752,216	22,928,737	(163,656)	1,671,814
<u>\$ 7,126,702</u>	<u>\$ 87,516,423</u>	<u>\$ 63,514,842</u>	<u>\$ 23,188,771</u>	<u>\$ (440,676)</u>	<u>\$ 7,498,836</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,671,910</u>	<u>\$ 610,890</u>	<u>\$ -</u>	<u>\$ -</u>

EXHIBIT H-2

MESQUITE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COSTS FOR
 2010-2011 - GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2011
 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	\$ 36,863	\$ -	\$ 586,980	\$ 4,270,635	\$ 987,684	\$ -	\$ 5,882,162
6211	Legal Services	-	-	-	-	128,884	-	128,884
6212	Audit Services	-	-	-	120,500	-	-	120,500
6213	Tax Appraisal and Collection	-	406,661	-	-	-	-	406,661
621X	Other Prof. Services	-	-	-	56,100	-	-	56,100
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	-	80,597	-	80,597
6240	Contr. Maint. and Repair	-	-	500	-	136,440	-	136,940
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	860	51,602	14,959	-	67,421
6290	Miscellaneous Contr.	-	-	8,400	326,771	35,331	-	370,502
6310	Fuel	-	-	4,879	79,035	1,964	-	85,878
6320	Textbooks and Reading	-	-	1,176	5,119	55	-	6,350
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	285	-	19,581	531,860	23,913	-	575,639
6410	Travel, Subsistence, Stipends	20,958	-	27,763	41,182	3,618	-	93,521
6420	Ins. and Bonding Costs	-	-	2,399	-	181,874	-	184,273
6430	Election Costs	70	-	-	-	-	-	70
6490	Miscellaneous Operating	675	-	80,590	211,720	41,349	-	334,334
6600	Miscellaneous Other	-	-	-	-	-	821,435	821,435
6000	TOTAL	<u>\$ 58,851</u>	<u>\$ 406,661</u>	<u>\$ 733,128</u>	<u>\$ 5,694,524</u>	<u>\$ 1,636,668</u>	<u>\$ 821,435</u>	<u>\$ 9,351,267</u>

Total expenditures/expenses for General and Special Revenue Funds
 (plus Food Service Enterprise Fund if present) \$ 319,031,593

LESS: Deductions of Unallowable Costs
 FISCAL YEAR

Total Capital Outlay (6600)	10	\$ 15,884,556
Total Debt & Lease (6500)	11	-
Plant Maintenance (Function 51, 6100-6400)	12	29,554,937
Food (Function 35, 6341 and 6499)	13	10,402,208
Stipends (6413)	14	-
Column 4 (above) - Total Indirect Cost		<u>5,694,524</u>
Subtotal:		<u>61,536,225</u>
Net Allowed Direct Cost		<u>\$ 257,495,368</u>

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	15	558,923,777
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	96,192,058
Historical Cost of Furniture & Equipment over 16 years old	19	2,392,312
Amount of Federal Money in Furniture & Equipment (Net of #19)	20	-

(8) Note A - \$2,690,716 in Function 53 expenditures are included in this report as administrative costs.

**MESQUITE INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2011**

Data Control Codes	Budgeted Amounts		Actual Amounts GAAP BASIS	Variance With Final Budget Under or (Over)	
	Original	Final			
REVENUES					
5700	Local and intermediate sources	\$ 5,453,500	\$ 4,915,046	\$ 5,286,877	\$ 371,831
5800	State program revenues	192,300	400,325	369,100	(31,225)
5900	Federal program revenues	12,909,800	13,015,429	12,799,846	(215,583)
5020	Total revenues	<u>18,555,600</u>	<u>18,330,800</u>	<u>18,455,823</u>	<u>125,023</u>
EXPENDITURES					
CURRENT:					
0035	Food service	<u>17,110,250</u>	<u>17,320,950</u>	<u>17,816,145</u>	<u>(495,195)</u>
6030	Total expenditures	<u>17,110,250</u>	<u>17,320,950</u>	<u>17,816,145</u>	<u>(495,195)</u>
OTHER FINANCING SOURCES (USES):					
7961	Transfers out	<u>(870,800)</u>	<u>(870,800)</u>	<u>(870,800)</u>	<u>-</u>
7080	Total other financing sources (uses)	<u>(870,800)</u>	<u>(870,800)</u>	<u>(870,800)</u>	<u>-</u>
1200	Net change in fund balances	574,550	139,050	(231,122)	(370,172)
0100	Fund balances--beginning	<u>5,797,883</u>	<u>5,797,883</u>	<u>5,797,883</u>	<u>-</u>
3000	Fund balances--ending	<u>\$ 6,372,433</u>	<u>\$ 5,936,933</u>	<u>\$ 5,566,761</u>	<u>\$ (370,172)</u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2011**

Data Control Codes		Budgeted Amounts		Actual Amounts GAAP BASIS	Variance With Final Budget Under or (Over)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 22,374,126	\$ 23,501,500	\$ 23,568,558	\$ 67,058
5800	State program revenues	<u>21,524,822</u>	<u>20,787,900</u>	<u>20,787,898</u>	<u>(2)</u>
5020	Total revenues	<u>43,898,948</u>	<u>44,289,400</u>	<u>44,356,456</u>	<u>67,056</u>
EXPENDITURES					
CURRENT:					
DEBT SERVICE:					
0071	Principal on long-term debt	24,700,000	23,626,200	24,691,213	(1,065,013)
0072	Interest on long-term debt	19,100,000	19,100,000	17,280,070	1,819,930
0073	Bond issuance costs and fees	<u>370,000</u>	<u>370,000</u>	<u>390,135</u>	<u>(20,135)</u>
6030	Total expenditures	<u>44,170,000</u>	<u>43,096,200</u>	<u>42,361,418</u>	<u>734,782</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(271,052)</u>	<u>1,193,200</u>	<u>1,995,038</u>	<u>(801,838)</u>
1200	Net change in fund balances	(271,052)	1,193,200	1,995,038	(801,838)
0100	Fund balances--beginning	<u>11,649,613</u>	<u>11,649,613</u>	<u>11,649,613</u>	<u>-</u>
3000	Fund balances--ending	<u>\$ 11,378,561</u>	<u>\$ 12,842,813</u>	<u>\$ 13,644,651</u>	<u>\$ (801,838)</u>

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 the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Mesquite Independent School District as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

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

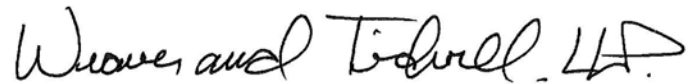
Compliance and Other Matters

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

Mesquite Independent School District

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

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 5, 2012



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

Board of Trustees
Mesquite Independent School District
Mesquite, Texas

Compliance

We have audited the compliance of Mesquite Independent School District 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 District's major federal programs for the year ended August 31, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mesquite Independent School District's administrators. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Mesquite Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2011.

Internal Control Over Compliance

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

Accordingly, we do not express an opinion on the effectiveness of District's internal control over compliance.

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

Our consideration of the 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 that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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 5, 2012

**MESQUITE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2011**

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:
- | | |
|----------------------------|----------------------------------|
| Title I Part A Cluster | 84.010A, 84.389 |
| Special Education Cluster | 84.027A, 84.173A, 84.391, 84.392 |
| State Fiscal Stabilization | 84.394 |
| Child Nutrition Cluster | 10.553, 10.555 |
- h. The dollar threshold used to distinguish between Type A and Type B programs. \$1,583,005
- 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, 2011**

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, 2011**

FINDINGS FROM YEAR ENDED AUGUST 31, 2010

Finding # 10-1

Finding:

The individual who was responsible for the physical inventory was able to zero out perpetual inventory records and establish new quantity totals based on the physical count. Therefore, the physical count was not initially reconciled with the perpetual count. Significant additional time was required to restore the perpetual totals and reconcile to the physical count.

Condition:

Significant deficiency

Effect:

The District's pharmacy inventory is at risk of errors, unintentional losses, and misappropriation of assets.

Recommendation:

Physical inventory counts should be reconciled with perpetual records on a periodic basis and any variances should be investigated and documented. A member of District management outside of the individuals responsible for taking the inventory should be involved in approving reconciliations and adjustments.

Management's response:

The district will seek professional assistance in establishing best practices in inventory control for the pharmacy. The district will establish procedures, strengthen internal controls, and train appropriate personnel to insure inventory is accurately accounted for and reported

Status:

The District hired an independent third party to count the physical inventory at the pharmacy for the 2011 fiscal year. The two records were compared and large variances were investigated and resolved. The perpetual inventory was then adjusted by accounting personnel and approved by management to match the physical count.

**MESQUITE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2011**

{1}	{2}	{3}	{4}
Federal/ State Grantor	CFDA Number	Pass-Through Grantor/ Program Title	Federal Expenditures
U.S. Department of Defense			
Direct Program:			
Selective Reserve Educational Assistance Program	12.609		\$ 492,616
U.S. Department of Education			
Passed Through State Department of Education:			
Carl D. Perkins Basic Formula Grant	84.048A	10420006057914	351,673
ESEA Title 1 Part A-Improving Basic Programs	84.010A	10610101057914	7,337,518
ESEA Title 1 Part A-Improving Basic Programs- ARRA (Stimulus)	84.389	10551001057914	2,252,720
ESEA Title 1 Part C-Education of Migratory Children	84.011	10615001057950	525
IDEA -Part B, Formula	84.027A	106600010579146600	6,621,597
IDEA -Part B, Deaf	84.027A	106600010579146601	81,106
IDEA -Part B, Discretionary (Deaf)	84.027A	106600020579146673	112,196
Total CFDA Number 84.027			<u>6,814,899</u>
IDEA -Part B, Formula - ARRA (Stimulus)	84.391	10554001057914	2,397,164
IDEA -Part B, Preschool Deaf - ARRA (Stimulus)	84.392	10555001057914	23,700
IDEA -Part B, Preschool Deaf	84.173A	106610010579146611	13,236
IDEA -Part B, Preschool	84.173A	106610010579146610	96,789
Total CFDA Number 84.173			<u>110,025</u>
IDEA -Part C, Early Intervention Deaf	84.181A	103911010579143911	4,086
ESEA Title IV -Safe and Drug-Free Schools	84.186A	10691001057950	37,705
State Fiscal Stabilization	84.394	10557001057914	18,644,396
ESEA Title II, Part A	84.367A	10694501057950	968,941
ESEA Title II, Part D, Education Technology - ARRA (Stimulus)	84.386	10553001057914	22,425
Title III - Part A - English Language Acquisitions and Enhancement	84.365	10671001057950	452,341
Grants for State Assessments and Related Activities	84.369A	69550902	13,967
Total Passed Through State Department of Education			<u>39,432,085</u>
U.S. Department of Health and Human Services			
Direct Program:			
Medicaid Administrative Claiming Program (MAC)	93.778		42,284
U.S. Department of Agriculture			
Passed Through State Department of Agriculture:			
National School Lunch Program - Cash	10.555		9,776,990
National School Lunch Program - Commodities	10.555		1,082,433
School Breakfast Program	10.553		1,918,118
National School Lunch Program - Equipment Assistance Grant- ARRA (Stimulus)	10.579		22,305
Total Passed Through State Department of Education			<u>12,799,846</u>
Total Federal Assistance			<u>\$ 52,766,831</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 \$1,221,422, which are recorded as federal revenue in the general fund, are not considered federal awards for purpose of this schedule.