

MESQUITE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2014

THIS PAGE INTENTIONALLY LEFT BLANK

CONTENTS

<u>Exhibit</u>		<u>Page</u>
<u>Introductory Section</u>		
	Certificate of Board	i
<u>Financial Section</u>		
<u>Independent Auditor's Report</u>		
		1
<u>Management's Discussion and Analysis</u>		
		4
<u>Basic Financial Statements</u>		
District-Wide Statements:		
A-1	Statement of Net Position	10
B-1	Statement of Activities	11
Governmental Fund Financial Statements:		
C-1	Balance Sheet	12
C-2	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balance	15
C-4	Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	17
Proprietary Fund Financial Statements:		
D-1	Statement of Net Position	18
D-2	Statement of Revenues, Expenses, and Changes in Fund Net Position	19
D-3	Statement of Cash Flows	20
Fiduciary Fund Financial Statements:		
E-1	Statement of Fiduciary Fund Net Position	21
E-2	Statement of Changes in Fiduciary Fund Net Position	22
	Notes to the Financial Statements	23
<u>Required Supplementary Information</u>		
F-1	Budgetary Comparison Schedule – General Fund	54
F-2	Budgetary Comparison Schedule - Child Nutrition Program	55
	Notes to the Required Supplementary Information	56

CONTENTS

<u>Exhibit</u>		<u>Page</u>
<u>Supplementary Information</u>		
<u>Combining Statements and Schedules</u>		
Nonmajor Governmental Funds:		
G-1	Combining Balance Sheet	58
G-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	59
Internal Service Funds:		
G-3	Combining Statement of Net Position	60
G-4	Combining Statement of Revenues, Expenses, and Changes in Fund Net Position	61
G-5	Combining Statement of Cash Flows	62
Private Purpose Trust Funds:		
G-6	Combining Statement of Net Position	63
G-7	Combining Statement of Revenues, Expenses, and Changes in Fund Net Position	64
<u>Required TEA Schedules</u>		
H-1	Schedule of Delinquent Taxes Receivable	65
H-2	Budgetary Comparison Schedule - Debt Service Fund	67
<u>Federal Awards Section</u>		
	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	68
	Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	70
	Schedule of Findings and Questioned Costs	72
	Summary Schedule of Prior Audit Findings	74
I-1	Schedule of Expenditures of Federal Awards	75
	Notes on Accounting Policies for Federal Awards	76

INTRODUCTORY SECTION

THIS PAGE INTENTIONALLY LEFT BLANK

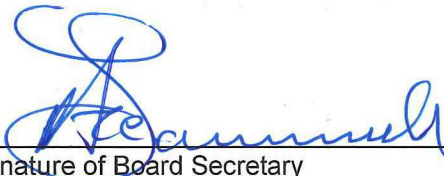
CERTIFICATE OF BOARD

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, 2014 at the meeting of the Board of Trustees of such school district on the 12th day of January, 2015.



Signature of Board Secretary



Signature of Board President

THIS PAGE INTENTIONALLY LEFT BLANK

FINANCIAL SECTION

THIS PAGE INTENTIONALLY LEFT BLANK



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Mesquite Independent School District
Mesquite, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mesquite Independent School District (the District), as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mesquite Independent School District, as of August 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, the District adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as of August 31, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and 54-57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

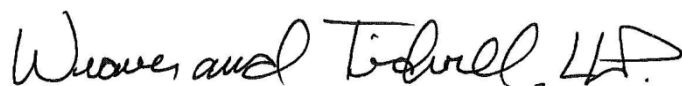
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.



WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
January 7, 2015

MESQUITE INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS AUGUST 31, 2014

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, 2014. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights

Government wide

- The District's Total Net Position was \$244,750,614, unrestricted net position was \$51,184,721, net investments in capital assets was \$170,669,212, net position restricted for food service was \$7,292,393 and net position restricted for debt service was \$15,604,288.

Fund level statements

- The District's General Fund Balance was \$92,805,626, an increase of \$6,138,231 from the prior year.
- The District's Food Service Special Revenue Fund Balance was \$7,292,393, an increase of \$71,341 from the prior year.
- The District's Debt Service Fund Balance was \$15,604,288, an increase of \$3,639,841 from the prior year.
- The District's Capital Projects Fund Balance was \$45,061,786 an increase of \$11,549,228 from the prior year.

Overview of the Financial Statements

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

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

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

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

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

**MESQUITE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2014**

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 four of which are considered to be major funds. Data from the other thirty-three governmental funds are combined into a single, aggregated presentation. Data for these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The District adopts an annual appropriated budget for its general fund, debt service fund and food service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 12-17 of this report.
- **Proprietary funds.** *Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. As mentioned above in the government-wide definition, the District has no *business-type activities* or *enterprise funds*. The second type of proprietary fund is the *internal service fund*. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses the *internal service fund* to report activities for its employee health center and workers compensation insurance programs. The basic proprietary fund financial statements can be found on pages 18-20 of this report.

**MESQUITE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2014**

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

Notes to the financial statements. The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-53 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 54-57 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 58-64 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 244,750,614 as of August 31, 2014.

The District's Net Position			
	2014	2013	Difference
Current and other assets	\$ 165,602,355	\$163,910,767	\$1,691,588
Capital assets	\$478,066,258	\$467,086,238	\$10,980,020
Long-term investments	\$ 27,264,002	\$10,028,299	\$17,235,703
Total assets	\$670,932,615	\$641,025,304	\$29,907,311
Deferred Outflows of Resources	\$23,679,533	\$0	\$23,679,533
Long-term liabilities			
outstanding	\$419,723,163	\$403,881,441	\$15,841,722
Other liabilities	\$30,138,371	\$26,757,745	\$3,380,626
Total liabilities	\$449,861,534	\$430,639,186	\$19,222,348
Net position:			
Net investments in capital assets	\$170,669,212	\$155,311,494	\$15,357,718
Restricted	\$22,896,681	\$19,185,499	\$3,711,182
Unrestricted	\$51,184,721	\$35,889,125	\$15,295,596
Total net position	\$244,750,614	\$210,386,118	\$34,364,496

Governmental activities. The District's total net position increased by \$34,364,496. The total cost of all *governmental activities* this year was \$362,993,139. The amount that our taxpayers paid for these activities through property taxes was \$85,879,981 or 23.7%.

**MESQUITE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2014**

	Changes in the District's Net Position		
Revenues:	2014	2013	Difference
Program revenues:			
Charges for services	\$8,953,952	\$9,230,562	(\$276,610)
Operating grants & contributions	\$77,145,118	\$73,430,739	3,714,379
General revenues:			
Property taxes	\$85,879,981	\$83,180,850	\$2,699,131
State grants	\$222,659,773	\$201,315,635	\$21,344,138
Other	\$2,718,811	\$1,876,925	\$841,886
Total revenues	\$397,357,635	\$369,034,711	\$28,322,924
Expenses:			
Instruction	\$214,218,074	\$196,365,507	\$17,852,567
Instructional resources & media services			
Curriculum & staff development	\$4,745,806	\$4,351,575	\$394,231
Instructional leadership	\$6,216,358	\$5,458,954	\$757,404
School leadership	\$17,999,404	\$16,885,220	\$1,114,184
Guidance, counseling & evaluation services			
Social work services	\$13,753,220	\$12,892,373	\$860,847
Health services	\$275,655	\$225,955	\$49,700
Student (pupil) transportation	\$3,642,351	\$3,390,367	\$251,984
Food Services	\$4,482,110	\$4,325,864	\$156,246
Co-curricular/extracurricular activities	\$21,060,951	\$19,643,591	\$1,417,360
General administration	\$8,079,247	\$8,095,329	\$(16,082)
Plant maintenance & operations	\$7,761,115	\$7,622,299	\$138,816
Security and monitoring services	\$29,642,389	\$29,007,421	\$634,968
Data processing services	\$3,387,728	\$2,764,931	\$622,797
Community services	\$6,753,861	\$5,258,695	\$1,495,166
Debt service-interest on long-term debt	\$483,591	\$526,050	\$(42,459)
Bond Issuance Costs and Fees	\$10,920,341	\$18,472,286	\$(7,551,945)
Facilities acquisition & construction	\$980,839	\$476,916	\$503,923
Payments to juvenile justice alternative education program	\$350,586	\$534,443	\$(183,857)
Payments to tax increment fund	\$44,688	\$32,148	\$12,540
Other Intergovernmental Charges	\$2,615,472	\$2,209,880	\$405,592
Total expenses	\$341,419	\$345,785	\$(4,366)
Increase in Net Position	\$362,993,139	\$343,654,788	\$19,338,351
Beginning Net Position	\$34,364,496	\$25,379,923	\$8,984,573
Restatement	\$210,386,118	\$187,337,910	\$23,048,208
Ending Net Position	\$0	\$(2,331,715)	\$(2,331,715)
	\$244,750,614	\$210,386,118	\$34,364,496

Financial Analysis of the District's Funds

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

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

**MESQUITE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2014**

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$160,980,967, an increase of \$21,393,366. Approximately 52.5 percent or \$89,529,405 constitutes *unassigned fund balance*. The remainder of fund balance is designated to indicate that it is not available for new spending as follows: non-spendable, inventory \$1,371,437, and deferred expenditures \$242,792; restricted, debt service \$15,604,288, food service \$7,156,966, capital acquisitions \$45,061,786, and state special revenue, \$39,236; committed, local special revenue, \$177,638; assigned, \$1,797,419.

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 \$89,529,405, while the total fund balance was \$92,805,626. 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 29.4 percent of the total general fund expenditures, while total fund balance represents 30.5 percent of that same amount.

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

Unrestricted net position at August 31, 2014, amounted to \$3,482,948.

General Fund Budgetary Highlights

The budget was amended August 11, 2014. The district made the following amendments to budgeted revenue:

- \$ 1,590,295 increase in local revenue
- \$ 3,895,805 increase in state revenue
- \$ 855,000 increase in federal revenue
- \$ 4,106,800 increase in other resources

Following is a summary of amendments made to appropriations:

- \$ 2,970,390 decrease for instructional services
- \$ 246,160 decrease for instructional and school leadership
- \$ 1,118,295 decrease for student services
- \$ 921,450 decrease for general administration
- \$ 885,570 decrease for support services
- \$ 927,150 increase for data processing
- \$ 327,700 decrease for ancillary services
- \$11,027,600 increase for capital outlay
- \$ 476,500 decrease for intergovernmental charges and other uses

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of August 31, 2014, amounts to \$478,066,258 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, construction in progress.

**MESQUITE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2014**

District's Capital Assets
(net of depreciation)

	2014	2013	Difference
Land	\$16,090,241	15,493,423	\$596,818
Buildings and improvements	\$397,642,814	\$390,261,120	\$7,381,694
Furniture & equipment	\$55,477,423	\$50,272,538	\$5,204,885
Construction in progress	\$8,855,780	\$11,059,157	\$(2,203,377)
Totals at historical cost	\$478,066,258	\$467,086,238	\$10,980,020

Long-term debt. At August 31, 2014, the District had total bonded debt outstanding of \$360,090,771, a decrease of \$4,718,527 from the prior year. There was one refunding of \$54,200,000 for the period ending August 31, 2014 and the District also issued \$24,045,000 of new Unlimited School building bonds. The "AAA" long-term rating on the District's Texas' bonds reflects the Texas Permanent School Fund guarantee. The "AA" Standard & Poor's and "AA+" Fitch ratings on the District's unenhanced debt reflects the District's: 1) participation in the strong and growing Dallas area economy, 2) very strong administrative management, and 3) superior cash position.

Assessed values (AVs) have decreased an average of 2.8% annually from fiscal 2010-2014, with an increase in 2014 of less than 1%. Top ten taxpayers account for about 6.0% of a diversified tax roll, where residential property comprises roughly 62.5% of the District's AV and commercial property accounts for approximately 37.5%. 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 2014.
- The District's enrollment has experienced an increase of 1.70 percent.

Budget for 2015

- Local revenue increased \$5,084,431, state aid increased \$12,645,694 and federal aid increased \$192,124 and other sources increased \$5,058,390 for a total net increase of \$22,980,639.
- Expenditures for 2015, increased \$26,595,835 in the general fund due to raises and additional staff for salaries and supplies in every function of the school district, decreased for debt service 892,500, increased for capital projects \$9,213,858, increased for special revenue funds \$1,094,739, for a total net increase of \$36,011,932.

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.

THIS PAGE INTENTIONALLY LEFT BLANK

EXHIBIT A-1

MESQUITE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2014

Data
Control
Codes

		<u>Governmental Activities</u>
ASSETS		
1110	Cash and cash equivalents	\$ 28,154,454
1120	Investments	123,755,652
1220	Delinquent property taxes receivable	7,525,896
1230	Allowance for uncollectable taxes (credit)	(2,312,258)
1240	Due from other governments	5,415,115
1250	Accrued interest	242,907
1290	Other receivables (net)	834,502
1300	Inventories	1,733,537
1410	Prepaid expenditures or expenses	242,792
1490	Other current assets	9,758
	Capital assets:	
1510	Land	16,090,241
1520	Buildings and improvements	622,182,254
1530	Furniture and equipment	129,897,730
1550	Capital lease assets	4,159,462
1570	Accumulated depreciation	(303,119,209)
1580	Construction in progress	8,855,780
	Noncurrent assets:	
1910	Long-term investments	<u>27,264,002</u>
1000	Total Assets	<u>670,932,615</u>
DEFERRED OUTFLOWS OF RESOURCES		
1701	Accumulated decrease in fair value of hedging derivative	6,322,339
1702	Deferred loss on refunding	<u>17,357,194</u>
	Total deferred outflow of resources	<u>23,679,533</u>
LIABILITIES		
2110	Accounts payable	6,671,210
2140	Interest payable	627,230
2150	Payroll deductions and withholdings	2,407,113
2160	Accrued wages payable	12,913,590
2200	Accrued expenditures or expenses	796,047
2300	Unearned revenue	400,842
2302	Derivative instrument	6,322,339
	Noncurrent liabilities:	
2501	Due within one year	32,365,596
2502	Due in more than one year	<u>387,357,567</u>
2000	Total Liabilities	<u>449,861,534</u>
NET POSITION		
3200	Net investments in capital assets	170,669,212
	Restricted for:	
3840	Food service	7,292,393
3850	Debt service	15,604,288
3900	Unrestricted net position	<u>51,184,721</u>
3000	Total net position	<u>\$ 244,750,614</u>

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, 2014**

Data Control Codes	1 Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position 6 Governmental Activities	
		3 Charges for Services	4 Operating Grants and Contributions		
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 214,218,074	\$ 967,701	\$ 24,201,333	\$ (189,049,040)
12	Instructional resources and media services	5,237,934	-	272,004	(4,965,930)
13	Curriculum and staff development	4,745,806	-	1,129,445	(3,616,361)
21	Instructional leadership	6,216,358	-	2,117,063	(4,099,295)
23	School leadership	17,999,404	-	797,649	(17,201,755)
31	Guidance, counseling, and evaluation services	13,753,220	-	1,300,834	(12,452,386)
32	Social work services	275,655	-	218,822	(56,833)
33	Health services	3,642,351	-	194,900	(3,447,451)
34	Student transportation	4,482,110	-	222,554	(4,259,556)
35	Food service	21,060,951	4,298,714	16,450,070	(312,167)
36	Extracurricular activities	8,079,247	3,221,911	391,600	(4,465,736)
41	General administration	7,761,115	-	338,092	(7,423,023)
51	Plant maintenance and operations	29,642,389	465,626	1,395,637	(27,781,126)
52	Security and monitoring services	3,387,728	-	176,192	(3,211,536)
53	Data processing services	6,753,861	-	359,473	(6,394,388)
61	Community services	483,591	-	4,412,097	3,928,506
71	Principal on long-term debt	-	-	69,090	69,090
72	Interest on long-term debt	10,920,341	-	22,344,844	11,424,503
73	Bond issuance costs and fees	980,839	-	-	(980,839)
81	Facilities acquisition and construction	350,586	-	715,419	364,833
95	Payments to juvenile justice alternative education programs	44,688	-	-	(44,688)
97	Payments to Tax Increment Fund	2,615,472	-	38,000	(2,577,472)
99	Other intergovernmental charges	341,419	-	-	(341,419)
	[TP] TOTAL PRIMARY GOVERNMENT:	<u>362,993,139</u>	<u>8,953,952</u>	<u>77,145,118</u>	<u>(276,894,069)</u>
		General Revenues:			
		Taxes			
	MT			Property Taxes, Levied for General Purposes	63,347,823
	DT			Property Taxes, Levied for Debt Service	22,532,158
	SF			State Aid - Formula Grants	222,659,773
	GC			Miscellaneous Local and Intermediate Revenue	2,049,079
	IE			Investment Earnings	669,732
	TR			Total general revenues	<u>311,258,565</u>
	CN			Change in net position	34,364,496
	NB			Net position-beginning, as restated	<u>210,386,118</u>
	NE			Net position-ending	<u>\$ 244,750,614</u>

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

THIS PAGE INTENTIONALLY LEFT BLANK

**MESQUITE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2014**

Data Control Codes	10 <u>General Fund</u>	24 <u>Food Service</u>	50 <u>Debt Service Fund</u>	
ASSETS				
1110	Cash and cash equivalents	\$ 8,634,739	\$ 2,816,743	\$ 2,774,075
1120	Investments	96,362,875	5,550,921	12,517,500
1220	Property taxes delinquent	5,616,013	-	1,909,883
1230	Allowance for uncollectable taxes (credit)	(1,725,465)	-	(586,793)
1240	Due from other governments	879,159	609,888	205,086
1250	Accrued interest	173,451	8,708	15,903
1260	Due from other funds	6,790,409	51,006	7,210
1290	Other receivables	590,050	787	84,515
1300	Inventories	1,236,010	135,427	-
1410	Prepaid expenditures	242,792	-	-
1000	Total assets	<u>\$ 118,800,033</u>	<u>\$ 9,173,480</u>	<u>\$ 16,927,379</u>
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES				
LIABILITIES:				
2110	Accounts payable	\$ 3,012,827	\$ 1,332,473	\$ -
2150	Payroll deductions and withholdings payable	2,407,113	-	-
2160	Accrued wages payable	12,586,182	319,546	-
2170	Due to other funds	3,914,975	12,450	-
2300	Unearned revenue	182,762	216,618	-
2000	Total liabilities	<u>22,103,859</u>	<u>1,881,087</u>	<u>-</u>
DEFERRED INFLOWS:				
2600	Unavailable revenue	3,890,548	-	1,323,091
	Total deferred inflows	<u>3,890,548</u>	<u>-</u>	<u>1,323,091</u>
FUND BALANCES:				
Nonspendable				
3410	Inventories	1,236,010	135,427	-
3430	Prepaid expenditures	242,792	-	-
Restricted				
3480	Debt service	-	-	15,604,288
3470	Capital acquisitions program	-	-	-
3450	Food service	-	7,156,966	-
3450	State Special Revenue	-	-	-
Committed				
3545	Local Special Revenue	-	-	-
3590	Assigned	1,797,419	-	-
3600	Unassigned	89,529,405	-	-
3000	Total fund balances	<u>92,805,626</u>	<u>7,292,393</u>	<u>15,604,288</u>
4000	Total liabilities, deferred inflows and fund balances	<u>\$ 118,800,033</u>	<u>\$ 9,173,480</u>	<u>\$ 16,927,379</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		
\$ 7,081,959	\$ 100	\$ 21,307,616
36,588,358	-	151,019,654
-	-	7,525,896
-	-	(2,312,258)
-	3,720,982	5,415,115
44,845	-	242,907
3,470,551	350,582	10,669,758
-	158,334	833,686
-	-	1,371,437
-	-	242,792
<u>\$ 47,185,713</u>	<u>\$ 4,229,998</u>	<u>\$ 196,316,603</u>
\$ 1,969,421	\$ 242,274	\$ 6,556,995
-	-	2,407,113
-	7,862	12,913,590
154,506	3,761,526	7,843,457
-	1,462	400,842
<u>2,123,927</u>	<u>4,013,124</u>	<u>30,121,997</u>
-	-	5,213,639
<u>-</u>	<u>-</u>	<u>5,213,639</u>
-	-	1,371,437
-	-	242,792
-	-	15,604,288
45,061,786	-	45,061,786
-	-	7,156,966
-	39,236	39,236
-	177,638	177,638
-	-	1,797,419
-	-	89,529,405
<u>45,061,786</u>	<u>216,874</u>	<u>160,980,967</u>
<u>\$ 47,185,713</u>	<u>\$ 4,229,998</u>	<u>\$ 196,316,603</u>

THIS PAGE INTENTIONALLY LEFT BLANK

**MESQUITE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2014**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 160,980,967
The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	3,482,948
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental fund financial statements.	781,185,467
Accumulated depreciation has not been included in the governmental fund financial statements.	(303,119,209)
Bonds payable have not been included in the governmental fund financial statements.	(360,090,771)
Capital lease obligations have not been included in the governmental fund financial statements.	(2,760,527)
Accreted interest for capital appreciation bonds have not been included in the governmental fund financial statements.	(29,224,577)
Unavailable revenue in the fund financial statements was recorded as revenue in the district-wide financial statements.	5,213,639
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.	(1,621,790)
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.	(627,230)
Discount on the issuance of bonds reported as net other financing uses on the fund financial statements is capitalized in the district-wide financial statements.	1,171,618
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.	(27,197,115)
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>17,357,194</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 244,750,614</u></u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014**

Data Control Codes	10 General Fund	24 Food Service	50 Debt Service Fund
REVENUES			
5700	\$ 69,185,436	\$ 4,324,823	\$ 22,496,341
5800	235,709,510	337,056	22,344,844
5900	1,607,102	16,059,615	-
5020	<u>306,502,048</u>	<u>20,721,494</u>	<u>44,841,185</u>
EXPENDITURES			
CURRENT:			
0011	181,072,024	-	-
0012	5,471,521	-	-
0013	3,306,475	-	-
0021	4,988,373	-	-
0023	16,148,874	-	-
0031	11,756,160	-	-
0032	181,402	-	-
0033	3,282,012	-	-
0034	4,506,252	-	-
0035	1,081,227	20,318,321	-
0036	7,760,734	-	-
0041	6,845,605	-	-
0051	28,258,537	-	-
0052	3,558,389	-	-
0053	7,278,511	-	-
0061	87,647	-	-
DEBT SERVICE:			
0071	1,398,930	-	26,849,345
0072	-	-	13,431,932
0073	-	-	738,234
CAPITAL OUTLAY			
0081	14,485,565	-	-
INTERGOVERNMENTAL:			
0095	44,688	-	-
0097	2,615,472	-	-
0099	341,419	-	-
6030	<u>304,469,817</u>	<u>20,318,321</u>	<u>41,019,511</u>
1100	<u>2,032,231</u>	<u>403,173</u>	<u>3,821,674</u>
OTHER FINANCING SOURCES (USES) :			
7901	-	-	54,200,000
7911	-	-	-
7912	37,095	-	-
7913	4,159,457	-	-
7915	391,200	59,368	-
7916	-	-	6,628,003
7949	24,036	-	-
8911	(505,788)	(391,200)	-
8940	-	-	(61,009,836)
7080	<u>4,106,000</u>	<u>(331,832)</u>	<u>(181,833)</u>
1200	6,138,231	71,341	3,639,841
0100	<u>86,667,395</u>	<u>7,221,052</u>	<u>11,964,447</u>
3000	<u>\$ 92,805,626</u>	<u>\$ 7,292,393</u>	<u>\$ 15,604,288</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
\$ 891,410	\$ 237,429	\$ 97,135,439
-	5,078,324	263,469,734
-	18,160,895	35,827,612
<u>891,410</u>	<u>23,476,648</u>	<u>396,432,785</u>
645,524	20,185,006	201,902,554
118,122	8,934	5,598,577
-	1,137,713	4,444,188
-	698,784	5,687,157
-	179,093	16,327,967
-	792,173	12,548,333
-	68,399	249,801
-	32,808	3,314,820
251,919	-	4,758,171
-	-	21,399,548
33,584	7,689	7,802,007
475,386	5,616	7,326,607
475,908	-	28,734,445
-	2,887	3,561,276
-	-	7,278,511
-	362,821	450,468
-	-	28,248,275
-	-	13,431,932
242,605	-	980,839
12,783,086	-	27,268,651
-	-	44,688
-	-	2,615,472
-	-	341,419
<u>15,026,134</u>	<u>23,481,923</u>	<u>404,315,706</u>
<u>(14,134,724)</u>	<u>(5,275)</u>	<u>(7,882,921)</u>
-	-	54,200,000
24,045,000	-	24,045,000
-	-	37,095
-	-	4,159,457
-	-	450,568
1,236,348	-	7,864,351
402,604	-	426,640
-	-	(896,988)
-	-	(61,009,836)
<u>25,683,952</u>	<u>-</u>	<u>29,276,287</u>
11,549,228	(5,275)	21,393,366
<u>33,512,558</u>	<u>222,149</u>	<u>139,587,601</u>
<u>\$ 45,061,786</u>	<u>\$ 216,874</u>	<u>\$ 160,980,967</u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014**

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 21,393,366
The District uses internal service funds to charge the costs of self-insurance to appropriate functions in other funds. The change in net position of internal service funds are reported as governmental activities.	34,470
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.	37,789,854
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources.	(26,802,681)
Current year bond proceeds are other financing sources in the governmental fund financial statements, but are shown as increases in long-term debt in the district-wide financial statements.	(78,245,000)
Current year long-term debt principal payments on bonded debt are expenditures in the governmental fund financial statements, but are shown as reductions in long-term debt in the district-wide financial statements.	26,849,345
Current year payments to refund debt principal are other uses in the fund financial statements, but are shown as reductions in long-term debt in the district-wide financial statements.	56,114,182
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.	(4,040)
Current year change in the accretion on capital appreciation bonds is not reflected in the governmental fund financial statements, but is shown as an increase in accreted interest on the district-wide financial statements.	(1,318,656)
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.	(19,441)
Premiums and discounts associated with bonds payable are reported as other sources/uses in the fund financial statements when bonds are issued. Amounts are reported net of amortization in the district-wide financial statements. The effect of current amortization of bond premiums \$4,602,997 and bond discounts (\$386,666) was to increase net position.	4,216,331
Amortization of deferred loss on refunding amount is not recognized in the governmental funds. The effect of recording current year's addition of \$8,134,503 and amortization of (\$3,606,318) is to increase net position.	4,528,185
Current year additions to premium on bonds are not reflected in the governmental fund financial statements, but are shown as a decrease in net position.	(7,864,348)
The net book value of capital assets disposed is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current disposals less cash proceeds is to decrease net position.	(5,147)
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.	458,603
Current year capital lease proceeds are other financing sources in the governmental fund financial statements, but are shown as increases in long-term debt in the district-wide financial statements.	(4,159,457)
Current year capital lease payments are expenditures in the government fund financial statements, but are shown as reductions in the capital lease obligation in the district-wide financial statements.	1,398,930
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 34,364,496

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

**MESQUITE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2014**

	Governmental Activities-
	Internal Service Funds
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 6,846,838
Inventory	362,100
Due from other funds	32,506
Other current assets	9,758
Total assets	7,251,202
CURRENT LIABILITIES:	
Accounts payable	110,865
Due to other funds	2,861,343
Accrued expenses	796,046
Total liabilities	3,768,254
NET POSITION	
Unrestricted	3,482,948
Total net position	\$ 3,482,948

**MESQUITE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014**

	Governmental Activities-
	Internal Service Funds
OPERATING REVENUES:	
Charges for services	\$ 6,419,878
Total operating revenues	6,419,878
OPERATING EXPENSES:	
Personal services	1,253,454
Contractual services	96,300
Other supplies and expenses	4,530,315
Insurance claims and expenses	863,706
Other operating costs	88,564
Total operating expenses	6,832,339
Operating loss	(412,461)
NONOPERATING REVENUES:	
Earnings from temporary deposits and investments	512
Total nonoperating revenue	512
TRANSFERS IN	446,419
Change in net position	34,470
Total net position—beginning	3,448,478
Total net position—ending	\$ 3,482,948

**MESQUITE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014**

	Governmental Activities-
	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from transactions with other funds	\$ 6,589,886
Payments to suppliers	(4,617,837)
Payments to employees	(1,349,754)
Claims paid	(863,706)
Net cash used in operating activities	(241,411)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers in	446,419
Net cash provided by non-capital financing activities	446,419
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	512
Net cash provided by investing activities	512
Net increase in cash and cash equivalents	205,520
Balances—beginning of the year	6,641,318
Balances—end of the year	\$ 6,846,838
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (412,461)
Effect of increases and decreases in current assets and liabilities:	
Increase in inventory	(36,082)
Decrease in other receivables	163,776
Decrease in interfund receivables	6,232
Decrease in accounts payable	(20,593)
Decrease in accrued expenses	57,717
Net cash used in operating activities	\$ (241,411)

**MESQUITE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2014**

	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 149,255	\$ 885,989
Due from other funds	1,352	2,000
Total Assets	<u>\$ 150,607</u>	<u>\$ 887,989</u>
LIABILITIES		
Accounts payable	\$ 5,150	\$ -
Due to other funds	-	816
Due to student groups	-	887,173
Total liabilities	5,150	<u>\$ 887,989</u>
NET POSITION		
Unrestricted net position	<u>145,457</u>	
Total net position and liabilities	<u>\$ 150,607</u>	

**MESQUITE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014**

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Local and intermediate sources	\$ 33,458
Total additions	<u>33,458</u>
DEDUCTIONS	
Supplies and materials	6,886
Other operating costs	<u>30,387</u>
Total deductions	<u>37,273</u>
Change in net position	<u>(3,815)</u>
Net position September 1 (Beginning)	<u>149,272</u>
Net position August 31 (Ending)	<u><u>\$ 145,457</u></u>

THIS PAGE INTENTIONALLY LEFT BLANK

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

District-Wide and Fund Financial Statements

The statement of net position and the statement of activities are district-wide financial statements. They report information on all of the Mesquite Independent School District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenues. The District has no business type activities that rely, to a significant extent, on fees and charges for support.

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

District-Wide and Fund Financial Statements – Continued

All interfund transactions between governmental funds and proprietary funds are eliminated on the district-wide statements. Interfund activities between governmental funds and fiduciary funds remain as payables/receivables on the district-wide statement of activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the district-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be attributed specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

Fund Accounting

Governmental Funds:

The District reports the following major governmental funds:

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Accounting – Continued

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State and Local financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Proprietary Funds:

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

Fiduciary Funds:

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

Cash and Cash Equivalents

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

Interfund Receivables and Payables

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Accounting – Continued

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which they were imposed.

On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the District fiscal year.

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

Investments

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

Prepaid Expenses

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

Supplies, Materials and Commodities

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Accounting – Continued

Capital Assets

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

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements with total project costs of \$100,000 or greater are capitalized as they are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	10-40
Building improvements	10-40
Furniture and equipment	5-10

Liability for Compensated Absences

It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated vacation since the District does not have a policy to pay any amounts when employees separate from service with the District. Sick leave days are accumulated from year to year; however, only qualified employees are paid for sick leave days not taken upon retirement. Qualified employees are employees that have worked for the District five or more years and have met all other retirement age criteria. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Accounting – Continued

Long-Term Debt – Continued

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 expended as incurred.

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

Net position and Fund Balance

District-Wide Financial Statements

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

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net position and Fund Balance – Continued

Governmental Fund Financial Statements

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

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

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

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net position and Fund Balance – Continued

Encumbrance Accounting

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

Encumbrances outstanding at August 31, 2014 that were provided for in the subsequent year’s budget are:

General fund	\$	1,797,419
Non-major special revenue		19,420
Major special revenue		385,917
Capital project funds		962,215
Private purpose trust funds		30,020
		30,020
	\$	3,194,991

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, 2014 will change. The total estimate state foundation revenue related to fiscal year 2013 collected in fiscal year 2014 totaled \$279,092.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through January 7, 2015, the date the financial statements were available to be issued.

NOTE 2. CASH AND INVESTMENTS

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

At August 31, 2014, the carrying amount of the District's cash deposits held at the depository bank was \$1,920,443 and the bank balance was \$5,062,966. The District's cash deposits at August 31, 2014 and during the year ended August 31, 2014 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 \$164,481,450.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$144,370,176 and occurred during the month of June 2014.
- d. Total amount of FDIC coverage at the time of the highest combined balance was limited to \$250,000.

Legal and contractual provisions governing deposits and investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

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

NOTE 2. CASH AND INVESTMENTS – CONTINUED

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

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

The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Cash and investments as of August 31, 2014 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents	\$ 28,154,454
Current investments	123,755,652
Long-term investments	27,264,002
Fiduciary funds:	
Cash and cash equivalents	<u>1,035,244</u>
Total cash and investments	<u><u>\$ 180,209,352</u></u>

Cash and investments as of August 31, 2014 consist of the following:

Cash on hand	\$ 22,801
Deposits with financial institutions	1,920,343
Investments	<u>178,266,208</u>
Total cash and investments	<u><u>\$ 180,209,352</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, 2014, the District had the following investments:

<u>Investment Type</u>		<u>Weighted Average Maturity</u>
U.S. Government Obligations	\$ 16,688,358	255 days
Certificates of Deposit	134,231,848	270 days
Investment Pool -LoneStar	12,776,777	49 days
Investment Pool -TexPool	7,559,718	53 days
Investment Pool -Texstar	<u>7,009,507</u>	52 days
Total	<u><u>\$ 178,266,208</u></u>	

As of August 31, 2014 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, 2014 for each investment type.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
U.S. Government Obligations	\$ 16,688,358	N/A	N/A
Certificates of Deposit	134,231,848	N/A	N/A
Investment Pool -LoneStar	12,776,777	N/A	AAA
Investment Pool -TexPool	7,559,718	N/A	AAAm
Investment Pool -Texstar	<u>7,009,507</u>	N/A	AAAm
Total	<u><u>\$ 178,266,208</u></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, 2014, the District held 75% of their portfolio in certificates of deposit and 9% 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, 2014 the District deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

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

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

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

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Custodial Credit Risk – Continued

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

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

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

NOTE 3. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2014, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

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

NOTE 3. DUE FROM OTHER GOVERNMENTS – CONTINUED

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

	General Fund	Food Service Fund	Debt Service Fund	Non-Major Special Revenue Funds	Total
State entitlement	\$ 817,120	\$ -	\$ -	\$ -	\$ 817,120
State grants	-	609,888	205,086	-	814,974
Federal grants	62,039	-	-	3,720,982	3,783,021
	<u>\$ 879,159</u>	<u>\$ 609,888</u>	<u>\$ 205,086</u>	<u>\$ 3,720,982</u>	<u>\$ 5,415,115</u>

NOTE 4. OTHER RECEIVABLES

Other receivables as of August 31, 2014, for the District's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate are as follows:

	General Fund	Food Service Fund	Debt Service Fund	Non-Major Governmental Funds	Total
TAMU rent and utilities	\$ 36,448	\$ -	\$ -	\$ -	\$ 36,448
City of Mesquite utilities	28,970	-	-	-	28,970
City crossing guard	148,706	-	-	-	148,706
Taxes receivable	191,579	-	84,515	-	276,094
Mesquite Education Foundation	51,106	-	-	157,847	208,953
Cedar Valley Community College	11,254	-	-	-	11,254
Wax refund	65,516	-	-	-	65,516
Scoreboard	29,000	-	-	-	29,000
Refunds/miscellaneous	21,027	-	-	487	21,514
MEPA	48	-	-	-	48
PAMS	-	787	-	-	787
Masters reimbursement	6,396	-	-	-	6,396
	<u>\$ 590,050</u>	<u>\$ 787</u>	<u>\$ 84,515</u>	<u>\$ 158,334</u>	<u>\$ 833,686</u>

District-wide other receivables includes \$816 due from the Private Purpose Trust Funds, as these funds are not presented as part of the District's operations.

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

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at August 31, 2014 consisted of the following individual fund receivables and payables:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
General Funds	Capital Projects	\$ 154,506
General Funds	Internal Service	2,861,256
General Funds	Food Service	12,450
General Funds	Non-major Special Revenue	3,761,525
General Funds	Agency	672
Capital Projects	General Funds	3,470,551
Debt Service	General Funds	7,210
Non-major Special Revenue	General Funds	350,582
Food Service	General Funds	50,775
Food Service	Internal Service	87
Food Service	Agency	144
Internal Service	General Funds	32,506
Agency	General Funds	2,000
Private Purpose Trust	General Funds	1,352
		<u>\$ 10,705,616</u>

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

Interfund transfers for the year ended August 31, 2014 were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Reason</u>
General	Food Service	\$ 59,368	Food Service Transfer
General	Internal Service Fund	446,420	Internal Service Transfer
Food Service	General	391,200	Food Service Transfer
		<u>\$ 896,988</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, 2014, was as follows:

<u>Governmental Activities:</u>	<u>Primary Government</u>				<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	
Non-depreciable assets					
Land	\$ 15,493,423	\$ 596,818	\$ -		\$ 16,090,241
Construction in progress	11,059,157	19,866,505	-	(22,069,882)	8,855,780
Total non-depreciable assets	<u>26,552,580</u>	<u>20,463,323</u>	<u>-</u>	<u>(22,069,882)</u>	<u>24,946,021</u>
Depreciable assets					
Buildings and improvements	600,112,642	-	(270)	22,069,882	622,182,254
Furniture and equipment	116,976,610	13,167,074	(245,949)	-	129,897,735
Furniture and equipment - leased	-	4,159,457	-	-	4,159,457
Total depreciable assets	<u>717,089,252</u>	<u>17,326,531</u>	<u>(246,219)</u>	<u>22,069,882</u>	<u>756,239,446</u>
Less accumulated depreciation for:					
Buildings and improvements	209,851,522	14,688,043	(125)	-	224,539,440
Furniture and equipment	66,704,072	12,114,638	(238,941)	-	78,579,769
Total accumulated depreciation	<u>276,555,594</u>	<u>26,802,681</u>	<u>(239,066)</u>	<u>-</u>	<u>303,119,209</u>
Total capital assets, net	<u>\$ 467,086,238</u>	<u>\$ 10,987,173</u>	<u>\$ (7,153)</u>	<u>\$ -</u>	<u>\$ 478,066,258</u>

Depreciation expense was charged to governmental functions as follows:

<u>Governmental Function</u>	<u>Depreciation</u>
Instruction	\$ 18,313,790
Instructional resources and media services	436,231
Curriculum development and instructional staff development	297,723
Instructional leadership	540,129
School leadership	1,627,666
Guidance, counseling and evaluation services	1,188,750
Social work services	25,500
Health services	328,697
Student (pupil) transportation	355,292
Food services	781,637
Cocurricular/extracurricular activities	342,537
General administration	506,935
Plant maintenance and operations	1,410,305
Security and monitoring service	164,260
Data processing services	439,852
Community services	28,620
Construction	14,757
Total depreciation expense	<u>\$ 26,802,681</u>

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

NOTE 7. UNEARNED/UNAVAILABLE REVENUE

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

	General Fund	Food Service Fund	Debt Service Fund	Non-Major Governmental Funds	Total
Tax revenue	\$ 3,890,548	\$ -	\$ 1,323,091	\$ -	\$ 5,213,639
Total unavailable	<u>\$ 3,890,548</u>	<u>\$ -</u>	<u>\$ 1,323,091</u>	<u>\$ -</u>	<u>\$ 5,213,639</u>
Cheerleader receipts	\$ 179,942	\$ -	\$ -	\$ -	\$ 179,942
Athletic ticket sales	2,820	-	-	-	2,820
State grant awards	-	-	-	1,462	1,462
Prepaid PAMS	-	216,618	-	-	216,618
Total unearned	<u>\$ 182,762</u>	<u>\$ 216,618</u>	<u>\$ -</u>	<u>\$ 1,462</u>	<u>\$ 400,842</u>

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

NOTE 8. LONG-TERM DEBT

Unlimited Tax Bonds

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

The District has five issues containing zero coupon bonds. Accordingly, the accretion of interest on these zero coupon bonds has been recorded in the district-wide financial statements. Accreted interest increased on these bonds during the current year in the net amount of \$1,318,647.

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

NOTE 8. LONG-TERM DEBT – CONTINUED

Unlimited tax bonds outstanding as of August 31, 2014 are as follows:

Purpose and Lawful Authority	Interest Rate	Final Maturity	Amount of Original Issue	Amounts Outstanding 08/31/14
Unlimited Tax School Building Bonds, Series 2000	4.45 to 6.00%	2021	\$ 40,000,000	\$ 18,233,754
Unlimited Tax School Building Bonds, Series 2001 QZAB	0.00%	2015	3,759,224	280,885
Variable Rate School Building Unlimited Tax Bonds, Series 2003A	4.46%	2029	30,000,000	29,035,000
Unlimited Tax Refunding Bonds, Series 2004	3.25 to 5.00%	2015	13,965,000	1,730,000
Unlimited Tax School Building and Refunding Bonds, Series 2005A	3.50 to 5.28%	2031	114,815,180	32,926,654
Unlimited Tax School Building Bonds, Series 2006	4.50 to 5.00%	2031	28,765,000	23,145,000
Unlimited Tax School Building and Refunding Bonds, Series 2007	4.50 to 5.23%	2032	70,520,219	44,105,219
Unlimited Tax School Building and Refunding Bonds, Series 2008	3.00 to 4.00%	2019	13,090,000	3,100,000
Unlimited Tax School Building Bonds, Series 2009	2.50 to 4.63%	2033	24,735,000	22,655,000
Unlimited Tax School Building Bonds, Series 2010-A	2.00 to 5.00%	2035	45,965,000	43,320,000
Unlimited Tax Refunding Bonds, Series 2010-B	2.25 to 5.00%	2025	27,978,394	20,540,000
Unlimited Tax Refunding Bonds, Series 2012	2.00 to 5.00%	2031	36,409,259	34,059,259
Unlimited Tax Refunding Bonds, Series 2013	3.00 to 3.50%	2026	8,760,000	8,740,000
Unlimited Tax School Building Bonds, Series 2014-A	2.5 to 5.00%	2025	24,045,000	24,045,000
Unlimited Tax Refunding Bonds, Series 2014-B	2.00 to 5.00%	2030	54,200,000	54,175,000
Total bonded debt principal payable				<u>\$ 360,090,771</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 0.05% at August 31, 2014.

Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$6,322,339 as of August 31, 2014. 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, 2014, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA- by Fitch Ratings, A+ by Standard & Poor's and Aa3 by Moody's Investor Service as of August 31, 2014. To mitigate the potential for credit risk, if the counterparty's credit quality falls below BBB/Baa3, the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

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

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

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

NOTE 8. LONG-TERM DEBT – CONTINUED

Interest Rate Swap – Continued

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

	Changes in Fair Value		Fair Value at August 31, 2014		
	Classification	Amount	Classification	Amount	Notional
Governmental activities					
2003-A Swap					
(Cash flow hedge)	Deferred outflow	\$ (863,731)	Debt	\$ (6,322,339)	\$ 29,035,000

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
2015	\$ 115,000	\$ 1,279,862	\$ 14,518	\$ 1,409,380
2016	120,000	1,274,794	\$ 14,460	1,409,254
2017	130,000	1,269,504	\$ 14,400	1,413,904
2018	135,000	1,263,774	\$ 14,335	1,413,109
2019	2,315,000	1,257,822	\$ 14,268	3,587,090
2020-2024	13,160,000	4,666,530	\$ 52,932	17,879,462
2025-2029	13,060,000	1,505,552	17,078	14,582,630
	<u>\$ 29,035,000</u>	<u>\$ 12,517,838</u>	<u>\$ 141,991</u>	<u>\$ 41,694,829</u>

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

NOTE 8. LONG-TERM DEBT – CONTINUED

Debt Service Requirements – Continued

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

Year Ending August 31	General Obligation		Total Requirements
	Principal	Interest	
2015	\$ 29,411,608	\$ 13,585,940	\$ 42,997,548
2016	28,674,773	11,733,848	40,408,621
2017	29,504,907	10,605,730	40,110,637
2018	25,071,870	11,585,554	36,657,424
2019	21,034,976	14,008,486	35,043,462
2020-2024	83,664,459	54,053,033	137,717,492
2025-2029	68,844,855	41,305,889	110,150,744
2030-2034	36,653,323	22,432,492	59,085,815
2035-2039	8,195,000	766,025	8,961,025
	<u>\$ 331,055,771</u>	<u>\$ 180,076,997</u>	<u>\$ 511,132,768</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, 2014.

Current Debt Issuances

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, 2014, \$72,601,239 of bonds considered defeased are still outstanding.

During the year ended August 31, 2014, the District issued \$54,200,000 of Unlimited Tax Refunding Bonds plus a premium of \$6,628,003 and a transfer of prior issue debt service funds of \$618,470. Of these amounts, \$61,009,836 was used to purchase U.S. Government Securities that were placed in an irrevocable trust with an escrow agent to provide for all future debt payments of the refunded bonds. The reacquisition price exceeded the carrying amount of the refunded debt by \$8,134,503. This amount is being amortized over the remaining life of the debt and is classified as a deferred outflow of resources. This advanced refunding was undertaken to reduce total debt service payments through the year 2031 by \$6,965,956 and resulted in a gross economic gain of \$6,286,683.

The District also issued \$24,045,000 in Unlimited School Building Bonds plus a premium of \$1,234,348.

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

NOTE 8. LONG-TERM DEBT – CONTINUED

Changes in Long-Term Liabilities:

	Beginning Balance	Additions	Refunded/ Reductions	Ending Balance	Due Within One Year
Government activities					
Bonded debt payable	\$ 364,809,298	\$ 78,245,000	\$ (82,963,527)	\$ 360,090,771	\$ 29,526,608
	364,809,298	78,245,000	(82,963,527)	360,090,771	29,526,608
Accreted interest	27,905,921	5,764,476	(4,445,820)	29,224,577	1,184,319
Premium on bonds	23,935,764	7,864,348	(4,602,997)	27,197,115	-
Bond discount	(1,558,283)	-	386,666	(1,171,617)	-
Compensated absences	1,617,750	269,623	(265,583)	1,621,790	280,584
Capital lease obligation	-	4,159,457	(1,398,930)	2,760,527	1,374,085
Long-term liabilities	<u>\$ 416,710,450</u>	<u>\$ 96,302,904</u>	<u>\$ (93,290,191)</u>	<u>\$ 419,723,163</u>	<u>\$ 32,365,596</u>

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

Capital Lease

The District acquired office equipment under a lease accounted for as a capital lease. This lease meets the criteria of a capital lease as defined by the Financial Accounting Standards Board (FASB) Accounting Standards Codification guidance on “Accounting for Leases”, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. As of August 31, 2014, the capitalized costs of the Governmental leased property under the capital lease were \$4,159,457. Accumulated depreciation related to this lease totaled \$277,344 at August 31, 2014

The term of the lease is three years and calls for three annual payments, with the first being made at the inception of the lease. The future minimum lease payments under the capitalized lease and the net present value of the future minimum lease payments at August 31, 2014, are as follows:

Fiscal Year Ending August 31,	Principal	Interest	Total
2015	\$ 1,374,085	\$ 24,845	\$ 1,398,930
2016	1,386,442	12,478	1,398,920
Total	<u>\$ 2,760,527</u>	<u>\$ 37,323</u>	<u>\$ 2,797,850</u>

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

NOTE 9. GENERAL FUND FEDERAL SOURCE REVENUES

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

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Amount</u>	<u>Total Grant or Entitlement</u>
Medicaid and administrative consortium	N/A	\$ 93,143	\$ 93,143
Selective reserve educational assistance	N/A	518,374	518,374
School health and related services	N/A	995,585	995,585
		<u>\$ 1,607,102</u>	<u>\$ 1,607,102</u>

NOTE 10. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Non-Major Governmental</u>	<u>Total</u>
Taxes, current	\$ 61,293,986	\$ -	\$ 21,806,475	\$ -	\$ -	\$ 83,100,461
Taxes, prior years	751,347	-	279,779	-	-	1,031,126
Penalties and interest	953,845	-	333,948	-	-	1,287,793
Tax increment fund	38,000	-	-	-	-	38,000
Investment earnings	498,461	26,109	76,139	68,511	-	669,220
Insurance recovery	54,945	-	-	-	-	54,945
Tuition from patrons	854,321	-	-	-	-	854,321
Athletic activities	801,255	-	-	-	-	801,255
Rent	465,626	-	-	-	-	465,626
Food service activities	113,380	4,292,109	-	-	-	4,405,489
Gifts and bequests	177,171	-	-	-	237,429	414,600
Extra/cocurricular	1,805,318	-	-	-	-	1,805,318
Enterprising revenues	615,336	-	-	-	-	615,336
Other	762,445	6,605	-	822,899	-	1,591,949
	<u>\$ 69,185,436</u>	<u>\$ 4,324,823</u>	<u>\$ 22,496,341</u>	<u>\$ 891,410</u>	<u>\$ 237,429</u>	<u>\$ 97,135,439</u>

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

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.

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.

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

NOTE 11. DEFINED BENEFIT PENSION PLAN – CONTINUED

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 2014, 2013 and 2012, and a state contribution rate of 6.8% for fiscal year 2014, and 6.4% and 6.0% for fiscal years 2013 and 2012, respectively. State contributions made on behalf of the District's employees for the years ended August 31, 2014, 2013 and 2012 were \$13,034,276, \$11,049,021, and \$11,519,384, respectively. The District paid additional state contributions for the years ended August 31, 2014, 2013 and 2012 in the amount of \$2,810,453, \$2,243,949, and \$1,959,334, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

NOTE 12. RETIREE HEALTH PLAN

Plan Description

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

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

NOTE 12. RETIREE HEALTH PLAN - CONTINUED

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 year 2014, while rates were set at 0.5%, 0.65% and 0.55% in 2013, and 1.0%, 0.65%, and 0.55% in 2012. 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, 2014, 2013, and 2012, the State's contributions to TRS-Care were \$2,161,955, \$1,022,329, and \$1,963,072, respectively, the active member contributions were \$1,405,271, \$1,329,027, and \$1,275,997, respectively, and the school district's contributions were \$1,189,075, \$1,013,859, and \$1,079,690, respectively, which equaled the required contributions each year. In addition, the State of Texas contributed \$568,374, \$534,062, and \$511,486 in 2014, 2013 and 2012, 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.

Health Care Coverage

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

During the year ended August 31, 2014, the District funded benefit credits of \$297 per month per participating employee to the health insurance internal service fund.

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

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

NOTE 13. RISK MANAGEMENT – CONTINUED

Workers' Compensation Coverage

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

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

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

The costs associated with these self-insurance plans are reported as interfund transactions to the extent of amounts actuarially determined. Accordingly, they are treated as operating revenues of the Internal Service Funds and operating expenditures of the General Fund and the Special Revenue Funds. The liabilities of the workers' compensation self-insurance plan totaled \$796,046 and includes incurred but not reported claims. These liabilities reported in the funds at August 31, 2014 are based on the requirements of Governmental Accounting Standards Board No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

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%.

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

NOTE 13. RISK MANAGEMENT – CONTINUED

Workers' Compensation Coverage – Continued

Changes in the medical and workers' compensation claims liability amounts in fiscal 2014 and 2013 were:

<u>Self-Insurance Liability</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Claims and Changes in Estimates</u>	<u>Less: Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
2013 - workers' compensation	\$ 801,269	714,972	777,912	\$ 738,329
2014 - workers' compensation	\$ 738,329	863,706	805,989	\$ 796,046

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, 2014 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.

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 \$79,411,257 at August 31, 2014.

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

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, 2014, totaled \$2,162,215. The District is reimbursed by the other member districts for their portion of the expenditures.

NOTE 16. NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

The GASB issued statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68, which will be effective for fiscal year 2015. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The District will evaluate the impact of the standard on its financial statements and will take the necessary steps to implement it.

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

NOTE 17. CHANGE IN ACCOUNTING PRINCIPLE

The District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the fiscal year ended August 31, 2014. In accordance with GASB Statement No. 65, debt issuance costs should be recognized as expenses in the period incurred. Previously, debt issuance costs were recorded as assets and amortized over the life of the debt. The implementation of GASB Statement No. 65 resulted in the following prior period adjustment to the net position of the governmental activities:

Net position, beginning of year:	
As originally presented	\$ 212,717,833
Cumulative effect of change in accounting principle	<u>(2,331,715)</u>
As restated	<u><u>\$ 210,386,118</u></u>

The GASB concluded that refunding debt gain/loss, the difference resulting from a current refunding, or an advance refunding, relates to future periods, and meets the definition of a deferred outflow of resources or a deferred inflow of resources, as applicable.

Loss on refunding debt was previously presented as noncurrent liabilities in the statement of net position. Beginning in fiscal year 2014, loss on refunding debt is presented as deferred loss on refunding under deferred outflows of resources in the statement of net position. There is no effect on beginning net positions of Governmental Activities with this change.

THIS PAGE INTENTIONALLY LEFT BLANK

REQUIRED SUPPLEMENTARY INFORMATION

**MESQUITE INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2014**

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance With Final Budget Under or (Over)
		Original	Final	GAAP BASIS	
REVENUES					
5700	Local and intermediate sources	\$ 67,049,405	\$ 68,639,700	\$ 69,185,436	\$ 545,736
5800	State program revenues	229,858,595	233,754,400	235,709,510	1,955,110
5900	Federal program revenues	1,980,000	2,835,000	1,607,102	(1,227,898)
5020	Total revenues	298,888,000	305,229,100	306,502,048	1,272,948
EXPENDITURES					
CURRENT:					
0011	Instruction	183,176,140	181,298,400	181,072,024	226,376
0012	Instructional resources and media services	5,198,750	5,533,900	5,471,521	62,379
0013	Curriculum and staff development	3,946,900	3,334,100	3,306,475	27,625
0021	Instructional leadership	5,002,800	5,052,900	4,988,373	64,527
0023	School leadership	16,478,860	16,182,600	16,148,874	33,726
0031	Guidance, counseling, and evaluation services	12,371,310	11,773,200	11,756,160	17,040
0032	Social work services	233,850	181,500	181,402	98
0033	Health services	3,426,260	3,289,300	3,282,012	7,288
0034	Student transportation	4,917,250	4,611,700	4,506,252	105,448
0035	Food service	1,227,850	1,091,400	1,081,227	10,173
0036	Extracurricular activities	7,668,675	7,779,800	7,760,734	19,066
0041	General administration	7,781,350	6,859,900	6,845,605	14,295
0051	Plant maintenance and operations	29,994,170	28,510,100	28,258,537	251,563
0052	Security and monitoring services	3,112,700	3,711,200	3,558,389	152,811
0053	Data processing services	6,408,350	7,335,500	7,278,511	56,989
0061	Community services	116,600	88,900	87,647	1,253
DEBT SERVICE:					
0071	Principal on long-term debt	-	1,400,000	1,398,930	1,070
CAPITAL OUTLAY					
0081	Facilities acquisition and construction	3,024,400	14,512,000	14,485,570	26,430
INTERGOVERNMENTAL:					
0095	Payments to juvenile justice alternative ed. prg	100,000	45,000	44,688	312
0097	Payments to tax increment fund	2,950,000	2,615,500	2,615,472	28
0099	Other intergovernmental	350,000	341,500	341,419	81
6030	Total expenditures	297,486,215	305,548,400	304,469,822	1,078,578
1100	Excess (deficiency) of revenues over expenditures	1,401,785	(319,300)	2,032,226	2,351,526
OTHER FINANCING SOURCES (USES):					
7912	Sale of real or personal property	30,000	30,000	37,095	7,095
7913	Proceeds from capital leases	-	-	4,159,462	4,159,462
7915	Transfers in	475,000	4,581,800	391,200	(4,190,600)
7949	Other (Uses)	-	-	24,036	24,036
8911	Transfers out	(600,000)	(521,500)	(505,788)	15,712
7080	Total other financing sources (uses)	(95,000)	4,090,300	4,106,005	15,705
1200	Net change in fund balances	1,306,785	3,771,000	6,138,231	2,367,231
0100	Fund balances--beginning	86,667,395	86,667,395	86,667,395	-
3000	Fund balances--ending	\$ 87,974,180	\$ 90,438,395	\$ 92,805,626	\$ 2,367,231

**MESQUITE INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2014**

Data Control Codes	Budgeted Amounts		Actual Amounts GAAP BASIS	Variance With Final Budget Under or (Over)	
	Original	Final			
REVENUES					
5700	Local and intermediate sources	\$ 4,622,000	\$ 4,411,360	\$ 4,324,823	\$ (86,537)
5800	State program revenues	353,200	405,155	337,056	(68,099)
5900	Federal program revenues	15,760,700	16,064,030	16,059,615	(4,415)
5020	Total revenues	<u>20,735,900</u>	<u>20,880,545</u>	<u>20,721,494</u>	<u>(159,051)</u>
EXPENDITURES					
CURRENT:					
0035	Food service	<u>20,406,550</u>	<u>20,515,515</u>	<u>20,318,321</u>	<u>197,194</u>
6030	Total expenditures	<u>20,406,550</u>	<u>20,515,515</u>	<u>20,318,321</u>	<u>197,194</u>
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	59,368	(59,368)
8911	Transfers out	<u>(300,000)</u>	<u>(331,830)</u>	<u>(391,200)</u>	<u>59,370</u>
7080	Total other financing sources (uses)	<u>(300,000)</u>	<u>(331,830)</u>	<u>(331,832)</u>	<u>2</u>
1200	Net change in fund balances	29,350	33,200	71,341	38,141
0100	Fund balances--beginning	<u>7,221,052</u>	<u>7,221,052</u>	<u>7,221,052</u>	<u>-</u>
3000	Fund balances--ending	<u>\$ 7,250,402</u>	<u>\$ 7,254,252</u>	<u>\$ 7,292,393</u>	<u>\$ 38,141</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 generally accepted accounting principles for the General Fund, Debt Service Fund and the Food Service Fund. This District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds.

The following procedures are followed in establishing the budgetary data:

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board of Education is then called for the purpose of adopting the proposed budget after ten days public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board of Education. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the - year. Significant amendments were made to the following functional areas:

Function	Increase (Decrease)
Revenue:	
Local Revenues	\$ 1,590,295
State Revenues	3,895,805
Expense:	
Facilities Acquisition and Construction	11,487,600
Instruction	1,877,740
Plant Maintenance and Operations	1,484,070
Principal on long-term debt	1,400,000
Transfers	4,185,300

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.

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

NOTE 1. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

Budgetary Information - Continued

5. The Texas Education Agency requires these budgets to be filed with the Texas Education Agency on a designated date through the Public Education Information Management System (PEIMS). The budget should not exceed any functional expenditure category under the TEA requirements. The original and final amended versions of these budgets are used in this report.

THIS PAGE INTENTIONALLY LEFT BLANK

COMBINING STATEMENTS AND SCHEDULES

**MESQUITE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2014**

	289 Other Federal Special Revenue Funds	429 Other State Special Revenue Funds	499 Local Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS				
Due from other governments	\$ 3,720,982	\$ -	\$ -	\$ 3,720,982
Due from other funds	67,633	226,397	56,552	350,582
Other receivables	-	487	157,847	158,334
Total assets	\$ 3,788,715	\$ 226,884	\$ 214,399	\$ 4,229,998
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 48,859	\$ 185,189	\$ 8,226	\$ 242,274
Accrued wages payable	7,862	-	-	7,862
Due to other funds	3,731,994	997	28,535	3,761,526
Unearned revenues	-	1,462	-	1,462
Total liabilities	3,788,715	187,648	36,761	4,013,124
Fund balances				
Restricted				
State Special Revenue	-	39,236	-	39,236
Committed				
Local Special Revenue	-	-	177,638	177,638
Total fund balances	-	39,236	177,638	216,874
Total liabilities and fund balances	\$ 3,788,715	\$ 226,884	\$ 214,399	\$ 4,229,998

**MESQUITE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014**

	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	\$ -	\$ -	\$ 237,429	\$ 237,429
State program revenues	-	5,078,324	-	5,078,324
Federal program revenues	18,160,895	-	-	18,160,895
Total revenues	<u>18,160,895</u>	<u>5,078,324</u>	<u>237,429</u>	<u>23,476,648</u>
EXPENDITURES				
Current:				
11 Instruction	14,980,541	4,999,908	204,557	20,185,006
12 Instructional resources and media services	6,657	-	2,277	8,934
13 Curriculum and staff development	1,109,727	13,315	14,671	1,137,713
21 Instructional leadership	698,784	-	-	698,784
23 School leadership	179,019	-	74	179,093
31 Guidance, counseling, and evaluation services	715,966	76,060	147	792,173
32 Social work services	68,399	-	-	68,399
33 Health services	32,808	-	-	32,808
36 Extracurricular activities	3,863	-	3,826	7,689
41 General administration	-	-	5,616	5,616
52 Security and monitoring services	2,310	-	577	2,887
61 Community services	362,821	-	-	362,821
Total expenditures	<u>18,160,895</u>	<u>5,089,283</u>	<u>231,745</u>	<u>23,481,923</u>
Excess (deficiency) of revenues over expenditures	-	(10,959)	5,684	(5,275)
Fund balances—beginning	<u>-</u>	<u>50,195</u>	<u>171,954</u>	<u>222,149</u>
	-			
Fund balances—ending	<u>\$ -</u>	<u>\$ 39,236</u>	<u>\$ 177,638</u>	<u>\$ 216,874</u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
AUGUST 31, 2014**

	781 Employee Health Center Fund	790 Workers Compensation Fund	Total Internal Service fund
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 1,594,578	\$ 5,252,260	\$ 6,846,838
Other receivables	-	-	-
Inventory	362,100	-	362,100
Due from other funds	32,506	-	32,506
Other current assets	-	9,758	9,758
Total assets	1,989,184	5,262,018	7,251,202
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable	110,482	383	110,865
Due to other funds	75	2,861,268	2,861,343
Accrued expenses	-	796,046	796,046
Total liabilities	110,557	3,657,697	3,768,254
NET POSITION			
Unrestricted	1,878,627	1,604,321	3,482,948
Total net position	\$ 1,878,627	\$ 1,604,321	\$ 3,482,948

**MESQUITE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014**

	781 Employee Health Center Fund	790 Workers Compensation Fund	Total Internal Service Fund
OPERATING REVENUES			
Charges for services	\$ 5,319,876	\$ 1,100,002	\$ 6,419,878
Total operating revenues	<u>5,319,876</u>	<u>1,100,002</u>	<u>6,419,878</u>
OPERATING EXPENSES			
Personal services	1,088,644	164,810	1,253,454
Professional and contractual services	79,748	16,552	96,300
Supplies and materials	4,519,334	10,981	4,530,315
Insurance claims and expenses	-	863,706	863,706
Other operating costs	7,211	81,353	88,564
Total operating expenses	<u>5,694,937</u>	<u>1,137,402</u>	<u>6,832,339</u>
Operating income (loss)	<u>(375,061)</u>	<u>(37,400)</u>	<u>(412,461)</u>
NONOPERATING REVENUES			
Earnings from temporary deposits and investments	408	104	512
Total nonoperating revenue	<u>408</u>	<u>104</u>	<u>512</u>
INCOME (LOSS) BEFORE TRANSFERS	(374,653)	(37,296)	(411,949)
Transfers in	446,419	-	446,419
Total transfers	446,419	-	446,419
Change in net position	71,766	(37,296)	34,470
Net position—beginning	<u>1,806,861</u>	<u>1,641,617</u>	<u>3,448,478</u>
Net position—ending	<u>\$ 1,878,627</u>	<u>\$ 1,604,321</u>	<u>\$ 3,482,948</u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014**

	781 Employee Health Center Fund	790 Workers Compensation Fund	Total Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from transactions with other funds	\$ 5,515,757	\$ 1,074,129	\$ 6,589,886
Payments to suppliers	(4,582,787)	(35,050)	(4,617,837)
Payments to employees	(1,168,392)	(181,362)	(1,349,754)
Claims paid	-	(863,706)	(863,706)
Net cash used in operating activities	<u>(235,422)</u>	<u>(5,989)</u>	<u>(241,411)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers in	446,419	-	446,419
Net cash provided by non-capital financing activities	<u>446,419</u>	<u>-</u>	<u>446,419</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment earnings	408	104	512
Net cash provided by investing activities	<u>408</u>	<u>104</u>	<u>512</u>
Net increase (decrease) in cash and cash equivalents	211,405	(5,885)	205,520
Balances—beginning of the year	<u>1,383,173</u>	<u>5,258,145</u>	<u>6,641,318</u>
Balances—end of the year	<u>\$ 1,594,578</u>	<u>\$ 5,252,260</u>	<u>\$ 6,846,838</u>
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	\$ (375,061)	\$ (37,400)	\$ (412,461)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Increase in inventory	(36,082)	-	(36,082)
Decrease in other receivables	163,776	-	163,776
(Increase) decrease in interfund receivables	32,105	(25,873)	6,232
Increase (decrease) in accounts payable	(20,160)	(433)	(20,593)
Decrease in accrued expenses	-	57,717	57,717
Net cash used in operating activities	<u>\$ (235,422)</u>	<u>\$ (5,989)</u>	<u>\$ (241,411)</u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET POSITION
PRIVATE PURPOSE TRUST FUNDS
AUGUST 31, 2014**

	806 Meadows O'Donnell Foundation	810 Scholarship Fund	Total Private Purpose Trust Funds
ASSETS			
Cash and cash equivalents	\$ 650	\$ 148,605	\$ 149,255
Due from other funds	<u>502</u>	<u>850</u>	<u>1,352</u>
Total assets	<u><u>\$ 1,152</u></u>	<u><u>\$ 149,455</u></u>	<u><u>\$ 150,607</u></u>
LIABILITIES			
Accounts payable	<u>\$ -</u>	<u>\$ 5,150</u>	<u>\$ 5,150</u>
Total liabilities	<u>-</u>	<u>5,150</u>	<u>5,150</u>
NET POSITION			
Unrestricted net position	<u>1,152</u>	<u>144,305</u>	<u>145,457</u>
Total net position	<u>1,152</u>	<u>144,305</u>	<u>145,457</u>
Total liabilities and net position	<u><u>\$ 1,152</u></u>	<u><u>\$ 149,455</u></u>	<u><u>\$ 150,607</u></u>

**MESQUITE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PRIVATE PURPOSE TRUST FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014**

	806 Meadows O'Donnell Foundation	810 Scholarship Fund	Total Private Purpose Trust Funds
ADDITIONS			
Local and intermediate sources	\$ 2,500	\$ 30,958	\$ 33,458
Total additions	<u>2,500</u>	<u>30,958</u>	<u>33,458</u>
DEDUCTIONS			
Supplies and materials	943	5,943	6,886
Other operating costs	501	29,886	30,387
Total deductions	<u>1,444</u>	<u>35,829</u>	<u>37,273</u>
Changes in net position	<u>1,056</u>	<u>(4,871)</u>	<u>(3,815)</u>
Net position September 1 (beginning)	<u>96</u>	<u>149,176</u>	<u>149,272</u>
Net position August 31 (ending)	<u>\$ 1,152</u>	<u>\$ 144,305</u>	<u>\$ 145,457</u>

REQUIRED TEA SCHEDULES

**MESQUITE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2014**

Last Ten Years Ended August 31	Tax Rates		3 Net Assessed/Appraised Value For School Tax Purposes
	1 Maintenance	2 Debt Service	
2005 and prior years	various	various	various
2006	1.4400	0.3200	\$ 6,290,139,249
2007	1.4500	0.3124	6,581,607,326
2008	1.3257	0.3423	6,933,850,462
2009	1.0067	0.3700	6,947,938,555
2010	1.0400	0.3600	6,557,685,613
2011	1.0400	0.3800	6,230,166,386
2012	1.0400	0.3800	6,108,497,389
2013	1.0400	0.3800	5,974,344,054
2014 (School year under audit)	1.0400	0.3700	6,026,805,180

1000 TOTALS

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

10 Beginning Balance 09/01/13	20 Current Year's Total Levy	31 Maintenance Total Collections	32 Debt Service Total Collections	40 Entire Year's Adjustments	50 Ending Balance 08/31/14
\$ 2,495,283		\$ 104,708	\$ 50,892	\$ (9,849)	\$ 2,329,834
426,738		23,854	5,141	(3,321)	394,422
398,498		29,207	7,541	(10,156)	351,594
359,759		24,796	9,115	(4,915)	320,933
439,743		38,203	13,224	(2,722)	385,594
571,747		56,264	20,558	461	495,386
627,989		71,197	26,014	1,892	532,670
760,828		123,196	45,014	(8,176)	584,442
1,280,001		279,924	102,280	(165,592)	732,205
-	84,516,847	61,293,983	21,806,474	(17,574)	1,398,816
<u>\$ 7,360,586</u>	<u>\$ 84,516,847</u>	<u>\$ 62,045,332</u>	<u>\$ 22,086,253</u>	<u>\$ (219,952)</u>	<u>\$ 7,525,896</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,929,142</u>	<u>\$ 686,330</u>	<u>\$ -</u>	<u>\$ -</u>

EXHIBIT H-2

MESQUITE INDEPENDENT SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	Budgeted Amounts		Actual Amounts GAAP BASIS	Variance With Final Budget Under or (Over)	
	Original	Final			
REVENUES					
5700	Local and intermediate sources	\$ 21,623,100	\$ 22,221,000	\$ 22,496,341	\$ 275,341
5800	State program revenues	24,112,000	21,621,000	22,344,844	723,844
5020	Total revenues	45,735,100	43,842,000	44,841,185	999,185
EXPENDITURES					
CURRENT:					
DEBT SERVICE:					
0071	Principal on long-term debt	27,500,000	23,923,000	26,849,345	(2,926,345)
0072	Interest on long-term debt	17,800,000	17,800,000	13,431,932	4,368,068
0073	Bond issuance costs and fees	400,000	400,000	738,234	(338,234)
6030	Total expenditures	45,700,000	42,123,000	41,019,511	1,103,489
1100	Excess (deficiency) of revenues over expenditures	35,100	1,719,000	3,821,674	(2,102,674)
OTHER FINANCING SOURCES (USES) :					
7901	Refunding bonds issued	-	-	54,200,000	(54,200,000)
7916	Premium or discount on issuance of bonds	-	-	6,628,003	(6,628,003)
7949	Other resources	-	436,700	-	436,700
8940	Payment to bond refunding fund	-	-	(61,009,836)	61,009,836
7080	Total other financing sources (uses)	-	436,700	(181,833)	618,533
1200	Net change in fund balances	35,100	2,155,700	3,639,841	(1,484,141)
0100	Fund balances--beginning	11,964,447	11,964,447	11,964,447	-
3000	Fund balances--ending	\$ 11,999,547	\$ 14,120,147	\$ 15,604,288	\$ (1,484,141)

FEDERAL AWARDS SECTION

THIS PAGE INTENTIONALLY LEFT BLANK



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

Board of Trustees
Mesquite Independent School District
Mesquite, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mesquite Independent School District (the District), as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 7, 2015.

Internal Control over Financial Reporting

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

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

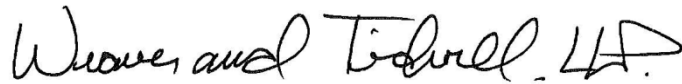
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given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

Compliance and Other Matters

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

Purpose of this Report

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



WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
January 7, 2015



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

Board of Trustees
Mesquite Independent School District
Mesquite, Texas

Report on Compliance for Each Major Federal Program

We have audited Mesquite Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Mesquite Independent School District's major federal programs for the year ended August 31, 2014. Mesquite Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Mesquite Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

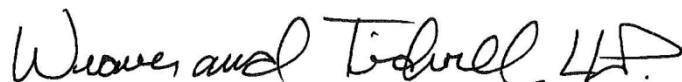
Report on Internal Control Over Compliance

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

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

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

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



WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
January 7, 2015

**MESQUITE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2014**

I. Summary of the Auditor's Results:

Financial Statements

- a. An unmodified 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 unmodified opinion was issued on compliance for major programs.
- f. Any audit findings disclosed that were required to be reported under Section 510(a) or OMB Circular A-133. _____ Yes X No
- g. Identification of major programs:
- | | |
|---|------------------|
| ESEA Title I, Part A – Improving Basic Programs | 84.010A |
| Special Education Cluster | 84.027A, 84.173A |
- h. The dollar threshold used to distinguish between Type A and Type B programs. \$1,044,960
- 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, 2014**

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, 2014**

FINDINGS FROM YEAR ENDED AUGUST 31, 2013

None were noted in the prior year.

**MESQUITE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2014**

{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		\$ 518,374
 U.S. Department of Education			
Passed Through State Department of Education:			
Carl D. Perkins Basic Formula Grant	84.048A	10420006057914	420,855
ESEA Title 1 Part A-Improving Basic Programs	84.010A	10610101057914	8,655,286
ESEA Title 1 Part C-Education of Migratory Children	84.011	10615001057950	9,838
IDEA -Part B, Formula	84.027A	106600010579146600	7,109,593
IDEA -Part B, Deaf	84.027A	106600010579146601	93,549
IDEA -Part B, Discretionary (Deaf)	84.027A	106600020579146673	93,580
IDEA -Part B, High Cost	84.027A	136600060579146000	208,274
Total CFDA Number 84.027			<u>7,504,996</u>
IDEA -Part B, Preschool Deaf	84.173A	106610010579146611	13,335
IDEA -Part B, Preschool	84.173A	106610010579146610	103,550
Total CFDA Number 84.173			<u>116,885</u>
ESEA Title II, Part A	84.367A	10694501057950	852,701
Title III - Part A - English Language Acquisitions and Enhancement	84.365	10671001057950	578,073
Grants for State Assessments and Related Activities	84.369A	69550902	22,261
Total Passed Through State Department of Education			<u>18,160,895</u>
U.S. Department of Health and Human Services			
Direct Program:			
Medicaid Administrative Claiming Program (MAC)	93.778		93,143
U.S. Department of Agriculture			
Passed Through State Department of Agriculture:			
National School Lunch Program - Cash	10.555		12,057,982
National School Lunch Program - Commodities	10.555		1,346,694
School Breakfast Program	10.553		2,638,939
National School Lunch Program - Equipment Assistance Grant- ARRA (Stimulus)	10.579		16,000
Total Passed Through State Department of Education			<u>16,059,615</u>
		Total Federal Assistance	<u>\$ 34,832,027</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 \$995,585, which are recorded as federal revenue in the general fund, are not considered federal awards for purpose of this schedule.

**MESQUITE INDEPENDENT SCHOOL DISTRICT
SCHOOL FIRST QUESTIONNAIRE
FOR THE YEAR ENDED AUGUST 31, 2014**

<u>Data Control Codes</u>		<u>Response</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? – Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year-end:	\$ 29,224,577