

ANNUAL FINANCIAL REPORT

of the

**MAGNOLIA
INDEPENDENT SCHOOL DISTRICT**

For the Year Ended
August 31, 2014

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

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INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Magnolia Independent School District

Name of School District

Montgomery

County

170-906

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 a meeting of the Board of Trustees of such school district on the _____ day of _____, _____.

Signature of Board Secretary

Signature of Board President

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

(attach list as necessary)

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Magnolia Independent School District:

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 the Magnolia 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.

Auditors' 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 auditors' 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 District'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 District'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.

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Governmental
Audit Quality Center

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 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.

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, identified as Required Supplementary Information on the table of contents, 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 and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts 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 accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and other supplementary information 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 section and schedule labeled "unaudited" 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 November 25, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
November 25, 2014

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2014

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the Magnolia Independent School District (the "District") for the year ending August 31, 2014. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the District's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position at August 31, 2014 was \$47,991,500.
- For the fiscal year ended August 31, 2014, the District's general fund reported a total fund balance of \$25,265,824, of which \$9,705 is nonspendable for prepaid items and \$25,256,119 is unassigned.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds, the debt service fund, and the capital projects fund) reported combined ending fund balances of \$33,938,354.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic statements include two kinds of statements that present different views of the District.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- The *proprietary fund* statements provide information about services provided to parties inside the District. The proprietary funds include the District's internal service funds.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the fiduciary resources belong. This fund includes student activity funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the District as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the District as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2014

District's financial statements, report information on the District's activities that enable the reader to understand the financial condition of the District. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference 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. Other non-financial factors, such as changes in the District's tax base, staffing patterns, enrollment, and attendance, need to be considered in order to assess the overall health of the District.

The Statement of Activities presents information showing how the District's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities include the following class of activities:

Governmental Activities – Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operation and maintenance are included in *governmental activities*. Locally assessed property taxes, together with State foundation program entitlements, which are based upon student enrollment and attendance, finance most of the governmental activities.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detail information about the District's most significant funds – not the District as a whole. Funds are simply accounting devices that are used to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.
- The Board of Trustees establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants.
- Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District, but the District is responsible to properly account for them.

The District has the following kinds of funds:

- *Governmental Funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2014

provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

- *Proprietary funds* – These funds include the internal service funds. The District's natatorium, aquatic club, health plan, and workers' compensation fund activities are reported in the internal service funds and are shown in a separate statement of proprietary net position and as statement of changes in proprietary fund net position.
- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities that are 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 position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was \$47,991,500 at year end. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the year. The District reported an increase of \$8,289,077 in net position from the prior year. *Table 1* indicates the overall condition of the District increased, which was the result of an decrease in liabilities. *Table 2* reflects the District reporting an increase in total revenue of \$6,322,836, which was a result of an increase in property tax and operating grant revenue. Additionally, the District reported an increase in total expenses of \$4,943,166 due to an increase in instructional and plant maintenance and operations.

Table 1
Net Position

Description	Governmental Activities		Total Change
	2014	2013	2014-2013
Current assets	\$ 36,473,943	\$ 39,230,981	\$ (2,757,038)
Capital assets	159,523,965	161,103,439	(1,579,474)
Total Assets	195,997,908	200,334,420	(4,336,512)
Deferred charge on refunding	7,171,683	7,653,619	(481,936)
Total Deferred Outflows of Resources	7,171,683	7,653,619	(481,936)
Current liabilities	1,469,201	6,009,011	(4,539,810)
Long-term liabilities	153,708,890	162,276,605	(8,567,715)
Total Liabilities	155,178,091	168,285,616	(13,107,525)
Net Position:			
Net investment in capital assets	15,132,807	8,441,745	6,691,062
Restricted	6,860,959	6,634,106	226,853
Unrestricted	25,997,734	24,626,572	1,371,162
Total Net Position	\$ 47,991,500	\$ 39,702,423	\$ 8,289,077

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2014

Table 2
Changes in Net Position

	Governmental Activities		Total Change 2014-2013
	2014	2013	
Revenues			
Program revenues:			
Charges for services	\$ 2,831,087	\$ 2,785,569	\$ 45,518
Operating grants and contributions	7,333,788	8,243,911	(910,123)
General revenues:			
Property taxes	58,245,300	54,536,579	3,708,721
Grants and contributions not restricted	44,910,576	41,526,165	3,384,411
Investment earnings	227,658	248,025	(20,367)
Miscellaneous local and intermediate revenue	2,087,550	1,972,874	114,676
Total Revenue	115,635,959	109,313,123	6,322,836
Expenses			
Instruction	57,331,723	55,159,827	2,171,896
Instructional resources and media services	992,706	916,025	76,681
Curriculum and staff development	154,861	165,918	(11,057)
Instructional leadership	2,176,458	1,909,351	267,107
School leadership	4,740,697	4,546,669	194,028
Guidance, counseling and evaluation services	3,097,568	2,908,182	189,386
Social work/health services	911,880	874,130	37,750
Student (pupil) transportation	6,059,082	5,513,017	546,065
Food services	5,293,996	5,062,402	231,594
Co-curricular/extracurricular activities	2,976,904	2,897,624	79,280
General administration	2,652,384	2,543,605	108,779
Plant maintenance and operations	11,667,292	10,460,563	1,206,729
Security and monitoring	625,744	651,260	(25,516)
Data processing services	2,202,202	1,723,107	479,095
Interest on long-term debt	6,463,385	7,072,036	(608,651)
Total Expenses	107,346,882	102,403,716	4,943,166
Change in Net Position	8,289,077	6,909,407	1,379,670
Beginning net position	39,702,423	32,793,016	6,909,407
Ending Net Position	\$ 47,991,500	\$ 39,702,423	\$ 8,289,076

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2014

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2014, the District's governmental funds reported a combined fund balance of \$33,938,354. This compares to a combined fund balance of \$32,124,235 at August 31, 2013. The fund balance in the general fund increased due to an increase in local and intermediate sources revenue and a decrease in transfers. The debt service fund balance increased in the current year by \$423,558. This is due to an increase in property tax revenue for the debt service fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally cover multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2014, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. There were no material changes between the original budget and the final amended budget. The general fund's actual revenues exceeded budgeted revenues by \$420,890 and the budgeted expenditures exceeded actual expenditures by \$1,961,252.

CAPITAL ASSETS

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost or value (if donated) of an amount determined by the Board. During the fiscal year ended August 31, 2014, the District used a capitalization threshold of \$5,000, which means that all capital type assets, including library books, with a cost or initial value of less than \$5,000 were not included in the capital assets inventory.

At August 31, 2014, the District had a total of \$159,523,965 invested in capital assets (net of depreciation) such as land, buildings, and District equipment. This total includes \$2,338,528 invested during the fiscal year ended August 31, 2014.

More detailed information about the District's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At year end, the District had \$138,960,000 in general obligation bonds outstanding versus \$146,510,000 last year. The District paid \$7,550,000 toward the principal.

More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following factors were considered in establishing the District's budget for 2014-15:

- The District's student enrollment growth trended upwards in the 2013-2014 school year with final attendance up 225 students, or approximately 2 percent, versus the previous year. For budgetary purposes, the anticipated increase for 2014-2015 is approximately 115 students or 1.0 percent which is well below the five year average. Alongside an in-depth external demographic study performed in the 2013-2014 school year, initial indications for 2014-2015 suggest student growth trends will pick up

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2014

within the next few years. As of October 31, 2014 the Public Education Information Management System snapshot date, student enrollment has increased by approximately 260 students versus prior year which affords a positive result for budgeting purposes.

- 2014-2015 is the second school year under the new state funding system. The key funding components remained unchanged. The legislature added significant funding to the formulas via the basic allotment (approximately \$90 increase to the basic allotment) which attempts to reinstate some of the cuts afforded in the previous biennium. Alongside increases in property value and enrollment projections, the state's increase in allotment per student results in an increase of revenue of approximately \$4.0 million for 2014-2015.
- Approximately 25 new employee positions were created based on need for the 2014-2015 school year.
- In an attempt to remain competitive with surrounding districts in terms of attracting and retaining the best and brightest employees, all employees received a 4 percent raise for 2014-2015. Additionally, the first year teacher pay was increased by \$1,000 to \$46,000.
- As a result of aggressive measures within the district's energy management program and previously negotiated rates, electricity costs were reduced by approximately \$100,000 in 2013-2014. A continued focus on conservation should result in additional savings for 2014-2015.
- General fund budget estimates calculate to a total of \$7,479 per student, an increase of \$175 versus prior year budgeted amounts per pupil. Approximately 63 percent of the operating budget is designated for instructional costs.
- The District's 2014 certified net taxable value for ad valorem tax purposes is \$4,590,331,176 or \$310,157 per weighted average daily attendance. This represents an increase in net taxable value of approximately \$333,768,018 or 7.8 percent versus the previous tax year. The District's M&O rate for 2014-2015 is \$1.04 and I&S is \$0.3495 resulting in a total tax rate of \$1.3895 per \$100 valuation for a decrease of one penny on the total tax rate.
- The average taxable value of a residence within District boundaries is \$212,817 compared to \$191,731 for the previous tax year. The district's tax base is comprised of approximately 70 percent residential which is a significant factor in the establishment of the annual tax rate.
- The debt service requirement for repayment of bonded debt for 2014-2015 is \$14,538,937 compared with \$14,566,963 in the previous year.
- For fiscal year 2015, the district anticipates no state aid assistance for debt service in the form of Existing Debt Allotment or Instructional Facility Allotment.
- The District continues to participate in the state's TRS Active Care program for health insurance coverage for employees. The district contributes \$275 per month for employee health insurance. In addition to health insurance, the district provides \$10,000 of life insurance coverage to full-time employees at no cost to the employee. Supplemental insurance is offered from variously selected vendors based on cost savings and plan details as chosen after competitive procurement by District administration.
- The District once again received a "Superior Achievement" rating, including a perfect score of 70/70, on the T.E.A.'s School FIRST accountability rating system (for Fiscal '2013).

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2014

- The fourth year of the Texas Comptroller's FAST (Financial Allocation Study for Texas) report yielded extremely positive results for the District. Out of a possible 5 stars, the District scored 4.0. Additionally, the District scored a perfect 10 out of 10 on the financial indicator of the test which compares a district's expenditures within an assigned peer group.
- The District is governed by a well trained, informed, dedicated, and student-focused Board of Trustees and administrative staff.

District officials were conservative with budgetary estimates as budget philosophies have remained consistent. As stated, projected student growth was conservatively based on 1 percent. Officials also remained conservative with large ticket budgetary items such as electricity and fuel costs. The District adopted a balanced General Fund budget for fiscal 2015.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Erich Morris, Director of Finance, at 31141 Nichols Sawmill Road, Magnolia, Texas 77353 or by calling (281) 356-8485.

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BASIC FINANCIAL STATEMENTS

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION - EXHIBIT A-1

August 31, 2014

		1
Data Control Codes		Governmental Activities
<u>Assets</u>		
1110	Cash and cash equivalents	\$ 35,028,226
1220	Property taxes receivable (delinquent)	1,870,943
1230	Allowance for uncollectible taxes	(442,397)
1240	Due from other governments	3,991
1410	Prepaid items	13,180
		<u>36,473,943</u>
	Capital assets:	
1510	Land	8,825,492
1520	Buildings, net	148,226,059
1530	Furniture and equipment, net	1,092,383
1540	Vehicles, net	1,380,031
		<u>159,523,965</u>
1000	Total Assets	<u>195,997,908</u>
<u>Deferred Outflows of Resources</u>		
1700	Deferred charge on refunding	<u>7,171,683</u>
<u>Liabilities</u>		
2140	Interest payable	287,128
2180	Due to other governments	970,938
2200	Accrued expenses	211,135
		<u>1,469,201</u>
	Noncurrent liabilities:	
2501	Long-term liabilities due within one year	7,935,000
2502	Long-term liabilities due in more than one year	145,773,890
		<u>153,708,890</u>
2000	Total Liabilities	<u>155,178,091</u>
<u>Net Position</u>		
3200	Net investment in capital assets	15,132,807
	Restricted for:	
3820	State and federal programs	1,220,244
3850	Debt service	5,127,557
3870	Campus activities	513,158
3900	Unrestricted	25,997,734
3000	Total Net Position	<u>\$ 47,991,500</u>

See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES - EXHIBIT B-1

For the Year Ended August 31, 2014

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
			3 Charges for Services	4 Operating Grants and Contributions	
					6 Primary Gov. Governmental Activities
	Primary Government				
	Governmental Activities				
11	Instruction	\$ 57,331,723	\$ -	\$ 3,793,296	\$ (53,538,427)
12	Instructional resources				
12	and media services	992,706	-	-	(992,706)
13	Curriculum/instructional				
13	staff development	154,861	-	-	(154,861)
21	Instructional leadership	2,176,458	-	232,247	(1,944,211)
23	School leadership	4,740,697	-	-	(4,740,697)
31	Guidance, counseling,				
31	evaluation services	3,097,568	-	290,024	(2,807,544)
33	Health services	911,880	-	-	(911,880)
34	Student (pupil) transportation	6,059,082	-	-	(6,059,082)
35	Food services	5,293,996	1,792,500	3,018,221	(483,275)
36	Extracurricular activities	2,976,904	1,038,587	-	(1,938,317)
41	General administration	2,652,384	-	-	(2,652,384)
51	Plant maintenance and operations	11,667,292	-	-	(11,667,292)
52	Security and monitoring services	625,744	-	-	(625,744)
53	Data processing services	2,202,202	-	-	(2,202,202)
71	Debt service - interest on				
71	long term debt	6,463,385	-	-	(6,463,385)
	Total Governmental Activities	<u>\$ 107,346,882</u>	<u>\$ 2,831,087</u>	<u>\$ 7,333,788</u>	<u>(97,182,007)</u>
TP	Total Primary Government	<u>\$ 107,346,882</u>	<u>\$ 2,831,087</u>	<u>\$ 7,333,788</u>	<u>(97,182,007)</u>
	General Revenues				
MT	Property taxes, levied for general purposes				43,305,308
DT	Property taxes, levied for debt service				14,939,992
GC	Grants and contributions not restricted				
GC	for specific programs				44,910,576
IE	Investment earnings				227,658
MI	Miscellaneous local and intermediate revenue				2,087,550
TR				Total General Revenues	<u>105,471,084</u>
CN				Change in Net Position	<u>8,289,077</u>
NB	Beginning net position				<u>39,702,423</u>
NE				Ending Net Position	<u>\$ 47,991,500</u>

See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS - EXHIBIT C-1

August 31, 2014

		10	50	98	
Data				Other	Total
Control				Governmental	Governmental
Codes		General	Debt Service	Governmental	Funds
<u>Assets</u>					
1110	Cash and cash equivalents	\$ 26,223,066	\$ 4,840,428	\$ 3,828,626	\$ 34,892,120
1220	Property taxes - delinquent	1,423,894	447,049	-	1,870,943
1230	Allowance for uncollectible taxes	(356,805)	(85,592)	-	(442,397)
1240	Due from other governments	-	-	3,991	3,991
1260	Due from other funds	3,991	-	-	3,991
1410	Prepaid items	9,705	-	3,475	13,180
1000	Total Assets	<u>\$ 27,303,851</u>	<u>\$ 5,201,885</u>	<u>\$ 3,836,092</u>	<u>\$ 36,341,828</u>
<u>Liabilities</u>					
2170	Due to other funds	\$ -	\$ -	\$ 3,991	\$ 3,991
2180	Due to other governments	970,938	-	-	970,938
2000	Total Liabilities	<u>970,938</u>	<u>-</u>	<u>3,991</u>	<u>974,929</u>
<u>Deferred Inflows of Resources</u>					
2600	Unavailable revenue - property taxes	<u>1,067,089</u>	<u>361,456</u>	<u>-</u>	<u>1,428,545</u>
<u>Fund Balances</u>					
Nonspendable:					
3430	Prepaid items	9,705	-	3,475	13,180
Restricted:					
3450	Federal/state funds grant restrictions	-	-	1,220,244	1,220,244
3470	Construction	-	-	2,095,224	2,095,224
3480	Debt service	-	4,840,429	-	4,840,429
3490	Other restrictions of fund balance	-	-	513,158	513,158
3600	Unassigned	25,256,119	-	-	25,256,119
3000	Total Fund Balances	<u>25,265,824</u>	<u>4,840,429</u>	<u>3,832,101</u>	<u>33,938,354</u>
4000	Total Liabilities, Deferred Inflows				
4000	of Resources, and Fund Balances	<u>\$ 27,303,851</u>	<u>\$ 5,201,885</u>	<u>\$ 3,836,092</u>	<u>\$ 36,341,828</u>

See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION - EXHIBIT C-1R

August 31, 2014

Total fund balances for governmental funds	\$ 33,938,354
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets – non-depreciable	8,825,492	
Capital assets – depreciable	<u>150,698,473</u>	
		159,523,965

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

1,428,545

Internal services funds are used by management to charge the costs of of certain capital assets to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Position.

(75,029)

Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

Accrued interest	(287,128)	
Deferred charge on refunding	7,171,683	
Non-current liabilities due in one year	(145,773,890)	
Non-current liabilities due in more than one year	<u>(7,935,000)</u>	
		<u>(146,824,335)</u>

Net Position of Governmental Activities	\$ <u>47,991,500</u>
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See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - EXHIBIT C-2
For the Year Ended August 31, 2014

Data Control Codes		General	Debt Service	Other Governmental	Total Governmental Funds
<u>Revenues</u>					
5700	Local, intermediate, and out-of-state	\$ 45,085,580	\$ 14,996,071	\$ 3,395,590	\$ 63,477,241
5800	State program revenues	43,817,048	-	938,005	44,755,053
5900	Federal program revenues	1,093,528	-	6,395,783	7,489,311
5020	Total Revenues	89,996,156	14,996,071	10,729,378	115,721,605
<u>Expenditures</u>					
Current:					
0011	Instruction	51,686,881	-	3,793,296	55,480,177
0012	Instructional resources and				
0012	media services	851,970	-	-	851,970
0013	Curriculum/instructional				
0013	staff development	148,195	-	-	148,195
0021	Instructional leadership	1,944,211	-	232,247	2,176,458
0023	School leadership	4,758,710	-	-	4,758,710
0031	Guidance, counseling,				
0031	evaluation services	2,808,325	-	290,024	3,098,349
0033	Health services	901,450	-	-	901,450
0034	Student (pupil) transportation	5,847,737	-	-	5,847,737
0035	Food services	-	-	4,984,346	4,984,346
0036	Extracurricular activities	1,915,289	-	1,038,318	2,953,607
0041	General administration	2,589,277	-	-	2,589,277
0051	Plant maintenance and operations	11,422,947	-	-	11,422,947
0052	Security and monitoring services	625,744	-	-	625,744
0053	Data processing services	2,113,278	-	-	2,113,278
Debt service:					
0071	Principal	-	7,550,000	-	7,550,000
0072	Interest and fiscal charges	-	7,016,963	-	7,016,963
0073	Bond issuance costs	-	5,550	-	5,550
0081	Capital outlay	-	-	1,382,728	1,382,728
6030	Total Expenditures	87,614,014	14,572,513	11,720,959	113,907,486
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	2,382,142	423,558	(991,581)	1,814,119
<u>Other Financing Sources (Uses)</u>					
7915	Transfers in	-	-	1,000,000	1,000,000
8911	Transfers (out)	(1,000,000)	-	-	(1,000,000)
7080	Total Other Financing Sources (Uses)	(1,000,000)	-	1,000,000	-
1200	Net Change in Fund Balances	1,382,142	423,558	8,419	1,814,119
0100	Beginning fund balances	23,883,682	4,416,871	3,823,682	32,124,235
3000	Ending Fund Balances	\$ 25,265,824	\$ 4,840,429	\$ 3,832,101	\$ 33,938,354

See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES - EXHIBIT C-3

For the Year Ended August 31, 2014

Net changes in fund balances - total governmental funds	\$ 1,814,119
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation	(3,918,002)
Capital outlay	2,338,528

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(85,646)
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The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

Principal repayments	7,550,000
Accrued interest	23,349
Amortization of loss on bond refunding	(481,936)
Amortization of premiums	1,020,697
Amortization of accreted interest	(2,982)

Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

30,950

Change in Net Position of Governmental Activities	\$ 8,289,077
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See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

INTERNAL SERVICE FUNDS - EXHIBIT D-1

August 31, 2014

<u>Data Control Codes</u>			<u>Internal Service Funds</u>
	Assets:		
1110	Cash and cash equivalents		\$ 136,106
		Total Assets	<u>136,106</u>
	Liabilities:		
	Current liabilities:		
2200	Accrued expenses		211,135
2000		Total Liabilities	<u>211,135</u>
	Net Position:		
3600	Unrestricted		(75,029)
4000		Total Net Position	<u>\$ (75,029)</u>

See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND

CHANGES IN FUND NET POSITION

INTERNAL SERVICE FUNDS - EXHIBIT D-2

For the Year Ended August 31, 2014

<u>Data Control Codes</u>		<u>Internal Service Funds</u>
	Operating Revenues:	
5700	Local and intermediate sources	\$ 693,454
5020	Total Operating Revenues	<u>693,454</u>
	Operating Expenses:	
6100	Payroll costs	237,597
6200	Professional and contracted services	316,477
6300	Supplies and materials	34,568
6400	Other operating costs	73,862
	Total Operating Expenses	<u>662,504</u>
1200	Changes in Net Position	30,950
0100	Beginning net position	<u>(105,979)</u>
3000	Ending Net Position	<u>\$ (75,029)</u>

See Notes to Financial Statements.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

INTERNAL SERVICE FUNDS - EXHIBIT D-3

For the Year Ended August 31, 2014

	<u>Internal Service Funds</u>
<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 693,454
Cash receipts (payments) for quasi-external operating transactions with other funds	(266,384)
Cash payments to employees for services	(237,597)
Cash payments to other suppliers for goods and services	(157,366)
Net Cash Provided by Operating Activities	<u>32,107</u>
Net Increase in Cash and Equivalents	32,107
Beginning cash and cash equivalents	<u>103,999</u>
Ending Cash and Cash Equivalents	<u><u>\$ 136,106</u></u>
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income	\$ 30,950
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase (Decrease) in:	
Accrued expenses	1,157
Net Cash Provided by Operating Activities	<u><u>\$ 32,107</u></u>

See Notes to Financial Statements.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS - EXHIBIT E-1

For the Year Ended August 31, 2014

<u>Data Control Codes</u>			<u>Total Agency Funds</u>
	<u>Assets</u>		
1110	Cash and cash equivalents		\$ 626,807
1000		Total Assets	<u>\$ 626,807</u>
	<u>Liabilities</u>		
	Current liabilities:		
2190	Due to student groups		\$ 626,807
2000		Total Liabilities	<u>\$ 626,807</u>

See Notes to Financial Statements.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Magnolia 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 it complies with the requirements of the appropriate version of Texas Education Agency's (TEA) *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

The District is an independent political subdivision of the State of Texas governed by a board elected by the public, and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations and is considered a primary government. As required by generally accepted accounting principles, these general purpose financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the District's financial reporting entity. No other entities have been included in the District's reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following governmental funds:

General Fund

The general fund is used to account for and report all financial transactions not accounted for and reported in another fund. The general fund is considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on all long-term debt of the District. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Capital Projects Fund

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The restricted or committed proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance are accounted for in a special revenue fund.

Proprietary Fund Types

The proprietary funds account for services that are generally fully supported by user fees. Proprietary funds are presented on a total economic resources basis. Proprietary fund statements, like government-wide statements, provide both short and long-term information.

The District has the following types of proprietary funds:

Internal Service Funds

These funds are used to account for revenue and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost reimbursement basis. Because the principal users of the internal services are

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

the District's governmental activities, this fund type is included in the governmental activities column of the governmental-wide financial statements.

Fiduciary Funds

The fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. 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 has the following type of fiduciary funds:

Agency Funds

The agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for the District's student activity funds.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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.

The 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

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the District.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

2. Investments

In accordance with GASB Statement No. 31, "*Accounting and Reporting for Certain Investments and External Investment Pools*," the District reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the District is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools and commercial paper

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

4. Restricted Assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements. Restricted assets of the enterprise fund are restricted by bond covenants for repayment of debt and to finance construction projects.

5. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

Asset Description	Estimated Useful Life
Buildings and improvements	10 to 50 years
Vehicles	8 to 20 years
Equipment	5 to 25 years

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

7. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

8. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

9. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The District's Board is the highest level of decision-making authority for the District that can, by

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The District's Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Estimates

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

12. Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the Resource Guide. The 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.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

All taxes due to the District on real or personal property are payable at the Office of the Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is no later than October 1. Taxes are due by January 31, and all taxes not paid prior to this date are deemed delinquent and are subject to such penalty and interest.

Property taxes attach as an enforceable lien on property as of January 1 each year. Taxes are levied on October 1 and are payable prior to the next February 1. District property tax revenues are recognized when collected.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to customers for sales and services. Operating expenses for the internal service fund include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The original budget is adopted by the District prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets.

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the national school lunch and breakfast program special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally covers multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the year, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures. There were no material changes between the original budget and the final amended budget.

A. Deficit Fund Balance

The internal service funds had a deficit fund balance of \$75,029 as of August 31, 2014.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires funds on deposit at the depository bank to be collateralized. As of August 31, 2014, checking and time deposits were entirely insured or collateralized with securities as provided by State laws and regulations and FDIC insurance.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's investments are held in external investment pools which are not subject to custodial credit risk.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

At year end, the District had the following investments included with cash and cash equivalents:

<u>Investments</u>	<u>Maturity</u>	<u>Fair Value</u>
Texpool Investment Pool	N/A	\$ 1,592,468
Lone Star - Investment Pool (First Public LLC)	N/A	79,954
MBIA - Texas CLASS Investment Pool	N/A	198,610
		<u>\$ 1,871,032</u>

B. Capital Assets

A summary of changes in capital assets for governmental activities at year end is as follows:

Governmental Activities:	<u>Beginning Balances</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 8,825,492	\$ -	\$ -	\$ 8,825,492
Total Capital Assets Not Being Depreciated	<u>8,825,492</u>	<u>-</u>	<u>-</u>	<u>8,825,492</u>
Other capital assets:				
Buildings and improvements	187,756,735	1,604,682	-	189,361,417
Furniture and equipment	2,872,127	200,542	-	3,072,669
Vehicles	8,822,689	533,304	-	9,355,993
Total Other Capital Assets	<u>199,451,551</u>	<u>2,338,528</u>	<u>-</u>	<u>201,790,079</u>
Less accumulated depreciation for:				
Buildings and improvements	(37,731,338)	(3,404,020)	-	(41,135,358)
Furniture and equipment	(1,739,716)	(240,570)	-	(1,980,286)
Vehicles	(7,702,550)	(273,412)	-	(7,975,962)
Total Accumulated Depreciation	<u>(47,173,604)</u>	<u>(3,918,002)</u>	<u>-</u>	<u>(51,091,606)</u>
Other capital assets, net	<u>152,277,947</u>	<u>(1,579,474)</u>	<u>-</u>	<u>150,698,473</u>
Governmental Activities Capital Assets, Net	<u>\$ 161,103,439</u>	<u>\$ (1,579,474)</u>	<u>\$ -</u>	<u>159,523,965</u>
			Less associated debt	(153,658,065)
			Plus unspent bond proceeds	2,095,224
			Plus deferred charge on refunding	<u>7,171,683</u>
			Net Investment in Capital Assets	<u>\$ 15,132,807</u>

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

Depreciation was charged to governmental functions as follows:

11	Instruction	\$	2,453,372
12	Instructional resources and media services		149,503
13	Curriculum and instructional staff development		6,666
23	School leadership		30,953
31	Guidance, counseling and evaluation services		31,100
33	Health services		19,706
34	Student (pupil) transportation		271,517
35	Food service		360,938
36	Cocurricular/extracurricular activities		53,689
41	General administration		89,750
51	Plant maintenance and operations		361,884
53	Data processing services		88,924
Total Depreciation Expense		\$	<u>3,918,002</u>

C. Long-Term Debt

The following is a summary of changes in the District's total governmental long-term liabilities for the year. In general, the District uses the debt service fund to liquidate governmental long-term liabilities.

Governmental Activities:	Beginning Balance	Additions	(Reductions)	Ending Balance	Amounts Due Within One Year	Interest Rates
Bonds payable:						
Series 2004	\$ 1,625,000	\$ -	\$ (425,000)	\$ 1,200,000	\$ 450,000	4.00-4.50%
Series 2005	3,300,000	-	(1,600,000)	1,700,000	1,700,000	5.00-8.00%
Series 2007	65,370,000	-	(4,590,000)	60,780,000	4,820,000	4.00-5.00%
Series 2009	9,355,000	-	(885,000)	8,470,000	915,000	3.00-4.25%
Series 2012	8,965,000	-	(50,000)	8,915,000	50,000	2.00-3.50%
Series 2013	57,895,000	-	-	57,895,000	-	2.00-5.00%
	<u>146,510,000</u>	<u>-</u>	<u>(7,550,000)</u>	<u>138,960,000</u>	<u>* 7,935,000</u>	
Other liabilities:						
Accreted interest	47,843	2,982	-	50,825	-	
Unamortized bond premium	<u>15,718,762</u>	<u>-</u>	<u>(1,020,697)</u>	<u>14,698,065</u>	<u>* -</u>	
Total Governmental Activities	\$ <u>162,276,605</u>	\$ <u>2,982</u>	\$ <u>(8,570,697)</u>	\$ <u>153,708,890</u>	\$ <u>7,935,000</u>	
Long-term liabilities due in more than one year				\$ <u>145,773,890</u>		
*Debt associated with capital assets				\$ <u>153,658,065</u>		

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

The annual requirements to amortize debt issues outstanding at year end are as follows:

Year Ended Aug 31	Principal	Interest	Total Requirements
2015	\$ 7,935,000	\$ 6,603,937	\$ 14,538,937
2016	8,205,000	6,171,338	14,376,338
2017	8,540,000	5,853,587	14,393,587
2018	8,990,000	5,403,813	14,393,813
2019	9,355,000	4,996,725	14,351,725
2020-2024	48,745,000	17,996,050	66,741,050
2025-2029	40,235,000	6,735,000	46,970,000
2030-2034	4,400,000	1,100,825	5,500,825
2035-2038	2,555,000	233,325	2,788,325
	<u>\$ 138,960,000</u>	<u>\$ 55,094,600</u>	<u>\$ 194,054,601</u>

Advanced Refunding

In the prior year, the District issued \$58,555,000 of unlimited tax refunding bonds, series 2013, to provide resources to purchase direct obligations of the United States of America, of which \$68,408,327 was placed in an irrevocable trust for the purpose of generating resources for a portion of future debt service payments of outstanding long-term debt issues in unlimited tax schoolhouse bonds, series 2005. As a result, the refunded portion of the bonds is considered to be defeased and the pro-rata portion of the liability has been removed from the applicable governmental columns in the Statement of Net Position. At August 31, 2014, \$61,150,000 of the defeased unlimited tax schoolhouse bonds, series 2005 remain outstanding.

D. Commitments Under Noncapitalized Leases

During the year, the District expended a total of \$25,741 for operating (non-capitalized) leases and, in accordance with standard non-appropriation clauses in the various lease agreements, the District has no future obligation in relation to these leases.

E. Interfund Transactions

The following is a summary of the District's interfund transactions for the year:

	Due From Other Funds	Due To Other Funds
General fund		
Special revenue funds	\$ 3,991	\$ -
Total General Fund	<u>3,991</u>	<u>-</u>
Special revenue funds		
General fund	-	3,991
Total Special Revenue Fund	<u>-</u>	<u>3,991</u>
Total	<u>\$ 3,991</u>	<u>\$ 3,991</u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

	<u>Transfer In</u>	<u>Transfer Out</u>
General fund		
Capital projects fund	\$ 1,000,000	\$ -
Total General Fund	<u>1,000,000</u>	<u>-</u>
Capital projects fund		
General fund	-	1,000,000
Total Capital Projects Fund	<u>-</u>	<u>1,000,000</u>
Total	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

Transfers from the general fund to the capital projects fund are used to help pay for capital improvements that are spent out of the capital projects fund.

IV. OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District purchases commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, it could result in a substantial liability to the District. Although the District does not anticipate that it will have any arbitrage liability, it periodically engages an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2014

C. Pension Plan

Teacher Retirement System

Plan Description

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. The Texas legislature has the authority to establish or amend benefit provisions. The System issues a publicly available financial report that includes financial statements and Required Supplementary Information for the System. That report may be obtained by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, TX 78701-2698 or by calling (800) 223-8778.

Funding Policy

Under provisions in State law, plan members are required to contribute 6.4 percent of their annual covered salary and the State of Texas contributes an amount equal to 6.4 percent of the District's covered payroll for fiscal year 2014, 6.0 percent for fiscal year 2013, and 6.644 percent for fiscal year 2012. The District's employees' contributions to the System for the years ending August 31, 2014, 2013, and 2012 were \$4,027,470, \$3,837,940, and \$3,710,190, respectively, and were equal to the required contributions for each year. Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ending August 31, 2014, 2013, and 2012 were \$881,323, \$742,102, and \$608,563, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$3,293,197 for the year ending August 31, 2014.

D. Retiree Health Care Plan

Plan Description

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

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

school employee contribution rates were 1.0 percent and 0.65 percent of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55 percent for fiscal years 2014, 2013, and 2012. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25 percent or greater than 0.75 percent 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 \$24,986, \$12,272, and \$22,608, respectively; the active member contributions were \$409,040, \$389,786, and \$376,817, respectively; and the District's contributions were \$346,110, \$329,819, and \$318,845, respectively; which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2014, 2013, and 2012, the subsidy payments received by TRS-Care on behalf of the District were \$171,582, \$161,756, and \$150,196, respectively.

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependents regardless of age. An "early retiree" is defined as a plan participant ages 55-64 who is not eligible for Medicare and is not covered by an active employee of the plan sponsor. This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first served basis for qualified employers that apply and become certified for the program. TRS has been certified for this program and has received funds from the ERRP program. For the fiscal year ended August 31, 2014, the District did not receive any TRS-Care on behalf.

E. Employee Health Care Coverage

During the year ended August 31, 2014, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$275 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependants. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the insurer is renewable September 1, 2014 and terms of coverage and premiums costs are included in the contractual provisions.

F. Workers' Compensation Insurance

During the year ended August 31, 2014, employees of the District were covered by a workers' Compensation Plan (the "Plan"). The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreements.

The contract between the District and the third party administrator, Creative Risk Funding (CRF), acting on behalf of the self-funded pool, is renewable on September 1 and terms, as well as costs of coverage, are included in the contractual provisions.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

In accordance with State statutes, the District was protected against unanticipated catastrophic individual or aggregate loss by reinsurance coverage carried through Safety National Casualty Corporation, a commercial insurer licensed or eligible to do business in the State of Texas in accordance with the Texas Insurance Code. The specific retention is \$350,000 and the aggregate limit is \$1,000,000. The aggregate stop loss coverage is \$7,432,320. According to CRF, the unfunded claim benefit obligation included \$211,135 in claims that were unpaid and \$123,463 in estimated claims incurred, but not reported. Other school districts contributed to the self-funded pool which was operated under the contractual provisions of Article 4413(32c), Interlocal Cooperation Act.

The claim liability is based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims which have been incurred but not reported based on historical experience. Changes in the claims liability for workers' compensation benefits for the current and prior fiscal year are summarized below.

	Fiscal Year	
	2014	2013
Claims liability at beginning of year	\$ 209,978	\$ 373,726
Current year claims and estimate changes	1,998,737	1,770,491
Claims payments	(1,997,580)	(1,934,239)
Claims liability at year end	<u>\$ 211,135</u>	<u>\$ 209,978</u>

G. Unemployment Compensation

During the year ended August 31, 2014, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for the unemployment compensation pool.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2013 are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

H. Shared Service Arrangements

State Supplemental Visually Impaired Fund

The District participates in a shared service arrangement (SSA) for the education of students with a visual impairment, funded under State Supplemental Visually Impaired funds, TEC Section 30.002, 19 TAC 89.238(6). The District has neither a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center - Region VI ("Regional"), nor does the District have a net

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the SSA. Region VI is reporting \$7,212 as expenditures incurred on behalf of the District.

REQUIRED SUPPLEMENTARY INFORMATION

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND - EXHIBIT G-1

For the Year Ended August 31, 2014

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
Revenues					
5700	Local and intermediate sources	\$ 44,434,789	\$ 44,534,789	\$ 45,085,580	\$ 550,791
5800	State program revenues	43,890,477	44,040,477	43,817,048	(223,429)
5900	Federal program revenues	400,000	1,000,000	1,093,528	93,528
5020	Total Revenues	<u>88,725,266</u>	<u>89,575,266</u>	<u>89,996,156</u>	<u>420,890</u>
Expenditures					
Current:					
0011	Instruction	53,001,010	52,330,010	51,686,881	643,129
0012	Instructional resources and media services	835,486	865,486	851,970	13,516
0013	Curriculum and instructional staff development	147,129	152,129	148,195	3,934
0021	Instructional leadership	1,902,019	2,102,019	1,944,211	157,808
0023	School leadership	4,846,598	4,846,598	4,758,710	87,888
0031	Guidance, counseling and evaluation services	2,538,644	2,838,644	2,808,325	30,319
0033	Health services	916,136	916,136	901,450	14,686
0034	Student (pupil) transportation	5,943,468	6,343,468	5,847,737	495,731
0036	Extracurricular activities	1,836,659	1,972,659	1,915,289	57,370
0041	General administration	2,651,157	2,651,157	2,589,277	61,880
0051	Plant maintenance and operations	11,680,653	11,680,653	11,422,947	257,706
0052	Security and monitoring services	724,500	724,500	625,744	98,756
0053	Data processing services	1,701,807	2,151,807	2,113,278	38,529
6030	Total Expenditures	<u>88,725,266</u>	<u>89,575,266</u>	<u>87,614,014</u>	<u>1,961,252</u>
1100	Excess of Revenues				
1100	Over Expenditures	-	-	2,382,142	2,382,142
Other Financing Sources (Uses)					
8911	Transfers (out)	-	-	(1,000,000) *	(1,000,000)
7080	Total Other Financing (Uses)	<u>-</u>	<u>-</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>
1200	Net Change in Fund Balance	-	-	1,382,142	1,382,142
0100	Beginning fund balance	23,883,682	23,883,682	23,883,682	-
3000	Ending Fund Balance	<u>\$ 23,883,682</u>	<u>\$ 23,883,682</u>	<u>\$ 25,265,824</u>	<u>\$ 1,382,142</u>

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. * Planned transfer of surplus general fund balance to the capital projects fund for future capital projects.

***OTHER SUPPLEMENTARY
INFORMATION***

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-1

August 31, 2014

		211	224	225	240
Data Control Codes		ESEA Title 1 Part A	IDEA B Formula	IDEA B Preschool	National School Breakfast and Lunch Program
<u>Assets</u>					
1110	Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 1,198,975
1240	Due from other governments	-	-	-	-
1410	Prepaid items	-	-	-	3,475
1000	Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,202,450</u>
<u>Liabilities</u>					
2170	Due to other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Fund Balances</u>					
Nonspendable:					
3430	Prepaid items	-	-	-	3,475
Restricted:					
3450	Federal/state funds grant restrictions	-	-	-	1,198,975
3470	Construction	-	-	-	-
3490	Other restrictions of fund balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,202,450</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,202,450</u>

244	255	263	289	385	392
Career and Technical Basic Grant	ESEA Title II Part A	Title III Part A English Language	Summer School LEP	State Supplemental Visually Impaired	Non Educational Community Based Support
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-1

August 31, 2014

		397	404	410	429
Data Control Codes		Advanced Placement Incentives	Student Success Initiative	State Textbook	State Funded Special Revenue
<u>Assets</u>					
1110	Cash and cash equivalents	\$ -	\$ -	\$ 21,269	\$ -
1240	Due from other governments	-	3,991	-	-
1410	Prepaid items	-	-	-	-
1000	Total Assets	<u>\$ -</u>	<u>\$ 3,991</u>	<u>\$ 21,269</u>	<u>\$ -</u>
<u>Liabilities</u>					
2170	Due to other funds	\$ -	\$ 3,991	\$ -	\$ -
2000	Total Liabilities	<u>-</u>	<u>3,991</u>	<u>-</u>	<u>-</u>
<u>Fund Balances</u>					
Nonspendable:					
3430	Prepaid items	-	-	-	-
Restricted:					
3450	Federal/state funds grant restrictions	-	-	21,269	-
3470	Construction	-	-	-	-
3490	Other restrictions of fund balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>21,269</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 3,991</u>	<u>\$ 21,269</u>	<u>\$ -</u>

461	699	Total Nonmajor Governmental Funds
Campus Activity	Capital Projects	
\$ 513,158	\$ 2,095,224	\$ 3,828,626
-	-	3,991
-	-	3,475
<u>\$ 513,158</u>	<u>\$ 2,095,224</u>	<u>\$ 3,836,092</u>
\$ -	\$ -	\$ 3,991
-	-	3,991
-	-	3,475
-	-	1,220,244
-	2,095,224	2,095,224
513,158	-	513,158
<u>513,158</u>	<u>2,095,224</u>	<u>3,832,101</u>
<u>\$ 513,158</u>	<u>\$ 2,095,224</u>	<u>\$ 3,836,092</u>

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,

AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-2

For the Year Ended August 31, 2014

Data Control Codes		211	224	225	240 National School Breakfast and Lunch Program
		ESEA Title 1 Part A	IDEA B Formula	IDEA B Preschool	
	<u>Revenues</u>				
5700	Local, intermediate, and out-of-state	\$ -	\$ -	\$ -	\$ 1,792,500
5800	State program revenues	-	-	-	27,038
5900	Federal program revenues	1,350,469	1,613,154	21,616	2,991,183
5020	Total Revenues	<u>1,350,469</u>	<u>1,613,154</u>	<u>21,616</u>	<u>4,810,721</u>
	<u>Expenditures</u>				
	Current:				
0011	Instruction	1,241,090	1,200,262	21,616	-
0021	Instructional leadership	109,379	122,868	-	-
0031	Guidance, counseling, and				
0031	evaluation services	-	290,024	-	-
0035	Food services	-	-	-	4,984,346
0036	Extracurricular activities	-	-	-	-
	Capital outlay:				
0081	Facilities acquisition and				
0081	construction	-	-	-	-
6030	Total Expenditures	<u>1,350,469</u>	<u>1,613,154</u>	<u>21,616</u>	<u>4,984,346</u>
	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(173,625)</u>
	<u>Other Financing Sources (Uses)</u>				
7915	Transfers in	-	-	-	-
	Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200	Net Change in Fund Balances	-	-	-	(173,625)
0100	Beginning fund balances	-	-	-	1,376,075
3000	Ending Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,202,450</u>

244	255	263	289	385	392
Career and Technical Basic Grant	ESEA Title II Part A	Title III Part A English Language	Summer School LEP	State Supplemental Visually Impaired	Non Educational Community Based Support
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	6,930	3,863
104,207	183,014	122,122	10,018	-	-
104,207	183,014	122,122	10,018	6,930	3,863
104,207	183,014	122,122	10,018	6,930	3,863
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
104,207	183,014	122,122	10,018	6,930	3,863
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-2

For the Year Ended August 31, 2014

Data Control Codes		397	404	410	429
		Advanced Placement Incentives	Student Success Initiative	State Textbook	State Funded Special Revenue
	Revenues				
5700	Local, intermediate, and out-of-state	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	2,700	3,991	890,154	3,329
5900	Federal program revenues	-	-	-	-
5020	Total Revenues	<u>2,700</u>	<u>3,991</u>	<u>890,154</u>	<u>3,329</u>
	Expenditures				
	Current:				
0011	Instruction	2,700	3,991	890,154	3,329
0021	Instructional leadership	-	-	-	-
0031	Guidance, counseling, and				
0031	evaluation services	-	-	-	-
0035	Food services	-	-	-	-
0036	Extracurricular activities	-	-	-	-
	Capital outlay:				
0081	Facilities acquisition and				
0081	construction	-	-	-	-
6030	Total Expenditures	<u>2,700</u>	<u>3,991</u>	<u>890,154</u>	<u>3,329</u>
	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Other Financing Sources (Uses)				
7915	Transfers in	-	-	-	-
	Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200	Net Change in Fund Balances	-	-	-	-
0100	Beginning fund balances	-	-	21,269	-
3000	Ending Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,269</u>	<u>\$ -</u>

461	699	
Campus Activity	Capital Projects	Total Nonmajor Governmental Funds
\$ 1,038,587	\$ 564,503	\$ 3,395,590
-	-	938,005
-	-	6,395,783
<u>1,038,587</u>	<u>564,503</u>	<u>10,729,378</u>
-	-	3,793,296
-	-	232,247
-	-	290,024
-	-	4,984,346
1,038,318	-	1,038,318
-	1,382,728	1,382,728
<u>1,038,318</u>	<u>1,382,728</u>	<u>11,720,959</u>
<u>269</u>	<u>(818,225)</u>	<u>(991,581)</u>
-	1,000,000	1,000,000
-	1,000,000	1,000,000
269	181,775	8,419
<u>512,889</u>	<u>1,913,449</u>	<u>3,823,682</u>
<u>\$ 513,158</u>	<u>\$ 2,095,224</u>	<u>\$ 3,832,101</u>

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF NET POSITION

NONMAJOR INTERNAL SERVICE FUNDS - EXHIBIT H-3

August 31, 2014

		748	798	876	879
Data Control Codes		MISD Natatorium	Aquatic Club	MISD Health Plan	Workers' Compensation Insurance
Assets:					
1110	Cash and cash equivalents	\$ 7,040	\$ 113,243	\$ 9,474	\$ 6,349
	Total Assets	7,040	113,243	9,474	6,349
Liabilities:					
Current liabilities:					
2200	Accrued expenses	-	-	-	211,135
2000	Total Liabilities	-	-	-	211,135
Net Position:					
3600	Unrestricted	7,040	113,243	9,474	(204,786)
4000	Total Net Position	\$ 7,040	\$ 113,243	\$ 9,474	\$ (204,786)

See Notes to Financial Statements.

Total Internal Service Funds	
\$	136,106
	<u>136,106</u>

	<u>211,135</u>
	<u>211,135</u>

	<u>(75,029)</u>
\$	<u><u>(75,029)</u></u>

MAGNOLIA INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
NONMAJOR INTERNAL SERVICE FUNDS - EXHIBIT H-4
For the Year Ended August 31, 2014

Data Control Codes		748	798	876	879
		MISD Natatorium	Aquatic Club	MISD Health Plan	Workers' Compensation Insurance
	Operating Revenues:				
5700	Local and intermediate sources	\$ -	\$ 427,070	\$ -	\$ 266,384
5020	Total Operating Revenues	-	427,070	-	266,384
	Operating Expenses:				
6100	Payroll costs	-	237,597	-	-
6200	Professional and contracted services	-	48,936	-	267,541
6300	Supplies and materials	-	34,568	-	-
6400	Other operating costs	-	73,862	-	-
	Total Operating Expenses	-	394,963	-	267,541
1200	Changes in Net Position	-	32,107	-	(1,157)
0100	Beginning net position	7,040	81,136	9,474	(203,629)
3000	Ending Net Position	<u>\$ 7,040</u>	<u>\$ 113,243</u>	<u>\$ 9,474</u>	<u>\$ (204,786)</u>

See Notes to Financial Statements.

**Total
Internal
Service Funds**

\$ 693,454
693,454

237,597
316,477
34,568
73,862
662,504

30,950

(105,979)

\$ (75,029)

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF CASH FLOWS

NONMAJOR INTERNAL SERVICE FUNDS - EXHIBIT H-5

For the Year Ended August 31, 2014

	748	798	876	879
	MISD Natatorium	Aquatic Club	MISD Health Plan	Workers' Compensation Insurance
Cash Flows from Operating Activities				
Cash received from customers	\$ -	\$ 427,070	\$ -	\$ 266,384
Cash receipts (payments) for quasi-external operating transactions with other funds	-	-	-	(266,384)
Cash payments to employees for services	-	(237,597)	-	-
Cash payments to other suppliers for goods and services	-	(157,366)	-	-
Net Cash Provided by Operating Activities	-	32,107	-	-
Beginning cash and cash equivalents	7,040	81,136	9,474	6,349
Ending Cash and Cash Equivalents	<u>\$ 7,040</u>	<u>\$ 113,243</u>	<u>\$ 9,474</u>	<u>\$ 6,349</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income	\$ -	\$ 32,107	\$ -	\$ (1,157)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Increase (Decrease) in:				
Accrued expenses	-	-	-	1,157
Net Cash Provided by Operating Activities	<u>\$ -</u>	<u>\$ 32,107</u>	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements.

**Total
Internal
Service Funds**

\$ 693,454

(266,384)

(237,597)

(157,366)

32,107

103,999

\$ 136,106

\$ 30,950

1,157

\$ 32,107

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS - EXHIBIT H-6

For the Year Ended August 31, 2014

Data Control Codes		865	899	
		Student Activity	Magnolia Livestock Show	Total Agency Funds
	<u>Assets</u>			
1110	Cash and cash equivalents	\$ 567,631	\$ 59,176	\$ 626,807
1000	Total Assets	<u>\$ 567,631</u>	<u>\$ 59,176</u>	<u>\$ 626,807</u>
	<u>Liabilities</u>			
	Current liabilities:			
2190	Due to student groups	\$ 567,631	\$ 59,176	\$ 626,807
2000	Total Liabilities	<u>\$ 567,631</u>	<u>\$ 59,176</u>	<u>\$ 626,807</u>

See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE - EXHIBIT J-1

For the Year Ended August 31, 2014

	1	2	3	10
	Tax Rates		Net Assessed/ Appraised Value For School Tax Purposes	Beginning Balance 9/1/13
Last Ten Years	Maintenance	Debt Service		
2005 and prior	Various	Various	Various	\$ 192,467
2006	\$ 1.4600	\$ 0.0760	\$ 1,991,654,772	65,928
2007	\$ 1.3300	\$ 0.0752	\$ 2,320,420,858	68,072
2008	\$ 1.0400	\$ 0.5590	\$ 2,696,707,610	77,890
2009	\$ 1.0400	\$ 0.3600	\$ 3,116,063,208	112,711
2010	\$ 1.0900	\$ 0.2900	\$ 3,488,756,540	152,179
2011	\$ 1.0400	\$ 0.3595	\$ 3,570,183,714	215,643
2012	\$ 1.0400	\$ 0.3595	\$ 3,669,168,292	312,072
2013	\$ 1.0400	\$ 0.3595	\$ 3,882,191,497	758,784
2014	\$ 1.0400	\$ 0.3595	\$ 4,127,425,795	-
1000 Totals				<u><u>\$ 1,955,746</u></u>

20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collected	Debt Service Total Collected	Entire Year's Adjustments	Ending Balance 8/31/14
\$ -	\$ 21,443	\$ 5,004	\$ (9,678)	\$ 156,342
-	5,446	284	(798)	59,400
-	10,096	571	(1,457)	55,948
-	10,916	5,867	(1,515)	59,592
-	21,918	7,587	(1,314)	81,892
-	37,563	9,994	(1,361)	103,261
-	55,568	19,208	8,285	149,152
-	104,737	36,205	5,853	176,983
-	349,056	120,659	2,767	291,836
<u>57,763,324</u>	<u>42,377,891</u>	<u>14,648,896</u>	<u>-</u>	<u>736,537</u>
<u>\$ 57,763,324</u>	<u>\$ 42,994,634</u>	<u>\$ 14,854,275</u>	<u>\$ 782</u>	<u>\$ 1,870,943</u>

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)
GENERAL FUND - EXHIBIT J-2
August 31, 2014

1. Total general fund fund balance at year end (Exhibit C-1 object 3000 for the general fund only)	\$ 25,265,824
2. Total non-spendable fund balance at year end (Exhibit C-1, objects 341x-344x for the general fund only)	9,705
3. Total restricted fund balance (Exhibit C-1, objects 345x-349x for the general fund only)	-
4. Total committed fund balance (Exhibit C-1, objects 351x-354x for the general fund only)	-
5. Total assigned fund balance (Exhibit C-1, objects 355x-359x for the general fund only)	-
6. Estimated amount needed to cover fall cash flow deficits in general fund (net of borrowed funds and funds representing deferred revenues)	9,957,203
7. Estimate of two months' average cash disbursements during the fiscal year	17,618,050
8. Estimate of delayed payments from state sources (58XX) including August payment delays	-
9. Estimate of underpayments from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	-
10. Estimate of delayed payments from federal sources (59XX)	-
11. Estimate of expenditures to be reimbursed to general fund from capital projects fund (uses of general fund cash after bond referendum and prior to issuance of bonds)	-
12. General fund optimum fund balance and cash flow (2+3+4+5+6+7+8+9+10+11)	<u>27,584,958</u>
13. Excess or (deficit) unassigned general fund fund balance (1-12)	<u>\$ (2,319,134)</u>

MAGNOLIA INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM - EXHIBIT J-3
For the Year Ended August 31, 2014

Data Control Codes		Budgeted Amount		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	<u>Revenues</u>				
5700	Local and intermediate sources	\$ 2,075,497	\$ 2,075,497	\$ 1,792,500	\$ (282,997)
5800	State program revenues	45,897	45,897	27,038	(18,859)
5900	Federal program revenues	2,604,971	2,908,202	2,991,183	82,981
5020	Total Revenues	<u>4,726,365</u>	<u>5,029,596</u>	<u>4,810,721</u>	<u>(218,875)</u>
	<u>Expenditures</u>				
	Current:				
0035	Food services	4,726,365	5,329,596	4,984,346	345,250
6030	Total Expenditures	<u>4,726,365</u>	<u>5,329,596</u>	<u>4,984,346</u>	<u>345,250</u>
1200	Net Change in Fund Balance	-	(300,000)	(173,625)	126,375
0100	Beginning fund balance	1,376,075	1,376,075	1,376,075	-
3000	Ending Fund Balance	<u>\$ 1,376,075</u>	<u>\$ 1,076,075</u>	<u>\$ 1,202,450</u>	<u>\$ 126,375</u>

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND - EXHIBIT J-4

For the Year Ended August 31, 2014

Data Control Codes		Budgeted Amounts Final	Actual	Variance With Final Budget Positive (Negative)
	Revenues			
5700	Local and intermediate sources	\$ 14,171,963	\$ 14,996,071	\$ 824,108
5800	State program revenues	400,000	-	(400,000)
5020	Total Revenues	<u>14,571,963</u>	<u>14,996,071</u>	<u>424,108</u>
	Expenditures			
	Debt service:			
0071	Principal on long-term debt	7,550,000	7,550,000	-
0072	Interest on long-term debt	7,016,963	7,016,963	-
0073	Bond issuance costs and fees	5,000	5,550	(550)
6030	Total Expenditures	<u>14,571,963</u>	<u>14,572,513</u>	<u>(550)</u>
1100	Excess of Revenues			
1100	Over (Under) Expenditures	<u>-</u>	<u>423,558</u>	<u>423,558</u>
1200	Net Change in Fund Balance	-	423,558	423,558
0100	Beginning fund balance	4,416,871	4,416,871	-
3000	Ending Fund Balance	<u>\$ 4,416,871</u>	<u>\$ 4,840,429</u>	<u>\$ 423,558</u>

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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COMPLIANCE SECTION

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**INDEPENDENT AUDITORS' 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**

November 25, 2014

To the Board of Trustees of the
Magnolia Independent School District:

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 the Magnolia 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 November 25, 2014.

Internal Control Over Financial Reporting

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

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

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

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Governmental
Audit Quality Center

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas



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

November 25, 2014

To the Board of Trustees of the
Magnolia Independent School District:

Report on Compliance for Each Major Federal Program

We have audited the Magnolia Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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Audit Quality Center

Opinion on Each Major Federal Program

In our opinion, the 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

Management of the 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended August 31, 2014

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the District.
2. Significant deficiencies in internal control were not disclosed by the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. Significant deficiencies in internal control over major federal award programs were not disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an unmodified opinion.
6. No audit findings relative to the major federal award programs for the District are reported in Part C of this schedule.
7. The programs included as major programs are:

<u>CFDA Number(s)</u>	<u>Name of Federal Program Cluster</u>
10.553, 10.555, and 10.559	Child Nutrition Cluster
84.367	ESEA Title II, Part A
84.048	Career and Technical Education

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The District did qualify as a low-risk auditee.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

None Noted

C. FINDINGS – FEDERAL AWARDS AUDIT

None Noted

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1

For the Year Ended August 31, 2014

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through State Department of Education</i>			
ESEA Title I, Part A	84.010	14610101170906	\$ 1,350,469
IDEA B, Formula Grant*	84.027	146600011709066000	1,613,154
IDEA B - Preschool*	84.173	146610011709066000	21,616
Title III, Part A	84.365	14671001170906	122,122
Career and Technical, Basic Grant	84.048	14420006170906	104,207
ESEA Title II, Part A, Teacher & Principal	84.367	14694501170906	183,014
Summer School LEP	84.374	69551202	10,018
TOTAL U.S. DEPARTMENT OF EDUCATION			3,404,600
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through State Department of Education</i>			
School Breakfast Programs	10.553	71401301	589,396
National School Lunch	10.555	71401301	2,098,557
USDA Commodities	10.565	3001401	303,230
TOTAL U.S. DEPARTMENT OF AGRICULTURE			2,991,183
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 6,395,783

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

Federal Revenue per SEFA	\$ 6,395,783
Medicaid Reimbursement - General Fund	1,093,528
C-2 Federal Revenue	<u>\$ 7,489,311</u>

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2014

NOTE 1: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED
SCHOOL FIRST INDICATORS - EXHIBIT L-1
For the Year Ended August 31, 2014

<u>Data Control Codes</u>		<u>Responses</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	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year end?	\$ 50,825

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