

**FORNEY  
INDEPENDENT SCHOOL DISTRICT**

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED JUNE 30, 2012*

Forney Independent School District  
Annual Financial Report  
For The Year Ended June 30, 2012

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## *Introductory Section*

CERTIFICATE OF BOARD

Forney Independent School District  
Name of School District

Kaufman  
County

129-902  
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 June 30, 2012, 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 auditor's report, the reason(s) for disapproving it is (are):  
(attach list as necessary)

## *Financial Section*

## Independent Auditors' Report

To the Board of Trustees  
Forney Independent School District  
Forney, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Forney Independent School District (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 35 through 37 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The combining and individual nonmajor fund financial statements, the TEA required schedules, except for those marked "unaudited" for which we express no opinion and the schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is also 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 not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, the TEA required schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Whitley Penn LLP*

Houston, Texas  
November 8, 2012



## *Management's Discussion and Analysis*

## **FORNEY INDEPENDENT SCHOOL DISTRICT**

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

As management of the Forney Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012.

#### **Financial Highlights**

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by (\$71,523,001) (*deficit net assets*).
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,944,753 an increase of \$4,105,784 in comparison with the prior year. The increase in governmental fund balances was primarily due to the increase in the capital projects fund balance of \$5,912,507.
- At the end of the current fiscal year, unassigned fund balance for the general fund was (\$3,450,794) or (6) percent of total general fund expenditures.
- The District's total bonded debt increased, net, by \$9,089,845 during the current fiscal year.

#### **Overview of the Financial Statements**

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

#### **Government-wide financial statements**

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

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

The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Health Services, Student Transportation, Food Services, Co-curricular/Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Bond Issuance Costs and Fees, Facilities Acquisition and Construction, and Appraisal District Fees.

The government-wide financial statements can be found on pages 12 through 13 of this report.

## **FORNEY INDEPENDENT SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

#### **Fund financial statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

#### **Governmental funds**

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains twenty-nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and the capital projects fund, all of which are considered to be major funds. Data from the other twenty-six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the financial statements. The District adopts an annual appropriated budget for its general fund, debt service fund, and Child Nutrition Fund special revenue fund.

The basic governmental fund financial statements can be found on pages 14 through 19 of this report.

#### **Fiduciary fund**

The fiduciary fund is used to account for resources held for the benefit of students. The fiduciary fund is *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

The basic fiduciary fund financial statements can be found on page 20 of this report.

#### **Notes to financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 through 34 of this report.

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Required supplementary information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds. The District did not have any major special revenue funds; therefore, only the general fund is presented as required supplementary information. The required supplementary information can be found on pages 35 through 37 of this report.

**Other information**

The combining and individual fund statements and schedules and other supplementary information are presented immediately following the required supplementary information and can be found on pages 38 through 55 of this report.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, liabilities exceeded assets by (\$71,523,001) at the close of the most recent fiscal year.

The District's investment in capital assets (e.g., capitalized bond and debt issuance costs, land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets, amounted to (\$51,289,957). The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Forney Independent School District's Net Assets**

	Governmental Activities	
	<b>2012</b>	<b>2011</b>
Current and other assets	\$ 29,317,990	\$ 31,225,151
Capital and non current assets	232,900,715	253,195,256
<b>Total Assets</b>	<b>262,218,705</b>	<b>284,420,407</b>
Current liabilities	26,641,252	32,323,847
Long term liabilities	307,100,454	297,868,307
<b>Total Liabilities</b>	<b>333,741,706</b>	<b>330,192,154</b>
<b>Net Assets</b>		
Invested in capital assets net of related debt	(51,289,957)	(28,607,318)
Unrestricted	(20,233,044)	(17,164,429)
<b>Total Net Assets</b>	<b>\$ (71,523,001)</b>	<b>\$ (45,771,747)</b>

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Forney Independent School District's Changes in Net Assets**

	Governmental Activities	
	<b>2012</b>	<b>2011</b>
<b>Program Revenues</b>		
Charges for services	\$ 2,941,754	\$ 2,913,419
Operating grants	7,705,419	9,390,648
<b>General Revenues</b>		
Property taxes	34,442,655	34,181,373
State aid grants	29,626,820	27,569,358
Interest earnings	61,118	71,902
Miscellaneous	2,225,281	301,821
<b>Total Revenues</b>	<b>77,003,047</b>	<b>74,428,521</b>
<b>Expenses</b>		
Instruction	36,240,760	41,270,056
Instructional resources and media services	734,816	995,450
Curriculum and staff development	1,822,852	2,106,543
Instructional leadership	632,321	586,017
School leadership	4,395,896	4,531,639
Guidance, counseling, and evaluation services	2,264,268	2,231,957
Health services	1,010,338	1,004,161
Student transportation	2,044,213	2,425,274
Food service	4,029,736	4,176,841
Extracurricular activities	2,407,244	3,359,899
General administration	2,439,215	2,479,269
Facilities maintenance and operations	8,675,669	8,147,144
Security and monitoring services	430,490	518,351
Data processing services	1,453,219	1,924,005
Community services	6,289	16,523
Interest on long-term debt	14,685,126	13,575,451
Bond issuance costs and fees	233,864	73,850
Capital Outlay	9,213	39,232
Payments to Shared Services Arrangements	49,901	
Payments to appraisal district	433,606	504,716
<b>Total Expenses</b>	<b>83,999,036</b>	<b>89,966,378</b>
Increase (Decrease) in Net Assets	(6,995,989)	(15,537,857)
<b>Beginning net assets</b>	<b>(45,771,747)</b>	<b>(23,183,844)</b>
Prior period adjustment	(18,755,265)	(7,050,046)
<b>Ending Net Assets</b>	<b>\$ (71,523,001)</b>	<b>\$(45,771,747)</b>

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Governmental activities**

Governmental activities decreased the District's net assets by (\$6,995,989). Key elements of this decrease are as follows:

Revenues are generated primarily from two sources – state aid grants and operating grants and contributions (\$37,332,239) and property taxes (\$34,442,655). The remaining sources include charges for services, investment earnings, and miscellaneous revenues (\$5,228,153). Slightly higher property tax revenues were the result of the District's net assessed appraisal values increasing by ½ percent from the previous year.

The primary functional expense of the District is instruction (\$36,240,760), which represents 43 percent of total expenses. Plant maintenance and operations (\$8,675,669) represents 10 percent of total expenses. Interest on long-term debt (\$14,685,126) also represents 17 percent of total expenses of the District. The remaining individual functional categories of expenses are each less than 6 percent of total expenses.

**Financial Analysis of the Government's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds**

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,944,753, an increase of \$4,105,784 in comparison with the prior year. The increase in ending governmental fund balances is primarily due to the sale of \$12.22 million in general obligation bonds which had not been fully spent by year end.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, fund balance of the general fund was a deficit of (\$3,450,794). A deficit of (\$3,656,572) is classified as unassigned fund balance and a balance of \$205,778 is identified as non-spendable fund balance to reflect the deferred expenditures balance (see page 14).

The fund balance of the District's general fund increased by \$564,308 during the current fiscal year primarily due to the budget reductions made by the Board and management.

The debt service fund has a total fund balance of \$3,354,194 all of which is restricted for the retirement of long-term debt. The net decrease in the debt service fund balance during the current year of (\$2,382,685) was attributable to the increase in current year debt obligations versus a stagnant tax base.

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The capital projects fund has a total, restricted fund balance of \$3,583,720. The net increase in fund balance during the current year of \$5,912,507 was primarily due to the start and completion of various construction projects related to the \$12.22 million of new general obligation bonds sold during the year.

**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget of the general fund can be briefly summarized as follows:

	<u>Appropriations</u>
Original	\$ 56,539,310
Final	<u>58,199,000</u>
<b>Total appropriations increase</b>	<b><u>\$ 1,659,690</u></b>

The review of the final amended budget versus actual for the general fund reflected that revenues were slightly less than budgetary estimates (\$7,678) and expenditures were less than budgetary estimates (\$1,816,966). See pages 35-36 for Exhibit G-1 *Budgetary Comparison Schedule*.

**Capital Assets and Long-term Liabilities**

**Capital assets**

The District's investment in capital assets for its governmental type activities as of June 30, 2012, amounts to \$232,900,718 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 2 percent.

	<b>Balance June 30, 2011</b>	<b>Additions</b>	<b>Retirements and Transfers</b>	<b>Balance June 30, 2012</b>
Land	\$ 4,744,822	\$	\$	\$ 4,744,822
Construction in progress		5,751,239	(5,751,239)	
	<u>4,744,822</u>	<u>5,751,239</u>	<u>(5,751,239)</u>	<u>4,744,822</u>
Buildings and improvements	270,323,240	5,751,239		276,074,479
Furniture and equipment	2,192,618	141,461		2,334,079
Capital leases	1,094,200			1,094,200
Vehicles	4,410,138			4,410,138
	<u>278,020,196</u>	<u>5,892,700</u>		<u>283,912,896</u>
Less accumulated depreciation for:				
Buildings and improvements	(43,358,766)	(6,528,712)		(49,887,478)
Furniture and equipment	(1,475,266)	(211,036)		(1,686,302)
Capital leases	(162,399)	(109,419)		(271,818)
Vehicles	(3,655,113)	(256,289)		(3,911,402)
	<u>(48,651,544)</u>	<u>(7,105,456)</u>		<u>(55,757,000)</u>
<b>Governmental Capital Assets</b>	<b><u>\$ 234,113,474</u></b>	<b><u>\$ (1,212,756)</u></b>	<b><u>\$</u></b>	<b><u>\$ 232,900,718</u></b>

Additional information on the District's capital assets can be found in note D on page 27 in the notes to the financial statements.

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Long-term liabilities**

At the end of the current fiscal year, the District had \$285,408,490 in bonded debt outstanding, a net increase of \$9,089,845 over the previous year. The District's bonds are sold with a "AAA" rating and are guaranteed through the Texas Permanent School Fund Guarantee Program or by a municipal bond insurance policy. The underlying rating of the bonds from Standard and Poor's is "BBB+" and from Fitch is "BBB" for general obligation debt.

Changes to long-term debt, for the year ended June 30, 2012, are as follows:

	<b>Balance June 30, 2011</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2012</b>
General obligation bonds	\$ 276,318,645	\$ 12,220,000	\$ (3,130,155)	\$ 285,408,490
Loans payable	1,560,000		(260,000)	1,300,000
Capital lease payable	999,124		(204,811)	794,313
For issuance premium/discounts	3,592,226	225,010	(197,965)	3,619,271
Gain or loss on refunding bonds	(667,421)	(92,928)	44,108	(716,241)
Accreted interest on premium compound interest bonds	14,845,123	1,969,163	(119,845)	16,694,441
Compensated absences	1,220,610		(1,220,610)	-
	<b>\$ 297,868,307</b>	<b>\$ 14,321,245</b>	<b>\$ (5,089,278)</b>	<b>\$ 307,100,274</b>

Additional information on the District's long-term liabilities can be found in note G, on pages 28 through 30 of the notes to the financial statements.

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

The 2012-2013 general fund budget was largely affected by the 82<sup>nd</sup> Texas Legislative Session. The Legislature convened in its 82<sup>nd</sup> Regular Session (the "Regular Session") on January 11, 2011, and ending the Regular Session May 30, 2011. During the Regular Session, the Legislature enacted a budget that reduced public school state funding by approximately \$4 billion for the 2012-2013 State fiscal biennium, as compared to the budget for the 2010-2011 State fiscal biennium. The reductions were made in light of a projected State deficit estimated to be \$27 billion for the 2012-2013 State fiscal biennium, based upon the State Comptroller's biennial revenue estimate of January 10, 2011. Because the Legislature did not adopt implementing legislation providing for funding the public school finance system for the upcoming biennium, the Governor called the Legislature into a 30-day special session on May 31, 2011 (the "First Called Session").

On June 29, 2011, during the First Called Session, Senate Bill 1 ("SB 1") was enacted by the Legislature, and the bill was sent to the Governor to be signed into Law. SB 1 will reduce State funding for public schools in the State by \$2 billion for each fiscal year of the upcoming biennium. The reductions will be made by applying an across-the-board percentage reduction in funding for all school districts in 2012. The 2012 funding reductions are to be moderated by the use of \$830 million of Federal funds available for education jobs in the State in 2012. Of the \$2 billion in budget cuts for fiscal year 2012, \$500 million will be saved by reducing the target revenue hold harmless funding provided in HB 1 adopted by the Legislature in 2007. Such cuts to target revenue hold harmless provision of the current Finance System will impact higher spending districts that have higher target revenues more significantly than districts with lower target revenues.



**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

As a result of the reduction to revenue, the District made several changes to staffing, programs and services for the 2012-2013 biennium. The most notable changes are listed below:

- State aid was reduced by \$3.4 million in 2011/12 and another \$1.2 million in 2012/13
- Education Jobs Funds of \$1.2 million will be eliminated entering the 2012/13 fiscal year
- General Fund revenues are expected to be \$55 million
- General Fund expenditures are expected to be \$55 million

The District has seen an increase in enrollment from 8,257 to 8,521 students. The taxable base increased by one percent and that combined tax rate increased to \$1.54 (\$1.04 for Maintenance and Operations and \$0.50 for Interest and Sinking). No changes were made to the salary scales and no raises were provided.

The District has a 5-year equal repayment plan with the Agency for prior overfunding resulting from the 2010-11 fiscal year. The first payment was spread throughout the 2011-12 fiscal year and the final payment will be spread throughout the 2015-16 fiscal year. Please see page 33 for more details.

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Lucas Janda, Chief Financial Officer, Forney Independent School District, 600 South Bois d'Arc, Forney, TX 75126.

## *Basic Financial Statements*

**FORNEY INDEPENDENT SCHOOL DISTRICT****STATEMENT OF NET ASSETS**

JUNE 30, 2012

Data Control Codes		1	Governmental Activities
<b>ASSETS:</b>			
1110	Cash and Cash Equivalents	\$	16,352,926
1225	Property Taxes Receivable (Net)		1,094,165
1240	Due from Other Governments		9,033,070
1290	Other Receivables (Net)		790
1410	Deferred Expenses		205,778
1420	Capitalized Bond and Other Debt Issuance Costs		2,631,261
Capital Assets:			
1510	Land		4,744,822
1520	Buildings and Improvements, Net		226,186,998
1530	Furniture and Equipment, Net		647,777
1531	Vehicles, Net		498,736
1550	Capital Lease Assets, Net		822,382
1000	Total Assets		262,218,705
<b>LIABILITIES:</b>			
2110	Accounts Payable		1,236,552
2140	Interest Payable		4,993,441
2165	Accrued Liabilities		4,802,260
2300	Unearned Revenue		15,608,999
Noncurrent Liabilities:			
2501	Due Within One Year		3,897,301
2502	Due in More Than One Year		303,203,153
2000	Total Liabilities		333,741,706
<b>NET ASSETS</b>			
3200	Invested in Capital Assets, Net of Related Debt		(51,289,957)
3900	Unrestricted		(20,233,044)
3000	Total Net Assets	\$	(71,523,001)

The accompanying notes are an integral part of this statement.

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Assets
		Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 36,240,760	\$ 43,479	\$ 4,612,907	\$ (31,584,374)
12	Instructional Resources and Media Services	734,816	6,343	40,547	(687,926)
13	Curriculum and Staff Development	1,822,852	--	201,030	(1,621,822)
21	Instructional Leadership	632,321	--	37,679	(594,642)
23	School Leadership	4,395,896	7,987	258,074	(4,129,835)
31	Guidance, Counseling, & Evaluation Services	2,264,268	--	358,660	(1,905,608)
33	Health Services	1,010,338	--	71,974	(938,364)
34	Student Transportation	2,044,213	1,237	113,985	(1,928,991)
35	Food Service	4,029,736	2,315,550	1,159,182	(555,004)
36	Cocurricular/Extracurricular Activities	2,407,244	566,600	117,789	(1,722,855)
41	General Administration	2,439,215	--	137,362	(2,301,853)
51	Plant Maintenance and Operations	8,675,669	558	416,251	(8,258,860)
52	Security and Monitoring Services	430,490	--	23,355	(407,135)
53	Data Processing Services	1,453,219	--	66,841	(1,386,378)
61	Community Services	6,289	--	316	(5,973)
72	Interest on Long-term Debt	14,685,126	--	7,630	(14,677,496)
73	Bond Issuance Costs and Fees	233,864	--	--	(233,864)
81	Capital Outlay	9,213	--	--	(9,213)
93	Payments Related to Shared Services Arrangements	49,901	--	49,901	--
99	Other Intergovernmental Charges	433,606	--	27,439	(406,167)
TG	Total Governmental Activities	83,999,036	2,941,754	7,705,419	(73,351,863)
TP	Total Primary Government	\$ 83,999,036	\$ 2,941,754	\$ 7,705,419	(73,351,863)
General Revenues:					
MT	Property Taxes, Levied for General Purposes				23,905,438
DT	Property Taxes, Levied for Debt Service				10,537,217
IE	Investment Earnings				61,118
GC	State aid formula grants				29,626,820
MI	Miscellaneous				2,225,281
TR	Total General Revenues				66,355,874
CN	Change in Net Assets				(6,995,989)
NB	Net Assets - Beginning				(45,771,747)
PA	Prior Period Adjustment				(18,755,265)
	Net Assets - Beginning, as Restated				(64,527,012)
NE	Net Assets - Ending				\$ (71,523,001)

The accompanying notes are an integral part of this statement.

# FORNEY INDEPENDENT SCHOOL DISTRICT

## BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2012

Data Control Codes		10 General Fund	50 Debt Service Fund
<b>ASSETS:</b>			
1110	Cash and Cash Equivalents	\$ 7,311,218	\$ 4,622,073
1225	Taxes Receivable, Net	801,542	292,623
1240	Due from Other Governments	6,663,173	2,077,429
1260	Due from Other Funds	1,500	--
1290	Other Receivables	790	--
1410	Deferred Expenditures	205,778	--
1000	Total Assets	<u>\$ 14,984,001</u>	<u>\$ 6,992,125</u>
<b>LIABILITIES:</b>			
Current Liabilities:			
2110	Accounts Payable	\$ 1,056,212	\$ --
2160	Accrued Wages Payable	4,312,957	--
2170	Due to Other Funds	--	1,500
2300	Deferred Revenue	13,065,626	3,636,431
2000	Total Liabilities	<u>18,434,795</u>	<u>3,637,931</u>
<b>FUND BALANCES:</b>			
Nonspendable Fund Balances:			
3415	Long-Term Loans/Notes Receivable	205,778	--
Restricted Fund Balances:			
3450	Federal/State Funds Grant Restrictions	--	--
3470	Capital Acquisitions & Contractual Obligations	--	--
3480	Retirement of Long-Term Debt	--	3,354,194
3490	Other Restrictions of Fund Balance	--	--
3590	Committed Fund Balance: Campus Activity Funds	--	--
3600	Unassigned	(3,656,572)	--
3000	Total Fund Balances	<u>(3,450,794)</u>	<u>3,354,194</u>
4000	Total Liabilities and Fund Balances	<u>\$ 14,984,001</u>	<u>\$ 6,992,125</u>

The accompanying notes are an integral part of this statement.

60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 3,583,720	\$ 835,915	\$ 16,352,926
--	--	1,094,165
--	292,468	9,033,070
--	--	1,500
--	--	790
--	--	205,778
<u>\$ 3,583,720</u>	<u>\$ 1,128,383</u>	<u>\$ 26,688,229</u>
\$ --	\$ 180,340	\$ 1,236,552
--	489,303	4,802,260
--	--	1,500
--	1,107	16,703,164
<u>--</u>	<u>670,750</u>	<u>22,743,476</u>
--	--	205,778
--	49,791	49,791
3,583,720	--	3,583,720
--	--	3,354,194
--	--	--
--	407,842	407,842
--	--	(3,656,572)
<u>3,583,720</u>	<u>457,633</u>	<u>3,944,753</u>
<u>\$ 3,583,720</u>	<u>\$ 1,128,383</u>	<u>\$ 26,688,229</u>

**FORNEY INDEPENDENT SCHOOL DISTRICT****RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET****TO THE STATEMENT OF NET ASSETS****JUNE 30, 2012**

Total fund balances - governmental funds balance sheet	\$ 3,944,753
--	--------------

Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not reported in the funds.	232,900,715
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,094,165
Payables for bond principal which are not due in the current period are not reported in the funds.	(285,408,670)
Payables for capital leases which are not due in the current period are not reported in the funds.	(794,313)
Payables for bond interest which are not due in the current period are not reported in the funds.	(4,993,441)
Payables for notes which are not due in the current period are not reported in the funds.	(1,300,000)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	(19,597,471)
Capitalized issuance costs are not available to pay for current period expenditures and are deferred in the funds.	<u>2,631,261</u>

Net assets of governmental activities - Statement of Net Assets	\$ <u>(71,523,001)</u>
---	------------------------

The accompanying notes are an integral part of this statement.

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

Data Control Codes		10 General Fund	50 Debt Service Fund
<b>REVENUES:</b>			
5700	Local and Intermediate Sources	\$ 26,414,775	\$ 10,638,525
5800	State Program Revenues	29,699,624	2,487,147
5900	Federal Program Revenues	882,923	--
5020	Total Revenues	<u>56,997,322</u>	<u>13,125,672</u>
<b>EXPENDITURES:</b>			
Current:			
0011	Instruction	30,523,964	--
0012	Instructional Resources and Media Services	641,453	--
0013	Curriculum and Staff Development	1,519,014	--
0021	Instructional Leadership	568,055	--
0023	School Leadership	4,078,259	--
0031	Guidance, Counseling, & Evaluation Services	1,794,389	--
0033	Health Services	890,552	--
0034	Student Transportation	1,801,264	--
0035	Food Service	--	--
0036	Cocurricular/Extracurricular Activities	1,913,196	--
0041	General Administration	2,170,684	--
0051	Plant Maintenance and Operations	8,004,876	--
0052	Security and Monitoring Services	372,971	--
0053	Data Processing Services	1,079,381	--
0061	Community Services	4,990	--
0071	Principal on Long-term Debt	464,812	3,130,155
0072	Interest on Long-term Debt	85,073	12,364,567
0073	Bond Issuance Costs and Fees	35,495	16,475
0081	Capital Outlay	--	--
0093	Payments to Shared Service Arrangements	--	--
0099	Other Intergovernmental Charges	433,606	--
6030	Total Expenditures	<u>56,382,034</u>	<u>15,511,197</u>
1100	Excess (Deficiency) of Revenues Over (Under)		
1100	Expenditures	<u>615,288</u>	<u>(2,385,525)</u>
Other Financing Sources and (Uses):			
7911	Capital-Related Debt Issued (Regular Bonds)	--	--
7915	Transfers In	--	--
7916	Premium or Discount on Issuance of Bonds	--	2,840
8911	Transfers Out	(18,480)	--
8949	Other Uses	(32,500)	--
7080	Total Other Financing Sources and (Uses)	<u>(50,980)</u>	<u>2,840</u>
1200	Net Change in Fund Balances	<u>564,308</u>	<u>(2,382,685)</u>
0100	Fund Balances - Beginning	(4,015,102)	5,410,362
1300	Prior Period Adjustment	--	326,517
	Fund Balances - Beginning, as Restated	(4,015,102)	5,736,879
3000	Fund Balances - Ending	<u>\$ (3,450,794)</u>	<u>\$ 3,354,194</u>

The accompanying notes are an integral part of this statement.



60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 7,187	\$ 2,634,416	\$ 39,694,903
--	866,069	33,052,840
--	3,396,476	4,279,399
<u>7,187</u>	<u>6,896,961</u>	<u>77,027,142</u>
301,715	2,866,376	33,692,055
--	9,041	650,494
4,911	103,536	1,627,461
--	1,732	569,787
4,517	82,142	4,164,918
496	245,186	2,040,071
--	15,619	906,171
20,463	652	1,822,379
--	3,437,477	3,437,477
--	90,871	2,004,067
--	1,126	2,171,810
36,425	53	8,041,354
7,826	75	380,872
235,560	--	1,314,941
--	--	4,990
--	--	3,594,967
--	--	12,449,640
181,894	--	233,864
5,743,043	--	5,743,043
--	49,901	49,901
--	--	433,606
<u>6,536,850</u>	<u>6,903,787</u>	<u>85,333,868</u>
<u>(6,529,663)</u>	<u>(6,826)</u>	<u>(8,306,726)</u>
12,220,000	--	12,220,000
--	18,480	18,480
222,170	--	225,010
--	--	(18,480)
--	--	(32,500)
<u>12,442,170</u>	<u>18,480</u>	<u>12,412,510</u>
5,912,507	11,654	4,105,784
(2,328,787)	445,979	(487,548)
--	--	326,517
(2,328,787)	445,979	(161,031)
<u>\$ 3,583,720</u>	<u>\$ 457,633</u>	<u>\$ 3,944,753</u>

**FORNEY INDEPENDENT SCHOOL DISTRICT**

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012*

Net change in fund balances - total governmental funds	\$ 4,105,784
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	5,892,697
The depreciation of capital assets used in governmental activities is not reported in the funds.	(7,105,455)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(284,691)
Issuance of debt not providing current financial resources are not reported as revenues in the funds.	(12,220,000)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	3,130,155
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	204,811
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	260,000
Bond issuance premiums and similar items are amortized in the SOA but not in the funds.	57,362
The accretion of interest on capital appreciation bonds is not reported in the funds.	(1,849,318)
(Increase) decrease in accrued interest from beginning of period to end of period.	(407,943)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	1,220,610
Rounding difference	(2)
Change in net assets of governmental activities - Statement of Activities	\$ <u>(6,995,989)</u>

The accompanying notes are an integral part of this statement.

**FORNEY INDEPENDENT SCHOOL DISTRICT****STATEMENT OF FIDUCIARY NET ASSETS****FIDUCIARY FUNDS****JUNE 30, 2012**

Data Control Codes		Agency Fund
		Student Activity
<b>ASSETS:</b>		
1110	<i>Cash and Cash Equivalents</i>	\$ 273,528
1000	Total Assets	<u>\$ 273,528</u>
<b>LIABILITIES:</b>		
Current Liabilities:		
2110	<i>Accounts Payable</i>	\$ 145
2190	<i>Due to Student Groups</i>	273,383
2000	Total Liabilities	<u>\$ 273,528</u>

The accompanying notes are an integral part of this statement.

# FORNEY INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

### A. Summary of Significant Accounting Policies

The basic financial statements of Forney Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

#### 1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity," as revised by GASB Statement No.39, and there are no component units included within the reporting entity.

#### 2. Basis of Presentation, Basis of Accounting

##### a. Basis of Presentation

**Government-wide Financial Statements:** The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

**General Fund:** This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

**Debt Service Fund:** This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**Capital Projects Fund:** This fund is used to account for proceeds from sales of bonds and other revenues to be used for authorized construction and technology projects/enhancements.

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

In addition, the District reports the following fund types:

**Special Revenue Funds:** These funds are used to account for resources restricted to, or designated for, specific purposes by a grantor including federally-funded and state-funded grants. These grants are awarded to the District for the purpose of accomplishing specific educational tasks as defined in the grant awards.

**Agency Funds:** These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

b. **Measurement Focus, Basis of Accounting**

**Government-wide and Fiduciary Fund Financial Statements:** These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Governmental Fund Financial Statements:** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. **Financial Statement Amounts**

a. **Property Taxes**

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

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. Information related to the tax rate, assessed valuation, and tax levy can be found on pages 50-51.

# FORNEY INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

b. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	15-50
Vehicles	5-10
Office Equipment	3-15

d. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

e. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

f. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

g. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

h. Compensated Absences

During the fiscal year, the District eliminated the policy that provided compensation for unused absences.

# FORNEY INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

### i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

**Nonspendable Fund Balance** - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

**Restricted Fund Balance** - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

**Committed Fund Balance** - represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation. The full amount of campus activity fund balance is committed.

**Assigned Fund Balance** - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

**Unassigned Fund Balance** - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

### B. Compliance and Accountability

#### 1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

#### 2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
General Fund	\$ (3,450,794)	The District plans to eliminate the deficit fund balance by the 2014/15 fiscal year.

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**C. Deposits and Investments**

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

**1. Cash Deposits:**

At June 30, 2012, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$15,832,175 and the bank balance was \$520,751. The District's cash deposits at June 30, 2012 and during the year ended June 30, 2012, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

**2. Investments:**

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

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at June 30, 2012 for all governmental funds are shown below.

<u>Investment or Investment Type</u>	<u>Fair Value</u>	<u>WAM (Days)</u>
LOGIC	\$ 6,822,109	38
Texas Class	4,359,427	33
Texpool	4,650,639	46
Total Investments	<u>\$ 15,832,175</u>	

Cash and deposits at June 30, 2012 were \$520,751.

**3. Analysis of Specific Deposit and Investment Risks**

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

**a. Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk as balances in Texpool, LOGIC, and MBIA/Texas Class, privately managed public funds investment pools, were rated AAAM by Standard & Poor's.



## **FORNEY INDEPENDENT SCHOOL DISTRICT**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

All credit ratings met acceptable levels required by legal guidelines prescribed in both the PFIA and the District's investment policy.

**b. Custodial Credit Risk**

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

**c. Concentration of Credit Risk**

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

**d. Interest Rate Risk**

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

**e. Foreign Currency Risk**

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

#### Investment Accounting Policy

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

#### Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**D. Capital Assets**

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balances*	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 4,744,822	\$ --	\$ --	\$ 4,744,822
Construction in progress	--	5,751,239	5,751,239	--
Total capital assets not being depreciated	<u>4,744,822</u>	<u>5,751,239</u>	<u>5,751,239</u>	<u>4,744,822</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	270,323,240	5,751,239	--	276,074,479
Equipment	2,192,618	141,461	--	2,334,079
Capital leases	1,094,200	--	--	1,094,200
Vehicles	4,410,138	--	--	4,410,138
Total capital assets being depreciated	<u>278,020,196</u>	<u>5,892,700</u>	<u>--</u>	<u>283,912,896</u>
Less accumulated depreciation for:				
Buildings and improvements	(43,358,766)	(6,528,712)	--	(49,887,478)
Equipment	(1,475,266)	(211,036)	--	(1,686,302)
Capital leases	(162,399)	(109,419)	--	(271,818)
Vehicles	(3,655,113)	(256,289)	--	(3,911,402)
Total accumulated depreciation	<u>(48,651,544)</u>	<u>(7,105,456)</u>	<u>--</u>	<u>(55,757,000)</u>
Total capital assets being depreciated, net	<u>229,368,652</u>	<u>(1,212,756)</u>	<u>--</u>	<u>228,155,896</u>
Governmental activities capital assets, net	<u>\$ 234,113,474</u>	<u>\$ (1,212,756)</u>	<u>\$ --</u>	<u>\$ 232,900,718</u>

\* Restated to reflect prior period adjustment (see Note P for more details)

Depreciation was charged to functions as follows:

Instruction	\$ 3,798,316
Instructional Resources and Media Services	84,322
Curriculum and Staff Development	195,391
Instructional Leadership	62,534
School Leadership	230,978
Guidance, Counseling, & Evaluation Services	224,197
Health Services	104,167
Student Transportation	221,834
Food Services	592,259
Extracurricular Activities	414,670
General Administration	267,405
Plant Maintenance and Operations	677,471
Security and Monitoring Services	49,618
Data Processing Services	180,994
Community Services	1,299
	<u>\$ 7,105,456</u>

At year end the District had no commitments with contractors as there were no active construction projects.

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**E. Interfund Balances and Activities**

**1. Due To and From Other Funds**

Balances due to and due from other funds at June 30, 2012, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Debt Service Fund	\$ 1,500	Incorrect coding of bond fees

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

**2. Transfers To and From Other Funds**

Transfers to and from other funds at June 30, 2012, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Other Governmental Funds	\$ 18,480	Supplement other funds sources
	Total	\$ 18,480	

**F. Short-Term Debt Activity**

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

During the fiscal year, the District issued two lines of credit that were repaid within 12 months.

Description	Beginning Balance	Issued	Redeemed	Ending Balance
Lines of Credit	\$ --	\$ 6,000,000	\$ 6,000,000	\$ --

**G. Long-Term Obligations**

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

**1. Long-Term Obligation Activity**

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2012, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
General obligation bonds	\$ 276,318,645	\$ 12,220,000	\$ 3,130,155	\$ 285,408,490	\$ 3,423,069
Capital leases	999,124		204,811	794,313	214,232
Notes	1,560,000		260,000	1,300,000	260,000
Less deferred amounts:					
For issuance premiums / discounts	3,592,226	225,010	197,965	3,619,271	
Gain or loss on refunding bonds	(667,421)	(92,928)	(44,108)	(716,241)	
Accreted interest on premium compound interest bonds	14,845,123	1,969,163	119,845	16,694,441	
Compensated absences	1,220,610		1,220,610	--	
Total governmental activities	\$ 297,868,307	\$ 14,321,245	\$ 5,089,278	\$ 307,100,274	\$ 3,897,301

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General

**2. Debt Service Requirements**

Debt service requirements on bonded long-term debt at June 30, 2012, are as follows:

Year Ending June 30,	Bonded Long-Term Debt		
	Principal	Interest	Total
2013	\$ 3,423,070	\$ 13,006,489	\$ 16,429,559
2014	4,183,178	13,222,281	17,405,459
2015	5,128,345	12,578,642	17,706,987
2016	5,849,769	13,141,953	18,991,721
2017	6,868,801	12,390,914	19,259,715
2018-2022	45,588,770	64,127,188	109,715,957
2023-2027	44,994,808	64,427,523	109,422,331
2028-2032	61,782,811	44,064,692	105,847,503
2033-2037	78,607,010	23,223,887	101,830,897
2038-2042	28,981,928	7,484,054	36,465,982
Totals	\$ 285,408,490	\$ 267,667,622	\$ 553,076,112

A portion of the bonds sold in the Series 2007 bond issue, Refunding Series 2009 and Refunding Series 2010 were capital appreciation bonds commonly referred to as "premium compound interest bonds". The District annually records the appreciation of bond principal for the accreted value of the bonds through maturity of the issue. The interest of these bond series will be paid upon maturity. The following table summarizes the significant features of the individual bonds, by issue:

Bond Series	Accreted Value	Principal	Accreted Interest	Maturity Value	Maturity Dates
2000	\$ 7,644,948	\$ 3,289,945	\$ 4,355,000	\$ 14,175,000	
2006D	1,210,009	19,753	1,190,255	1,490,000	2011-2013
2007A	1,095,455	574,993	520,463	1,260,000	2015
2008	3,746,895	1,394,973	2,351,922	7,650,000	2015-2030
2008A	5,862,502	519,855	5,342,647	10,435,000	2013-2027
2009	320,486	110,000	210,486	345,000	
2009-Ref	183,541	115,000	68,541	190,000	
2010	4,240,637	2,854,964	1,385,673	6,155,000	
2011	16,388,457	15,119,003	1,269,454	18,030,000	
Totals	\$ 40,692,930	\$ 23,998,486	\$ 16,694,441	\$ 59,730,000	

**3. Capital Leases**

The District is obligated under two capital leases for the purchase of school buses. The following schedule lists personal property leased:

Capital Lease Details	Interest Rate	Date of Agreement	Original Property Value
Capital One, NA	5.42%	5/21/2009	\$ 529,801
American National Bank	3.75%	6/30/2010	564,399

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2012, as follows:

Fiscal Year	Principal	Interest
2013	\$ 214,232	\$ 35,666
2014	224,137	25,761
2015	234,465	15,435
2016	121,479	4,619
	<u>\$ 794,313</u>	<u>\$ 81,481</u>

**4. Loans Payable**

As of June 30, 2012, the District's loan payable balance totaled \$1,300,000. Series 2002, Maintenance Tax Notes were executed with City Bank on July 1, 2002 for the construction of a stadium. The following represents the annual payments due:

Fiscal Year	Principal	Interest
2013	\$ 260,000	\$ 19,562
2014	260,000	15,648
2015	260,000	11,736
2016	260,000	7,824
2017	260,000	3,912
	<u>\$ 1,300,000</u>	<u>\$ 58,682</u>

**H. Commitments Under Noncapitalized Leases**

Commitments under operating lease (non-capitalized) agreements for facilities and equipment are subject to fiscal funding clauses. As such, the agreements are cancelable and the District is therefore not obligated for minimum future rental payments as of June 30, 2012. The imputed interest on the leases is not readily determinable.

**I. Risk Management**

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2012, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**J. Pension Plan**

**1. Plan Description**

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

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

2. Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2012, 2011 and 2010, and a state contribution rate of 6.0% for fiscal year 2012 and 6.644 for fiscal years 2011 and 2010. In certain instances the reporting district is required to make all or a portion of the state's contribution. State contributions to TRS made on behalf of the District's employees for the years ending June 30, 2012, 2011 and 2010 were \$2,025,998, \$2,389,667 and \$2,171,536, respectively. The District paid additional state contributions for the years ending June 30, 2012, 2011 and 2010 in the amount of \$826,124, \$989,035 and \$869,538, respectively, on portion of the employees' salaries that exceeded the statutory minimum.

K. Retiree Health Care Plans

1. TRS-Care

a. 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 Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS web site at [www.trs.state.tx.us](http://www.trs.state.tx.us) under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

b. 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. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2012, 2011 and 2010. For the years ended June 30, 2012, 2011, and 2010, the State's contributions to TRS-Care were \$430,937, \$428,862, and \$326,822, respectively, the active member contributions were \$280,109, \$291,721, and \$273,587, respectively, and the District's contributions were \$237,016, \$266,782, and \$231,497, respectively, which equaled the required contributions each year.

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended June 30, 2012, 2011, and 2010, the subsidy payments received by TRS-Care on behalf of the District were \$94,122, \$118,686, and \$107,244, respectively.

3. Early Retiree Reinsurance Program (ERRP)

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 dependants regardless of age. An "early retiree" is defined as a plan participant aged 55-64 who is not eligible for Medicare and is not covered by an active employee of the plan sponsor.

This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first served basis for qualified employers that apply and become certified for the program. TRS has been certified for this program and has received funds from the ERRP program. For the fiscal year ended June 30, 2012, the amount received by TRS-Care on behalf of the District was \$109,747.

L. Employee Health Care Coverage

During the year ended June 30, 2012, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the third party administrator is renewable September 1, 2012, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the TRS Active Care are available and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

M. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the District at June 30, 2012.

# FORNEY INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

### N. Shared Services Arrangements

#### Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for a federal program with Mesquite ISD for deaf education services.

The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, school name, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

### O. Subsequent Events

On July 11, 2012, the District issued Unlimited Tax Refunding Bonds, Series 2012 in the amount of \$3,924,461. The proceeds from the sale of the bonds will be used refund bonds from the 2004A, 2006, 2006A, 2006B, 2006C, 2006D, 2007, 2007A, 2009-Ref, 2009-Building, 2010, and 2011 bond series.

### P. Prior Period Adjustments

Beginning net assets as of July 1, 2011 have been restated to reflect adjustments made both at the fund and government-wide level. Below is a list of prior period adjustments made.

Debt Service Fund - Overstated Due to State (Prior Year State Aid Overpayments) *	\$	326,517
Overstated Fixed Assets (government-wide)		(19,081,782)
Total on Exhibit B-1	\$	<u>(18,755,265)</u>

\* The Agency mailed Forney ISD a letter dated April 27, 2012 that identified actual 2010-11 overpayments for Existing Debt Allotment (EDA) and Instructional Facilities Allotment (IFA) at \$3,753,526 which was \$326,517 lower than originally calculated at the time of issuance of the 2010-11 audit report.

### Q. Deferred Revenue

During the fiscal year, the District obtained a 5-year equal repayment plan with the Texas Education Agency for overfunding resulting from the 2010-11 fiscal year. The first payment was spread throughout the 2011-12 fiscal year and the final payment will be spread throughout the 2015-16 fiscal year. The various components of deferred revenues reported in the governmental fund types are as follow:

	Unearned		Unavailable
	Prior Year	Current Year	
Delinquent property taxes receivable (General Fund)	\$	\$	\$ 801,542
Delinquent property taxes receivable (Debt Service Fund)			292,623
Prior year overpayments (General Fund)	10,921,088	1,342,996	
Prior year overpayments (Debt Service Fund)	3,002,821	340,987	
Grant funds received prior to meeting all eligibility requirements		1,107	
	<u>\$ 13,923,909</u>	<u>\$ 1,685,090</u>	<u>1,094,165</u>

### R. Workers' Compensation Insurance

The District is a member of Workers' Compensation Solutions (the Pool), a public entity risk pool for workers' compensation, which is self-sustained through member premiums. The Pool reinsures to statutory limits through commercial companies for claims in excess of \$2,000,000. The Pool contracts with independent actuaries to determine the adequacy of reserves and fully funds those reserves. Members of the Pool have no known liabilities for workers' compensation coverage in excess of the contracted annual premium. However, if the assets of the Pool were to be exhausted, members would be liable for their portions of the Pool's liabilities.



# FORNEY INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years. Independent auditors conduct a financial audit at the close of the plan year and as of the most recent audit, the Pool has adequate assets to cover 100% of all liabilities.

### S. Revenues from Local, Intermediate, and Out-of-State Sources

Revenues from local, intermediate and out-of-state sources in the governmental fund types are as follow:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total
Property Taxes	\$ 24,067,057	\$ 10,624,704	\$	\$	\$ 34,691,761
Insurance Proceeds	1,413,032				1,413,032
Investment Income	40,110	13,821	7,187		61,117
Co-curricular Activities	357,286			225,439	582,726
Food Sales				2,315,550	2,315,550
Other	537,290			93,426	630,716
	<u>\$ 26,414,775</u>	<u>\$ 10,638,525</u>	<u>\$ 7,187</u>	<u>\$ 2,634,415</u>	<u>\$ 39,694,902</u>

### T. Arbitrage

In accordance with the provisions of Section 148(f) of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Positive arbitrage is the excess of (1) the amount earned on investments purchased with bond proceeds over (2) the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. In order to comply with the arbitrage rebate requirements, positive arbitrage must be paid to the U.S. Treasury at the end of each five year anniversary date of the bond issue. The District has estimated it does not have an arbitrage liability as of June 30, 2012.

### *Required Supplementary Information*

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

# FORNEY INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
<b>REVENUES:</b>					
5700	Local and Intermediate Sources	\$ 24,592,396	\$ 26,827,000	\$ 26,414,775	\$ (412,225)
5800	State Program Revenues	30,163,662	29,610,000	29,699,624	89,624
5900	Federal Program Revenues	1,325,000	568,000	882,923	314,923
5020	Total Revenues	56,081,058	57,005,000	56,997,322	(7,678)
<b>EXPENDITURES:</b>					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	30,877,114	30,550,000	30,523,964	26,036
0012	Instructional Resources and Media Services	686,026	638,000	641,453	(3,453)
0013	Curriculum and Staff Development	1,456,156	1,515,000	1,519,014	(4,014)
	Total Instruction & Instr. Related Services	33,019,296	32,703,000	32,684,431	18,569
Instructional and School Leadership:					
0021	Instructional Leadership	406,880	575,000	568,055	6,945
0023	School Leadership	4,094,560	4,100,000	4,078,259	21,741
	Total Instructional & School Leadership	4,501,440	4,675,000	4,646,314	28,686
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	1,532,603	1,800,000	1,794,389	5,611
0033	Health Services	957,369	900,000	890,552	9,448
0034	Student (Pupil) Transportation	1,647,500	1,875,000	1,801,264	73,736
0036	Cocurricular/Extracurricular Activities	2,016,999	1,975,000	1,913,196	61,804
	Total Support Services - Student (Pupil)	6,154,471	6,550,000	6,399,401	150,599
Administrative Support Services:					
0041	General Administration	2,997,708	2,200,000	2,170,684	29,316
	Total Administrative Support Services	2,997,708	2,200,000	2,170,684	29,316
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	7,763,653	9,325,000	8,004,876	1,320,124
0052	Security and Monitoring Services	402,896	415,000	372,971	42,029
0053	Data Processing Services	1,233,393	1,175,000	1,079,381	95,619
	Total Support Services - Nonstudent Based	9,399,942	10,915,000	9,457,228	1,457,772
Ancillary Services:					
0061	Community Services	16,700	5,500	4,990	510
	Total Ancillary Services	16,700	5,500	4,990	510
Debt Service:					
0071	Principal on Long-Term Debt	449,753	482,342	464,812	17,530
0072	Interest on Long-Term Debt	--	220,543	85,073	135,470
0073	Bond Issuance Costs and Fees	--	10,115	35,495	(25,380)
	Total Debt Service	449,753	713,000	585,380	127,620
0099	Other Intergovernmental Charges	--	437,500	433,606	3,894
	Total Intergovernmental Charges	--	437,500	433,606	3,894
6030	Total Expenditures	56,539,310	58,199,000	56,382,034	1,816,966
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(458,252)	(1,194,000)	615,288	1,809,288

# FORNEY INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	Other Financing Sources (Uses):				
8911	Transfers Out	--	--	(18,480)	(18,480)
8949	Other Uses	--	(37,000)	(32,500)	4,500
7080	Total Other Financing Sources and (Uses)	--	(37,000)	(50,980)	(13,980)
1200	Net Change in Fund Balance	(458,252)	(1,231,000)	564,308	1,795,308
0100	Fund Balance - Beginning	(4,015,102)	(4,015,102)	(4,015,102)	--
3000	Fund Balance - Ending	\$ (4,473,354)	\$ (5,246,102)	\$ (3,450,794)	\$ 1,795,308

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**Budgets and Budgetary Accounting**

The District adopts annual appropriations type budgets for the General Fund, Food Service Special Revenue Fund, and the Debt Service Fund using the same method of accounting as for financial reporting, as required by law. The remaining Special Revenue Funds (primarily federal grant programs) utilize a managerial type budget approved at the fund level by the Board of Trustees upon acceptance of the grants. These grants are subject to Federal, State and locally imposed project length budgets and monitoring through submission of reimbursement reports.

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits Trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end. Supplemental appropriations were made to the General Fund during the fiscal year ended June 30, 2012.

The administrative level at which responsibility for control of budget appropriations begins at the organizational level within each function of operations. The finance department reviews closely the expenditure requests submitted by various organizational heads (principals and department directors) throughout the year to ensure proper spending compliance. No public funds of the District shall be expended in any manner other than as provided for in the budget adopted by the Board of Trustees.

The official school budget was prepared for adoption for budgeted governmental fund types by June 30, 2012. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency (TEA) through inclusion in the annual financial and compliance report.

Encumbrance accounting is utilized in all government fund types. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at year-end and encumbrances outstanding at that time are appropriately provided for in the subsequent year's budget.

**Expenditures in Excess of Appropriations**

All expenditures in the General Fund were within budgeted appropriations except for the following functional categories:

Instructional Resources and Media Services	\$	3,453
Curriculum and Staff Development		4,014

These two categories were overexpended due to a new on-behalf program, Early Retiree Reinsurance Program, that was not taken into consideration by the CFO when the final amended budget was presented before the Board. This on-behalf amount is for reporting purposes only and is not an actual amount that is disbursed from available cash funds.

*Combining Statements and Budget Comparisons  
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

**FORNEY INDEPENDENT SCHOOL DISTRICT****COMBINING BALANCE SHEET****NONMAJOR SPECIAL REVENUE FUNDS**

JUNE 30, 2012

Data Control Codes		204 ESEA Title IV SDFSC	205 Head Start	211 ESEA Title I Improving Basic Programs	224 IDEA-B Formula
<b>ASSETS:</b>					
1110	Cash and Cash Equivalents	\$ 1,073	\$ --	\$ --	\$ 69,309
1240	Due from Other Governments	--	19,157	201,231	4,152
1000	Total Assets	<u>\$ 1,073</u>	<u>\$ 19,157</u>	<u>\$ 201,231</u>	<u>\$ 73,461</u>
<b>LIABILITIES:</b>					
Current Liabilities:					
2110	Accounts Payable	\$ --	\$ 8,599	\$ 156,801	\$ --
2160	Accrued Wages Payable	--	10,558	44,430	73,461
2300	Deferred Revenue	--	--	--	--
2000	Total Liabilities	<u>--</u>	<u>19,157</u>	<u>201,231</u>	<u>73,461</u>
<b>FUND BALANCES:</b>					
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	1,073	--	--	--
3490	Other Restrictions of Fund Balance	--	--	--	--
3590	Committed Fund Balance	--	--	--	--
3000	Total Fund Balances	<u>1,073</u>	<u>--</u>	<u>--</u>	<u>--</u>
4000	Total Liabilities and Fund Balances	<u>\$ 1,073</u>	<u>\$ 19,157</u>	<u>\$ 201,231</u>	<u>\$ 73,461</u>

225 IDEA-B Preschool Grant	240 National School Breakfast/Lunch Program	244 Career and Tech Basic Grant	255 ESEA Title II Training & Recruiting	263 English Language Acquisition and Enhancement
\$ --	\$ 170,002	\$ --	\$ --	\$ --
914	1,596	--	11,522	987
<u>\$ 914</u>	<u>\$ 171,598</u>	<u>\$ --</u>	<u>\$ 11,522</u>	<u>\$ 987</u>
\$ 914	\$ --	\$ --	\$ 11,522	\$ 987
--	171,598	--	--	--
--	--	--	--	--
<u>914</u>	<u>171,598</u>	<u>--</u>	<u>11,522</u>	<u>987</u>
--	--	--	--	--
--	--	--	--	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>\$ 914</u>	<u>\$ 171,598</u>	<u>\$ --</u>	<u>\$ 11,522</u>	<u>\$ 987</u>



# FORNEY INDEPENDENT SCHOOL DISTRICT

## COMBINING BALANCE SHEET

### NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2012

Data Control Codes		284 IDEA - Part B Preschool - ARRA	285 ESEA Title 1 Part A Improving Basic Programs - ARRA	287 Education Jobs Fund	289 Summer School LEP
<b>ASSETS:</b>					
1110	Cash and Cash Equivalents	\$ --	\$ --	\$ 141,889	\$ 3,259
1240	Due from Other Governments	--	--	47,367	--
1000	Total Assets	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 189,256</u>	<u>\$ 3,259</u>
<b>LIABILITIES:</b>					
Current Liabilities:					
2110	Accounts Payable	\$ --	\$ --	\$ --	\$ --
2160	Accrued Wages Payable	--	--	189,256	--
2300	Deferred Revenue	--	--	--	--
2000	Total Liabilities	<u>--</u>	<u>--</u>	<u>189,256</u>	<u>--</u>
<b>FUND BALANCES:</b>					
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	--	--	--	3,259
3490	Other Restrictions of Fund Balance	--	--	--	--
3590	Committed Fund Balance	--	--	--	--
3000	Total Fund Balances	<u>--</u>	<u>--</u>	<u>--</u>	<u>3,259</u>
4000	Total Liabilities and Fund Balances	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 189,256</u>	<u>\$ 3,259</u>

385 Supplemental Visually Impaired	397 Advanced Placement Incentives	404 Student Success Initiative	410 State Textbook Fund	411 Technology Allotment
\$ 29	\$ 8,736	\$ --	\$ 10,196	\$ 24,368
--	--	--	--	--
<u>\$ 29</u>	<u>\$ 8,736</u>	<u>\$ --</u>	<u>\$ 10,196</u>	<u>\$ 24,368</u>
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
--	--	--	--	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
29	8,736	--	10,196	24,368
--	--	--	--	--
--	--	--	--	--
<u>29</u>	<u>8,736</u>	<u>--</u>	<u>10,196</u>	<u>24,368</u>
<u>\$ 29</u>	<u>\$ 8,736</u>	<u>\$ --</u>	<u>\$ 10,196</u>	<u>\$ 24,368</u>

# FORNEY INDEPENDENT SCHOOL DISTRICT

## COMBINING BALANCE SHEET

### NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2012

Data Control Codes		415 Kindergarten and Prekindergarten Grants	425 Teacher Induction and Mentoring Program	426 Texas Educator Excellence Award Program
<b>ASSETS:</b>				
1110	Cash and Cash Equivalents	\$ --	\$ 503	\$ --
1240	Due from Other Governments	--	--	--
1000	Total Assets	<u>\$ --</u>	<u>\$ 503</u>	<u>\$ --</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
2110	Accounts Payable	\$ --	\$ --	\$ --
2160	Accrued Wages Payable	--	--	--
2300	Deferred Revenue	--	--	--
2000	Total Liabilities	<u>--</u>	<u>--</u>	<u>--</u>
<b>FUND BALANCES:</b>				
Restricted Fund Balances:				
3450	Federal/State Funds Grant Restrictions	--	503	--
3490	Other Restrictions of Fund Balance	--	--	--
3590	Committed Fund Balance	--	--	--
3000	Total Fund Balances	<u>--</u>	<u>503</u>	<u>--</u>
4000	Total Liabilities and Fund Balances	<u>\$ --</u>	<u>\$ 503</u>	<u>\$ --</u>

427 Texas Fitness Now	429 Texas Educators' Excellence	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ 1,107	\$ 1,627	\$ 403,817	\$ 835,915
--	--	5,542	292,468
<u>\$ 1,107</u>	<u>\$ 1,627</u>	<u>\$ 409,359</u>	<u>\$ 1,128,383</u>
\$ --	\$ --	\$ 1,517	\$ 180,340
--	--	--	489,303
1,107	--	--	1,107
<u>1,107</u>	<u>--</u>	<u>1,517</u>	<u>670,750</u>
--	1,627	--	49,791
--	--	--	--
--	--	407,842	407,842
<u>--</u>	<u>1,627</u>	<u>407,842</u>	<u>457,633</u>
<u>\$ 1,107</u>	<u>\$ 1,627</u>	<u>\$ 409,359</u>	<u>\$ 1,128,383</u>

# FORNEY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

Data Control Codes	204 ESEA Title IV SDFSC	205 Head Start	211 ESEA Title I Improving Basic Programs	224 IDEA-B Formula
<b>REVENUES:</b>				
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ --	\$ --	\$ --
5800 <i>State Program Revenues</i>	--	--	--	--
5900 <i>Federal Program Revenues</i>	--	72,130	202,229	799,862
5020 <i>Total Revenues</i>	--	72,130	202,229	799,862
<b>EXPENDITURES:</b>				
Current:				
0011 <i>Instruction</i>	--	72,130	196,863	503,222
0012 <i>Instructional Resources and Media Services</i>	--	--	--	--
0013 <i>Curriculum and Staff Development</i>	--	--	5,366	--
0021 <i>Instructional Leadership</i>	--	--	--	1,732
0023 <i>School Leadership</i>	--	--	--	--
0031 <i>Guidance, Counseling, &amp; Evaluation Services</i>	--	--	--	244,760
0033 <i>Health Services</i>	--	--	--	247
0034 <i>Student Transportation</i>	--	--	--	--
0035 <i>Food Service</i>	--	--	--	--
0036 <i>Cocurricular/Extracurricular Activities</i>	--	--	--	--
0041 <i>General Administration</i>	--	--	--	--
0051 <i>Plant Maintenance and Operations</i>	--	--	--	--
0052 <i>Security and Monitoring Services</i>	--	--	--	--
0093 <i>Payments to Shared Service Arrangements</i>	--	--	--	49,901
6030 <i>Total Expenditures</i>	--	72,130	202,229	799,862
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>				
1100 <i>Expenditures</i>	--	--	--	--
Other Financing Sources and (Uses):				
7915 <i>Transfers In</i>	--	--	--	--
7080 <i>Total Other Financing Sources and (Uses)</i>	--	--	--	--
1200 <i>Net Change in Fund Balances</i>	--	--	--	--
0100 <i>Fund Balances - Beginning</i>	1,073	--	--	--
3000 <i>Fund Balances - Ending</i>	\$ 1,073	\$ --	\$ --	\$ --

225 IDEA-B Preschool Grant	240 National School Breakfast/Lunch Program	244 Career and Tech Basic Grant	255 ESEA Title II Training & Recruiting	263 English Language Acquisition and Enhancement
\$ --	\$ 2,322,829	\$ --	\$ --	\$ --
--	120,081	--	--	--
21,148	1,039,101	17,213	31,421	19,757
<u>21,148</u>	<u>3,482,011</u>	<u>17,213</u>	<u>31,421</u>	<u>19,757</u>
5,426	--	17,213	8,665	19,757
--	--	--	--	--
--	--	--	22,756	--
--	--	--	--	--
--	--	--	--	--
350	--	--	--	--
15,372	--	--	--	--
--	--	--	--	--
--	3,437,477	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
<u>21,148</u>	<u>3,437,477</u>	<u>17,213</u>	<u>31,421</u>	<u>19,757</u>
--	44,534	--	--	--
--	--	--	--	--
--	--	--	--	--
--	44,534	--	--	--
--	(44,534)	--	--	--
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

# FORNEY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

<i>Data Control Codes</i>	<i>284 IDEA - Part B Preschool - ARRA</i>	<i>285 ESEA Title 1 Part A Improving Basic Programs - ARRA</i>	<i>287 Education Jobs Fund</i>	<i>289 Summer School LEP</i>
<b>REVENUES:</b>				
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ --	\$ --	\$ --
5800 <i>State Program Revenues</i>	--	--	--	--
5900 <i>Federal Program Revenues</i>	3,485	4,897	1,184,123	1,110
5020 <i>Total Revenues</i>	<u>3,485</u>	<u>4,897</u>	<u>1,184,123</u>	<u>1,110</u>
<b>EXPENDITURES:</b>				
Current:				
0011 <i>Instruction</i>	3,485	4,897	1,184,123	--
0012 <i>Instructional Resources and Media Services</i>	--	--	--	--
0013 <i>Curriculum and Staff Development</i>	--	--	--	--
0021 <i>Instructional Leadership</i>	--	--	--	--
0023 <i>School Leadership</i>	--	--	--	--
0031 <i>Guidance, Counseling, &amp; Evaluation Services</i>	--	--	--	--
0033 <i>Health Services</i>	--	--	--	--
0034 <i>Student Transportation</i>	--	--	--	--
0035 <i>Food Service</i>	--	--	--	--
0036 <i>Cocurricular/Extracurricular Activities</i>	--	--	--	--
0041 <i>General Administration</i>	--	--	--	--
0051 <i>Plant Maintenance and Operations</i>	--	--	--	--
0052 <i>Security and Monitoring Services</i>	--	--	--	--
0093 <i>Payments to Shared Service Arrangements</i>	--	--	--	--
6030 <i>Total Expenditures</i>	<u>3,485</u>	<u>4,897</u>	<u>1,184,123</u>	<u>--</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>				
1100 <i>Expenditures</i>	--	--	--	1,110
Other Financing Sources and (Uses):				
7915 <i>Transfers In</i>	--	--	--	--
7080 <i>Total Other Financing Sources and (Uses)</i>	--	--	--	--
1200 <i>Net Change in Fund Balances</i>	--	--	--	1,110
0100 <i>Fund Balances - Beginning</i>	--	--	--	2,149
3000 <i>Fund Balances - Ending</i>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 3,259</u>

385 Supplemental Visually Impaired	397 Advanced Placement Incentives	404 Student Success Initiative	410 State Textbook Fund	411 Technology Allotment
\$ --	\$ --	\$ --	\$ --	\$ --
2,713	5,400	3,299	724,391	--
--	--	--	--	--
2,713	5,400	3,299	724,391	--
2,684	--	--	650,195	166,528
--	--	--	--	--
--	3,225	--	64,000	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
2,684	3,225	--	714,195	166,528
29	2,175	3,299	10,196	(166,528)
--	--	--	--	--
--	--	--	--	--
29	2,175	3,299	10,196	(166,528)
--	6,561	(3,299)	--	190,896
\$ 29	\$ 8,736	\$ --	\$ 10,196	\$ 24,368



# FORNEY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

Data Control Codes		415 Kindergarten and Prekindergarten Grants	425 Teacher Induction and Mentoring Program	426 Texas Educator Excellence Award Program
<b>REVENUES:</b>				
5700	Local and Intermediate Sources	\$ --	\$ --	\$ --
5800	State Program Revenues	--	8,471	--
5900	Federal Program Revenues	--	--	--
5020	Total Revenues	--	8,471	--
<b>EXPENDITURES:</b>				
Current:				
0011	Instruction	--	1,877	--
0012	Instructional Resources and Media Services	--	--	--
0013	Curriculum and Staff Development	--	6,069	--
0021	Instructional Leadership	--	--	--
0023	School Leadership	--	--	--
0031	Guidance, Counseling, & Evaluation Services	--	--	--
0033	Health Services	--	--	--
0034	Student Transportation	--	--	--
0035	Food Service	--	--	--
0036	Cocurricular/Extracurricular Activities	--	--	--
0041	General Administration	--	--	--
0051	Plant Maintenance and Operations	--	--	--
0052	Security and Monitoring Services	--	--	--
0093	Payments to Shared Service Arrangements	--	--	--
6030	Total Expenditures	--	7,946	--
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	--	525	--
Other Financing Sources and (Uses):				
7915	Transfers In	7,745	--	491
7080	Total Other Financing Sources and (Uses)	7,745	--	491
1200	Net Change in Fund Balances	7,745	525	491
0100	Fund Balances - Beginning	(7,745)	(22)	(491)
3000	Fund Balances - Ending	\$ --	\$ 503	\$ --

427 Texas Fitness Now	429 Texas Educators' Excellence	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ --	\$ --	\$ 311,587	\$ 2,634,416
88	1,626	--	866,069
--	--	--	3,396,476
88	1,626	311,587	6,896,961
--	--	29,311	2,866,376
--	64	8,977	9,041
--	--	2,120	103,536
--	--	--	1,732
--	--	82,142	82,142
--	--	76	245,186
--	--	--	15,619
--	--	652	652
--	--	--	3,437,477
--	--	90,871	90,871
--	--	1,126	1,126
--	--	53	53
--	--	75	75
--	--	--	49,901
--	64	215,403	6,903,787
88	1,562	96,184	(6,826)
--	--	10,244	18,480
--	--	10,244	18,480
88	1,562	106,428	11,654
(88)	65	301,414	445,979
\$ --	\$ 1,627	\$ 407,842	\$ 457,633

### *Other Supplementary Information*

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

**FORNEY INDEPENDENT SCHOOL DISTRICT****SCHEDULE OF DELINQUENT TAXES RECEIVABLE****FOR THE YEAR ENDED JUNE 30, 2012**

Year Ended June 30	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2003 and Prior Years	\$	Various	\$	Various	\$	Various
2004		1.41		.21		1,053,673,794
2005		1.41		.26		1,337,589,041
2006		1.46		.28		1,665,387,221
2007		1.3346		.28		1,834,704,072
2008		1.04		.38		2,186,360,493
2009		1.04		.42		2,340,032,940
2010		1.04		.46		2,333,464,800
2011		1.04		.46		2,263,120,733
2012 (School Year Under Audit)		1.04		.46		2,274,351,650

1000 Totals

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

10 Beginning Balance 7/1/11	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 6/30/12
\$ 106,090	\$ --	\$ 904	\$ 212	\$ (55,430)	\$ 49,544
38,598	--	54	8	(680)	37,856
27,519	--	(101)	(19)	(1,313)	26,326
33,785	--	2,459	472	(951)	29,904
45,363	--	6,843	1,436	(1,335)	35,749
54,413	--	34,624	12,651	33,945	41,083
119,945	--	66,127	26,705	46,674	73,787
255,787	--	76,909	34,018	(38,939)	105,921
640,667	--	301,813	133,494	(50,621)	154,739
--	34,115,275	23,365,385	10,334,690	--	415,200
<u>\$ 1,322,167</u>	<u>\$ 34,115,275</u>	<u>\$ 23,855,017</u>	<u>\$ 10,543,667</u>	<u>\$ (68,650)</u>	<u>\$ 970,108</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Add: Penalty and interest receivable					\$ 496,829
Less: Allowance for uncollectible taxes					<u>\$ (372,772)</u>
Total net taxes receivable per Exhibit C-1					<u>\$ 1,094,165</u>

**FORNEY INDEPENDENT SCHOOL DISTRICT**
**EXHIBIT J-2**
**SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2013-2014  
GENERAL AND SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**
**FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION AND FUNCTION 99 - APPRAISAL DISTRICT COST**

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ --	\$ --	\$ 292,219	\$ 1,325,104	\$ --	\$ --	\$ 1,617,323
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)	--	--	--	--	--	--	--
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)	--	--	--	--	--	--	--
6211	Legal Services	--	--	261,674	--	--	--	261,674
6212	Audit Services	--	--	--	52,300	--	--	52,300
6213	Tax Appraisal and Collection	--	433,606	--	--	--	--	433,606
621X	Other Prof. Services	--	--	--	17,115	--	3,275	20,390
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	--	--	15,439	10,583	--	--	26,022
6240	Contr. Maint. and Repair	--	--	--	--	903	--	903
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	18	28,028	--	2,843	30,889
6290	Miscellaneous Contr.	8,349	--	12,260	51,173	--	14,891	86,673
6310	Operational Supplies, Materials	--	--	--	--	--	--	--
6320	Textbooks and Reading	--	--	20	28	--	--	48
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	--	--	2,384	15,528	--	10,685	28,597
6410	Travel, Subsistence, Stipends	357	--	1,330	7,975	--	278	9,940
6420	Ins. and Bonding Costs	--	--	--	--	--	--	--
6430	Election Costs	7,104	--	--	--	--	--	7,104
6490	Miscellaneous Operating	1,429	--	15,086	13,212	--	220	29,947
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	23,108	23,108

Total \$ 17,239 \$ 433,606 \$ 600,430 \$ 1,521,046 \$ 903 \$ 55,300 \$ 2,628,524

Total Expenditures for General and Special Revenue Funds (9) \$ 63,285,821

**LESS: Deductions of Unallowable Costs**
**FISCAL YEAR**

Total Capital Outlay (6600)	(10)	\$ 63,990
Total Debt & Lease (6500)	(11)	\$ 585,380
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 7,986,438
Food (Function 35, 6341 and 6499)	(13)	\$ 1,552,162
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		\$ 1,521,046

Subtotal 11,709,016

Net Allowed Direct Cost \$ 51,576,805

**CUMULATIVE**

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 276,074,479
Historical Cost of Buildings over 50 years old	(16)	116,023
Amount of Federal Money in Building Cost (Net of #16)	(17)	--
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)	7,838,417
Historical Cost of Furniture & Equipment over 16 years old	(19)	368,390
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ --

(8) Note A - \$433,606 in Function 99 expenditures is included in this report on administrative costs.

**FORNEY INDEPENDENT SCHOOL DISTRICT****EXHIBIT J-3****FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET (UNAUDITED)****GENERAL FUND****AS OF JUNE 30, 2012**

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of June 30, 2012 (Exhibit C-1 object 3000 for the General Fund only)	\$ (3,450,794)
2	Total General Fund Nonspendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only)	205,778
3	Total General Fund Restricted Fund Balance (from Exhibit C-1 - total of object 345X-349X for the General Fund only)	--
4	Total General Fund Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only)	--
5	Total General Fund Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	--
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	--
7	Estimate of two months' average cash disbursements during the fiscal year	12,027,294
8	Estimate of delayed payments from state sources (58XX)	--
9	Estimate of underpayment 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 (Lines 2+3+4+5+6+7+8+9+10+11)	12,233,072
13	Excess (Deficit) Unassigned General Fund Fund Balance (1-12)	\$ (15,683,866)

The District's administration will continue to monitor the General Fund Balance in the following budgetary cycles to maintain a fund balance level within District policy or State guidelines.

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**EXHIBIT J-4**

Data Control Codes		1	2	3
		Budget	Actual	Variance Positive (Negative)
	<b>REVENUES:</b>			
5700	Local and Intermediate Sources	\$ 2,287,217	\$ 2,322,829	\$ 35,612
5800	State Program Revenues	79,000	120,081	41,081
5900	Federal Program Revenues	1,278,317	1,039,101	(239,216)
5020	Total Revenues	<u>3,644,534</u>	<u>3,482,011</u>	<u>(162,523)</u>
	<b>EXPENDITURES:</b>			
	Current:			
	Support Services - Student (Pupil):			
0035	Food Services	<u>3,600,000</u>	<u>3,437,477</u>	<u>162,523</u>
	Total Support Services - Student (Pupil)	<u>3,600,000</u>	<u>3,437,477</u>	<u>162,523</u>
6030	Total Expenditures	<u>3,600,000</u>	<u>3,437,477</u>	<u>162,523</u>
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	<u>44,534</u>	<u>44,534</u>	<u>--</u>
1200	Net Change in Fund Balance	<u>44,534</u>	<u>44,534</u>	<u>--</u>
0100	Fund Balance - Beginning	(44,534)	(44,534)	--
3000	Fund Balance - Ending	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>



# FORNEY INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-5

## DEBT SERVICE FUND

### BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2012

Data Control Codes		1	2	3
		Budget	Actual	Variance Positive (Negative)
	<b>REVENUES:</b>			
5700	Local and Intermediate Sources	\$ 10,596,500	\$ 10,638,525	\$ 42,025
5800	State Program Revenues	2,600,000	2,487,147	(112,853)
5020	Total Revenues	13,196,500	13,125,672	(70,828)
	<b>EXPENDITURES:</b>			
	Debt Service:			
0071	Principal on Long-Term Debt	3,130,155	3,130,155	--
0072	Interest on Long-Term Debt	12,366,714	12,364,567	2,147
0073	Bond Issuance Costs and Fees	15,000	16,475	(1,475)
	Total Debt Service	15,511,869	15,511,197	672
6030	Total Expenditures	15,511,869	15,511,197	672
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	(2,315,369)	(2,385,525)	(70,156)
	Other Financing Sources (Uses):			
7916	Premium or Discount on Issuance of Bonds	--	2,840	2,840
7080	Total Other Financing Sources and (Uses)	--	2,840	2,840
1200	Net Change in Fund Balance	(2,315,369)	(2,382,685)	(67,316)
0100	Fund Balance - Beginning	5,736,879	5,410,362	(326,517)
1300	Prior Period Adjustment	--	326,517	326,517
0100	Fund Balance - Beginning, as Restated	5,736,879	5,736,879	--
3000	Fund Balance - Ending	\$ 3,421,510	\$ 3,354,194	\$ (67,316)

**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***

To the Board of Trustees  
Forney Independent School District  
Forney, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Forney Independent School District (the "District") as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting and are listed as findings #2012-01 and #2012-03. 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

### **Closing**

This report is intended solely for the information and use of the board of trustees, management, the Texas Education Agency and other applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Whitley Penn LLP*

Houston, Texas  
November 8, 2012

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

To the Board of Trustees  
Forney Independent School District  
Forney, Texas

**Compliance**

We have audited Forney Independent School District's (the "District") compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (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 June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items #2012-02.

## Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #2012-03 to be a significant deficiency.

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

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and accordingly, we express no opinion on the responses.

## Closing

This report is intended solely for the information and use of the board of trustees, the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Whitley Penn LLP*

Houston, Texas  
November 8, 2012

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*For The Year Ended June 30, 2012*

**I. Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes. Finding #2012-01 and #2012-03
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes. Finding #2012-03
Type of auditors' report issued on compliance with major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) 2-7 OMB Circular A-133?	None.

Identification of major programs

Name of Federal Program or Cluster	CFDA Numbers
------------------------------------	--------------

**US Department of Education**

Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Commodities	10.555
Special Education Cluster:	
IDEA Part B – Special Education Formula	84.027A
IDEA Part B – Special Education Preschool	84.173A
IDEA Part B – Formula - ARRA	84.391A
IDEA Part B – Preschool - ARRA	84.392A
Education Jobs Fund	84.410A
1. Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
2. Auditee qualified as low-risk auditee?	No

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
***SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)***  
***For The Year Ended June 30, 2012***

**II. Financial Statement Findings**

**Finding #2012-01**

- Criteria:** All journal entries should be approved by someone other than the person that prepared and entered the journal entry.
- Condition:** During our journal entry test, we noted that three out of twelve journal entries were not approved by a second reviewer. Management personnel had discussed the entries selected with the preparer. As such, there was no formal approval obtained once the entry was prepared and entered into the system.
- Cause:** These entries were discussed with management prior to their preparation and entered into the system.
- Effect:** Written approval was lacking on select journal entries.
- Recommendation:** All journal entries should have written approval.

**III. Federal Awards Findings and Questioned Costs**

**Finding # 2012-02 Child Nutrition (CFDA 10.553 and 10.555): Procurement**

- Criteria:** Per the *OMB Circular A-133 Compliance Supplement*, compliance requirement I *Procurement Suspension and Debarment*, governmental sub-recipients of States, shall use the same State policies and procedures (Texas Education Code Section 44.031) used for procurement from non-Federal funds. In addition, the Texas Department of Agriculture's NSLP Administrative Reference Manual, Section 14.5, requests for any capital expenditures in excess of \$5,000 must be sent to and approved by Texas Department of Agriculture in advance. This request should be completed via TX-UNPS.
- Condition:** The District purchased kitchen equipment to produce specific food items to the students. The district did not document the competitive procurement used to procure these goods. In addition, TDA approval was not received prior to purchasing the goods.
- Cause:** Unknown. This purchase was entered into prior to the installment of the current CFO.
- Effect:** The District was not in compliance with federal and state law and regulations.
- Questioned Costs:** None
- Recommendation:** The District should ensure that all capital expenditures in excess of \$5,000 are approved by TDA prior to entering into a contract with vendors. In addition, state procurement laws should be followed for purchases in excess of \$50,000.

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
***SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)***  
***For The Year Ended June 30, 2012***

**III. Federal Awards Findings and Questioned Costs (continued)**

**Finding #2012-03 Child Nutrition (CFDA 10.553 and 10.555) Internal control over Cash Receipts (Program Income)**

<b>Criteria:</b>	Amounts charged and collected for breakfast and lunch meals served are considered program income under OMB Circular A-133. As such, internal controls over t program income must be in place to ensure it is properly handled. Strong internal controls over meal program income dictate that the person collecting the cash should sign off on the amount collected. In addition, another individual other than the person collecting the cash, preparing the close reports and deposits should verify the daily cash counts and indicate his/her review through the use of initials or signature.
<b>Condition:</b>	We reviewed a total of 25 (five receipts for five campuses) cash receipt transactions and noted that no approval or reviewer signature was present on the count sheets. We were unable to determine if the daily closing report and deposit were prepared and reviewed by different individuals.
<b>Cause:</b>	Unknown
<b>Effect:</b>	The lack of review and approval by someone other than the individual collecting the cash, could lead to a material misstatement that would not allow for an employee to prevent, or detect and correct, noncompliance requirement of a federal program on a timely basis.
<b>Questioned Costs:</b>	None
<b>Recommendation:</b>	We recommend that each cashier sign off on the daily count sheets and other applicable closing reports as well as the child nutrition managers at each campus.



**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
*For The Year Ended June 30, 2012*

**IV. Status Of Prior Year Findings**

<b>Finding Recommendation</b>	<b>Current Status</b>
<b>Finding #11-01:</b>	
The board was not provided with financial reports during the fiscal year 2011.	<b>Implemented</b>
The same person that proposed journal entries also enters and posts to the general ledger.	<b>Not Implemented</b> - Journal entries were approved by a second reviewer but written approval was not obtained on a portion of the 2012 sampled journal entries. This will be done in 2013.
The revenue recorded related to State Foundation Aid and Existing Debt Allotment was not reconciled to the amounts reported on the Texas Education Agency's Summary of Finances.	<b>Implemented</b>
The deferred expenditures account related to worker's compensation is not reconciled on a regular basis.	<b>Implemented</b>
Purchase orders are required for all purchases and check requests were still processed.	<b>Implemented</b>
Duplicate payments can be processed for blanket purchase orders without warning from the financial software.	<b>Implemented</b>
Two instances were noted where the purchase order was dated after the invoice dated.	<b>Implemented</b>
Four out of forty transactions tested were miscoded.	<b>Implemented</b>
Two payments were not approved by the Board as required by the District's local purchasing and acquisition policy.	<b>Implemented</b>
The District's contract with Kaufman County for SRO services has not been updated since fiscal year 2004.	<b>Implemented</b>
Approximately \$2 million of accounts payable for construction pay applications had not been properly accrued during fiscal year 2011.	<b>Implemented</b>
The payroll department should be separate from the human resources department.	<b>Implemented</b>
The payroll department has a lack of segregation of duties within access levels to the human resources module.	<b>Implemented</b>
An inventory of capital assets has not been performed in the last two years.	<b>Implemented</b>
Grant accounting and reporting has not been centralized.	<b>Implemented</b>

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
*For The Year Ended June 30, 2012*

**IV. Status Of Prior Year Findings (continued)**

<b>Finding Recommendation</b>	<b>Current Status</b>
<b>Finding #11-02:</b>	
Grants should be monitored and reconciled on a timely basis to ensure that the award amount is not overspent. In additions, prior year activity should be removed from the current year activity.	<b>Implemented</b>

**V. Corrective Action**

The Chief Financial Officer (CFO) will review and approve all journal entries proposed by the Coordinator for Business Services, In turn, the Coordinator for Business Services will review and approve all journal entries proposed by the accounting staff.

The CFO and purchasing department will implement additional purchasing procedures to ensure the Texas Department of Agriculture has approved all capital expenditures in excess of \$5,000 prior to entering into a contract with a vendor or issuing a purchase order.

The Director of Child Nutrition Services will implement additional procedures to ensure that proper review and approval exists for all cash receipts.

**Date of Implementation:** November 2012

**Responsible Person:** Lucas Janda, Chief Financial Officer

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
***CORRECTIVE ACTION PLAN***  
***FOR THE YEAR ENDED JUNE 30, 2012***

The Chief Financial Officer (CFO) will review and approve all journal entries proposed by the Coordinator for Business Services. In turn, the Coordinator for Business Services will review and approve all journal entries proposed by the accounting staff.

The CFO and purchasing department will implement additional purchasing procedures to ensure the Texas Department of Agriculture has approved all capital expenditures in excess of \$5,000 prior to entering into a contract with a vendor or issuing a purchase order.

The Director of Child Nutrition Services will implement additional procedures to ensure that proper review and approval exists for all cash receipts.

**Date of Implementation:** November 2012

**Responsible Person:** Lucas Janda, Chief Financial Officer

**FORNEY INDEPENDENT SCHOOL DISTRICT**
**EXHIBIT K-1**
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Region X Education Service Center:			
<i>Head Start</i>	93.600	06CH0391/21	\$ 72,130
Total U. S. Department of Health and Human Services			<u>72,130</u>
U. S. DEPARTMENT OF EDUCATION			
Passed Through Texas Education Agency:			
<i>IDEA-B Formula *</i>	84.027A	126600011299026600	799,862
<i>IDEA-B Preschool *</i>	84.173A	126610011299026600	21,148
<i>Summer School LEP</i>	84.369A	69551002	1,110
<i>ARRA - ESEA, Title I, Part A - Improving Basic Programs *</i>	84.389A	10551001129902	4,897
<i>ARRA - IDEA Part B, Preschool *</i>	84.392A	105550101129902	3,485
<i>Education Jobs Fund</i>	84.410A	11550101129902	1,184,123
Total Passed Through Texas Education Agency			<u>2,014,625</u>
Passed Through Region X Education Service Center:			
<i>ESEA Title I Part A - Improving Basic Programs *</i>	84.010A	116110101057950	202,229
<i>Career and Technical - Basic Grant</i>	84.048A	114210006057950	17,213
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365A	11671001057950	19,757
<i>ESEA Title II Part A - Teacher &amp; Principal Training &amp; Recruiting</i>	84.367A	11694501057950	31,421
Total Passed Through Region X Education Service Center			<u>270,620</u>
Total U. S. Department of Education			<u>2,285,245</u>
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through Texas Department :			
School Breakfast Program *	10.553	71401201	266,345
National School Lunch Program (Non-cash) *	10.555	71301201 / 71401201	156,866
National School Lunch Program *	10.555	71301201	913,587
Total CFDA Number 10.555			<u>1,070,453</u>
Total Passed Through Texas Education Agency			<u>1,336,798</u>
Total U. S. Department of Agriculture			<u>1,336,798</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ <u>3,694,173</u></b>

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

General Fund Federal Revenues:	
E-Rate	\$ 37,243
SHARS	490,696
JROTC	<u>57,287</u>
Total Federal Revenues EXH C-3	<u>\$ 4,279,398</u>

The accompanying notes are an integral part of this schedule.

**FORNEY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

**Note 2 - Summary of Significant Accounting**

The District accounts for all awards under federal programs in the General and Certain Special Revenue Funds in accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited to reimbursement. Pass-through entity identifying numbers are presented where available.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

**Note 3 - General Fund Federal Revenue**

Federal awards and funds reported in the General Fund are summarized as follows:

<b>Program or Source</b>	<b>CFDA No.</b>	<b>Amount</b>
<b>Indirect Costs:</b>		
School Breakfast Program*	10.553	\$ 67,199
National School Lunch Program*	10.555	230,498
E-Rate	N/A	37,243
SHARS	N/A	490,696
JROTC	N/A	57,287
		<u>\$ 882,923</u>

\* The District charged indirect costs to the Child Nutrition Program using its indirect cost rate as described by the USDA Policy Memo dated July 7, 2011.

**FORNEY INDEPENDENT SCHOOL DISTRICT****SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS  
AS OF JUNE 30, 2012**

<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 unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ 16,694,441