

**FORNEY
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For The Year Ended June 30, 2011



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FORNEY INDEPENDENT SCHOOL DISTRICT
TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Certificate of the Board	i	
Financial Section		
Independent Auditors' Report	1	
Management's Discussion and Analysis	5	
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	14	A-1
Statement of Activities	15	B-1
Governmental Fund Financial Statements:		
Balance Sheet	16	C-1
Reconciliation of Balance Sheet for Governmental Funds to Statement of Net Assets	19	C-2
Statement of Revenues, Expenditures, and Changes in Fund Balance	20	C-3
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	22	C-4
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	23	E-1
Notes to the Financial Statements	24	F-1
Required Supplementary Information:		
Budgetary Comparison Schedule - General Fund	44	G-1
Notes to Required Supplementary Information	46	G-2
Other Supplementary Information:		
Nonmajor Governmental Funds:		
Combining Balance Sheet	48	H-1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	54	H-2
Required TEA Information:		
Schedule of Delinquent Taxes Receivable	62	J-1
Schedule of Expenditures for Computation of Indirect Costs for 2012-2013 (Unaudited)	64	J-2
Fund Balance and Cash Flow Calculation Schedule (Unaudited)- General Fund	65	J-3
Budgetary Comparison Schedule - Child Nutrition Fund	66	J-4
Budgetary Comparison Schedule - Debt Service Fund	67	J-5
Federal Awards Section		
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 <i>Government Auditing Standards</i>	71	
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 <i>OMB Circular A-133</i>	73	
Schedule of Findings and Questioned Costs	75	
Schedule of Expenditures of Federal Awards	81	K-1
Notes to Schedule of Expenditures of Federal Awards	82	K-2

CERTIFICATE OF THE BOARD

Forney Independent School District
Name of School District

Kaufman
County

129-902
Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and _____ **approved**/ _____ **disapproved** for the year ended June 30, 2011, at a meeting of the board of trustees of such school district on _____.

*

Signature of Board Secretary

*

Signature of Board President

If the auditor's report was checked above as disapproved, the reasons(s) therefore is/are (attach list if necessary):

*Signature on file with the Texas Education Agency

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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's 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.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 13 to the financial statements, the District has a significant liability for State Foundation Aid, Existing Debt Allotment and Instructional Facilities Allotment overpayments in the current year and prior years. As a result the District has reported a deficit General Fund fund balance, which raises substantial doubt about its ability to continue as a going concern, barring the Texas Education Agency's (TEA) approval of a plan to liquidate this liability over multiple years. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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, 2011, 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.

To the Board of Trustees
Forney Independent School District
Forney, Texas
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2011, 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 5 through 12 and 44 through 46 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" 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 and the TEA required schedules 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.

Null-Lairson, PC

Houston, Texas
November 3, 2011

Management's Discussion and Analysis

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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, 2011.

Financial Highlights

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by (\$45,771,747) (*deficit net assets*).
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of (\$487,551) a decrease of \$25,199,786 in comparison with the prior year. The decrease in governmental fund balances was primarily due to the decrease in the general fund balance of \$10,076,667.
- At the end of the current fiscal year, unassigned fund balance for the general fund was (\$4,257,311) or (7) percent of total general fund expenditures.
- The District's total bonded debt increased by \$12,597,241 (5 percent) 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 and earned but unused sick leave).

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 14 through 15 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 16 through 22 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 23 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 24 through 41 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 44 through 46 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 48 through 59 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 (\$45,771,747) 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 (\$28,607,318). 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

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 31,225,151	\$ 36,674,502
Capital and non current assets	253,195,256	235,305,396
Total Assets	<u>284,420,407</u>	<u>271,979,898</u>
Current liabilities	32,323,847	11,734,430
Long term liabilities	297,868,307	283,429,312
Total Liabilities	<u>330,192,154</u>	<u>295,163,742</u>
Net Assets		
Invested in capital assets net of related debt	(28,607,318)	(23,585,388)
Restricted		401,544
Unrestricted	(17,164,429)	
Total Net Assets	<u>\$ (45,771,747)</u>	<u>\$(23,183,844)</u>

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

Forney Independent School District's Changes in Net Assets

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Program Revenues		
Charges for services	\$ 2,913,419	\$ 2,884,448
Operating grants	9,390,648	11,520,657
General Revenues		
Property taxes	34,181,373	34,777,637
State aid	27,284,986	27,832,890
Grants and contributions not restricted	284,372	
Interest earnings	71,902	76,817
Miscellaneous	301,821	151,217
Total Revenues	<u>74,428,521</u>	<u>77,243,666</u>
Expenses		
Instruction	41,270,056	40,959,556
Instructional resources and media services	995,450	1,174,988
Curriculum and staff development	2,106,543	2,064,200
Instructional leadership	586,017	593,552
School leadership	4,531,639	4,135,465
Guidance, counseling, and evaluation services	2,231,957	2,081,710
Health services	1,004,161	1,082,921
Student transportation	2,425,274	2,304,595
Food service	4,176,841	4,161,782
Extracurricular activities	3,359,899	3,643,585
General administration	2,479,269	3,312,011
Facilities maintenance and operations	8,147,144	7,605,486
Security and monitoring services	518,351	535,009
Data processing services	1,924,005	1,911,828
Community services	16,523	16,031
Interest on long-term debt	13,575,451	13,107,272
Bond issuance costs and fees	73,850	100,791
Capital Outlay	39,232	1,691,475
Payments to appraisal district	504,716	
Total Expenses	<u>89,966,378</u>	<u>90,482,257</u>
Increase (Decrease) in Net Assets	(15,537,857)	(13,238,591)
Beginning net assets	(23,183,844)	(9,960,427)
Prior period adjustment	(7,050,046)	15,174
Ending Net Assets	<u>\$ (45,771,747)</u>	<u>\$(23,183,844)</u>

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

Governmental activities

Governmental activities decreased the District's net assets by (\$22,587,903). Key elements of this decrease are as follows:

Revenues are generated primarily from two sources. State Aid Formula Grant, operating grants and contributions (\$36,960,006) represent 50 percent of total revenues and property taxes (\$34,181,373) represent 46 percent of total revenues. The remaining is generated from charges for services, investment earnings, and miscellaneous revenues. Lower tax revenues were the result of the District's net assessed appraisal values decreased by 3 percent from the previous year.

The primary functional expense of the District is instruction (\$41,270,056), which represents 46 percent of total expenses. Plant maintenance and operations (\$8,147,144) represents 9 percent of total expenses. Interest on long-term debt (\$13,575,451) also represents 15 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 deficit of (\$487,551), a decrease of \$25,199,786 in comparison with the prior year. The decrease in ending governmental fund balances is primarily due to the amounts due to state for State Foundation Aid, Existing Debt Allotment and Instructional Facilities Allotment overpayments in the current and prior years. See Note 13 Due to State – State Foundation Aid, Existing Debt Allotment and Instructional Facilities Allotment.

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 (\$4,257,311). The entire amount is classified as unassigned fund balance.

The fund balance of the District's general fund decreased by (\$10,076,667) during the current fiscal year primarily due to adjustments made for current and prior year State Foundation Aid overpayments.

The debt service fund has a total fund balance of \$5,410,361 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 (\$4,782,629) was attributable to current year and prior year Existing Debt Allotment and Instructional Facilities Allotment overpayments.

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

The capital projects fund has a total, unassigned deficit fund balance of (\$2,238,787). The net decrease in fund balance during the current year of \$10,387,315 was primarily due to the start and completion of various construction projects.

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	\$ 58,395,479
Final	60,170,928
Total appropriations increase	<u>\$ 1,775,449</u>

The review of the final amended budget versus actual for the general fund reflected that revenues were less than budgetary estimates and although expenditures were less than budgetary estimates, the need to draw upon existing fund balances was created. See 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, 2011, amounts to \$253,195,256 (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 8 percent.

Forney Independent School District's Capital Assets

	Balance August 31, 2010	Additions	Retirements and Transfers	Balance August 31, 2011
Land	\$ 7,000,619	\$ 1,719,536	\$	\$ 8,720,155
Construction in progress		22,399,930	(22,399,930)	
	<u>7,000,619</u>	<u>24,119,466</u>	<u>(22,399,930)</u>	<u>8,720,155</u>
Buildings and improvements	253,507,590		22,399,930	275,907,520
Furniture and equipment	936,663	238,051		1,174,714
Vehicles	4,918,829	506,888		5,425,717
	<u>259,363,082</u>	<u>744,939</u>	<u>22,399,930</u>	<u>282,507,951</u>
Less accumulated depreciation for:				
Buildings and improvements	(27,472,984)	(6,377,156)		(33,850,140)
Furniture and equipment	(629,891)	(227,655)		(857,546)
Vehicles	(2,955,430)	(369,734)		(3,325,164)
	<u>(31,058,305)</u>	<u>(6,974,545)</u>		<u>(38,032,850)</u>
Governmental Capital Assets	<u>\$ 235,305,396</u>	<u>\$ 17,889,860</u>	<u>\$</u>	<u>\$ 253,195,256</u>

Additional information on the District's capital assets can be found in note 6, on pages 33 through 34 of 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 \$276,318,645 in bonded debt outstanding, an increase of \$12,597,241 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 "A" and from Moody's Investors Service is "A1" for general obligation debt.

Changes to long-term debt, for the year ended June 30, 2011, are as follows:

Forney Independent School District's Long-term Liabilities

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
General obligation bonds	\$ 263,721,404	\$ 18,809,003	\$ (6,211,762)	\$ 276,318,645
Loans payable	1,820,000		(260,000)	1,560,000
Capital lease payable	698,415	395,785	(95,076)	999,124
Less deferred amounts:				
For issuance premium/discounts	3,719,077	22,825	(149,676)	3,592,226
Gain or loss on refunding bonds	(602,302)	(92,928)	27,809	(667,421)
Accrued interest on premium compound interest bonds	14,442,462	1,760,898	(1,358,237)	14,845,123
Compensated absences	1,019,809	528,121	(327,320)	1,220,610
	<u>\$ 284,818,865</u>	<u>\$ 21,423,704</u>	<u>\$ (8,374,262)</u>	<u>\$ 297,868,307</u>

Additional information on the District's long-term liabilities can be found in note 7, on pages 35 through 37 of the notes to the financial statements.

Economic Factors and Next Year's Budgets and Tax Rates

The 2011-2012 general fund budget was largely affected by the 82nd Texas Legislative Session. The Legislature convened in its 82nd 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 2011-2012 fiscal year. The most notable changes are listed below:

- State aid was reduce by \$3.4 million
- General Fund revenues are expected to be \$55.7 million
- General Fund expenditures are expected to be \$56.4 million

The District has seen an increase in enrollment from 8,080 to 8,257 students. The taxable base increased by one percent and that combined tax rate remained at \$1.50 (\$1.04 for Maintenance and Operations and \$0.46 for Interest and Sinking). No changes were made to the salary scales and no raises were provided.

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, 2011

Exhibit A-1

Data Control Codes		Governmental Activities
	Assets	
1110	Cash and Cash Equivalents	\$ 16,651,405
1220	Delinquent Property Taxes Receivables	1,378,856
1240	Due from Other Governments	10,204,091
1290	Other Receivables (net)	153,093
1410	Deferred Expenditures	242,209
1420	Capital Bond & Other Debt Issuance Cost	2,595,497
	Capital Assets, not subject to depreciation:	
1510	Land	8,720,155
	Capital Assets, net of accumulated depreciation:	
1520	Buildings and improvements, net	242,057,380
1531	Vehicles, net	2,100,553
1539	Furniture and equipment, net	317,168
1000	Total Assets	284,420,407
	Liabilities	
2110	Accounts Payable	4,158,002
2140	Interest Payable	4,585,498
2160	Accrued Wages Payable	5,200,477
2180	Due to Other Governments	17,731,404
2200	Accrued Expenses	620,427
2300	Unearned Revenue	28,039
	Noncurrent Liabilities:	
2501	Due within one year	3,594,966
2502	Due in more than one year	294,273,341
2000	Total Liabilities	330,192,154
	Net Assets	
3200	Invested in capital assets, net of related debt	(28,607,318)
3900	Unrestricted	(17,164,429)
3000	Total net assets	\$ (45,771,747)

See Notes to the Financial Statements

FORNEY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Exhibit B-1

Data Control Codes	Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:					
11	Instruction	\$ 41,270,056	\$ 158,387	\$ 5,649,231	\$ (35,462,438)
12	Instructional resources and media services	995,450	28,290	116,017	(851,143)
13	Curriculum and staff development	2,106,543	15,635	344,591	(1,746,317)
21	Instructional leadership	586,017	2,610	42,199	(541,208)
23	School leadership	4,531,639	73,673	289,332	(4,168,634)
31	Guidance, counseling, and evaluation services	2,231,957	6,906	763,232	(1,461,819)
33	Health services	1,004,161	4,092	107,573	(892,496)
34	Student transportation	2,425,274	10,344	73,661	(2,341,269)
35	Food service	4,176,841	2,198,381	1,347,419	(631,041)
36	Extracurricular activities	3,359,899	358,398	185,631	(2,815,870)
41	General administration	2,479,269	11,498	98,835	(2,368,936)
51	Facilities maintenance and operations	8,147,144	35,401	126,726	(7,985,017)
52	Security and monitoring services	518,351	2,302	3,587	(512,462)
53	Data processing services	1,924,005	7,428	242,208	(1,674,369)
61	Community services	16,523	74	406	(16,043)
72	Interest on long-term debt	13,575,451			(13,575,451)
73	Bond issuance costs and fees	73,850			(73,850)
81	Non-capital facilities acquisition costs	39,232			(39,232)
99	Payments to appraisal districts	504,716			(504,716)
TG	Total governmental activities	\$ 89,966,378	\$ 2,913,419	\$ 9,390,648	(77,662,311)
General revenues:					
Taxes:					
MT	Property taxes, levied for general purposes				23,694,720
DT	Property taxes, levied for debt service				10,486,653
SF	State-aid formula grants				27,284,986
GC	Grants and contributions not restricted				284,372
IE	Investment earnings				71,902
MI	Miscellaneous				301,821
TR	Total general revenues, special items, and transfers				62,124,454
CN	Change in net assets				(15,537,857)
NB	Net assets - beginning				(23,183,844)
PA	Prior period adjustments				(7,050,046)
NE	Net assets - ending				\$ (45,771,747)

See Notes to the Financial Statements

FORNEY INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2011

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
Assets				
1110	Cash and temporary investments	\$ 5,402,255	\$ 9,445,224	\$ 975,981
	Receivables:			
1220	Delinquent property taxes receivables	1,347,446	474,510	
1230	Allowance for uncollectible taxes (credit)	(348,700)	(94,400)	
1240	Receivables from other governments	8,489,191	25,032	
1260	Due from other funds	1,011,785	20,148	
1290	Other receivables	153,092		
1410	Deferred Expenditures	242,209		
1000	Total Assets	\$ 16,297,278	\$ 9,870,514	\$ 975,981
 Liabilities and Fund Balance				
Liabilities:				
2110	Accounts payable	\$ 815,520	\$	\$ 3,284,620
2160	Accrued wages payable	4,257,498		
2170	Due to other funds	50,308		20,148
2180	Payable to other governments	13,651,360	4,080,043	
2200	Accrued expenditures	538,948		
2300	Deferred revenues	998,746	380,110	
2000	Total Liabilities	20,312,380	4,460,153	3,304,768
 Fund Balance:				
3430	Nonspendable prepaid items	242,209		
3480	Restricted for Debt Service		5,410,361	
3450	Restricted for Federal, State and Local Grants			
3545	Committed for campus activity funds			
3600	Unassigned	(4,257,311)		(2,328,787)
3000	Total fund balances	(4,015,102)	5,410,361	(2,328,787)
4000	Total Liabilities and Fund Balances	\$ 16,297,278	\$ 9,870,514	\$ 975,981

See Notes to the Financial Statements.

Exhibit C-1

Other Governmental Funds	Total Governmental Funds
\$ 827,945	\$ 16,651,405
	1,821,956
	(443,100)
1,689,872	10,204,095
51,371	1,083,304
	153,092
	242,209
<u>\$ 2,569,188</u>	<u>\$ 29,712,961</u>

\$ 57,848	\$ 4,157,988
942,997	5,200,495
1,012,848	1,083,304
	17,731,403
81,478	620,426
28,040	1,406,896
<u>2,123,211</u>	<u>30,200,512</u>

	242,209
	5,410,361
458,345	458,345
43,809	43,809
(56,177)	(6,642,275)
<u>445,977</u>	<u>(487,551)</u>
<u>\$ 2,569,188</u>	<u>\$ 29,712,961</u>

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FORNEY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS TO
STATEMENT OF NET ASSETS
June 30, 2011

Exhibit C-2

<u>Data Control Codes</u>		
	Total fund balance, governmental funds	\$ (487,551)
	Amounts reported for <i>governmental activities</i> in the statement of net assets (A-1) are different because:	
1	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable	253,195,256
2	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).	1,378,856
3	Bond issuance costs are not financial resources and, therefore, are not reported as assets in governmental funds. These costs are to be amortized over the life of the bonds.	2,595,497
	Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
4	General obligation bonds	(276,318,645)
5	Premiums on issuance	(3,592,226)
6	Deferred loss on refunding	667,421
7	Accreted interest on premium compound interest bonds	(14,845,123)
8	Capital leases payable	(999,124)
9	Accrued compensated absences	(1,220,610)
10	Accrued interest payable	(4,585,498)
11	Loan payable	<u>(1,560,000)</u>
19	Total net assets - governmental activities	<u>\$ (45,771,747)</u>

See Notes to the Financial Statements.

FORNEY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
Revenues				
5700	Local, intermediate, and out-of-state	\$ 24,875,747	\$ 10,606,290	\$ 9,081
5800	State program revenues	29,323,282	776,753	
5900	Federal program revenues	451,241		
5020	Total revenues	<u>54,650,270</u>	<u>11,383,043</u>	<u>9,081</u>
Expenditures				
Current:				
0011	Instruction	31,952,166		1,098,266
0012	Instructional resources and media services	686,792		
0013	Curriculum and staff development	1,861,874		
0021	Instructional leadership	572,512		
0023	School leadership	4,184,630		2,478
0031	Guidance, counseling and evaluation services	1,570,545		1,833
0033	Health services	916,587		2,939
0034	Student transportation	2,319,644		
0035	Food services	89,514		
0036	Extracurricular activities	2,583,017		11,721
0041	General administration	2,292,223		
0051	Facilities maintenance and operations	7,952,684		953
0052	Security and monitoring services	523,560		
0053	Data processing services	1,689,395		130,066
0061	Community services	16,523		
Debt service:				
0071	Principal and interest on long-term debt	355,076	2,401,762	
0072	Interest on long-term debt	56,371	13,178,562	
0073	Bond issuance costs and fees	8,643	9,164	244,259
Capital outlay:				
0081	Facilities acquisition and construction			24,148,874
Intergovernmental:				
0099	Payments to appraisal districts	504,716		
6030	Total Expenditures	<u>60,136,472</u>	<u>15,589,488</u>	<u>25,641,389</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(5,486,202)</u>	<u>(4,206,445)</u>	<u>(25,632,308)</u>
Other Financing Sources (Uses)				
7911	Capital-related debt issued		3,810,000	14,999,004
7912	Sale of real or personal property	13,333		
7913	Proceeds from capital lease	395,785		
7916	Premium or discount on issuance of bonds		145,138	244,497
7949	Other resources	32,015		1,492
8949	Payments to refunding escrow agent		(3,902,928)	
7080	Total other financing sources (uses)	<u>441,133</u>	<u>52,210</u>	<u>15,244,993</u>
1200	Net change in fund balances	(5,045,069)	(4,154,235)	(10,387,315)
0100	Fund Balance - beginning (July 1)	6,061,565	10,192,990	8,058,528
	Prior period adjustment	(5,031,598)	(628,394)	
3000	Fund Balance - ending	<u>\$ (4,015,102)</u>	<u>\$ 5,410,361</u>	<u>\$ (2,328,787)</u>

See Notes to the Financial Statements.

Exhibit C-3

Other Governmental Funds	Total Governmental Funds
\$ 2,530,708	\$ 38,021,826
423,204	30,523,239
<u>5,985,526</u>	<u>6,436,767</u>
<u>8,939,438</u>	<u>74,981,832</u>
3,936,864	36,987,296
100,703	787,495
244,657	2,106,531
13,505	586,017
76,092	4,263,200
649,539	2,221,917
64,211	983,737
456	2,320,100
3,546,165	3,635,679
139,697	2,734,435
1,668	2,293,891
485	7,954,122
	523,560
118,571	1,938,032
	16,523
	2,756,838
	13,234,933
	262,066
	24,148,874
	504,716
<u>8,892,613</u>	<u>110,259,962</u>
<u>46,825</u>	<u>(35,278,130)</u>
	18,809,004
	13,333
	395,785
	389,635
	33,507
	(3,902,928)
	<u>15,738,336</u>
46,825	(19,539,794)
399,152	24,712,235
	(5,659,992)
<u>\$ 445,977</u>	<u>\$ (487,551)</u>

FORNEY INDEPENDENT SCHOOL DISTRICT

Exhibit C-4

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2011

<u>Data Control Codes</u>		
	Net change in fund balances - total governmental funds (from C-3)	\$ (19,539,794)
	Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
1	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	17,889,860
2	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(514,518)
3	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.	2,756,838
4	Proceeds from issuance of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities.	(19,204,788)
5	Payment to escrow agent for payment of refunded bonds	3,810,000
6	Bond issuance costs paid during the current year will be amortized over the life of the bonds.	188,216
	Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
7	Increase in interest payable not recognized in fund statements	(426,535)
8	Decrease in long-term portion of accrued compensated absences	(200,802)
9	Accreted interest on capital appreciation bonds and amortization of premium/discount for bond issuance and deferred loss on refunding	<u>(296,334)</u>
	Change in net assets of governmental activities (see B-1)	<u><u>\$ (15,537,857)</u></u>

See Notes to the Financial Statements.

FORNEY INDEPENDENT SCHOOL DISTRICT

Exhibit E-1

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2011

Data Control Codes		865 Student Activity Fund
	Assets	
1110	Cash and cash equivalents	\$ 271,420
1000	Total Assets	<u>\$ 271,420</u>
	Liabilities	
2190	Due to student groups	\$ 271,420
2000	Total Liabilities	<u>\$ 271,420</u>

See Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Forney Independent School District (District) is governed by a seven-member Board of Trustees (Board), which has governance responsibilities over all activities related to public elementary and secondary education within the District. Because members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. The accompanying financial statements present the District. There are no component units, entities for which the District is considered to be financially accountable, included within the reporting entity.

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to students or users who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The fiduciary fund financial statements reflect the District's agency fund, reporting only assets and liabilities, and do not have a measurement focus.

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

Grant revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

- The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects fund* is used to account for proceeds from sales of bonds and other revenues to be used for authorized construction and technology projects/enhancements.

Additionally, the District reports the following fund types:

- The *special revenue 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.
- The *agency fund* is used to account for assets held by the District as an agent for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

Note 1 - Summary of Significant Accounting Policies (continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to students or users for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and investment income.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, investment pools, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value based on quoted market prices at June 30, 2011. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

Receivables and Payables

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

Property tax receivables include unpaid property taxes at year-end along with penalties and interest assessed on these unpaid taxes and are shown net of an allowance for uncollectibles. Allowances for uncollectible tax receivable within the general and debt service funds are based on historical experience in collecting property taxes. Revenues from property taxes are recognized when levied to the extent they are available. The District considers property taxes as available when collected. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements. Property values are determined by the Harris County Appraisal District as of January 1 of each year. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

Note 1 - Summary of Significant Accounting Policies (continued)

Inventories and Prepaid Items

Inventories consisting of supplies and materials are valued at weighted average cost and they include maintenance, transportation, office and instructional supplies, and food service commodities. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Food service commodity inventory is recorded at fair market value on the date received. Commodities are recognized as revenues in the period received when all the eligibility requirements are met. Commodity inventory items are recorded as expenditures when distributed to user locations. The District did not have any inventory as of June 30, 2011.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	15-50
Vehicles	5-10
Other Equipment	3-15

Compensated Absences

All employees shall earn five workdays of paid local leave per schedule year. Local leave shall accumulate to a maximum of five workdays. An employee who retires from employment with the District shall be eligible for reimbursement of state and local leave under the following conditions:

1. The employee's retirement from employment is voluntary, i.e. the employee is retiring and is not being discharged or non-renewed.
2. The employee provides advance written notice of intent to separate from employment. Contract employees must provide written notice at least 90 days before the last day of employment. Non-contract employees must provide written notice at least two weeks before the last day of employment.

Note 1 - Summary of Significant Accounting Policies (continued)

Compensated Absences (continued)

3. The employee has at least 5 years of service with the District.
4. The employee shall be reimbursed for each day of state and local leave to a maximum of 100 days, at a rate of \$50 per day. If the employee is re-employed with the district, days for which the employee received payment shall not be available to that employee. The rate established by the Board shall be in effect until the Board adopts a new rate.

Long-term Obligations

The District's long-term obligations consist of bond indebtedness, capital leases, notes payable, and compensated absences. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The current requirements for loans payable principal and interest expenditures are accounted for in the general fund. The current requirements for are accounted for in the general fund.

Fund Equity

Beginning with fiscal year 2011, Forney Independent School District implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, prepaid items have been properly classified in the Governmental Funds Balance Sheet (Exhibit C-1).

Restricted fund balance – Amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors.

Note 1 - Summary of Significant Accounting Policies (continued)

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. the Board of Trustees). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. A fund balance commitment is further indicated in the budget document as a commitment of the fund. The District has committed 100 percent of Fund 461 *Campus Activity Funds*' fund balance.

Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official or body to which the Board of Trustees delegates the authority. The Board has delegated authority to the Superintendent or Chief Financial Officer to establish fund balance assignments. The District did not have any assigned fund balance as of June 30, 2011.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the District's governmental funds have been restated to reflect the above classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. The District has not adopted a policy stating which fund balance category is spent first when committed, assigned or unassigned fund balances are available. By default, the District will consider amounts to have been spent first out of committed funds, then assigned and finally unassigned funds.

Data Control Codes

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

Use of Estimates

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

Note 2 - Deposits and Investments

Authorization for Deposits and Investments

In accordance with applicable statutes, the District has a depository contract with a local bank (depository) providing interest rates to be earned on deposited funds and fixed fees for banking services received. The District may place funds with the depository in interest and non-interest bearing accounts. Statutes and the depository contract require full security for all funds in the depository institution through federal depository insurance or a combination of federal depository insurance and acceptable collateral securities and/or an acceptable surety bond. The depository must deliver the collateral securities to the District or place them with an independent trustee institution. The depository is required to deliver the safekeeping receipts to the District and send copies of the safekeeping receipts to the Texas Education Agency. In accordance with Texas statutes, the safekeeping receipts are in the name of the depository with proper indication of pledge of the collateral securities by the depository to secure funds of the District. The District must approve all collateral securities pledged and also must approve in writing any changes to the pledged collateral securities.

The District has adopted a written investment policy [CDA (LEGAL) and CDA (LOCAL)] regarding the investment of its funds as defined by the PFIA. The PFIA also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District complies with the requirements of the Act and with local policies.

The District's investment policy permits investment of District funds in only the following investment types, consistent with the strategies and maturities defined in the policy:

1. Obligations of or guaranteed by, governmental entities as permitted by Government Code 2256.009.
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010.
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011.
4. A securities lending program as permitted by Government Code 2256.0115.
5. Banker's acceptances as permitted by Government Code 2256.012.
6. Commercial paper as permitted by Government Code 2256.013.
7. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014.
8. A guaranteed investment contract as an investment vehicle for bond proceeds provided it meets the criteria and eligibility requirements established by Government Code 2256.015.
9. Public funds investment pools as permitted by Government Code 2256.016.

Note 2 - Deposits and Investments (continued)

A summary of the District's cash and investments at June 30, 2011, are shown below:

	Fair Market Value	Weighted Average Maturity (Days)
Cash and deposits	\$ 1,854,844	
Investments:		
Local Government Investment Pools:		
TexPool	7,064	44
TexStar	11,695	47
Texas Class	6,684,909	51
LOGIC	8,092,893	56
Total Investments	<u>14,796,561</u>	<u>54</u>
Total Cash and Investments	<u>\$ 16,651,405</u>	

The District's investments are insured, registered or the District's agent holds the securities in the District's name; therefore, the District is not exposed to custodial credit risk. Custodial credit risk for investments is the risk that, in the event of failure by the counterparty (e.g. broker dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The District's policy requires that a third party bank trust department hold all securities owned by the District.

Interest Rate Risk

The District measures interest rate risk using the weighted average maturity method based on the fund in which the District makes investments. The District's investment policy specifies limitations for weighted average maturities for investments in all funds and for investments in the general fund.

Credit risk

At year-end, balances in TexPool, LOGIC, and Texas Class, privately managed public funds investment pools, were rated AAAM by Standard & Poor's. Year-end balances in TexSTAR, a privately managed public funds investment pool, were rated AAAM by Standard & Poor's. Unlike many market mutual funds which are registered with the Securities and Exchange Commission, TexSTAR does not operate in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940. All credit ratings met acceptable levels required by legal guidelines prescribed in both the PFIA and the District's investment policy.

Concentration of Credit Risk

State law and the District's investment policy requires the investment portfolio to be diversified in terms of investment instruments, maturity, scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Note 3 - Receivables

Property taxes are considered available when collected within the current period. Property taxes are levied by October 1 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 the property to secure the payment of all taxes, penalties and interest ultimately imposed. Appraised values are established by the Central Appraisal District (CAD) of Kaufman County, Texas. Taxes are levied by the District's Board of Trustees based on the appraised values received from the CAD. Billing and collection of tax levies are performed by the District.

Property tax rates, established in accordance with state law, are levied on real and personal property within the District's boundaries for use in financing general government and debt service expenditures. Tax rates levied to finance general government and debt service expenditures for 2010-2011 were \$1.04 and \$0.46, respectively, based on an adjusted assessed property valuation of approximately \$2.2 billion resulting in an adjusted tax levy of approximately \$33.9 million. Allowances for uncollectible taxes are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Net receivables, at June 30, 2011, consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Property Taxes	\$ 1,347,446	\$ 474,510	\$	\$ 1,821,956
Due from other governments	8,489,191	25,032	1,689,872	10,204,095
Other	153,093			153,093
Gross Receivables	9,989,730	499,542	1,689,872	12,179,144
Less allowance for doubtful accounts	(348,700)	(94,400)		(443,100)
Net Total Receivables	<u>\$ 9,641,030</u>	<u>\$ 405,142</u>	<u>\$ 1,689,872</u>	<u>\$ 11,736,044</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenues reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (General Fund)	\$ 998,746	\$
Delinquent property taxes receivable (Debt Service Fund)	380,110	
Grant funds received prior to meeting all eligibility requirements		28,039
	<u>\$ 1,378,856</u>	<u>\$ 28,039</u>

Note 4 - Due from other Governments

Amounts reported as due from other governments consist primarily of receivables due from state agencies for federal grant expenditure reimbursement and State Foundation Aid, fiscal year 2011 allotment payments received subsequent to June 30, 2011.

Note 5 - Interfund Activities

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll, and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate fund. Additionally, some lending/borrowing may occur between two or more non-major governmental funds.

The composition of interfund balances as of June 30, 2011, is as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$ 1,011,785	\$ 50,308
Debt Service Fund	20,148	
Capital Projects Fund		20,148
Nonmajor Funds	51,371	1,012,848
	<u>\$ 1,083,304</u>	<u>\$ 1,083,304</u>

Note 6 - Capital Assets

Changes in Capital Assets

A summary of changes in general fixed assets, for the year ended June 30, 2011, follows:

	Balance June 30, 2010	Additions	(Retirements) and Transfers	Balance June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 7,000,619	\$ 1,719,536	\$	\$ 8,720,155
Construction in progress		22,399,930	(22,399,930)	
Total Capital assets, not being depreciated	<u>7,000,619</u>	<u>24,119,466</u>	<u>(22,399,930)</u>	<u>8,720,155</u>
Capital assets, being depreciated:				
Buildings and improvements	253,507,590		22,399,930	275,907,520
Furniture and equipment	936,663	238,051		1,174,714
Vehicles	4,918,829	506,888		5,425,717
Total Capital assets, being depreciated	<u>259,363,082</u>	<u>744,939</u>	<u>22,399,930</u>	<u>282,507,951</u>
Less accumulated depreciation for:				
Buildings and improvements	(27,472,984)	(6,377,156)		(33,850,140)
Furniture and Equipment	(629,891)	(227,655)		(857,546)
Vehicles	(2,955,430)	(369,734)		(3,325,164)
Total Accumulated depreciation	<u>(31,058,305)</u>	<u>(6,974,545)</u>		<u>(38,032,850)</u>
Governmental Capital Assets	<u>\$ 235,305,396</u>	<u>\$ 17,889,860</u>	<u>\$</u>	<u>\$ 253,195,256</u>

Note 6 - Capital Assets (continued)

Depreciation expense has been charged to the following functions in the government-wide statements:

<u>Function</u>	<u>Depreciation Expense</u>
Instruction	\$ 4,349,041
Instructional resources and media services	207,955
School leadership	248,359
Health services	20,424
Student transportation	500,959
Food Services	567,585
Extracurricular activities	647,874
General administration	175,338
Plant maintenance and operations	217,295
Security and monitoring services	30,636
Data processing services	9,079
	<u>\$ 6,974,545</u>

The District has active construction projects as of June 30, 2011. At year end the District's commitments with contractors are as follows:

<u>Project</u>	<u>Approved Construction Budget</u>	<u>Estimated Remaining Commitment</u>
FHS Additions/Renovations	\$ 23,317,909	\$ 5,923,266
FAR Renovations	1,700,000	147,427
Admin Parking	260,891	
NOC Generator	252,324	
NFHS Additions	2,652,213	
ES/MS Security Entrances	359,813	
Johnson & Criswell Playgrounds	215,290	
Warren MS Track	181,734	
	<u>\$ 28,940,174</u>	<u>\$ 6,070,693</u>

Note 7 - Long-Term Debt and Debt Service Requirements

General long-term debt consists of bonds payable and related accretion values on premium compound interest bonds. Bonds are payable solely from future revenues of the debt service fund, which consists principally of property taxes collected by the District, state existing debt and instructional facilities allotments and investment income.

A summary of general long-term debt transactions of the District for the year ended June 30, 2011, follows:

	As Restated Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011	Due Within One Year
General obligation bonds	\$ 263,721,404	\$ 18,809,003	\$ (6,211,762)	\$ 276,318,645	\$ 3,130,155
Loans payable	1,820,000		(260,000)	1,560,000	260,000
Capital lease payable	698,415	395,785	(95,076)	999,124	204,811
Less deferred amounts:					
For issuance premiums/discounts	3,719,077	22,825	(149,676)	3,592,226	
Gain or loss on refunding bonds	(602,302)	(92,928)	27,809	(667,421)	
Accreted interest on premium compound interest bonds	14,442,462	1,760,898	(1,358,237)	14,845,123	
Compensated absences	1,019,809	528,121	(327,320)	1,220,610	
	<u>\$ 284,818,865</u>	<u>\$ 21,423,704</u>	<u>\$ (8,374,262)</u>	<u>\$ 297,868,307</u>	<u>\$ 3,594,966</u>

Bonded long-term debt, at June 30, 2011, is comprised of the following individual issues:

Issue	Original Issuance	Interest Rate (%)	Debt Outstanding as of June 30, 2011
Unlimited Tax School Building and Refunding Bonds, Series 2000	\$ 13,329,945	5.10%	\$ 3,289,945
Unlimited Tax School Building Bonds, Series 2001	19,210,000	5.35%	470,000
Unlimited Tax School Building Bonds, Series 2003	17,575,000	5.00%	2,500,000
Unlimited Tax School Building Bonds, Series 2004	7,125,000	5.00%	3,070,000
Unlimited Tax School Building Bonds, Series 2004A	6,915,000	4.71%	6,540,000
Unlimited Tax Refunding Bonds, Series 2005	10,069,996	4.15%	9,280,000
Unlimited Tax School Building and Refunding Bonds, Series 2005A	21,471,684	4.38%	19,370,004
Unlimited Tax School Building Bonds, Series 2006	10,000,000	4.35%	8,960,000
Unlimited Tax School Building Bonds, Series 2006A	9,535,000	4.76%	8,800,000
Unlimited Tax School Building Bonds, Series 2006B	10,000,000	4.67%	9,470,000
Unlimited Tax Refunding Bonds, Series 2006C	2,560,000	4.42%	2,365,000
Unlimited Tax Refunding Bonds, Series 2006D	16,194,990	4.44%	15,724,908
Unlimited Tax School Building Bonds, Series 2007	9,995,000	4.40%	9,745,000
Unlimited Tax School Building Bonds, Series 2007A	51,999,993	4.78%	51,614,988
Unlimited Tax School Building Bonds, Series 2008	39,999,974	5.02%	39,999,974
Unlimited Tax School Building Bonds, Series 2008A	34,654,859	5.99%	34,654,859
Unlimited Tax School Building Bonds, Series 2009	3,000,000	4.01%	3,000,000
Unlimited Tax Refunding Bonds, Series 2009	2,104,999	4.01%	2,104,999
Unlimited Tax School Building Bonds, Series 2010	14,999,965	3.96%	14,999,965
Unlimited Tax Refunding Bonds, Series 2010	11,550,000	3.96%	11,550,000
Unlimited Tax School Building and Refunding Bonds, Series 2011	18,809,003	2.00-4.50%	18,809,003
	<u>\$ 331,100,408</u>		<u>\$ 276,318,645</u>

The District is in compliance with all significant bond compliance requirements.

Note 7 - Long-Term Debt and Debt Service requirements (continued)

Annual requirements to amortize all bonded long-term debt outstanding, as of June 30, 2011 follow:

<u>Year Ending</u> <u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 3,130,155	\$ 12,172,351	\$ 15,302,506
2013	3,423,069	12,548,227	15,971,296
2014	4,183,177	12,764,019	16,947,196
2015	5,128,345	12,120,380	17,248,725
2016	5,849,768	12,683,690	18,533,458
2017-2021	42,028,071	61,502,431	103,530,502
2022-2026	40,329,046	63,786,361	104,115,407
2027-2031	51,515,162	48,128,970	99,644,132
2032-2036	73,986,765	26,874,956	100,861,721
2037-2041	46,482,827	9,301,893	55,784,720
2042	262,260	1,237,740	1,500,000
	<u>\$ 276,318,645</u>	<u>\$ 273,121,018</u>	<u>\$ 549,439,663</u>

Accreted Interest on Premium Compound Interest Bonds

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:

<u>Series</u>	<u>Accreted</u> <u>Value</u>	<u>Principal</u>	<u>Accreted</u> <u>Interest</u>	<u>Maturity</u> <u>Value</u>	<u>Maturity Dates</u>
2000	\$ 7,175,588	\$ 3,289,943	\$ 3,885,645	\$ 14,175,000	
2006D	1,297,860	34,991	1,262,869	1,490,000	2011-2013
2007A	1,047,465	574,993	472,472	1,260,000	2015
2008	3,559,857	1,394,973	2,164,884	7,650,000	2015-2030
2008A	5,526,222	519,855	5,006,367	10,435,000	2013-2027
2009	309,556	110,000	199,556	345,000	
2009-Ref	177,981	115,000	62,981	190,000	
2010	4,083,797	2,854,964	1,228,833	6,155,000	
2011	15,680,519	15,119,003	561,516	18,030,000	
	<u>\$ 38,858,845</u>	<u>\$ 24,013,722</u>	<u>\$ 14,845,123</u>	<u>\$ 59,730,000</u>	

Bond Issuance and Advanced Refunding

On March 22, 2011, the District issued Unlimited Tax School Building and Refunding Bonds, Series 2011 in the amount of \$18,809,003. The bonds include current interest bonds (\$3,690,000), premium capital appreciation bonds (\$15,119,003) and refunding bonds (\$3,810,000). The proceeds of the bonds will be used to refund Unlimited Tax School Building Bonds, Series 2004. The remaining funds will be used to complete the construction of Forney North High School, complete the expansion and refurbishment to Forney High School, improvements to the District Alternative Education Program facility and land acquisition for a future school site. The bond was issued at a premium of \$389,635. The refunding generated a deferred loss of \$92,928. However, the issuances resulted in an economic gain of \$279,489.

Note 7 - Long-Term Debt and Debt Service requirements (continued)

Prior Year Refunding of Long-Term Debt

As of June 30, 2011, defeased bonds totaled \$23,815,000. The bond issues callable on August 15, 2011, are shown below:

<u>Issue</u>	<u>Par Amount</u>
Unlimited Tax School Building Bonds, Series 2001	\$ 16,195,000
Unlimited Tax School Building Bonds, Series 2004	3,810,000
Unlimited Tax School Building Bonds, Series 2004	3,810,000
	<u>\$ 23,815,000</u>

Capital Lease Payable

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

	<u>Interest Rate</u>	<u>Date of Agreement</u>	<u>Original Property Value</u>
Capital One, NA - School Buses	5.42%	5/21/2009	\$ 529,801
American National Bank - School Buses	3.75%	6/30/2010	168,614
American National Bank - School Buses	3.75%	6/30/2011	395,785

Commitments under capitalized lease agreements for school buses provide for future minimum lease payments as of June 30, 2011, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 204,811	\$ 45,088
2013	214,232	35,666
2014	224,137	25,761
2015	234,465	15,435
2016	121,479	4,619
	<u>\$ 999,124</u>	<u>\$ 126,569</u>

Loans Payable

As of June 30, 2011, the District's loan payable balance totaled \$1,560,000. 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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 260,000	\$ 23,474
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>\$ 1,560,000</u>	<u>\$ 82,156</u>

Note 8 - 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 follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Property Taxes	\$ 24,078,211	\$ 10,592,285	\$	\$	\$ 34,670,496
Investment Income	43,000	14,005			57,005
Co-curricular student activities				71,404	71,404
Food Sales				2,197,987	2,197,987
Other	754,536		9,081	261,317	1,024,934
	<u>\$ 24,875,747</u>	<u>\$ 10,606,290</u>	<u>\$ 9,081</u>	<u>\$ 2,530,708</u>	<u>\$ 38,021,826</u>

Note 9 - Retirement Plan

Plan Description

Forney Independent School 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 the 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 benefits 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 writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy

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 the particular action(s), the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years; or, (3) 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 year 2011, 2010, and 2009. The State contributed at a rate of 6.644 for fiscal year 2011 of all employees' eligible gross earnings, except for those staff members subject to statutory minimum requirements and those staff members being paid from and participating in federally funded programs. State statutes establish these rates. The statutory minimum requirements are based on the State of Texas teacher schedules adjusted based on local tax rates. For staff members funded by federal programs, the federal programs are requirement to contribute 6.644% for fiscal year 2011, 6.4% for most of fiscal year 2010 (6.4% between September 2009 and December 2009) and 6.58% for fiscal year 2009.

Note 9 - Retirement Plan (continued)

Contributions made by the State, District and staff members to TRS for the years ended June 30, 2011, 2010, and 2009, are as follows:

Fiscal Year	State TRS Contributions Made on Behalf of the District	District Required Contributions to TRS	Employees Contributions to TRS	District's Annual Covered Payroll
2011	\$ 2,389,667	\$ 722,253	\$ 2,872,329	\$ 44,880,225
2010	2,171,536	638,041	2,693,779	42,090,297
2009	1,577,225	499,262	2,007,028	31,359,813

For the current fiscal year and each of the past two years, the District's actual contributions were equal to 100 percent of the required contributions. The contributions made by the state on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

Note 10 - Retiree Health Plan

Plan Description

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

The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year. Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, school districts, and the State of Texas.

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2011, 2010, and 2009. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than .25% or greater than .75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1.0%.

Note 10 - Retiree Health Plan (continued)

Contributions made by the State, District and staff members for the years ended June 30, 2011, 2010, and 2009, are as follows:

Fiscal Year	State TRS Care Contributions Made on Behalf of the District	District Required Contributions to TRS	Employees Contributions to TRS Care	District's Annual Covered Payroll
2011	\$ 428,862	\$ 266,782	\$ 291,725	\$ 44,880,225
2010	326,822	231,497	273,587	42,090,297
2009	239,700	172,479	203,839	31,359,813

For the current fiscal year and each of the past two years, the District's actual contributions were equal to 100 percent of the required contributions. The contributions made by the state on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended June 30, 2011, 2010 and 2009, the subsidy payments received by TRS-Care on behalf of the District were \$118,686, \$107,244 and \$86,890, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statement of the District.

Note 11 - Litigation

From time to time, the District is a defendant in legal proceedings relating to its operations as a school district. In the best judgment of the District's management, the outcome of any present legal proceedings will not have any adverse material effect on the accompanying financial statements.

Note 12 - Contingent Liabilities

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

Note 13 - Due to State - State Foundation Aid, Existing Debt Allotment and Instructional Facilities Allotment

As of June 30, 2011, the District has recorded liability in the General Fund, in which it owes the Texas Education Agency (TEA) \$13.6 million. Approximately, \$7.5 million is related to prior year overpayments. This amount has been recorded as a prior period adjustment. In addition, the District owes TEA approximately \$4 million for overpayments in both the current and prior years for the Existing Debt Allotment (EDA) and Instructional Facilities Allotment (IFA). Approximately, \$0.6 million of the EDA over payment should have been recorded in the prior year and such amount has been recorded as a prior period adjustment. See Note 14 Prior Period Adjustments for more details.

Note 14 - Prior Period Adjustments

Beginning net assets as of July 1, 2010 have been restated to reflect adjustments made both at the fund and government-wide level. Below is a list of prior period adjustments made.

General Fund - Understated Due from State (August 2010 Payment)	\$ 2,557,459
General Fund - Understated Due to State (PY State Aid Overpayments)	(7,589,057)
Debt Service - Understated Due to State (PY State Aid Overpayments)	(628,394)
Understated compensated absences (government-wide)	(223,348)
Understated accreted interest on premium compound interest bonds (government-wide)	(1,166,706)
	<u>\$ (7,050,046)</u>

Note 15 - Subsequent Events

On September 14, 2011, the District issued Unlimited Tax Building Bonds, Series 2011A in the amount of \$12,220,000. Proceeds from the sale of the bonds will be used to complete the construction of the Forney North High School, complete the expansion and refurbishment to Forney High School, improvements to the District Alternative Education Program facility, technology improvements and infrastructure for a future elementary school.

Note 16 - Deficit Fund Balance

<u>Fund</u>	<u>Deficit Fund Balance</u>
General Fund	(\$4,015,102)
Capital Projects Fund	(2,328,787)
Child Nutrition Fund	(44,534)
Student Success Initiative Fund	(3,298)
Pre-K Grants	(7,745)
Teacher Induction & Mentoring Program	(22)
Texas Educator Excellence Award Grant Program	(491)
Texas Fitness Now	(87)

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Required Supplementary Information

FORNEY INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2011

Data Control Codes		Budgeted Amounts	
		Original	Final
	Revenues		
5700	Local and intermediate sources	\$ 24,972,234	\$ 24,972,234
5800	State program revenues	32,814,862	32,814,862
5900	Federal program revenues	306,000	306,000
5020	Total revenues	58,093,096	58,093,096
	Expenditures		
	Current:		
0011	Instruction	34,789,132	31,789,132
0012	Instructional resources and media services	690,896	690,896
0013	Curriculum and staff development	1,556,052	1,856,052
0021	Instructional leadership	4,088,110	596,995
0023	School leadership	1,446,121	4,188,110
0031	Guidance, counseling and evaluation services	908,546	1,545,121
0033	Health services	908,546	913,546
0034	Student transportation	1,654,731	2,654,731
0035	Food services		100,000
0036	Extracurricular activities	1,538,433	2,538,433
0041	General administration	2,807,335	2,782,335
0051	Facilities maintenance and operations	5,709,363	7,759,363
0052	Security and monitoring services	281,974	631,974
0053	Data processing services	1,714,510	1,684,510
0061	Community services	6,900	18,900
	Debt Service:		
0071	Principal on long-term debt	260,000	355,075
0072	Interest on long-term debt	34,830	65,755
0073	Bond issuance costs and fees		
	Intergovernmental:		
0099	Payments to appraisal districts		
6030	Total Expenditures	58,395,479	60,170,928
1100	Excess (deficiency) of revenues over expenditures	(302,383)	(2,077,832)
	Other Financing Sources (Uses)		
7912	Sale of real or personal property		
7913	Proceeds from capital lease		440,000
7989	Other operating revenue		
7080	Total other financing sources and uses		440,000
1200	Net change in fund balances	(302,383)	(1,637,832)
0100	Fund balances - beginning	6,061,565	6,061,565
3100	Prior period adjustment	(5,031,598)	(5,031,598)
3000	Fund balances - ending	\$ 727,584	\$ (607,865)

Exhibit G-1

Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
\$ 24,875,747	\$ (96,487)
29,323,282	(3,491,580)
451,241	145,241
<u>54,650,270</u>	<u>(3,442,826)</u>
31,952,166	(163,034)
686,792	4,104
1,861,874	(5,822)
572,512	24,483
4,184,630	3,480
1,570,545	(25,424)
916,587	(3,041)
2,319,644	335,087
89,514	10,486
2,583,017	(44,584)
2,292,223	490,112
7,952,684	(193,321)
523,560	108,414
1,689,395	(4,885)
16,523	2,377
355,076	(1)
56,371	9,384
8,643	(8,643)
504,716	(504,716)
<u>60,136,472</u>	<u>34,456</u>
<u>(5,486,202)</u>	<u>(3,408,370)</u>
13,333	13,333
395,785	(44,215)
32,015	32,015
<u>441,133</u>	<u>1,133</u>
(5,045,069)	(3,407,237)
6,061,565	
(5,031,598)	
<u>\$ (4,015,102)</u>	<u>\$ (3,407,237)</u>

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, 2011.

The administrative level at which responsibility for control of budgeted appropriations begins is at the organizational level within each function of operations. The finance department reviews closely the expenditure requests submitted by the various organizational heads (principal and department heads) 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, 2010. 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.

Instruction	\$ 163,034
Curriculum and staff development	5,669
Guidance, counseling and evaluation services	25,424
Health services	3,041
Extracurricular activities	44,584
Facilities maintenance and operations	193,321
Data processing services	4,885
Payments to appraisal districts	504,716

In addition, Functions 35 and 41 in the Child Nutrition Fund exceeded the final budgeted amounts by \$41,665 and \$77, respectively.

Other Supplementary Information

FORNEY INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

June 30, 2011

Data Control Codes	204 Title IV Safe & Drug Free	205 Head Start and Head Start ARRA	211 ESEA Title I Part A
Assets			
1110	Cash and temporary investments	\$	\$
	Receivables:		
1240	Receivables from other governments	41,167	52,447
1260	Due from other funds	1,073	20,088
1000	Total Assets	<u>\$ 1,073</u>	<u>\$ 72,535</u>
 Liabilities and Fund Balance			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$	\$
2160	Accrued wages payable	5,735	25,912
2170	Due to other funds	59,281	44,124
2200	Accrued expenditures	1,579	2,499
2300	Deferred revenues		
2000	Total Liabilities	<u>66,595</u>	<u>72,535</u>
 Fund Balance:			
3450	Restricted for Federal, State and Local Grants	1,073	
3590	Committed for campus activity funds		
3610	Unassigned		
3000	Total Fund Balances	<u>1,073</u>	
4000	Total Liabilities and Fund Balance	<u>\$ 1,073</u>	<u>\$ 72,535</u>

224	225	240	244	255	263	266
IDEA B Formula	IDEA B Preschool Grant	Child Nutrition	Vocational Ed -Basic	Title II, Part A	Title III, Part A LEP	Title XIV, State Fiscal Stabilization Fund (ARRA)
\$	\$	\$ 324,675	\$	\$	\$	\$
402,311	22		1,386	10,761	7,537	710,978
<u>\$ 402,311</u>	<u>\$ 22</u>	<u>\$ 324,675</u>	<u>\$ 1,386</u>	<u>\$ 10,761</u>	<u>\$ 7,537</u>	<u>\$ 710,978</u>
\$	\$	\$ 57,848	\$	\$	\$	\$
132,933		193,830				520,263
250,607	22	69,089	1,386	10,761	7,537	157,170
18,771		21,597				33,545
		26,845				
<u>402,311</u>	<u>22</u>	<u>369,209</u>	<u>1,386</u>	<u>10,761</u>	<u>7,537</u>	<u>710,978</u>
		(44,534)				
		(44,534)				
<u>\$ 402,311</u>	<u>\$ 22</u>	<u>\$ 324,675</u>	<u>\$ 1,386</u>	<u>\$ 10,761</u>	<u>\$ 7,537</u>	<u>\$ 710,978</u>

FORNEY INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

<u>Data Control Codes</u>	279	283	284
	Title II, Part D - Enhancing Education (ARRA)	IDEA - Part B, Formula (ARRA)	IDEA - Part B, Preschool (ARRA)
Assets			
1110	Cash and temporary investments	\$	\$
	Receivables:		
1240	Receivables from other governments	332,811	
1260	Due from other funds		
1000	Total Assets	<u>\$ 332,811</u>	<u>\$</u>
Liabilities and Fund Balance			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$	\$
2160	Accrued wages payable	57,067	
2170	Due to other funds	272,402	
2200	Accrued expenditures	3,342	
2300	Deferred revenues		
2000	Total Liabilities	<u>332,811</u>	<u>\$</u>
Fund Balance:			
3450	Restricted for Federal, State and Local Grants		
3590	Committed for campus activity funds		
3610	Unassigned		
3000	Total Fund Balances	<u></u>	<u></u>
4000	Total Liabilities and Fund Balance	<u>\$ 332,811</u>	<u>\$</u>

285	287	289	385	397	404	411
<u>ESEA, Title I, Part A (ARRA)</u>	<u>Education Job Funds</u>	<u>Federally Funded Special Revenue Fund</u>	<u>State Supplemental Visually Impaired</u>	<u>Advanced Placement Incentive</u>	<u>Student Succ. Init- Acc REA</u>	<u>Technology Allotment</u>
\$	\$	\$ 3,222	\$	\$ 6,560	\$	\$ 190,904
	67,255					
<u>\$</u>	<u>\$ 67,255</u>	<u>\$ 3,222</u>	<u>\$</u>	<u>\$ 6,560</u>	<u>\$</u>	<u>\$ 190,904</u>
\$	\$	\$	\$	\$	\$	\$
	67,255	1,073			3,298	8
<u></u>	<u>67,255</u>	<u>1,073</u>	<u></u>	<u></u>	<u>3,298</u>	<u>8</u>
		2,149		6,560		190,896
		2,149		6,560	(3,298)	190,896
<u>\$</u>	<u>\$ 67,255</u>	<u>\$ 3,222</u>	<u>\$</u>	<u>\$ 6,560</u>	<u>\$ (3,298)</u>	<u>\$ 190,904</u>

FORNEY INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

Data Control Codes	414 Accelerated Science Program	415 Pre-K Grants	425 Teacher Induction and Mentoring Program
Assets			
1110	Cash and temporary investments	\$	\$
	Receivables:		
1240	Receivables from other governments	63,197	
1260	Due from other funds	4,782	
1000	Total Assets	\$ 67,979	\$
Liabilities and Fund Balance			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$	\$
2160	Accrued wages payable	7,257	
2170	Due to other funds	68,322	22
2200	Accrued expenditures	145	
2300	Deferred revenues		
2000	Total Liabilities	75,724	22
Fund Balance:			
3450	Restricted for Federal, State and Local Grants		
3590	Committed for campus activity funds		
3610	Unassigned	(7,745)	(22)
3000	Total Fund Balances	(7,745)	(22)
4000	Total Liabilities and Fund Balance	\$ 67,979	\$

426 Texas Educator Excellence Award Grant Program	427 Texas Fitness Now	429 Texas Educators' Excellence	461 Campus Activity Funds	498 Locally Funded Special Revenue Funds	Total Nonmajor Governmental Funds
\$	\$ 1,108	\$ 65	\$ 43,809	\$ 257,602	\$ 827,945
					1,689,872
					51,371
<u>\$</u>	<u>\$ 1,108</u>	<u>\$ 65</u>	<u>\$ 43,809</u>	<u>\$ 257,602</u>	<u>\$ 2,569,188</u>
\$	\$	\$	\$	\$	\$ 57,848
					942,997
491					1,012,848
					81,478
	1,195				28,040
<u>491</u>	<u>1,195</u>				<u>2,123,211</u>
		65		257,602	458,345
			43,809		43,809
(491)	(87)				(56,177)
<u>(491)</u>	<u>(87)</u>	<u>65</u>	<u>43,809</u>	<u>257,602</u>	<u>445,977</u>
<u>\$</u>	<u>\$ 1,108</u>	<u>\$ 65</u>	<u>\$ 43,809</u>	<u>\$ 257,602</u>	<u>\$ 2,569,188</u>

FORNEY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

Data Control Codes	204	205	211
	Title IV Safe & Drug Free	Head Start and Head Start ARRA	ESEA Title I Part A
Revenues			
5700	\$	\$	\$
5800			
5900	3,173	83,437	174,007
5020	<u>3,173</u>	<u>83,437</u>	<u>174,007</u>
Expenditures			
Current:			
0011		83,437	169,597
0012			
0013			4,410
0021			
0023	700		
0031	1,400		
0033			
0034			
0035			
0036			
0041			
0051			
0053			
6030	<u>2,100</u>	<u>83,437</u>	<u>174,007</u>
1100	<u>1,073</u>		
1200	1,073		
0100	<u> </u>	<u> </u>	<u> </u>
3000	<u>\$ 1,073</u>	<u>\$</u>	<u>\$</u>

224	225	240	244	255	263	266
IDEA B Formula	IDEA B Preschool Grant	Child Nutrition	Vocational Ed -Basic	Title II, Part A	Title III, Part A LEP	Title XIV, State Fiscal Stabilization Fund (ARRA)
\$	\$	\$2,197,987 17,499	\$	\$	\$	\$
1,096,489	8,012	1,243,973	15,481	70,161	18,423	2,433,798
<u>1,096,489</u>	<u>8,012</u>	<u>3,459,459</u>	<u>15,481</u>	<u>70,161</u>	<u>18,423</u>	<u>2,433,798</u>
571,000	6,902		8,764	4,981	18,423	2,163,359
			6,717	64,760		55,576
2,301				420		90,463
522,694 494	1,110					1,193
						63,177
						60,030
		3,546,165				
		77				
<u>1,096,489</u>	<u>8,012</u>	<u>3,546,242</u>	<u>15,481</u>	<u>70,161</u>	<u>18,423</u>	<u>2,433,798</u>
		(86,783)				
		(86,783)				
		42,249				
<u>\$</u>	<u>\$</u>	<u>\$ (44,534)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

FORNEY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

Data Control Codes	279	283	284
	Title II, Part D - Enhancing Education (ARRA)	IDEA - Part B, Formula (ARRA)	IDEA - Part B, Preschool (ARRA)
Revenues			
5700	Local, intermediate, and out-of-state	\$	\$
5800	State program revenues		
5900	Federal program revenues	2,963	739,731
5020	Total revenues	<u>2,963</u>	<u>739,731</u>
Expenditures			
Current:			
0011	Instruction	2,963	655,389
0012	Instruction resources and media services		
0013	Curriculum and instructional staff development		15,026
0021	Instructional leadership		8,158
0023	School leadership		
0031	Guidance, counseling and evaluation services		61,158
0033	Health services		
0034	Student transportation		
0035	Food service		
0036	Extracurricular activities		
0041	General administration		
0051	Plant maintenance and operations		
0053	Data processing services		
6030	Total Expenditures	<u>2,963</u>	<u>739,731</u>
1100	Excess (deficiency) of revenues over expenditures		
1200	Net change in fund balances		
0100	Fund balance - September 1 (beginning)		
3000	Fund balance - August 31 (ending)	<u>\$</u>	<u>\$</u>

285	287	289	385	397	404	411
ESEA, Title I, Part A (ARRA)	Education Job Funds	Federally Funded Special Revenue Fund	State Supplemental Visually Impaired	Advanced Placement Incentive	Student Succ. Init- Acc REA	Technology Allotment
\$	\$	\$	\$	\$	\$	\$
			2,590	16,362	37,036	256,761
15,798	67,255	2,149				
<u>15,798</u>	<u>67,255</u>	<u>2,149</u>	<u>2,590</u>	<u>16,362</u>	<u>37,036</u>	<u>256,761</u>
15,798	67,255		2,590	3,056	40,334	8,259
				7,725		27,778
						118,571
<u>15,798</u>	<u>67,255</u>		<u>2,590</u>	<u>10,781</u>	<u>40,334</u>	<u>154,608</u>
		2,149		5,581	(3,298)	102,153
		2,149		5,581	(3,298)	102,153
				979		88,743
<u>\$</u>	<u>\$</u>	<u>\$ 2,149</u>	<u>\$</u>	<u>\$ 6,560</u>	<u>\$ (3,298)</u>	<u>\$ 190,896</u>

FORNEY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

<u>Data Control Codes</u>	414	415	425
	Accelerated Science Program	Pre-K Grants	Teacher Induction and Mentoring Program
Revenues			
5700	\$	\$	\$
5800	8,750	63,197	10,092
5900			
5020	<u>8,750</u>	<u>63,197</u>	<u>10,092</u>
Expenditures			
Current:			
0011	8,750	60,529	
0012			
0013		10,413	7,581
0021			2,522
0023			
0031			
0033			
0034			
0035			
0036			
0041			
0051			
0053			
6030	<u>8,750</u>	<u>70,942</u>	<u>10,103</u>
1100		<u>(7,745)</u>	<u>(11)</u>
1200		(7,745)	(11)
0100			<u>(11)</u>
3000	<u>\$</u>	<u>\$ (7,745)</u>	<u>\$ (22)</u>

426	427	429	461	498	
Texas Educator Excellence Award Grant Program	Texas Fitness Now	Texas Educators' Excellence	Campus Activity Funds	Locally Funded Special Revenue Funds	Total-Other Governmental Funds
\$ 3,000	\$ 4,649	\$ 3,268	\$ 71,404	\$ 261,317	\$ 2,530,708
					423,204
					5,985,526
<u>3,000</u>	<u>4,649</u>	<u>3,268</u>	<u>71,404</u>	<u>261,317</u>	<u>8,939,438</u>
		3,450	17,524	13,828	3,936,864
	3,541		20,567	21,019	100,703
			2,220	7,564	244,657
				104	13,505
			18,955	55,244	76,092
					649,539
3,491			196		64,211
			456		456
					3,546,165
			14,030	125,667	139,697
				1,591	1,668
				485	485
					118,571
<u>3,491</u>	<u>3,541</u>	<u>3,450</u>	<u>73,948</u>	<u>225,502</u>	<u>8,892,613</u>
(491)	1,108	(182)	(2,544)	35,815	46,825
(491)	1,108	(182)	(2,544)	35,815	46,825
	(1,195)	247	46,353	221,787	399,152
<u>\$ (491)</u>	<u>\$ (87)</u>	<u>\$ 65</u>	<u>\$ 43,809</u>	<u>\$ 257,602</u>	<u>\$ 445,977</u>

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TEA Required Information

FORNEY INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended June 30, 2011

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>Net Assessed/Appraised Value For School Tax Purposes</u>	<u>Beginning Balance 7/1/10</u>
	<u>Maintenance</u>	<u>Debt Service</u>		
	<u>1</u>	<u>2</u>		
2002 and prior	Various	Various	Various	\$ 73,089
2003	1.410000	0.210000	629,678,148	36,441
2004	1.410000	0.210000	1,053,673,794	81,998
2005	1.410000	0.260000	1,337,589,041	72,491
2006	1.460000	0.280000	1,665,387,221	83,922
2007	1.334580	0.280000	1,834,704,072	117,566
2008	1.040000	0.380000	2,186,360,493	137,808
2009	1.040000	0.420000	2,340,032,940	246,157
2010	1.040000	0.460000	2,333,464,800	984,916
2011	1.040000	0.460000	2,263,120,733	
1000 Totals				<u>\$ 1,834,388</u>

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

Exhibit J-1

20	31	32	40	50
<u>Current Year's Total Levy</u>	<u>Maintenance Total Collections</u>	<u>Debt Service Total Collections</u>	<u>Entire Year's Adjustments</u>	<u>Ending Balance 6/30/11</u>
\$	\$ 296	\$ 18	\$ (1,209)	\$ 71,566
	98	15	(1,804)	34,524
	37,849	5,637	86	38,598
	38,269	7,057	354	27,519
	42,040	7,486	(611)	33,785
	60,746	12,745	1,288	45,363
	21,894	8,000	(53,501)	54,413
	60,636	24,488	(41,088)	119,945
	478,482	211,637	(39,010)	255,787
<u>33,946,811</u>	<u>23,092,263</u>	<u>10,213,881</u>	<u></u>	<u>640,667</u>
<u>\$ 33,946,811</u>	<u>\$ 23,832,573</u>	<u>\$ 10,490,964</u>	<u>\$ (135,495)</u>	<u>1,322,167</u>
				<u>Penalty and interest receivable on taxes</u>
				499,789
				<u>Total taxes receivable per Exhibit C-1</u>
				<u>\$ 1,821,956</u>

FORNEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF
INDIRECT COSTS FOR 2012-2013
GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2011

Exhibit J-2

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -		\$ 309,267	\$ 1,452,428	\$ -	\$ -	\$ 1,761,695
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			31,715		8,154		39,869
6212	Audit Services				26,250			26,250
6213	(Appraisal district costs only from function 99)		504,716					504,716
6214	Lobbying							-
621X	Other Prof. Services				5,120			5,120
6220	Tuition and Transfer Payments							-
6230	Education Service Centers			17,154	16,359			33,513
6240	Contr. Maint. and Repair					15,089		15,089
6250	Utilities							-
6260	Rentals			450	40,707			41,157
6290	Miscellaneous Contr.			17,976	116,821			134,797
6310	Operational Supplies, Materials							-
6320	Textbooks and Reading			636	2,952			3,588
6330	Testing Materials							-
63XX	Other Supplies Materials			3,012	94,005			97,017
6410	Travel, Subsistence, Stipends	3,275		3,585	19,084			25,944
6420	Ins. and Bonding Costs				29,353			29,353
6430	Election Costs	6,044						6,044
6490	Miscellaneous Operating	1,627		32,100	45,528			79,255
6500	Debt Service							-
6600	Capital Outlay							-
6000	TOTAL	\$ 10,946	\$ 504,716	\$ 415,895	\$ 1,848,607	\$ 23,243	\$ -	\$ 2,803,407

Total expenditures/expenses for General and Special Revenue Funds
 (plus Food Service Enterprise Fund if present) 9 \$69,029,085

Less: Deductions of Unallowable Costs

Fiscal Year		
Total Capital Outlay (6600)	10	\$653,420
Total Debt & Lease (6500)	11	420,090
Plant Maintenance (Function 51, 6100-6400)	12	7,918,855
Food (Function 35, 6341 and 6499)	13	1,513,085
Stipends (6413)	14	
Column 4 (above) - Total Indirect Cost		1,848,607
Subtotal:		12,354,057
Net Allowed Direct Cost		\$56,675,028
Cumulative		
Total Cost of Buildings before Depreciation (1520)	15	\$275,907,520
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	\$6,600,431
Historical Cost of Furniture & Equipment over 16 years old	19	\$244,059
Amount of Federal Money in Furniture & Equipment (Net of #19)	20	\$86,163

(8) Note A - \$4,800 in Function 53 expenditures are included in this report on administrative costs.
\$504,716 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

FORNEY INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)
GENERAL FUND
June 30, 2011

Exhibit J-3

Data Control Code	Explanation	Amount
1.	Total General Fund Balance 6-30-11 (Exhibit C-1 object 3000 for the General Fund only)	\$ (4,015,102)
2.	Total Nonspendable and Restricted Fund Balance 6-30-11 (from Exhibit C-1 - total of object 3400s for the General Fund only)	242,209
3.	Total Committed and Assigned Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	
4.	Estimated amount needed to cover fall cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues)	
5.	Estimate of two months average cash disbursements during the regular school session (9-1-10 to 5-31-11)	12,027,294
6.	Estimate of delayed payments from state sources (58xx) including August payment delays	
7.	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	
8.	Estimate of delayed payments from federal sources (59xx)	
9.	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).	
10.	Adjustment to meet Board Policy	
11.	General Fund Optimum Fund Balance and Cash Flow (2+3+4+5+6+7+8+9+10)	<u>12,269,503</u>
12.	Deficit Unassigned General Fund Fund Balance (1-11)	<u>\$ (16,284,605)</u>

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
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION FUND
For the Year Ended June 30, 2011

Exhibit J-4

Data Control Codes		Child Nutrition			Variance with Final Budget Positive (Negative)
		Budget		Actual	
		Original	Final		
Revenues					
5700	Local, Intermediate, and Out-of-State	\$ 2,160,526	\$ 2,200,000	\$ 2,197,987	\$ (2,013)
5800	State Program Revenues	18,347	17,500	17,499	(1)
5900	Federal Program Revenues	1,051,303	1,245,000	1,243,973	(1,027)
5020	Total Revenues	<u>3,230,176</u>	<u>3,462,500</u>	<u>3,459,459</u>	<u>(3,041)</u>
Expenditures					
Current:					
0035	Food Services	3,260,175	3,504,500	3,546,165	(41,665)
0040	Administrative Support Services			77	(77)
6030	Total Expenditures	<u>3,260,175</u>	<u>3,504,500</u>	<u>3,546,242</u>	<u>(41,742)</u>
1200	Increase (Decrease) in Fund Balance	(29,999)	(42,000)	(86,783)	(44,783)
0100	Fund Balance - beginning	<u>42,249</u>	<u>42,249</u>	<u>42,249</u>	
3000	Fund Balance - ending	<u>\$ 12,250</u>	<u>\$ 249</u>	<u>\$ (44,534)</u>	<u>\$ (44,783)</u>

FORNEY INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
For the Year Ended June 30, 2011

Exhibit J-5

Data Control Codes	Debt Service Fund				
	Budget			Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		
Revenues					
5700	Local, Intermediate, and Out-of-State	\$ 12,837,439	\$ 10,600,000	\$ 10,606,290	\$ 6,290
5800	State Program Revenues	1,771,879	3,869,332	776,753	(3,092,579)
5020	Total Revenues	14,609,318	14,469,332	11,383,043	(3,086,289)
Expenditures					
Current:					
Debt Service:					
0071	Principal on long-term debt	1,901,763	1,901,763	2,401,762	(499,999)
0072	Interest on long-term debt	13,409,973	13,409,973	13,178,562	231,411
0073	Bond Issuance Costs and Fees		439,264	9,164	430,100
6030	Total Expenditures	15,311,736	15,751,000	15,589,488	161,512
1100	Excess (Deficiency) Revenues Over Expenditures	(702,418)	(1,281,668)	(4,206,445)	(2,924,777)
Other Financing Sources (Uses)					
7911	Capital-related debt issued		3,810,000	3,810,000	
7916	Premium			145,138	145,138
8949	Other Uses		(3,903,000)	(3,902,928)	72
7080	Total other financing sources (uses)		(93,000)	52,210	145,210
1200	Increase (Decrease) in Fund Balance	(702,418)	(1,374,668)	(4,154,235)	(2,779,567)
0100	Fund Balance - beginning (as restated)	9,564,596	9,564,596	9,564,596	
3000	Fund Balance - ending	\$ 8,862,178	\$ 8,189,928	\$ 5,410,361	\$ (2,779,567)

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Federal Awards Section

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**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 3, 2011. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs (finding #11-01) to be material weaknesses.

To the Board of Trustees
Forney Independent School District
Forney, Texas
Page 2

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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



Houston, Texas
November 3, 2011

**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, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of 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, 2011.

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.

To the Board of Trustees
Forney Independent School District
Forney, Texas
Page 2

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance 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, 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs (finding #11-02) to be a material weakness.

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.



Houston, Texas
November 3, 2011

FORNEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2011

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiencies identified that are not considered to be material weaknesses?	None reported.
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiencies identified that are not considered to be material weaknesses?	None reported.
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
Title XIV, State Fiscal Stabilization Fund (ARRA)	84.394A
1. Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
2. Auditee qualified as low-risk auditee?	Yes

FORNEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended June 30, 2011

II. Financial Statement Findings

Material Weakness over Financial Reporting

Finding #11-01

Criteria: The five elements of internal control are imperative in any organization. However, controls over financial reporting and the communication of those financial statements are necessary to allow the Board to take actions deemed necessary. In addition, reconciliations, standard close procedures are necessary to ensure the financial statements are materially stated.

Condition: During the course of our audit of the fiscal year 2011 financial statements, we noted several conditions that rise to the level of a material weakness. The items are listed below:

Control Environment over financial reporting

- We noted that the Board was not provided with financial reports during fiscal year 2011. The Board only received quarterly investment reports.
- While documenting the controls over journal entries, we noted that the same person that proposed journal entries also enters and posts to the general ledger. The journal entries we tested were not approved by a second person.

State Foundation Aid

- A material prior period adjustment was necessary to correct the prior year's State Foundation Aid Due to State. In addition, the Existing Debt Allotment was overstated in the prior year and an adjustment was also necessary. It appears that 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.

Prepaid Expenses

- It appears that the deferred expenditures account related to worker's compensation is not reconciled on a regular basis. As of June 30, 2011, deferred expenses related to worker's compensation reflected a credit balance of approximately \$258,000.

Accounts Payable and Purchasing

- A new requisition system was implemented where purchase orders are required for all purchases. However, during our internal control walkthroughs, we discovered that check requests were still processed.
- Duplicate payments can be processed for blanket purchase orders without warning from the financial software.
- In addition, we noted two instances where the purchase order was dated after the invoice date. Once purchase was issued after two weeks of the invoice, while the other purchase order was issued five months subsequent to the invoice date.
- During our test of controls, we noted that four out of 40 (forty) transactions tested were miscoded (i.e. by object code). The total dollar error from our sample was \$92,000, which yielded a 10% sample error rate.

FORNEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended June 30, 2011

II. Financial Statement Findings (continued)

Material Weakness over Financial Reporting

Finding #11-01 (continued)

Accounts Payable and Purchasing (continued)

- We tested two quarterly payments to Kaufman County Appraisal District for tax appraisal and collection services. These two payments were not approved by the Board as required by the District's local purchasing and acquisition policy, which states that the Board must approve any transaction costing \$20,000 or more prior to the transaction taking place.
- The District's contract with Kaufman County for School Resource Officer's has not been update since fiscal year 2004.
- A material adjustment in the amount of approximately \$2 million was made to accounts payable for construction pay applications that had not been properly accrued during fiscal year 2011.

Human Resources and Payroll

- The Payroll department is independent of both the Human Resource and Finance Department. It is best practice that the payroll department reports to the Chief Financial Officer. This department should be separate from the Human Resource Department.
- During our internal control observations, we noted that the payroll departments have access to the human resource module where changes to employees' pay information can be made. The payroll department also has the ability to add employees. We also noted there are no other controls to mitigate this lack of segregation of duties.

Capital Assets

- An inventory of capital assets (those items having a cost greater than \$5,000 and a useful life greater than a year) has not been performed in the last two years. In addition, the prior year audit schedule was provided as support.

Grants

Grant accounting, reporting and accounting has not been centralized. As such, grants received from the Region 10 Education Service Center (ESC) were not readily available. Departments outside of the business office handled these particular grants. There were also other grants passed through the Texas Education Agency and Region 10 ESC that were overspent.

Cause: Previous leadership of the District failed to monitor State Funding and implement controls over financial reporting.

Effect: Material adjustments were required for the fiscal year 2011 financial statements.

FORNEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended June 30, 2011

II. Financial Statement Findings (continued)

Material Weakness over Financial Reporting

Finding #11-01 (continued)

Recommendation:

On a monthly basis, management of the district should provide the Board of Trustees with financial report in which a budget-to-actual analysis is provided. This is in addition to the investment report requirement by the Public Funds Investment Act.

Procedures should be developed and implemented for both routine and significant and unusual journal entries. Journal entries proposed by the Accounting Director should be reviewed and approved by the Chief Financial Officer. The business director should review and approve journal entries proposed by other accounting personnel.

The District should evaluate the roles and responsibilities of those involved in critical areas such as payroll, human resources, and accounts payable and purchasing. The District should ensure there are segregation of duties between human resources and payroll. Payroll benefits should also be reconciled at least on a quarterly basis. The District should implement financial close procedures, specifically addressing accounts payable and grants.

In addition, grant applications, grant spending and grant reporting should be centralized in the business office. This will ensure that the proper general ledger reconciliations occur on a routine basis. Furthermore, State Foundation Aid, Existing Debt Allotment, and Instructional Facilities Allotment should be monitored continuously through the Texas Education Agency's Summary of Finances. The District may use Region XIII's State Aid template, but a system should be implemented where the template is compared to the Summary of Finances to avoid material misstatements.

At least every two years, the District should perform an inventory of its capital assets. In addition, the capital asset listing should be updated for current year additions, deletions and depreciation expense. A policy for capital disposals should also be developed and implemented.

FORNEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended June 30, 2011

III. Federal Awards Findings and Questioned Costs

Material Weakness over Federal Awards

Finding # 11-02 State Fiscal Stabilization Fund (CFDA # 84.394); Special Education Cluster (CFDA #s 84.027/84.173/84.391/84.392)

Criteria: Grants should be monitored and reconciled on a timely basis to ensure that the award amount is not overspent. In addition, prior year activity should be removed from the current year fiscal year as soon as the new year begins.

Condition: Federal awards were overspent during fiscal year 2011. In addition, prior year expenditures were not removed from the current year activity prior to our arrival. We did not note any instances of noncompliance.

Cause: Previous leadership of the District failed to implement controls over federal grants.

Effect: Adjusting journal entries were required to remove prior year activity.

Recommendation: Expenditures of federal awards should be closely monitored to avoid overspending the award amount.

IV. Status Of Prior Year Findings

There were no prior year findings.

FORNEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended June 30, 2011

V. Corrective Action

Material Weakness over Financial Reporting and Federal Program Compliance

In August 2011, Mike Holland accepted the position of Superintendent. In late September 2011, Lucas Janda joined the District as the Chief Financial Officer (CFO).

The CFO will provide monthly financial reports to the Board of Trustees. The CFO will also review and approve all journal entries proposed by the Accounting Director. In turn, the Accounting Director will review and approve journal entries proposed by the accounting staff.

The payroll department will be moved under the umbrella of the CFO. In addition, the payroll department will have the ability to view but not alter pay information. New hires will be added by the Human Resource Department. The payroll department will also begin to reconcile workmen's compensation benefits to the general ledger.

The District will also implement financial close procedures where material accrued expenses are captured. All pay applications related to construction projects will be analyzed and accrued properly. For multiple grant years in one fiscal year, the business office will ensure that any prior year grant expenditures are removed from the current fiscal year and that all expenditures and revenues are reconciled to the grant application budget and the general ledger on a timely basis.

For capital asset inventory, the District will begin by providing each campus with a list of capital asset and ask the campuses to conduct an inventory. Any changes will be sent to central administration and the capital asset records will be updated accordingly. Current year additions and deletions will be accounted for and properly depreciated.

The District will continue to make the necessary budget cuts in accordance with the approved Texas Education Plan. The District will continuously review the Summary of Finances to ensure that its calculations of State Aid, Existing Debt Allotment, and Instructional Facilities Allotment are correct.

Date of Implementation: November 2011

Responsible Person: Lucas Janda, Chief Financial Officer

FORNEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

Exhibit K-1

(2A)	(1)	(2)	(3)
Pass Through Entity Identifying Number	Federal Grantor/ Pass-Through Grantor/ Program Title	Fund Federal CFDA Number	Federal Expenditures
U.S. Department of Education			
Passed Through Region X Education Service Center			
10691001101924	<i>Title IV, Part A - Safe and Drug Free Schools</i>	204 84.186A	\$ 3,173
116110101057950	<i>ESEA Title I, Improving Basic Programs *</i>	211 84.010A	174,007
114210006057950	<i>Carl D. Perkins</i>	244 84.048A	15,481
11694501057950	<i>Title II, Part A - Teacher, Principal Training and Recruiting</i>	255 84.367A	70,161
11671001057950	<i>ESEA Title III, Part A - English Language Acquisition</i>	263 84.365	18,423
Total Passed through Region X Education Service Center			<u>281,245</u>
Passed Through Texas Education Agency			
10551001101924	<i>ESEA Title I, Part A - ARRA*</i>	285 84.389A	15,798
106600011019246600	<i>IDEA Part B - Special Education Formula**</i>	224 84.027A	1,096,489
106610011019246610	<i>IDEA Part B - Special Education Preschool**</i>	225 84.173A	8,012
10554001101924	<i>IDEA-B Formula - ARRA - LEA**</i>	283 84.391A	739,731
10555001101924	<i>IDEA-B Preschool-ARRA-LEA**</i>	284 84.392A	10,676
11550101129902	<i>Education Jobs Fund</i>	287 84.410A	67,255
11557001129902	<i>Title XIV, State Fiscal Stabilization Fund - ARRA</i>	266 84.394A	2,433,798
69551002	<i>Summer School LEP</i>	289 84.369A	2,149
10553001129902	<i>Title II, Part D - Enhancing Education Through Technology -ARRA</i>	279 84.386A	2,963
Total passed through Texas Education Agency			<u>4,376,871</u>
Total U.S. Department of Education			<u>4,658,116</u>
U.S. Department of Agriculture			
Passed Through Texas Department of Agriculture:			
<i>Child Nutrition Cluster:</i>			
<i>Non Cash Assistance (Commodities)</i>			
101924	<i>National School Lunch Program***</i>	240 10.555	175,399
Passed Through State Department of Education:			
<i>Cash Assistance:</i>			
71300901	<i>National School Lunch Program***</i>	240 10.555	851,088
71400901	<i>National School Breakfast Program***</i>	240 10.553	217,486
Total U.S. Department of Agriculture			<u>1,243,973</u>
U.S. Department of Health and Human Services			
Passed Through Region X Education Service Center			
06CH0391/21	<i>Head Start</i>	205 93.600	83,437
Total U.S. Department of Homeland Security			<u>83,437</u>
Total Expenditures of Federal Awards			<u>\$ 5,985,526</u>

*Title I Cluster
**Special Education Cluster
***Child Nutrition Cluster

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, 2010. 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 - Reconciliation to Basic Financial Statements

The following is a reconciliation of expenditures of federal awards program per Exhibit K-1 and expenditures reported on Exhibit C-3:

Federal Program Revenues (Per Exhibit C-3)	\$	6,436,767
SHARS		(381,844)
JROTC		(69,397)
	\$	<u>5,985,526</u>

FORNEY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2011

Exhibit L-1

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?	Yes
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end	<u>\$ 14,845,123</u>

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