

**TERRELL INDEPENDENT SCHOOL DISTRICT**

***ANNUAL FINANCIAL REPORT***

***FOR THE YEAR ENDED AUGUST 31, 2012***

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*Introductory Section*

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Terrell Independent School District  
Annual Financial Report  
For The Year Ended August 31, 2012

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Annual Financial Report  
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CERTIFICATE OF BOARD

Terrell Independent School District  
Name of School District

Kaufman  
County

129-906  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) \_\_\_\_\_approved \_\_\_\_\_disapproved for the year ended August 31, 2012, at a meeting of the board of trustees of such school district on the \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Signature of Board Secretary

\_\_\_\_\_  
Signature of Board President

If the board of trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are):  
(attach list as necessary)

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*Financial Section*

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**MICHAEL W BEDFORD**  
205 WEST HIGH STREET  
TERRELL, TEXAS 75160

**Independent Auditor's Report on Financial Statements**

Board of Trustees  
Terrell Independent School District  
700 North Catherine  
Terrell Texas, Texas 75160

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Terrell Independent School District as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Terrell Independent School 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Terrell Independent School District as of August 31, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2013, on our consideration of Terrell Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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 identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the

limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Terrell Independent School District's financial statements as a whole. The individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the financial statements. The individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael W. Bedford". The signature is written in a cursive, flowing style.

Michael W. Bedford, CPA

January 28, 2013

**TERRELL INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED AUGUST 31, 2012  
(UNAUDITED)**

This section of Terrell Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2012. Please read this narrative in conjunction with the District's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The assets of Terrell Independent School District exceeded its liabilities as of August 31, 2012 by \$17,836,245 (net assets).
- The District's total government-wide net assets decreased by \$370,905.
- At the close of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$11,014,371.
- The general fund reported a fund balance of \$9,790,089, a decrease of \$971,546 over the prior fiscal year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

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

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

## Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets—the difference between the District's assets and liabilities—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration.

## Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

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

- We use *internal service funds* to report self-insurance and print shop activities for the District.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Our analysis presents both current and prior year data and focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental activities.

Net assets of the District's governmental activities decreased from \$18,207,150 to \$17,836,245. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operation without constraints established by debt covenants, enabling legislation, or other legal requirements – were \$11,739,955 at August 31, 2012.

**Table I**  
**Terrell Independent School District**  
**NET ASSETS**

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Current and other assets	14,912,812	19,382,714
Capital assets	52,738,354	53,144,560
Total assets	<u>67,651,166</u>	<u>72,527,274</u>
Long-term liabilities	44,140,424	46,173,822
Other liabilities	5,674,497	8,146,302
Total liabilities	<u>49,814,921</u>	<u>54,320,124</u>
Net Assets:		
Invested in capital assets net of related debt	5,146,698	3,696,170
Restricted	949,592	1,683,466
Unrestricted	11,739,955	12,827,514
Total net assets	<u>17,836,245</u>	<u>18,207,150</u>

## Changes in Net Assets

The District's total revenues were \$40,514,970. A significant portion, 42.9% of the District's revenue comes from taxes, while 36.04% comes from state aid-grants and contributions. The total cost of all programs and services was \$40,885,875; 54.6% of these costs are instruction, and instructional resources and media services.

**Table II**  
**Terrell Independent School District**  
**CHANGES IN NET ASSETS**

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
<b>Program Revenues:</b>		
Charges for Services	563,748	574,825
Operating Grants and Contributions	7,867,221	9,966,152
<b>General Revenues:</b>		
Property Taxes	17,383,844	17,671,328
State Aid – Grants and Contributions	14,603,362	13,000,511
Miscellaneous	96,795	177,854
	<u>40,514,970</u>	<u>41,390,670</u>
<b>Expenses:</b>		
Instruction	21,836,123	21,969,699
Instructional Resources and Media Services	491,180	518,283
Curriculum and Staff Development	895,008	610,443
Instructional Leadership	484,298	539,634
School Leadership	2,140,753	2,327,208
Guidance, Counseling and Evaluation Services	1,358,332	1,307,429
Social Work Services	282,444	258,714
Health Services	405,220	383,000
Student Transportation	1,344,555	1,472,526
Food Services	2,266,693	2,354,645
Extracurricular Activities	1,074,325	1,046,997
General Administration	1,314,802	1,612,757
Plant Maintenance And Operation	3,610,190	3,940,615
Security and Monitoring Services	314,489	318,727
Data Processing Services	336,097	415,535
Community Services	122,065	307,876
Interest on Long-term Debt	2,162,318	2,120,164
Bond Issuance Costs and Fees	221,134	247,351
Facilities Acquisition and Construction	0	0
Payments Related to Shared Services Arrangements	0	0
Other Intergovernmental Charges	225,849	212,425
Total Expenses	<u>40,885,875</u>	<u>41,964,028</u>
Net Assets-Beginning	18,207,150	18,780,508
Net Assets-Ending	17,836,245	18,207,150
Increase (Decrease) in Net Assets	<u>(370,905)</u>	<u>(573,358)</u>



## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds reported a combined fund balance of \$11,014,371, which is \$1,661,468 lower than last year's total of \$12,675,839. Included in this year's change in fund balance is a decrease of \$971,546 in the District's General Fund.

Over the course of the year, the District revised its budget 5 times. With these adjustments, actual General Fund expenditures were \$1,736,165 below final budget amounts and revenues were \$163,574 above the final budget amounts.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

At the end of 2012, the District had \$88,921,761 invested in a broad range of capital assets, including land, equipment, and buildings. This amount represents a net increase (including additions and deductions) of \$1,949,186 above last year.

At year-end the District had \$47,685,424 in debt outstanding as compared to \$49,573,822 from the last fiscal year.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- Total revenues budgeted included 13% from federal sources, 42% from state sources, and 45% from local sources.
- Enrollment at the end of the first semester of 2012-13 increased by 30 students from 4,176 in 2011-12 to 4,206 in 2012-13.
- The 2012 tax rate remained at \$1.31 (\$1.17 for Maintenance and Operations and \$.14 for Interest and Sinking).
- The 2012 total market value is \$2,047,944,514 compared to \$2,056,888,413 for 2011 which is a decrease of \$8,943,899. The 2012 certified taxable value is \$1,333,859,508 compared to \$1,343,241,784 for 2011 which is a decrease of \$9,382,276.
- In December 2012, Series 2001 bonds in the amount of \$385,000 and Series 2002 bonds in the amount of \$5,430,000, for a total of \$5,815,000, were refunded for a total saving of \$1,363,417.78. Proceeds from the sale will be used to refund a portion of the District's outstanding bonds and pay the cost of issuing the bonds.
- Standard and Poor's Rating Services assigned the District a program rating of AAA and a school issuer credit rating of A+. The A+ rating was based on the following factors: access to DFW economic and employment bases; strong finances, indicated by healthy fund reserves; and successful passage of a rollback election that increased the maintenance and operations rate by an additional 13 cents providing additional operating revenue.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office, Terrell Independent School District, 700 N. Catherine Street, Terrell, Texas 75160, (972) 563-7504.

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***Basic Financial Statements***

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**AUGUST 31, 2012**

Data Control Codes	1	Governmental Activities
<b>ASSETS:</b>		
1110	<i>Cash and Cash Equivalents</i>	\$ 2,129,582
1120	<i>Current Investments</i>	8,876,661
1225	<i>Property Taxes Receivable (Net)</i>	1,108,592
1240	<i>Due from Other Governments</i>	2,601,655
1290	<i>Other Receivables (Net)</i>	16,195
1300	<i>Inventories</i>	27,036
1410	<i>Deferred Expenses</i>	1,969
1420	<i>Capitalized Bond and Other Debt Issuance Costs</i>	151,122
Capital Assets:		
1510	<i>Land</i>	3,303,626
1520	<i>Buildings and Improvements, Net</i>	47,976,790
1530	<i>Furniture and Equipment, Net</i>	1,457,938
1000	<b>Total Assets</b>	<u>67,651,166</u>
<b>LIABILITIES:</b>		
2110	<i>Accounts Payable</i>	2,764
2140	<i>Interest Payable</i>	57,354
2165	<i>Accrued Liabilities</i>	1,800,107
2180	<i>Due to Other Governments</i>	1,521
2300	<i>Unearned Revenue</i>	267,751
Noncurrent Liabilities:		
2501	<i>Due Within One Year</i>	3,545,000
2502	<i>Due in More Than One Year</i>	44,140,424
2000	<b>Total Liabilities</b>	<u>49,814,921</u>
<b>NET ASSETS</b>		
3200	<b>Invested in Capital Assets, Net of Related Debt</b>	<b>5,146,698</b>
Restricted For:		
3850	<i>Debt Service</i>	851,305
3860	<i>Capital Projects</i>	719
3870	<i>Campus Activities</i>	53,173
	<i>Other Purposes</i>	
3890	<i>Nonexpendable</i>	44,395
3900	<i>Unrestricted</i>	11,739,955
3000	<b>Total Net Assets</b>	<u>\$ 17,836,245</u>

The accompanying notes are an integral part of this statement.

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes In Net Assets
			Charges for Services	Governmental Activities		
	<b>Governmental Activities:</b>					
11	<i>Instruction</i>	\$ 21,836,123	\$ 32,393	\$ 4,320,183	\$ (17,483,547)	
12	<i>Instructional Resources and Media Services</i>	491,180	--	21,098	(470,082)	
13	<i>Curriculum and Staff Development</i>	895,008	877	165,814	(728,317)	
21	<i>Instructional Leadership</i>	484,298	--	48,268	(436,030)	
23	<i>School Leadership</i>	2,140,753	11,224	152,087	(1,977,442)	
31	<i>Guidance, Counseling, &amp; Evaluation Services</i>	1,358,332	--	767,779	(590,553)	
32	<i>Social Work Services</i>	282,444	--	89,584	(192,860)	
33	<i>Health Services</i>	405,220	23	100,956	(304,241)	
34	<i>Student Transportation</i>	1,344,555	--	33,633	(1,310,922)	
35	<i>Food Service</i>	2,266,693	360,188	1,837,409	(69,096)	
36	<i>Cocurricular/Extracurricular Activities</i>	1,074,325	105,980	60,918	(907,427)	
41	<i>General Administration</i>	1,314,802	--	119,679	(1,195,123)	
51	<i>Plant Maintenance and Operations</i>	3,610,190	53,018	94,799	(3,462,373)	
52	<i>Security and Monitoring Services</i>	314,489	--	15,595	(298,894)	
53	<i>Data Processing Services</i>	336,097	--	9,798	(326,299)	
61	<i>Community Services</i>	122,065	45	29,621	(92,399)	
72	<i>Interest on Long-term Debt</i>	2,162,318	--	--	(2,162,318)	
73	<i>Bond Issuance Costs and Fees</i>	221,134	--	--	(221,134)	
99	<i>Other Intergovernmental Charges</i>	225,849	--	--	(225,849)	
TG	Total Governmental Activities	<u>40,885,875</u>	<u>563,748</u>	<u>7,867,221</u>	<u>(32,454,906)</u>	
TP	Total Primary Government	<u>\$ 40,885,875</u>	<u>\$ 563,748</u>	<u>\$ 7,867,221</u>	<u>(32,454,906)</u>	
	<b>General Revenues:</b>					
MT	<i>Property Taxes, Levied for General Purposes</i>				15,510,721	
DT	<i>Property Taxes, Levied for Debt Service</i>				1,873,123	
IE	<i>Investment Earnings</i>				30,539	
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>				14,603,362	
MI	<i>Miscellaneous</i>				66,256	
TR	Total General Revenues				<u>32,084,001</u>	
CN	Change in Net Assets				<u>(370,905)</u>	
NB	Net Assets - Beginning				<u>18,207,150</u>	
NE	Net Assets - Ending				<u>\$ 17,836,245</u>	

The accompanying notes are an integral part of this statement.

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**AUGUST 31, 2012**

Data Control Codes	10 General Fund	50 Debt Service	Other Governmental Funds	98 Total Governmental Funds	
<b>ASSETS:</b>					
1110	Cash and Cash Equivalents	\$ 1,450,738	\$ 516,408	\$ (275,162)	\$ 1,691,984
1120	Current Investments	8,073,878	299,997	45,114	8,418,989
1225	Taxes Receivable, Net	948,466	160,126	--	1,108,592
1240	Due from Other Governments	1,718,092	6,165	877,398	2,601,655
1260	Due from Other Funds	2,941	--	--	2,941
1290	Other Receivables	15,692	--	7	15,699
1300	Inventories	27,036	--	--	27,036
1410	Deferred Expenditures	1,969	--	--	1,969
1000	Total Assets	<u>\$ 12,238,812</u>	<u>\$ 982,696</u>	<u>\$ 647,357</u>	<u>\$ 13,868,865</u>
<b>LIABILITIES:</b>					
Current Liabilities:					
2110	Accounts Payable	\$ 2,764	\$ --	\$ --	\$ 2,764
2150	Payroll Deductions & Withholdings	7,116	--	--	7,116
2160	Accrued Wages Payable	923,823	--	25,621	949,444
2170	Due to Other Funds	--	2,197	744	2,941
2180	Due to Other Governments	1,521	--	--	1,521
2200	Accrued Expenditures	486,404	--	27,961	514,365
2300	Deferred Revenue	1,027,095	289,320	59,928	1,376,343
2000	Total Liabilities	<u>2,448,723</u>	<u>291,517</u>	<u>114,254</u>	<u>2,854,494</u>
<b>FUND BALANCES:</b>					
Nonspendable Fund Balances:					
3410	Inventories	27,036	--	--	27,036
3430	Prepaid Items	1,969	--	--	1,969
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	--	--	434,816	434,816
3480	Retirement of Long-Term Debt	--	691,179	--	691,179
3490	Other Restrictions of Fund Balance	--	--	44,027	44,027
Committed Fund Balances:					
3525	Retirement of Loans/Notes Payable	1,878,975	--	--	1,878,975
3545	Other Committed Fund Balance	--	--	54,260	54,260
3600	Unassigned	7,882,109	--	--	7,882,109
3000	Total Fund Balances	<u>9,790,089</u>	<u>691,179</u>	<u>533,103</u>	<u>11,014,371</u>
4000	Total Liabilities and Fund Balances	<u>\$ 12,238,812</u>	<u>\$ 982,696</u>	<u>\$ 647,357</u>	<u>\$ 13,868,865</u>

The accompanying notes are an integral part of this statement.

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**AUGUST 31, 2012**

Total fund balances - governmental funds balance sheet	\$ 11,014,371
Amounts reported for governmental activities in the Statement of Net Assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	52,727,771
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,108,592
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	577,168
Payables for bond principal which are not due in the current period are not reported in the funds.	(31,753,589)
Payables for bond interest which are not due in the current period are not reported in the funds.	(14,197,947)
Payables for notes which are not due in the current period are not reported in the funds.	(1,791,241)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	151,123
Rounding difference	(3)
Net assets of governmental activities - Statement of Net Assets	<u>\$ 17,836,245</u>

The accompanying notes are an integral part of this statement.

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

Data Control Codes	10 General Fund	50 Debt Service	Other Governmental Funds	98 Total Governmental Funds
<b>REVENUES:</b>				
5700 <i>Local and Intermediate Sources</i>	\$ 15,772,708	\$ 1,891,478	\$ 500,099	\$ 18,164,285
5800 <i>State Program Revenues</i>	15,661,405	34,680	22,859	15,718,944
5900 <i>Federal Program Revenues</i>	752,461	--	5,880,068	6,632,529
5020 <b>Total Revenues</b>	<u>32,186,574</u>	<u>1,926,158</u>	<u>6,403,026</u>	<u>40,515,758</u>
<b>EXPENDITURES:</b>				
Current:				
0011 <i>Instruction</i>	16,338,853	--	3,653,217	19,992,070
0012 <i>Instructional Resources and Media Services</i>	433,983	--	6,058	440,041
0013 <i>Curriculum and Staff Development</i>	747,744	--	139,291	887,035
0021 <i>Instructional Leadership</i>	452,671	--	30,571	483,242
0023 <i>School Leadership</i>	2,041,144	--	74,672	2,115,816
0031 <i>Guidance, Counseling, &amp; Evaluation Services</i>	1,306,198	--	36,273	1,342,471
0032 <i>Social Work Services</i>	200,238	--	81,287	281,525
0033 <i>Health Services</i>	297,420	--	88,962	386,382
0034 <i>Student Transportation</i>	1,304,684	--	33,633	1,338,317
0035 <i>Food Service</i>	10,993	--	2,160,367	2,171,360
0036 <i>Cocurricular/Extracurricular Activities</i>	881,116	--	27,641	908,757
0041 <i>General Administration</i>	1,256,372	--	1,300	1,257,672
0051 <i>Plant Maintenance and Operations</i>	3,615,438	--	16,327	3,631,765
0052 <i>Security and Monitoring Services</i>	311,710	--	623	312,333
0053 <i>Data Processing Services</i>	328,515	--	--	328,515
0061 <i>Community Services</i>	72,488	--	27,151	99,639
0071 <i>Principal on Long-term Debt</i>	405,000	2,995,000	--	3,400,000
0072 <i>Interest on Long-term Debt</i>	66,900	771,038	--	837,938
0073 <i>Bond Issuance Costs and Fees</i>	500	1,750	--	2,250
0081 <i>Capital Outlay</i>	1,740,519	--	--	1,740,519
0099 <i>Other Intergovernmental Charges</i>	225,849	--	--	225,849
6030 <b>Total Expenditures</b>	<u>32,038,335</u>	<u>3,767,788</u>	<u>6,377,373</u>	<u>42,183,496</u>
1100 <b>Excess (Deficiency) of Revenues Over (Under)</b>				
1100 <b>Expenditures</b>	<u>148,239</u>	<u>(1,841,630)</u>	<u>25,653</u>	<u>(1,667,738)</u>
Other Financing Sources and (Uses):				
7912 <i>Sale of Real or Personal Property</i>	6,214	--	55	6,269
7915 <i>Transfers In</i>	239,291	1,126,000	--	1,365,291
8911 <i>Transfers Out</i>	(1,365,290)	--	--	(1,365,290)
7080 <b>Total Other Financing Sources and (Uses)</b>	<u>(1,119,785)</u>	<u>1,126,000</u>	<u>55</u>	<u>6,270</u>
1200 <b>Net Change in Fund Balances</b>	<u>(971,546)</u>	<u>(715,630)</u>	<u>25,708</u>	<u>(1,661,468)</u>
0100 <b>Fund Balances - Beginning</b>	<u>10,761,635</u>	<u>1,406,809</u>	<u>507,395</u>	<u>12,675,839</u>
3000 <b>Fund Balances - Ending</b>	<u>\$ 9,790,089</u>	<u>\$ 691,179</u>	<u>\$ 533,103</u>	<u>\$ 11,014,371</u>

The accompanying notes are an integral part of this statement.



**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

Net change in fund balances - total governmental funds	\$ (1,661,468)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,985,372
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,365,335)
The gain or loss on the sale of capital assets is not reported in the funds.	(16,771)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(788)
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	309,027
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	2,995,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	405,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(218,884)
The accretion of interest on capital appreciation bonds is not reported in the funds.	(1,661,213)
(Increase) decrease in accrued interest from beginning of period to end of period.	27,806
The net revenue (expense) of internal service funds is reported with governmental activities.	(168,648)
Rounding difference	(3)
Change in net assets of governmental activities - Statement of Activities	<u>\$ (370,905)</u>

The accompanying notes are an integral part of this statement.

**TERRELL INDEPENDENT SCHOOL DISTRICT***STATEMENT OF NET ASSETS**INTERNAL SERVICE FUNDS**AUGUST 31, 2012*

<u>Data Control Codes</u>	<u>Internal Service Funds</u>
<b>ASSETS:</b>	
Current Assets:	
1110 <i>Cash and Cash Equivalents</i>	\$ 437,598
1120 <i>Investments</i>	457,672
<i>Receivables:</i>	
1290 <i>Other Receivables (net)</i>	496
Total Current Assets	<u>895,766</u>
Noncurrent Assets:	
Capital Assets:	
1530 <i>Furniture and Equipment</i>	87,395
1570 <i>Accumulated Depreciation</i>	<u>(76,811)</u>
Total Noncurrent Assets	10,584
1000 Total Assets	<u>\$ 906,350</u>
<b>LIABILITIES:</b>	
Current Liabilities:	
2200 <i>Accrued Expenditures/Expenses</i>	\$ 329,182
Total Current Liabilities	<u>329,182</u>
2000 Total Liabilities	<u>329,182</u>
<b>NET ASSETS:</b>	
3900 <i>Unrestricted Net Assets</i>	577,168
3000 Total Net Assets	<u>\$ 577,168</u>

The accompanying notes are an integral part of this statement.

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET ASSETS - INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

Data Control Codes		Internal Service Funds
	<b>OPERATING REVENUES:</b>	
5700	<i>Local and Intermediate Sources</i>	\$ 309,926
5020	Total Revenues	<u>309,926</u>
	<b>OPERATING EXPENSES:</b>	
6100	<i>Payroll Costs</i>	53,715
6200	<i>Professional and Contracted Services</i>	170,608
6300	<i>Supplies and Materials</i>	39,760
6400	<i>Other Operating Costs</i>	215,191
6030	Total Expenses	<u>479,274</u>
	Operating Income (Loss)	<u>(169,348)</u>
	<b>NON-OPERATING REVENUES (EXPENSES):</b>	
7955	<i>Earnings from Temp. Deposits and Investments</i>	699
8030	Total Non-operating Revenues (Expenses)	<u>699</u>
1300	Change in Net Assets	(168,649)
0100	Total Net Assets - Beginning	745,817
3300	Total Net Assets - Ending	<u>\$ 577,168</u>

The accompanying notes are an integral part of this statement.

**TERRELL INDEPENDENT SCHOOL DISTRICT**

## STATEMENT OF CASH FLOWS

## PROPRIETARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2012

	<u>Internal Service Funds</u>
<b>Cash Flows from Operating Activities:</b>	
<i>Cash Received from Customers</i>	\$ 58,750
<i>Cash Receipts (Payments) for Quasi-external     Operating Transactions with Other Funds</i>	253,980
<i>Cash Payments to Employees for Services</i>	(53,716)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(353,743)
Net Cash Provided (Used) by Operating Activities	<u>(94,730)</u>
<b>Cash Flows from Non-capital Financing Activities:</b>	
<i>Transfers From (To) Other Funds</i>	136,139
Net Cash Provided (Used) by Non-capital Financing Activities	<u>136,139</u>
<b>Cash Flows from Investing Activities:</b>	
<i>Interest and Dividends on Investments</i>	699
Net Cash Provided (Used) for Investing Activities	<u>699</u>
Net Increase (Decrease) in Cash and Cash Equivalents	42,108
Cash and Cash Equivalents at Beginning of Year	853,162
Cash and Cash Equivalents at End of Year	<u>\$ 895,270</u>
<b>Reconciliation of Operating Income to Net Cash     Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ (168,648)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
<i>Depreciation</i>	9,471
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	138,941
<i>Increase (Decrease) in Accrued Expenses</i>	62,344
Total Adjustments	<u>210,756</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 42,108</u>

The accompanying notes are an integral part of this statement.

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**AUGUST 31, 2012**

Data Control Codes		<u>Agency Fund</u>
		<u>Student Activity</u>
	<b>ASSETS:</b>	
1110	<i>Cash and Cash Equivalents</i>	\$ 128,949
1000	Total Assets	<u>\$ 128,949</u>
	<b>LIABILITIES:</b>	
	Current Liabilities:	
2110	<i>Accounts Payable</i>	\$ 2,289
2190	<i>Due to Student Groups</i>	126,483
2200	<i>Accrued Expenditures/Expenses</i>	177
2000	Total Liabilities	<u>128,949</u>
	<b>NET ASSETS</b>	
3000	Total Net Assets	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

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**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

**A. Summary of Significant Accounting Policies**

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

**1. Reporting Entity**

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

**2. Basis of Presentation, Basis of Accounting**

**a. Basis of Presentation**

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

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

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

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

**Debt Service Fund:** This is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

fund. Any unused debt service fund balances are transferred to the General Fund after all of the related debt obligations have been paid.

In addition, the District reports the following fund types:

**Internal Service Funds:** These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

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

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

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

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

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

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

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen not to apply future FASB standards.



**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

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

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

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

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

d. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50
Building Improvements	7-20
Vehicles	8-15
Furniture and Equipment	3-20

e. Receivable and Payable Balances

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

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

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

f. Interfund Activity

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

g. Use of Estimates

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

h. Data Control Codes

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

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

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

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

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

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

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

**B. Deposits and Investments**

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

**1. Cash Deposits:**

At August 31, 2012, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$7,272,082 and the bank balance was \$8,440,411. The District's cash deposits at August 31, 2012 and during the year ended August 31, 2012, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

**2. Investments:**

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

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

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

The District's investments at August 31, 2012 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
TexPool	N/A	\$ 2,571,417
Lone Star Investment Pool	N/A	1,291,906
Total Investments		<u>\$ 3,863,323</u>

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

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

**a. Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

At August 31, 2012, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

TexPool - AAAm by Standard and Poor's  
Lone Star Pool - AAA by Standard and Poor's

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

Public Funds Investment Pools

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

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

**C. Capital Assets**

Capital asset activity for the year ended August 31, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,303,627	\$ --	\$ --	\$ 3,303,627
Construction in progress	1,821,979	--	1,821,979	--
Total capital assets not being depreciated	<u>5,125,606</u>	<u>--</u>	<u>1,821,979</u>	<u>3,303,627</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	78,216,049	3,562,499	--	81,778,548
Equipment	2,629,631	200,835	36,187	2,794,279
Vehicles	1,001,289	44,018	--	1,045,307
Total capital assets being depreciated	<u>81,846,969</u>	<u>3,807,352</u>	<u>36,187</u>	<u>85,618,134</u>
Less accumulated depreciation for:				
Buildings and improvements	(31,691,319)	(2,110,439)	--	(33,801,758)
Equipment	(1,528,608)	(225,378)	(19,417)	(1,734,569)
Vehicles	(608,089)	(38,990)	--	(647,079)
Total accumulated depreciation	<u>(33,828,016)</u>	<u>(2,374,807)</u>	<u>(19,417)</u>	<u>(36,183,406)</u>
Total capital assets being depreciated, net	<u>48,018,953</u>	<u>1,432,545</u>	<u>16,770</u>	<u>49,434,728</u>
Governmental activities capital assets, net	<u>\$ 53,144,559</u>	<u>\$ 1,432,545</u>	<u>\$ 1,838,749</u>	<u>\$ 52,738,355</u>

Depreciation was charged to functions as follows:

Instruction	\$ 1,770,666
Instructional Resources and Media Services	51,140
Curriculum and Staff Development	7,973
Instructional Leadership	1,056
School Leadership	24,937
Guidance, Counseling, & Evaluation Services	15,860
Social Work Services	919
Health Services	18,838
Student Transportation	6,239
Food Services	120,219
Extracurricular Activities	165,568
General Administration	57,130
Plant Maintenance and Operations	84,080
Security and Monitoring Services	20,174
Data Processing Services	7,582
Community Services	22,426
	<u>\$ 2,374,807</u>

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

**D. Interfund Balances and Activities**

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

Balances due to and due from other funds at August 31, 2012, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 2,197	Short-term amount
General Fund	Food Service Fund	744	Short-term amount
	Total	<u>\$ 2,941</u>	

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

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

Transfers to and from other funds at August 31, 2012, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General fund	General fund - Athletics Fund	\$ 121,427	Provide resources for excess expenditures over revenue
General fund	General Fund - CTE construction	117,863	Provide resources for improvement to Career Tech Facility
General fund	Debt Service Fund	1,126,000	Provide resources for excess expenditures over revenue
	Total	<u>\$ 1,365,290</u>	

**E. Long-Term Obligations**

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

**1. Long-Term Obligation Activity**

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2012, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental activities:</b>					
General obligation bonds	\$ 34,503,448	\$ --	\$ 2,995,000	\$ 31,508,448	\$ 3,115,000
Accreted interest payable	12,479,382	1,661,212	--	14,140,594	--
Deferred amounts refunding	(432,664)	--	(159,418)	(273,246)	--
Unamortized premium	853,656	--	309,028	544,628	--
Notes	2,170,000	--	405,000	1,765,000	430,000
Total governmental activities	<u>\$ 49,573,822</u>	<u>\$ 1,661,212</u>	<u>\$ 3,549,610</u>	<u>\$ 47,685,424</u>	<u>\$ 3,545,000</u>

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2012, are as follows:

**Bonds Payable**

Description	Interest Rates	Original Amount	Outstanding Balance
Unlimited Tax School Building and Refunding Bonds, Series 2001	4.625% - 5.76%	\$ 39,078,681	\$ 16,893,448
Unlimited Tax School Building Bonds, Series 2002	4.50% - 6.50%	6,950,000	5,805,000
Unlimited Tax Refunding Bonds, Series 2010	3% - 4%	12,135,000	8,810,000
<b>Totals</b>			<b>\$ 31,508,448</b>

Debt service requirements for bonded debt as of August 31, 2012, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2013	\$ 3,115,000	\$ 646,168	\$ 3,761,168
2014	3,260,000	515,443	3,775,443
2015	3,395,000	381,043	3,776,043
2016	1,782,350	2,195,587	3,977,937
2017	1,701,520	2,276,743	3,978,263
2018-2022	7,469,669	12,439,444	19,909,113
2023-2027	6,271,674	13,689,514	19,961,188
2028-2032	4,513,235	11,495,764	16,008,999
<b>Totals</b>	<b>\$ 31,508,448</b>	<b>\$ 43,639,706</b>	<b>\$ 75,148,154</b>

**Loans Payable**

As of August 31, 2012, the District's loan payable balance totaled \$2,170,000. Series 2011, Maintenance Tax Notes were executed as of April 1, 2011, for making various repairs and renovations to existing District facilities and paying the costs of issuance on the Notes. The following represents the annual payments due:

Year Ending August 31,	Principal	Interest	Total	Interest Rate
2013	430,000	42,075	472,075	2.00%
2014	435,000	33,475	468,475	2.00%
2015	445,000	24,775	469,775	2.50%
2016	455,000	13,650	468,650	3.00%
<b>Totals</b>	<b>\$ 1,765,000</b>	<b>\$ 113,975</b>	<b>\$ 1,878,975</b>	

F. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2012, as follows:

<u>Year Ending August 31,</u>	
2013	\$ 93,559
2014	82,591
2015	73,186
2016	68,244
2017	22,304
<b>Total Minimum Rentals</b>	<b>\$ 339,884</b>

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

Rental Expenditures in 2012                      \$ 117,015

**G. Risk Management**

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

**H. Pension Plan**

**1. Plan Description**

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

**2. Funding Policy**

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2012, 2011 and 2010, and a state contribution rate of 6.0% for fiscal year 2012 and 6.644% for fiscal years 2011 and 2010. In certain instances the reporting district is required to make all or a portion of the state's contribution. State contributions to TRS made on behalf of the District's employees for the years ending August 31, 2012, 2011 and 2010 were \$1,092,723, \$1,138,250 and \$1,258,960, respectively. The District paid additional state contributions for the years ending August 31, 2012, 2011 and 2010 in the amount of \$236,879, \$270,241 and \$248,782, respectively, on portion of the employees' salaries that exceeded the statutory minimum.

**I. Retiree Health Care Plans**

**1. TRS-Care**

**a. Plan Description**

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and



**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

required supplementary information for TRS-Care. That report may be obtained by visiting the TRS web site at [www.trs.state.tx.us](http://www.trs.state.tx.us) under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2012, 2011 and 2010. For the years ended August 31, 2012, 2011, and 2010, the State's contributions to TRS-Care were \$237,272, \$239,443, and \$248,516, respectively, the active member contributions were \$154,226, \$155,638, and \$161,536, respectively, and the District's contributions were \$130,502, \$131,694, and \$136,684, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2012, 2011, and 2010, the subsidy payments received by TRS-Care on behalf of the District were \$62,437, \$55,678, and \$61,934, respectively.

3. Early Retiree Reinsurance Program (ERRP)

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependants regardless of age. An "early retiree" is defined as a plan participant aged 55-64 who is not eligible for Medicare and is not covered by an active employee of the plan sponsor.

This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first served basis for qualified employers that apply and become certified for the program. TRS has been certified for this program and has received funds from the ERRP program. For the fiscal year ended August 31, 2012, the amount received by TRS-Care on behalf of the District was \$59,045.

J. Employee Health Care Coverage

During the year ended August 31, 2012, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$248 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents.

K. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

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

**2. Litigation**

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

**L. Shared Services Arrangements**

**Shared Services Arrangement - Membership**

The District participates in a shared services arrangement ("SSA") for certain federal programs with the following entity:

**Member Districts**

Region 10 ESC

Regional Day School Program for the Deaf

**M. Subsequent Events**

On November 9, 2012, the District issued \$5,815,000 of Unlimited Tax Refunding Bonds Series 2012. Proceeds from the sale of the Bonds will be used to refund a portion of the District's outstanding bonds and to pay the costs of issuing the Bonds.

## *Required Supplementary Information*

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

**TERRELL INDEPENDENT SCHOOL DISTRICT**

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1		2		3		Variance with Final Budget Positive (Negative)
		Budgeted Amounts				Actual		
		Original	Final					
<b>REVENUES:</b>								
5700	Local and Intermediate Sources	\$ 15,512,250	\$ 15,714,455	\$ 15,772,708	\$	58,253		
5800	State Program Revenues	14,896,723	15,592,723	15,661,405		68,682		
5900	Federal Program Revenues	99,027	715,822	752,461		36,639		
5020	Total Revenues	<u>30,508,000</u>	<u>32,023,000</u>	<u>32,186,574</u>		<u>163,574</u>		
<b>EXPENDITURES:</b>								
Current:								
Instruction & Instructional Related Services:								
0011	Instruction	16,844,964	16,798,607	16,338,853		459,754		
0012	Instructional Resources and Media Services	448,541	448,541	433,983		14,558		
0013	Curriculum and Staff Development	815,918	815,918	747,744		68,174		
	Total Instruction & Instr. Related Services	<u>18,109,423</u>	<u>18,063,066</u>	<u>17,520,580</u>		<u>542,486</u>		
Instructional and School Leadership:								
0021	Instructional Leadership	470,594	470,594	452,671		17,923		
0023	School Leadership	2,122,644	2,122,644	2,041,144		81,500		
	Total Instructional & School Leadership	<u>2,593,238</u>	<u>2,593,238</u>	<u>2,493,815</u>		<u>99,423</u>		
Support Services - Student (Pupil):								
0031	Guidance, Counseling and Evaluation Services	1,323,869	1,323,869	1,306,198		17,671		
0032	Social Work Services	204,712	204,712	200,238		4,474		
0033	Health Services	297,527	307,527	297,420		10,107		
0034	Student (Pupil) Transportation	1,369,350	1,369,350	1,304,684		64,666		
0035	Food Services	10,923	10,993	10,993		--		
0036	Cocurricular/Extracurricular Activities	864,598	899,598	881,116		18,482		
	Total Support Services - Student (Pupil)	<u>4,070,979</u>	<u>4,116,049</u>	<u>4,000,649</u>		<u>115,400</u>		
Administrative Support Services:								
0041	General Administration	1,268,954	1,568,945	1,256,372		312,573		
	Total Administrative Support Services	<u>1,268,954</u>	<u>1,568,945</u>	<u>1,256,372</u>		<u>312,573</u>		
Support Services - Nonstudent Based:								
0051	Plant Maintenance and Operations	3,908,166	3,908,166	3,615,438		292,728		
0052	Security and Monitoring Services	294,163	324,163	311,710		12,453		
0053	Data Processing Services	463,919	463,919	328,515		135,404		
	Total Support Services - Nonstudent Based	<u>4,666,248</u>	<u>4,696,248</u>	<u>4,255,663</u>		<u>440,585</u>		
Ancillary Services:								
0061	Community Services	86,733	86,733	72,488		14,245		
	Total Ancillary Services	<u>86,733</u>	<u>86,733</u>	<u>72,488</u>		<u>14,245</u>		
Debt Service:								
0071	Principal on Long-Term Debt	471,900	405,000	405,000		--		
0072	Interest on Long-Term Debt	--	66,900	66,900		--		
0073	Bond Issuance Costs and Fees	--	500	500		--		
	Total Debt Service	<u>471,900</u>	<u>472,400</u>	<u>472,400</u>		<u>--</u>		
Capital Outlay:								
0081	Capital Outlay	1,516,525	1,943,821	1,740,519		203,302		
	Total Capital Outlay	<u>1,516,525</u>	<u>1,943,821</u>	<u>1,740,519</u>		<u>203,302</u>		
0099	Other Intergovernmental Charges	234,000	234,000	225,849		8,151		

**TERRELL INDEPENDENT SCHOOL DISTRICT**

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT G-1  
Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
	Total Intergovernmental Charges	<u>234,000</u>	<u>234,000</u>	<u>225,849</u>	<u>8,151</u>
6030	Total Expenditures	<u>33,018,000</u>	<u>33,774,500</u>	<u>32,038,335</u>	<u>1,736,165</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>(2,510,000)</u>	<u>(1,751,500)</u>	<u>148,239</u>	<u>1,899,739</u>
	Other Financing Sources (Uses):				
7912	Sale of Real or Personal Property	--	--	6,214	6,214
7915	Transfers In	864,000	323,000	239,291	(83,709)
8911	Transfers Out	(1,990,000)	(1,449,000)	(1,365,290)	83,710
7080	Total Other Financing Sources and (Uses)	<u>(1,126,000)</u>	<u>(1,126,000)</u>	<u>(1,119,785)</u>	<u>6,215</u>
1200	Net Change in Fund Balance	<u>(3,636,000)</u>	<u>(2,877,500)</u>	<u>(971,546)</u>	<u>1,905,954</u>
0100	Fund Balance - Beginning	<u>10,761,635</u>	<u>10,761,635</u>	<u>10,761,635</u>	--
3000	Fund Balance - Ending	<u>\$ 7,125,635</u>	<u>\$ 7,884,135</u>	<u>\$ 9,790,089</u>	<u>\$ 1,905,954</u>

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## *Other Supplementary Information*

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

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF DELINQUENT TAXES RECEIVABLE**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
	\$	Various	\$	Various	\$	Various
2003 and Prior Years						
2004		1.50		.21		1,009,470,313
2005		1.50		.24		1,013,087,208
2006		1.50		.27		1,169,247,214
2007		1.37		.27		1,252,861,768
2008		1.04		.27		1,328,206,183
2009		1.04		.27		1,447,901,221
2010		1.04		.27		1,406,918,626
2011		1.17		.14		1,323,383,511
2012 (School Year Under Audit)		1.17		.14		1,311,002,595

1000 Totals

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



10 Beginning Balance 9/1/11	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/12
\$ 207,445	\$ --	\$ 2,404	\$ 220	\$ (18,728)	\$ 186,093
68,435	--	332	47	(613)	67,443
98,679	--	1,948	312	(752)	95,667
142,372	--	6,281	1,131	(555)	134,405
210,366	--	28,709	5,655	1,278	177,280
204,202	--	25,879	6,719	(236)	171,368
269,936	--	59,066	15,334	(813)	194,723
399,658	--	56,656	14,709	(84,548)	243,745
617,668	--	279,399	33,432	(8,676)	296,161
--	17,174,134	14,709,054	1,760,058	(54,724)	650,298
<u>\$ 2,218,761</u>	<u>\$ 17,174,134</u>	<u>\$ 15,169,728</u>	<u>\$ 1,837,617</u>	<u>\$ (168,367)</u>	<u>\$ 2,217,183</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

**TERRELL INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT J-2**

**SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2013-2014  
GENERAL AND SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2012**

**FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION AND FUNCTION 99 - APPRAISAL DISTRICT COST**

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ --	\$ --	\$ 225,070	\$ 699,563	\$ --	\$ 39,741	\$ 964,374
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	74,986	--	--	--	--	--	74,986
6212	Audit Services	--	--	--	21,200	--	--	21,200
6213	Tax Appraisal and Collection	--	236,564	--	--	--	--	236,564
621X	Other Prof. Services	--	--	--	--	--	--	--
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	1,500	--	2,000	15,131	--	--	18,631
6240	Contr. Maint. and Repair	--	--	--	--	--	--	--
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	--	10,743	--	--	10,743
6290	Miscellaneous Contr.	1,929	--	--	15,434	--	--	17,363
6310	Operational Supplies, Materials	--	--	197	786	--	--	983
6320	Textbooks and Reading	103	--	321	42	--	--	466
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	274	--	2,079	51,368	--	--	53,721
6410	Travel, Subsistence, Stipends	12,514	--	2,318	13,486	--	--	28,318
6420	Ins. and Bonding Costs	24,338	--	--	78	--	--	24,416
6430	Election Costs	3,136	--	--	--	--	--	3,136
6490	Miscellaneous Operating	9,194	--	4,925	28,858	--	513	43,490
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	--	--

Total \$ 127,974 \$ 236,564 \$ 236,910 \$ 856,689 \$ -- \$ 40,254 \$ 1,498,391

Total Expenditures for General and Special Revenue Funds (9) \$ 38,415,708

LESS: Deductions of Unallowable Costs

**FISCAL YEAR**

Total Capital Outlay (6600)	(10)	\$ 1,985,373
Total Debt & Lease (6500)	(11)	\$ 472,400
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 3,515,609
Food (Function 35, 6341 and 6499)	(13)	\$ 863,597
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		\$ 856,689

Subtotal 7,693,668

Net Allowed Direct Cost \$ 30,722,040

**CUMULATIVE**

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 81,778,548
Historical Cost of Buildings over 50 years old	(16)	1,756,690
Amount of Federal Money in Building Cost (Net of #16)	(17)	468,092
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)	3,839,586
Historical Cost of Furniture & Equipment over 16 years old	(19)	918,101
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ 1,645,365

(8) Note A - \$14,870 in Function 53 expenditures and \$225,849 in Function 99 expenditures are included in this report on administrative costs.

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

EXHIBIT J-3

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>			
5700 <i>Local and Intermediate Sources</i>	\$ 388,050	\$ 362,894	\$ (25,156)
5800 <i>State Program Revenues</i>	13,000	13,004	4
5900 <i>Federal Program Revenues</i>	1,748,950	1,788,836	39,886
5020 <b>Total Revenues</b>	<u>2,150,000</u>	<u>2,164,734</u>	<u>14,734</u>
<b>EXPENDITURES:</b>			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	2,180,000	2,137,785	42,215
Total Support Services - Student (Pupil)	<u>2,180,000</u>	<u>2,137,785</u>	<u>42,215</u>
6030 <b>Total Expenditures</b>	<u>2,180,000</u>	<u>2,137,785</u>	<u>42,215</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>(30,000)</u>	<u>26,949</u>	<u>56,949</u>
Other Financing Sources (Uses):			
7912 <i>Sale of Real or Personal Property</i>	--	55	55
7080 <b>Total Other Financing Sources and (Uses)</b>	<u>--</u>	<u>55</u>	<u>55</u>
1200 <b>Net Change in Fund Balance</b>	<u>(30,000)</u>	<u>27,004</u>	<u>57,004</u>
0100 <b>Fund Balance - Beginning</b>	<u>357,051</u>	<u>357,051</u>	<u>--</u>
3000 <b>Fund Balance - Ending</b>	<u>\$ 327,051</u>	<u>\$ 384,055</u>	<u>\$ 57,004</u>

**TERRELL INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT J-4**

**DEBT SERVICE**

**BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2012**

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>			
5700 <i>Local and Intermediate Sources</i>	\$ 1,885,000	\$ 1,891,478	\$ 6,478
5800 <i>State Program Revenues</i>	--	34,680	34,680
5020 <b>Total Revenues</b>	<u>1,885,000</u>	<u>1,926,158</u>	<u>41,158</u>
<b>EXPENDITURES:</b>			
<b>Debt Service:</b>			
0071 <i>Principal on Long-Term Debt</i>	2,995,000	2,995,000	--
0072 <i>Interest on Long-Term Debt</i>	771,038	771,038	--
0073 <i>Bond Issuance Costs and Fees</i>	2,962	1,750	1,212
<b>Total Debt Service</b>	<u>3,769,000</u>	<u>3,767,788</u>	<u>1,212</u>
6030 <b>Total Expenditures</b>	<u>3,769,000</u>	<u>3,767,788</u>	<u>1,212</u>
1100 <b>Excess (Deficiency) of Revenues Over (Under)</b>			
1100 <b>Expenditures</b>	<u>(1,884,000)</u>	<u>(1,841,630)</u>	<u>42,370</u>
<b>Other Financing Sources (Uses):</b>			
7915 <i>Transfers In</i>	1,126,000	1,126,000	--
7080 <b>Total Other Financing Sources and (Uses)</b>	<u>1,126,000</u>	<u>1,126,000</u>	<u>--</u>
1200 <b>Net Change in Fund Balance</b>	<u>(758,000)</u>	<u>(715,630)</u>	<u>42,370</u>
0100 <b>Fund Balance - Beginning</b>	1,406,808	1,406,809	1
3000 <b>Fund Balance - Ending</b>	<u>\$ 648,808</u>	<u>\$ 691,179</u>	<u>\$ 42,371</u>

**MICHAEL W BEDFORD**  
205 WEST HIGH STREET  
TERRELL, TEXAS 75160

**Independent Auditor's Report**

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

Board of Trustees  
Terrell Independent School District  
700 North Catherine  
Terrell Texas, Texas 75160

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Terrell Independent School District as of and for the year ended August 31, 2012, which collectively comprise the Terrell Independent School District's basic financial statements and have issued our report thereon dated January 28, 2013. 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 Terrell Independent School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Terrell Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Terrell Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Terrell Independent School District's internal control over financial reporting.

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

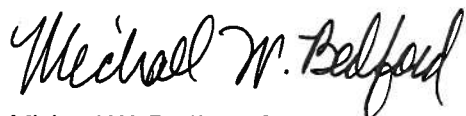
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, 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.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael W. Bedford". The signature is written in a cursive style with a large, stylized initial "M".

Michael W. Bedford, CPA

January 28, 2013

**MICHAEL W BEDFORD**  
205 WEST HIGH STREET  
TERRELL, TEXAS 75160

**Independent Auditor's Report**

Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133

Board of Trustees  
Terrell Independent School District  
700 North Catherine  
Terrell Texas, Texas 75160

Members of the Board of Trustees:

Compliance

We have audited Terrell Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Terrell Independent School District's major federal programs for the year ended August 31, 2012. Terrell Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Terrell Independent School District's management. Our responsibility is to express an opinion on Terrell Independent School 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 Terrell Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Terrell Independent School District's compliance with those requirements.

In our opinion, Terrell Independent School 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 August 31, 2012.

Internal Control Over Compliance

Management of Terrell Independent School 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 Terrell Independent School 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 Terrell Independent School District's internal control over compliance.

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

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

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of Terrell Independent School District's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on Terrell Independent School District's compliance but not to provide an opinion on the effectiveness of Terrell Independent School District's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Terrell Independent School District's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael W. Bedford". The signature is written in a cursive, flowing style.

Michael W. Bedford, CPA

January 28, 2013



**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

**A. Summary of Auditor's Results**

**1. Financial Statements**

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

One or more material weaknesses identified?

     Yes        X   No

One or more significant deficiencies identified that are not considered to be material weaknesses?

     Yes        X   None Reported

Noncompliance material to financial statements noted?

     Yes        X   No

**2. Federal Awards**

Internal control over major programs:

One or more material weaknesses identified?

     Yes        X   No

One or more significant deficiencies identified that are not considered to be material weaknesses?

     Yes        X   None Reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

     Yes        X   No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

93.600

Head Start

84.010A

ESEA Title 1 Part A-Improving Basic Programs

84.367A

ESEA Title II Part A-Teacher&Principal Training

84.410A

Education Jobs Fund

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

  X   Yes           No

**B. Financial Statement Findings**

NONE

**C. Federal Award Findings and Questioned Costs**

NONE

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
Not applicable		

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
*CORRECTIVE ACTION PLAN*  
*FOR THE YEAR ENDED AUGUST 31, 2012*

Not applicable

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

**EXHIBIT K-1**

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Direct Programs:			
<i>Head Start *</i>	93.600	129-906	\$ 732,175
<i>Head Start *</i>	93.600	129-906	226,375
Total Direct Programs			<u>958,550</u>
Passed Through Head Start Body Start Natl Ctr for Physical Development:			
<i>Head Start *</i>	93.600	D345	5,000
Total U. S. Department of Health and Human Services			<u>963,550</u>
<b>U. S. DEPARTMENT OF EDUCATION</b>			
Passed Through State Department of Education:			
<i>ESEA Title I Part A - Improving Basic Programs *</i>	84.010A	12610101129906	1,215,986
<i>IDEA-B Formula *</i>	84.027A	126600011299066600	917,489
<i>Career and Technical - Basic Grant</i>	84.048A	12420006129906	73,422
<i>Career and Technical - Basic Grant</i>	84.048A	13420006129906	5,451
Total CFDA Number 84.048A			<u>78,873</u>
<i>IDEA-B Preschool *</i>	84.173A	126610011299066610	22,307
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365A	12671001057950	79,178
<i>ESEA Title II Part A - Teacher &amp; Principal Training &amp; Recruiting</i>	84.367A	12694501057950	146,101
<i>Summer School LEP</i>	84.369A	569551102	--
<i>Education Jobs Fund</i>	84.410A	11550101129906	721,262
Total Passed Through State Department of Education			<u>3,181,196</u>
Total U. S. Department of Education			<u>3,181,196</u>
<b>U. S. DEPARTMENT OF AGRICULTURE</b>			
Passed Through State Department of Education:			
School Breakfast Program	10.533	129-906	406,121
National School Lunch Program *	10.555	129-906	1,256,646
National School Lunch Program (Non-cash) *	10.555	129-906	126,069
Total CFDA Number 10.555			<u>1,382,715</u>
Summer Food Service Program *	10.559	129-906	25,124
Total Passed Through State Department of Education			<u>1,813,960</u>
Total U. S. Department of Agriculture			<u>1,813,960</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 5,958,706</u>

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

The accompanying notes are an integral part of this schedule.

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

Basis of Presentation

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

Head Start Program

The following is a detail of expenditures for the Head Start Grant No. H-5583 for the project period ended March 31, 2012, according to Head Start budget classifications.

	<u>Budget</u>	<u>Actual</u>
Personnel	\$ 728,347	\$ 730,066
Fringe benefits	138,963	104,647
Travel	9,000	6,611
Supplies	17,287	41,615
Contractual	3,000	8,335
Other	<u>61,486</u>	<u>66,809</u>
Totals	<u>\$ 958,083</u>	<u>\$ 958,083</u>

**TERRELL INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS**  
**AS OF AUGUST 31, 2012**

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ 14,140,594