

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
 Annual Financial Report
 Year Ended August 31, 2012

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CERTIFICATE OF THE BOARD

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Name of School District

PECOS
County

186-903
County -
District
Number

We, the undersigned, certify that the attached annual financial report of the above-named School District was reviewed and

____ approved ____ disapproved for the year ended August 31, 2012, at a meeting of the Board of Trustees of such School District
(Check One)

on the _____ day of _____, 20__.

Steve Garlock
Signature of Board Secretary

Margaret G. Holmes
Signature of Board President

If the Board of Trustees disapproved the annual financial report, the reason(s) for disapproving it is (are) (attach list as necessary):

FINANCIAL SECTION



A Limited Liability Partnership

Michael E. Oliphant, CPA
Calvin Featherston, CPA
Wayne Barr, CPA
Cathryn A. Pitcock, CPA

(325) 944-3571
FAX: (325) 942-1093
www.eckertandcompany.com

Members of
American Institute of CPAs
Texas Society of CPAs

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Iraan-Sheffield Independent School District
P.O. Box 486
Iraan, TX 79744-0486

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Iraan-Sheffield 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 the District's administration. 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 the administration, 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 the Iraan-Sheffield Independent School District as of August 31, 2012, and the respective changes in financial position and, where applicable, cash flows 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 December 7, 2012, on our consideration of the Iraan-Sheffield 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 on pages 4 through 8 and 37 respectively, 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 the administration regarding the methods of preparing the information and comparing the information for consistency with the administration'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 Iraan-Sheffield Independent School District's financial statements as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of the administration and was derived from and relates 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.

Eckert & Company, LLP

December 7, 2012

Iraan-Sheffield Independent School District

Kevin Allen - Superintendent

Excellence in Education

Michael Meek – Business Manager
Randy Doege – Principal, Iraan High School
Ty Stevens – Principal, Iraan Junior High
Blake Andrews – Principal, Iraan Elementary
Mark Kirchoff – Head Coach, Athletic Director

Board of Trustees

Margaret G. Holmes – President
Basiliso Ramirez – Vice President
Steve Garlock – Secretary
Jeffery McMahon
Mickey Jack Perry
Joe Rivas
Lori Turk

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Iraan-Sheffield Independent School District's financial performance provides an overview of the District's financial activities for the year ended August 31, 2012. It should be read in conjunction with the District's basic financial statements and independent auditors' report.

Financial Highlights

The District's assets exceeded its liabilities at the end of the current year by \$19,250,841 (net assets). Of this amount, \$8,420,727 (unrestricted net assets) may be used to meet the District's ongoing obligations.

The District's total net assets decreased by \$1,244,851 or 6%. This amount consists of a \$945,772 increase attributable to current year operations and a \$2,190,623 decrease attributable to prior period adjustments described in Note IV., J. to the financial statements. The District's statement of activities shows total revenues of \$23,751,729 and total expenses of \$22,805,957.

The total fund balance of the General Fund was \$2,787,909 which was a decrease of \$3,304,901 or 54% compared to the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

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

The statement of activities presents information showing how the District's net assets changed during the current year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Overview of the Financial Statements - Continued

The governmental activities of the District include all activities related to public elementary and secondary education within the jurisdiction of the District.

The District has no component units.

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

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the current year.

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Debt Service Fund, and the Capital Projects Fund, all of which are considered to be major funds. Data from other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund, Food Service Special Revenue Fund, and Debt Service Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with the budget for each fund.

Proprietary Funds - The District's Internal Service Fund is used to accumulate and allocate costs internally among the District's various functions. The District uses an internal service fund to account for its employee health insurance program. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

The Internal Service Fund is presented in the proprietary fund financial statements.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis

Net Assets - A summary of the District's net assets is presented below:

| NET ASSETS | | |
|---|--------------------------------|----------------------|
| | <u>Governmental Activities</u> | |
| | <u>August 31,</u> | |
| | <u>2012</u> | <u>2011</u> |
| Current and Other Assets | \$ 22,665,545 | \$ 29,698,602 |
| Capital Assets | <u>18,484,934</u> | <u>14,342,964</u> |
| Total Assets | <u>\$ 41,150,479</u> | <u>\$ 44,041,566</u> |
| Long-Term Liabilities Outstanding | \$ 18,313,756 | \$ 20,304,357 |
| Other Liabilities | <u>3,585,882</u> | <u>3,241,517</u> |
| Total Liabilities | <u>\$ 21,899,638</u> | <u>\$ 23,545,874</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | \$ 10,519,860 | \$ 8,751,804 |
| Restricted | 310,254 | 577 |
| Unrestricted | <u>8,420,727</u> | <u>11,743,311</u> |
| Total Net Assets | <u>\$ 19,250,841</u> | <u>\$ 20,495,692</u> |

A large portion of the District's net assets (\$10,519,860) reflects the District's investment in capital assets, less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide public elementary and secondary education within the jurisdiction of the District; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net assets (\$310,254) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$8,420,727) may be used to meet the District's ongoing obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis - Continued

Governmental Activities - Governmental activities increased the District's net assets by \$945,772 and decreased the District's net assets by \$149,814 for the fiscal years ended August 31, 2012 and 2011, respectively. Key elements of these increases (decreases) are as follows:

CHANGES IN NET ASSETS

| | Governmental Activities | |
|--|-------------------------|---------------|
| | Year Ended August 31, | |
| | 2012 | 2011 |
| Revenues | | |
| Program Revenues | | |
| Charges for Services | \$ 138,758 | \$ 941,286 |
| Operating Grants and Contributions | 663,006 | 1,164,196 |
| General Revenues | | |
| Maintenance and Operations Taxes | 17,914,343 | 18,938,938 |
| Debt Service Taxes | 2,417,002 | 0 |
| State Aid - Formula Grants | 1,777,478 | 1,620,362 |
| Grants and Contributions Not Restricted to Specific Programs | 0 | 666 |
| Investment Earnings | 71,106 | 65,644 |
| Section 313 Agreement | 681,675 | 0 |
| Other | 88,361 | 84,652 |
| Total Revenues | \$ 23,751,729 | \$ 22,815,744 |
| Expenses | | |
| Instruction and Instructional-Related Services | \$ 4,856,889 | \$ 5,143,107 |
| Instructional and School Leadership | 621,875 | 686,513 |
| Support Services - Student (Pupil) | 1,474,773 | 1,460,334 |
| Administrative Support Services | 616,416 | 690,992 |
| Support Services - Nonstudent Based | 1,530,376 | 1,538,037 |
| Debt Service | 529,524 | 430,391 |
| Intergovernmental Charges | 13,176,104 | 13,016,184 |
| Total Expenses | \$ 22,805,957 | \$ 22,965,558 |
| Increase (Decrease) in Net Assets | \$ 945,772 | \$ (149,814) |
| Net Assets - Beginning | 20,495,692 | 20,272,685 |
| Prior Period Adjustments | (2,190,623) | 372,821 |
| Net Assets - Ending | \$ 19,250,841 | \$ 20,495,692 |

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Analysis of the District's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The District's governmental funds reported combined ending fund balances of \$13,195,127, a decrease of \$7,351,819 or 36% in comparison with the prior year. These fund balances are reported in various governmental funds as follows:

General Fund \$2,787,909. Of this balance \$2,500,000 is committed for equipment purchases and other purposes.

Special Revenue Funds \$6,387. This balance is committed for campus activities.

Debt Service Fund \$297,854. This balance is restricted for payment of long-term debt principal and interest.

Capital Projects Fund \$10,102,977. This balance is restricted for construction costs.

General Fund Budget

The original budget for the General Fund was \$23,550,825, and the final amended budget was \$25,810,825 which represents a \$2,260,000 increase in appropriations. Significant variances between the original budget and the final amended budget were caused by a decrease in Instruction (\$662,000), an increase in Facilities Acquisition and Construction (\$2,790,000), a decrease in Administration (\$139,000), a decrease in Facilities Maintenance and Operations (\$181,500), and an increase in Data Processing Services (\$118,000).

The District has adopted a budget for the General Fund in the amount of \$26,627,425 for the fiscal year 2013, which is an increase of \$816,600 from the fiscal year 2012.

Capital Assets and Debt

Capital Assets - The District's investment in capital assets, net of depreciation, for its governmental type activities as of August 31, 2012 and 2011, was \$18,484,934 and \$14,342,964, respectively. This investment in capital assets includes land, buildings and improvements, furniture and equipment, and construction in progress. Financial statement footnote III., D. discloses the District's capital asset activity for the year ended August 31, 2012.

Long-Term Debt - As of August 31, 2012 and 2011, the District had total long-term debt outstanding of \$18,313,756 and \$20,304,357, respectively. Long-term debt includes a maintenance tax note and bonds. Financial statement footnote III., G. discloses the District's debt activity for the year ended August 31, 2012.

Requests for Information

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Kevin Allen, Superintendent, Iraan-Sheffield Independent School District, P.O. Box 486, Iraan, TX 79744-0486.

Basic Financial Statements

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2012

| Data Control Codes | Primary Government Governmental Activities |
|--|--|
| ASSETS | |
| 1110 Cash and Temporary Investments | \$ 22,012,266 |
| 1220 Property Taxes Receivable (Delinquent) | 375,685 |
| 1230 Allowance for Uncollectible Taxes | (183,328) |
| 1240 Due from Other Governments | 139,554 |
| 1290 Other Receivables, Net | 27,286 |
| 1410 Deferred Expenses | 48,378 |
| 1420 Capitalized Bond and Other Debt Issuance Costs | 245,704 |
| Capital Assets: | |
| 1510 Land | 24,530 |
| 1520 Buildings, Net | 12,092,617 |
| 1530 Furniture and Equipment, Net | 1,013,041 |
| 1580 Construction in Progress | 5,354,746 |
| 1000 Total Assets | 41,150,479 |
| LIABILITIES | |
| 2110 Accounts Payable | 928,362 |
| 2140 Interest Payable | 58,558 |
| 2160 Accrued Wages Payable | 252,692 |
| 2180 Due to Other Governments | 220,936 |
| 2300 Deferred Revenues | 2,125,334 |
| Noncurrent Liabilities | |
| 2501 Due Within One Year | 2,028,416 |
| 2502 Due in More Than One Year | 16,285,340 |
| 2000 Total Liabilities | 21,899,638 |
| NET ASSETS | |
| 3200 Invested in Capital Assets, Net of Related Debt | 10,519,860 |
| 3850 Restricted for Debt Service | 310,254 |
| 3900 Unrestricted Net Assets | 8,420,727 |
| 3000 Total Net Assets | \$ 19,250,841 |

The notes to the financial statements are an integral part of this statement.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT B-1

| Data Control Codes | 1 | Program Revenues | | 6 |
|--|--|-------------------------|--|--|
| Codes | Expenses | Charges for Services | Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets Primary Gov. Governmental Activities |
| Primary Government: | | | | |
| GOVERNMENTAL ACTIVITIES: | | | | |
| 11 Instruction | \$ 4,645,286 | \$ 15,026 | \$ 449,607 | \$ (4,180,653) |
| 12 Instructional Resources and Media Services | 98,698 | - | 3,250 | (95,448) |
| 13 Curriculum and Instructional Staff Development | 112,905 | - | 25,618 | (87,287) |
| 23 School Leadership | 621,875 | - | 22,678 | (599,197) |
| 31 Guidance, Counseling, and Evaluation Services | 191,494 | - | 5,959 | (185,535) |
| 33 Health Services | 94,591 | - | 3,491 | (91,100) |
| 34 Student (Pupil) Transportation | 316,705 | 2,983 | 6,679 | (307,043) |
| 35 Food Services | 369,464 | 44,532 | 87,436 | (237,496) |
| 36 Extracurricular Activities | 502,519 | 7,953 | 9,635 | (484,931) |
| 41 General Administration | 616,416 | - | 16,131 | (600,285) |
| 51 Facilities Maintenance and Operations | 1,170,667 | 68,264 | 21,167 | (1,081,236) |
| 53 Data Processing Services | 359,709 | - | 11,355 | (348,354) |
| 72 Debt Service - Interest on Long-Term Debt | 509,838 | - | - | (509,838) |
| 73 Debt Service - Bond Issuance Cost and Fees | 19,686 | - | - | (19,686) |
| 91 Contracted Instructional Services Between Schools | 12,618,740 | - | - | (12,618,740) |
| 93 Payments Related to Shared Services Arrangements | 182,499 | - | - | (182,499) |
| 97 Payments to Tax Increment Fund | 205,561 | - | - | (205,561) |
| 99 Other Intergovernmental Charges | 169,304 | - | - | (169,304) |
| [TP] TOTAL PRIMARY GOVERNMENT: | <u>\$ 22,805,957</u> | <u>\$ 138,758</u> | <u>\$ 663,006</u> | <u>(22,004,193)</u> |
| Data Control Codes | General Revenues: | | | |
| | Taxes: | | | |
| MT | Property Taxes, Levied for General Purposes | | | 17,914,343 |
| DT | Property Taxes, Levied for Debt Service | | | 2,417,002 |
| SF | State Aid - Formula Grants | | | 1,777,478 |
| IE | Investment Earnings | | | 71,106 |
| MI | Miscellaneous Local and Intermediate Revenue | | | 770,036 |
| TR | Total General Revenues | | | <u>22,949,965</u> |
| CN | Change in Net Assets | | | 945,772 |
| NB | Net Assets--Beginning | | | 20,495,692 |
| PA | Prior Period Adjustment | | | (2,190,623) |
| NE | Net Assets--Ending | | | <u>\$ 19,250,841</u> |

The notes to the financial statements are an integral part of this statement.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2012

| Data Control Codes | 10 General Fund | 50 Debt Service Fund | 60 Capital Projects |
|---|-----------------------|----------------------------|---------------------------|
| ASSETS | | | |
| 1110 Cash and Temporary Investments | \$ 5,517,693 | \$ 291,874 | \$ 10,547,422 |
| 1220 Property Taxes - Delinquent | 361,907 | 13,778 | - |
| 1230 Allowance for Uncollectible Taxes (Credit) | (181,950) | (1,378) | - |
| 1240 Due from Other Governments | 137,121 | - | - |
| 1260 Due from Other Funds | 12,192 | 5,980 | - |
| 1290 Other Receivables | 16,215 | - | - |
| 1410 Deferred Expenditures | 48,378 | - | - |
| 1000 Total Assets | <u>\$ 5,911,556</u> | <u>\$ 310,254</u> | <u>\$ 10,547,422</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| 2110 Accounts Payable | \$ 347,624 | \$ - | \$ 432,253 |
| 2160 Accrued Wages Payable | 243,815 | - | - |
| 2170 Due to Other Funds | 5,980 | - | 12,192 |
| 2180 Due to Other Governments | 220,936 | - | - |
| 2300 Deferred Revenues | 2,305,292 | 12,400 | - |
| 2000 Total Liabilities | <u>3,123,647</u> | <u>12,400</u> | <u>444,445</u> |
| Fund Balances: | | | |
| Restricted Fund Balance: | | | |
| 3470 Capital Acquisition and Contractual Obligation | - | - | 10,102,977 |
| 3480 Retirement of Long-Term Debt | - | 297,854 | - |
| Committed Fund Balance: | | | |
| 3530 Capital Expenditures for Equipment | 1,500,000 | - | - |
| 3545 Other Committed Fund Balance | 1,000,000 | - | - |
| 3600 Unassigned Fund Balance | 287,909 | - | - |
| 3000 Total Fund Balances | <u>2,787,909</u> | <u>297,854</u> | <u>10,102,977</u> |
| 4000 Total Liabilities and Fund Balances | <u>\$ 5,911,556</u> | <u>\$ 310,254</u> | <u>\$ 10,547,422</u> |

The notes to the financial statements are an integral part of this statement.

| Other Funds | Total Governmental Funds |
|------------------|--------------------------------|
| \$ 13,593 | \$ 16,370,582 |
| - | 375,685 |
| - | (183,328) |
| 2,433 | 139,554 |
| - | 18,172 |
| - | 16,215 |
| - | 48,378 |
| <u>\$ 16,026</u> | <u>\$ 16,785,258</u> |
| | |
| \$ 762 | \$ 780,639 |
| 8,877 | 252,692 |
| - | 18,172 |
| - | 220,936 |
| - | 2,317,692 |
| <u>9,639</u> | <u>3,590,131</u> |
| | |
| - | 10,102,977 |
| - | 297,854 |
| - | 1,500,000 |
| 6,387 | 1,006,387 |
| - | 287,909 |
| <u>6,387</u> | <u>13,195,127</u> |
| | |
| <u>\$ 16,026</u> | <u>\$ 16,785,258</u> |

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
AUGUST 31, 2012

| | | |
|--|-----------|-------------------|
| Total Fund Balances - Governmental Funds | \$ | 13,195,127 |
| | | |
| 1 The District uses an internal service fund to charge the costs of self-insurance to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase (decrease) net assets. | | 5,505,032 |
| | | |
| 2 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. In addition, long-term liabilities, including notes and bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities in the governmental activities is to increase (decrease) net assets. | | (5,738,468) |
| | | |
| 3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the capital outlays and debt principal payments is to increase (decrease) net assets. | | 6,931,137 |
| | | |
| 4 The depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. | | (834,345) |
| | | |
| 5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets. | | 192,358 |
| | | |
| 19 Net Assets of Governmental Activities | \$ | 19,250,841 |

The notes to the financial statements are an integral part of this statement.

IRAAN-SHEFFIELD 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 Fund | 60 Capital Projects |
|--|-----------------------|----------------------------|---------------------------|
| REVENUES: | | | |
| 5700 Total Local and Intermediate Sources | \$ 18,787,949 | \$ 2,410,077 | \$ 29,164 |
| 5800 State Program Revenues | 2,056,566 | - | - |
| 5900 Federal Program Revenues | - | - | - |
| 5020 Total Revenues | <u>20,844,515</u> | <u>2,410,077</u> | <u>29,164</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| 0011 Instruction | 3,842,679 | - | - |
| 0012 Instructional Resources and Media Services | 85,412 | - | - |
| 0013 Curriculum and Instructional Staff Development | 81,395 | - | - |
| 0023 School Leadership | 546,937 | - | - |
| 0031 Guidance, Counseling, and Evaluation Services | 170,301 | - | - |
| 0033 Health Services | 83,806 | - | - |
| 0034 Student (Pupil) Transportation | 298,516 | - | - |
| 0035 Food Services | - | - | - |
| 0036 Extracurricular Activities | 463,979 | - | - |
| 0041 General Administration | 566,418 | - | - |
| 0051 Facilities Maintenance and Operations | 1,147,318 | - | - |
| 0053 Data Processing Services | 329,669 | - | - |
| Debt Service: | | | |
| 0071 Principal on Long-Term Debt | 357,356 | 1,620,000 | - |
| 0072 Interest on Long-Term Debt | 14,190 | 492,800 | - |
| Capital Outlay: | | | |
| 0081 Facilities Acquisition and Construction | 564,821 | - | 4,373,994 |
| Intergovernmental: | | | |
| 0091 Contracted Instructional Services Between Schools | 12,618,740 | - | - |
| 0093 Payments to Fiscal Agent/Member Districts of SSA | 182,499 | - | - |
| 0097 Payments to Tax Increment Fund | 205,561 | - | - |
| 0099 Other Intergovernmental Charges | 169,304 | - | - |
| 6030 Total Expenditures | <u>21,728,901</u> | <u>2,112,800</u> | <u>4,373,994</u> |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(884,386)</u> | <u>297,277</u> | <u>(4,344,830)</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| 7915 Transfers In | - | - | - |
| 8911 Transfers Out (Use) | (229,892) | - | - |
| 7080 Total Other Financing Sources (Uses) | <u>(229,892)</u> | <u>-</u> | <u>-</u> |
| 1200 Net Change in Fund Balances | (1,114,278) | 297,277 | (4,344,830) |
| 0100 Fund Balance - September 1 (Beginning) | 6,092,810 | 577 | 14,447,807 |
| 1300 Increase (Decrease) in Fund Balance | (2,190,623) | - | - |
| 3000 Fund Balance - August 31 (Ending) | <u>\$ 2,787,909</u> | <u>\$ 297,854</u> | <u>\$ 10,102,977</u> |

The notes to the financial statements are an integral part of this statement.

| Other Funds | Total Governmental Funds |
|----------------|--------------------------------|
| \$ 59,531 | \$ 21,286,721 |
| 3,173 | 2,059,739 |
| 380,745 | 380,745 |
| 443,449 | 23,727,205 |
| 296,493 | 4,139,172 |
| 3,172 | 88,584 |
| 22,542 | 103,937 |
| - | 546,937 |
| - | 170,301 |
| - | 83,806 |
| - | 298,516 |
| 340,658 | 340,658 |
| 9,841 | 473,820 |
| - | 566,418 |
| - | 1,147,318 |
| - | 329,669 |
| - | 1,977,356 |
| - | 506,990 |
| - | 4,938,815 |
| - | 12,618,740 |
| - | 182,499 |
| - | 205,561 |
| - | 169,304 |
| 672,706 | 28,888,401 |
| (229,257) | (5,161,196) |
| 229,892 | 229,892 |
| - | (229,892) |
| 229,892 | - |
| 635 | (5,161,196) |
| 5,752 | 20,546,946 |
| - | (2,190,623) |
| \$ 6,387 | \$ 13,195,127 |

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

| | | |
|---|-----------|----------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ | (5,161,196) |
| | | |
| The District uses an internal service fund to charge the costs of self-insurance to appropriate functions in other funds. The net income (loss) of the internal service fund is reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets. | | (14,347) |
| | | |
| Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the capital outlays and debt principal payments is to increase (decrease) net assets. | | 6,931,137 |
| | | |
| Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets. | | (834,345) |
| | | |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets. | | 24,523 |
| | | |
| Change in Net Assets of Governmental Activities | \$ | 945,772 |

The notes to the financial statements are an integral part of this statement.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2012

| | Governmental Activities - |
|--------------------------------|------------------------------|
| | Internal Service Fund |
| ASSETS | |
| Current Assets: | |
| Cash and Temporary Investments | \$ 5,641,684 |
| Other Receivables | <u>11,071</u> |
| Total Assets | <u>5,652,755</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | <u>147,723</u> |
| Total Liabilities | <u>147,723</u> |
| NET ASSETS | |
| Unrestricted Net Assets | <u>5,505,032</u> |
| Total Net Assets | <u><u>\$ 5,505,032</u></u> |

The notes to the financial statements are an integral part of this statement.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

| | Governmental Activities - |
|--|------------------------------|
| | Internal Service Fund |
| OPERATING REVENUES: | |
| Local and Intermediate Sources | \$ 809,347 |
| Total Operating Revenues | <u>809,347</u> |
| OPERATING EXPENSES: | |
| Professional and Contracted Services | 833,233 |
| Total Operating Expenses | <u>833,233</u> |
| Operating Income (Loss) | <u>(23,886)</u> |
| NONOPERATING REVENUES (EXPENSES): | |
| Earnings from Temporary Deposits and Investments | <u>9,539</u> |
| Total Nonoperating Revenues (Expenses) | <u>9,539</u> |
| Change in Net Assets | (14,347) |
| Total Net Assets - September 1 (Beginning) | <u>5,519,379</u> |
| Total Net Assets - August 31 (Ending) | <u><u>\$ 5,505,032</u></u> |

The notes to the financial statements are an integral part of this statement.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

| | Governmental Activities - |
|---|------------------------------|
| | Internal Service Fund |
| <u>Cash Flows from Operating Activities:</u> | |
| Cash Received from Assessments - Other Funds | \$ 806,596 |
| Cash Payments for Other Operating Expenses | (810,282) |
| Net Cash Used for Operating Activities | <u>(3,686)</u> |
| <u>Cash Flows from Investing Activities:</u> | |
| Interest and Dividends on Investments | <u>9,539</u> |
| Net Increase in Cash and Cash Equivalents | 5,853 |
| Cash and Cash Equivalents at Beginning of Year | <u>5,635,831</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 5,641,684</u> |
| <u>Reconciliation of Operating Income (Loss) to Net Cash</u> | |
| <u>Used for Operating Activities:</u> | |
| Operating Income (Loss): | \$ (23,886) |
| Effect of Increases and Decreases in Current Assets and Liabilities: | |
| Decrease (Increase) in Receivables | (2,751) |
| Increase (Decrease) in Accounts Payable | <u>22,951</u> |
| Net Cash Used for Operating Activities | <u>\$ (3,686)</u> |

The notes to the financial statements are an integral part of this statement.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 AUGUST 31, 2012

| | Agency Fund |
|--------------------------------|------------------|
| <hr/> | |
| ASSETS | |
| Cash and Temporary Investments | \$ 21,972 |
| Total Assets | <u>\$ 21,972</u> |
| LIABILITIES | |
| Accounts Payable | \$ 241 |
| Due to Student Groups | <u>21,731</u> |
| Total Liabilities | <u>\$ 21,972</u> |

The notes to the financial statements are an integral part of this statement.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
August 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Iraan-Sheffield Independent School District is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with accounting principles generally accepted in the United States of America applicable to state and local governments. Additionally the District complies with the requirements of the Texas Education Agency's *Financial Accountability System Resource Guide* (the *Resource Guide*) and the requirements of contracts and grants of agencies from which it receives funds.

A. Reporting Entity

The District is governed by the Board of Trustees, a seven-member group, which is elected by the public and has governance responsibilities, including fiscal accountability, over all activities related to public elementary and secondary education within the jurisdiction of the Iraan-Sheffield Independent School District (the primary government). There are no component units included within the reporting entity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities include programs supported primarily by taxes, State foundation funds, grants, and other intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges for services - payments from parties that purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment of the District and (2) grants and contributions - payments from organizations outside the District that are restricted to meeting the operational or capital requirements of a particular function or segment of the District. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Interfund activities between governmental funds and proprietary funds appear as due to/due froms on the governmental funds balance sheet and on the proprietary funds statement of net assets and as other resources and other uses on the governmental funds statement of revenues, expenditures, and changes in fund balance and on the proprietary funds statement of revenues, expenses, and changes in fund net assets. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated in the government-wide financial statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide statement of net assets.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with a proprietary fund's ongoing operations. Operating expenses include the cost of services and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned,

IRAAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, revenues received from the state, and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received they are recorded as deferred revenues until related and authorized expenditures have been made.

The proprietary funds and fiduciary funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the period in which they are incurred and become measurable.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

The Capital Projects Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

Additionally, the government reports the following fund types:

The Internal Service Fund accounts for the operations of a self-insured employee health insurance program.

Agency Funds account for the activities of funds which are the property of student groups.

D. Cash and Cash Equivalents - Proprietary Funds

For purposes of the statement of cash flows for proprietary fund types, the District considers cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Interfund Receivables and Payables

Activity between individual funds may result in amounts owed between funds which are classified as Due To and From Other Funds. Other than amounts due to or from fiduciary funds these balances are eliminated in the statement of net assets.

F. Receivables and Payables

Receivables are stated at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

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.

G. Capital Assets

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and Improvements | 50 |
| Vehicles | 12 |
| Furniture and Equipment | 12 |

H. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

IRAAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. Compensated Absences

The District's policy does not permit employees to accumulate unused vacation and sick leave to be paid to the employees upon separation from service.

J. Fund Balances/Equity

In the fund financial statements, governmental funds report the following classifications of fund balance:

Restricted - Amounts that can be spent only for specific purposes because usage restraints have been imposed by external sources such as creditors (through a debt covenant), grantors, contributors, or laws or regulations of other governments.

Committed - Amounts that can be used only for specific purposes determined by a formal action of the Board of Trustees, the District's highest level of decision-making authority. Commitments may be modified or rescinded only through formal action by the Board of Trustees.

Unassigned - Amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund.

The details of the fund balances are included in the governmental funds balance sheet.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

Unrestricted net assets for proprietary funds represent the net assets available for future operations.

K. Net Assets on the Statement of Net Assets

Net assets on the statement of net assets including the following:

Invested in Capital Assets, Net of Related Debt - This component of net assets represents the difference between capital assets net of accumulated depreciation and the outstanding balance of debt, excluding any unspent debt proceeds, that is directly attributable to the acquisition, construction, or improvement of those assets.

Restricted for Debt Service - This component of net assets represents the difference between assets and liabilities of the Debt Service Fund that consists of assets with constraints placed on their use by creditors.

Unrestricted - This is the difference between assets and liabilities that is not reported as Invested in Capital Assets, Net of Related Debt, or Restricted for Debt Service.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

L. Property Tax Revenues

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

The District recognizes as tax revenues those taxes that are measurable and available. Measurable means the amount can be determined, and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within the current period.

Taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles are based upon historical experience. 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.

M. Interfund Transfers

Permanent relocations of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budget

Formal budgetary accounting is employed for all required governmental fund types and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles.

The official school budget is prepared for adoption for required governmental fund types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, the Debt Service Fund, and the Food Service Special Revenue Fund. The remaining Special Revenue Funds and the Capital Projects Fund adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. The budget was amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board.

B. Excess Expenditures Over Appropriations

Expenditures exceeded appropriations in the following functions:

| | |
|-------------------------------------|-----------|
| General Fund | |
| 11 - Instruction | \$ 75,229 |
| 97 - Payments to Tax Increment Fund | 205,561 |

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2012

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

Custodial Credit Risk - Deposits and Investments: In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits and investments in certificates of deposit may not be returned to it. The District's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state and local governments by pledging securities in excess of the highest cash balance of the government. The District is not exposed to custodial credit risk for its deposits since they are covered by depository insurance and pledged securities held by a third party in the District's name.

Concentration of Credit Risk: The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. At August 31, 2012, all of the District's investments are in external investment pools.

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 August 31, 2012, the District was not significantly exposed to credit risk.

Interest Rate Risk: The District's investment policy limits its investment portfolio to maturities of one year or less as a means of limiting its exposure to fair value losses arising from fluctuating interest rates.

Foreign Currency Risk: Not applicable

The carrying amount of the District's cash and temporary investments at August 31, 2012, approximates fair value and consisted of the following:

| | |
|--------------------------------------|-----------------------------|
| Cash in Bank | \$ 1,025,181 |
| Lone Star Investment Pool | 15,215,814 |
| TexPool | 5,278,535 |
| LOGIC | <u>514,708</u> |
| Total Cash and Temporary Investments | <u><u>\$ 22,034,238</u></u> |

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2012

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

B. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from other governments are summarized as follows:

| | State Entitlements | Federal Grants | Other | Total |
|-----------------------|-----------------------|-------------------|-----------|------------|
| General Fund | \$ 47,966 | \$ 0 | \$ 89,155 | \$ 137,121 |
| Special Revenue Funds | 0 | 2,433 | 0 | 2,433 |
| Totals | \$ 47,966 | \$ 2,433 | \$ 89,155 | \$ 139,554 |

C. Interfund Transfers

1. The following is a summary of amounts due from and due to other funds:

| | Due From | Due To | Purpose |
|-----------------------------|-----------|-----------|---------------|
| General Fund | | | |
| Major Capital Projects Fund | \$ 12,192 | \$ 0 | Reimbursement |
| Major Debt Service Fund | 0 | 5,980 | Remit Taxes |
| | \$ 12,192 | \$ 5,980 | |
| Major Debt Service Fund | | | |
| General Fund | 5,980 | 0 | Remit Taxes |
| Major Capital Projects Fund | | | |
| General Fund | 0 | 12,192 | Reimbursement |
| Totals | \$ 18,172 | \$ 18,172 | |

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

2. Interfund transfers consist of the following:

| Transfers From | Transfers To | Amount | Purpose |
|----------------|-----------------------------|------------|--------------------|
| General Fund | Nonmajor Governmental Funds | \$ 229,892 | Operating Transfer |

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2012

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

D. Capital Assets

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

| <u>Governmental Activities</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|------------------|---------------------------|
| Capital Assets | | | | |
| Land | \$ 24,530 | \$ 0 | \$ 0 | \$ 24,530 |
| Buildings and Improvements | 19,626,990 | 0 | 0 | 19,626,990 |
| Furniture and Equipment | 2,161,407 | 37,500 | 0 | 2,198,907 |
| Construction in Progress | <u>415,931</u> | <u>4,938,815</u> | <u>0</u> | <u>5,354,746</u> |
| Total Capital Assets | <u>\$ 22,228,858</u> | <u>\$ 4,976,315</u> | <u>\$ 0</u> | <u>\$ 27,205,173</u> |
| Less Accumulated Depreciation | | | | |
| Buildings and Improvements | \$ (6,881,911) | \$ (652,460) | \$ 0 | \$ (7,534,371) |
| Furniture and Equipment | <u>(1,003,983)</u> | <u>(181,885)</u> | <u>0</u> | <u>(1,185,868)</u> |
| Total Accumulated Depreciation | <u>\$ (7,885,894)</u> | <u>\$ (834,345)</u> | <u>\$ 0</u> | <u>\$ (8,720,239)</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 14,342,964</u> | <u>\$ 4,141,970</u> | <u>\$ 0</u> | <u>\$ 18,484,934</u> |

Depreciation expense was charged to governmental activities functions as follows:

| | |
|--|-------------------|
| Instruction | \$ 497,697 |
| Instructional Resources and Media Services | 9,952 |
| Curriculum and Instructional Staff Development | 8,854 |
| School Leadership | 73,739 |
| Guidance, Counseling, and Evaluation Services | 20,869 |
| Health Services | 10,623 |
| Student (Pupil) Transportation | 18,027 |
| Food Services | 27,841 |
| Extracurricular Activities | 28,391 |
| General Administration | 49,345 |
| Facilities Maintenance and Operations | 59,425 |
| Data Processing Services | <u>29,582</u> |
| Total | <u>\$ 834,345</u> |

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2012

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

E. Deferred Revenues

Deferred revenues at year end consisted of the following:

| | General Fund | Debt Service Fund | Total |
|--|---------------------|-------------------------|---------------------|
| Net Delinquent Taxes Receivable | \$ 179,958 | \$ 12,400 | \$ 192,358 |
| Foundation School Program Act Entitlements | <u>2,125,334</u> | <u>0</u> | <u>2,125,334</u> |
| Totals | <u>\$ 2,305,292</u> | <u>\$ 12,400</u> | <u>\$ 2,317,692</u> |

F. Commitments Under Noncapitalized Leases

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

| Year Ending <u>August 31,</u> | |
|----------------------------------|------------------|
| 2013 | \$ 29,431 |
| 2014 | 22,377 |
| 2015 | 11,470 |
| 2016 | <u>2,867</u> |
| Total Minimum Rentals | <u>\$ 66,145</u> |

Rental expenditures during the year ended August 31, 2012, were \$34,718.

G. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended August 31, 2012:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|----------------------------|----------------------|------------------|---------------------|----------------------|------------------------|
| Maintenance Tax Note | \$ 4,730,018 | \$ 0 | \$ 357,355 | \$ 4,372,663 | \$ 358,416 |
| Capital Appreciation Bonds | 653,614 | 35,261 | 0 | 688,875 | 0 |
| Current Interest Bonds | 14,375,000 | 0 | 1,620,000 | 12,755,000 | 1,670,000 |
| Unamortized Bond Premium | <u>545,725</u> | <u>0</u> | <u>48,507</u> | <u>497,218</u> | <u>0</u> |
| Totals | <u>\$ 20,304,357</u> | <u>\$ 35,261</u> | <u>\$ 2,025,862</u> | <u>\$ 18,313,756</u> | <u>\$ 2,028,416</u> |

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2012

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

G. Long-Term Debt - Continued

The District's outstanding maintenance tax note payable is as follows:

Iraan-Sheffield Independent School District Maintenance Tax Note, Series 2009. Issued for the purpose of renovation and repair of facilities and to enhance energy conservation, as authorized by Texas Education Code, Section 45.108, in the original amount of \$5,081,000. Due in variable installments through March 15, 2024, payable from the General Fund with an interest rate of .3% . \$ 4,372,663

The District's outstanding bond issues are as follows:

Iraan-Sheffield Independent School District Unlimited Tax School Building Bonds, Series 2010, Capital Appreciation Bonds. Issued for school building construction in the original amount of \$624,997. The bonds are carried at the original amount plus accreted interest of \$63,878. The bonds are payable August 15, 2016, in one payment of \$850,000 which will include accreted interest of \$225,004. The yield to maturity is 2.48%. \$ 688,875

Iraan-Sheffield Independent School District Unlimited Tax School Building Bonds, Series 2010, Current Interest Bonds. Issued for school building construction in the original amount of \$14,375,000. Due in variable installments through August 15, 2025, with interest rates of 3% to 4%. 12,755,000

Total Bonds Payable \$ 13,443,875

The combined annual debt service requirements are as follows:

| Year Ending August 31, | Maintenance Tax Note | | Capital Appreciation Bonds | | Current Interest Bonds | | Total |
|---------------------------|----------------------|------------------|----------------------------|-------------------|------------------------|---------------------|----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | |
| 2013 | \$ 358,416 | \$ 13,118 | \$ 0 | \$ 0 | \$ 1,670,000 | \$ 444,200 | \$ 2,485,734 |
| 2014 | 359,491 | 12,043 | 0 | 0 | 1,250,000 | 394,100 | 2,015,634 |
| 2015 | 360,570 | 10,964 | 0 | 0 | 1,055,000 | 356,600 | 1,783,134 |
| 2016 | 361,651 | 9,883 | 624,997 | 225,003 | 0 | 0 | 1,221,534 |
| 2017 | 362,736 | 8,798 | 0 | 0 | 850,000 | 324,950 | 1,546,484 |
| 2018-2022 | 1,830,072 | 27,600 | 0 | 0 | 4,670,000 | 1,198,650 | 7,726,322 |
| 2023-2025 | 739,727 | 3,330 | 0 | 0 | 3,260,000 | 264,200 | 4,267,257 |
| Totals | <u>\$ 4,372,663</u> | <u>\$ 85,736</u> | <u>\$ 624,997</u> | <u>\$ 225,003</u> | <u>\$ 12,755,000</u> | <u>\$ 2,982,700</u> | <u>\$ 21,046,099</u> |

H. Outstanding Encumbrances

There were no outstanding encumbrances that were provided for in the subsequent year's budget.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2012

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

I. Revenues from Local and Intermediate Sources

Local and intermediate source revenues consists of the following:

| | General Fund | Special Revenue Funds | Debt Service Fund | Capital Projects Fund | Total |
|---|----------------------|-----------------------------|-------------------------|-----------------------------|----------------------|
| Property Taxes | \$ 17,978,616 | \$ 0 | \$ 2,406,319 | \$ 0 | \$ 20,384,935 |
| Other Local Sources | 794,116 | 21,126 | 3,758 | 29,164 | 848,164 |
| Cocurricular, Enterprising Services, or Activities | 4,970 | 38,405 | 0 | 0 | 43,375 |
| Intermediate Sources | 10,247 | 0 | 0 | 0 | 10,247 |
| Totals | <u>\$ 18,787,949</u> | <u>\$ 59,531</u> | <u>\$ 2,410,077</u> | <u>\$ 29,164</u> | <u>\$ 21,286,721</u> |

IV. OTHER INFORMATION

A. Pension Plan

Plan Description - The Iraan-Sheffield Independent School District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple-employer defined benefit pension plan. TRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Section 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, 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.

Funding Policy - Contribution requirements are not actuarially determined but are established and amended pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year; and (2) A state statute prohibits benefit improvements if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2012

IV. OTHER INFORMATION - Continued

A. Pension Plan - Continued

Contribution rates and contribution amounts for fiscal years 2012-2010 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the reporting district is required to make all or a portion of the state's and/or member's contribution and on the portion of the employees' salaries that exceeded the statutory minimum and on salaries paid from federal grants.

| Fiscal Year | Member | | State | | District |
|----------------|--------|------------|--------|------------|-----------|
| | Rate | Amount | Rate | Amount | Amount |
| 2012 | 6.4% | \$ 293,510 | 6.000% | \$ 275,165 | \$ 58,603 |
| 2011 | 6.4% | 309,046 | 6.644% | 314,320 | 64,337 |
| 2010 | 6.4% | 329,251 | 6.644% | 311,455 | 81,270 |

B. Retiree Health Plan

Plan Description - The Iraan-Sheffield Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care 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. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by downloading the report from the TRS Internet website, 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.

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. Contribution rates and contribution amounts for fiscal years 2012-2010 are shown in the table below:

| Fiscal Year | Active Member | | State | | District | |
|----------------|---------------|-----------|-------|-----------|----------|-----------|
| | Rate | Amount | Rate | Amount | Rate | Amount |
| 2012 | 0.65% | \$ 29,810 | 1% | \$ 45,861 | 0.55% | \$ 25,223 |
| 2011 | 0.65% | 31,394 | 1% | 48,298 | 0.55% | 26,564 |
| 2010 | 0.65% | 33,439 | 1% | 51,445 | 0.55% | 28,295 |

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 Texas Public School Retired Employee Group Insurance Program (TRS-Care), administered by TRS, to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2012

V. OTHER INFORMATION - Continued

B. Retiree Health Plan - Continued

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

The on-behalf payments for fiscal years 2012-2010 are shown in the table below:

| <u>Year</u> | <u>Part D</u> | <u>ERRP</u> |
|-------------|---------------|-------------|
| 2012 | \$ 9,854 | \$ 10,865 |
| 2011 | 11,073 | - |
| 2010 | 12,862 | - |

C. Health Care Coverage

The District sponsors a modified self-insurance plan to provide health care benefits to staff members and their dependents. Transactions related to the plan are accounted for in the Internal Service Fund. The District makes contributions for staff members’ coverage, and staff members are required to make contributions for dependent coverage. The District obtained excess loss insurance which limited annual claims paid from the Fund for the year ended August 31, 2012, to \$35,000 for any individual participant and an aggregate limit equal to \$875,063.

Estimates of claims payable and of claims incurred, but not reported at August 31, 2012, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due.

Changes in the balances of claims liabilities are as follows:

| | <u>Year Ended August 31,</u> | |
|---------------------------|------------------------------|------------------|
| | <u>2012</u> | <u>2011</u> |
| Unpaid Claims - Beginning | \$ 81,223 | \$ 79,506 |
| Incurred Claims | 543,934 | 613,248 |
| Claim Payments | (546,064) | (611,531) |
| Unpaid Claims - Ending | <u>\$ 79,093</u> | <u>\$ 81,223</u> |

D. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, for which the District participated in a public entity risk pool. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding coverage for each of the past three fiscal years.

IRAAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2012

IV. OTHER INFORMATION - Continued

E. Property and Liability Programs

During the year ended August 31, 2012, the District participated in the TASB Risk Management Fund's (the Fund's) Property and Liability Programs.

The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property and Liability Programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. Based on information we have available as of today, for the year ended August 31, 2012, the District will have no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2011, are available at the TASB's offices.

F. Unemployment Compensation Coverage

During the year ended August 31, 2012, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

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

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2011, are available at the TASB's offices.

G. Workers' Compensation Insurance

During the year ended August 31, 2012, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, of the Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2012

IV. OTHER INFORMATION - Continued

G. Workers' Compensation Insurance - Continued

The Fund and its members are protected against higher than expected claims costs through the purchase of stop-loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2011, the Fund carries a discounted reserve of \$72,540,560 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2011, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2011, are available at the TASB's offices.

H. Contingencies

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the 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 combined financial statements for such contingencies.

I. Shared Services Arrangement

The District participates in a shared services arrangement for special education with four other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The McCamey Independent School District is the fiscal agent manager and is responsible for all financial activities of the shared services arrangement. The District expended \$182,499 to the shared services arrangement during the current year.

J. Adjustments to Fund Balances/Net Assets

The fund balance of the General Fund has been increased (decreased) by the following adjustments:

| | |
|---|------------------------------|
| To Record Settle Up of Prior Year's State Foundation Revenues | \$ (2,111,790) |
| To Record Settle Up of Prior Year's Recapture Payments | <u>(78,833)</u> |
| Total | <u><u>\$ (2,190,623)</u></u> |

K. Economic Concentration

The District receives more than half of its ad valorem tax revenues from an oil company and three wind farm companies.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2012

IV. OTHER INFORMATION - Continued

L. Commitment

During the fiscal year ended August 31, 2011, the District began Phase 1 of an extensive renovation of various District facilities to be funded with the proceeds of bonds issued in the amount of \$14,999,997 as explained further in footnote III., G.

At the fiscal year end, the District had uncompleted construction projects for renovations to the Junior High School and High School. The estimated total cost of these renovation projects is \$10,069,041, and the remaining commitment on this phase of the project is approximately \$6,705,998. The District will fund the project with bond proceeds as work is performed.

M. Subsequent Events

The District's administration has evaluated subsequent events through December 7, 2012, the date which the financial statements were available for issue.

Required Supplementary Information

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2012

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|--|------------------|---------------|-----------------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ 18,655,000 | \$ 18,655,000 | \$ 18,787,949 | \$ 132,949 |
| 5800 State Program Revenues | 1,679,500 | 1,679,500 | 2,056,566 | 377,066 |
| 5020 Total Revenues | 20,334,500 | 20,334,500 | 20,844,515 | 510,015 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| 0011 Instruction | 4,429,450 | 3,767,450 | 3,842,679 | (75,229) |
| 0012 Instructional Resources and Media Services | 92,550 | 130,550 | 85,412 | 45,138 |
| 0013 Curriculum and Instructional Staff Development | 60,150 | 133,150 | 81,395 | 51,755 |
| 0023 School Leadership | 620,075 | 591,575 | 546,937 | 44,638 |
| 0031 Guidance, Counseling, and Evaluation Services | 182,525 | 220,525 | 170,301 | 50,224 |
| 0033 Health Services | 90,800 | 129,800 | 83,806 | 45,994 |
| 0034 Student (Pupil) Transportation | 369,200 | 412,200 | 298,516 | 113,684 |
| 0036 Extracurricular Activities | 525,675 | 578,675 | 463,979 | 114,696 |
| 0041 General Administration | 844,400 | 705,400 | 566,418 | 138,982 |
| 0051 Facilities Maintenance and Operations | 1,398,250 | 1,216,750 | 1,147,318 | 69,432 |
| 0053 Data Processing Services | 287,750 | 405,750 | 329,669 | 76,081 |
| Debt Service: | | | | |
| 0071 Principal on Long-Term Debt | 375,000 | 407,000 | 357,356 | 49,644 |
| 0072 Interest on Long-Term Debt | 15,000 | 15,000 | 14,190 | 810 |
| Capital Outlay: | | | | |
| 0081 Facilities Acquisition and Construction | 60,000 | 2,850,000 | 564,821 | 2,285,179 |
| Intergovernmental: | | | | |
| 0091 Contracted Instructional Services Between Schools | 13,500,000 | 13,500,000 | 12,618,740 | 881,260 |
| 0093 Payments to Fiscal Agent/Member Districts of SSA | 200,000 | 258,000 | 182,499 | 75,501 |
| 0097 Payments to Tax Increment Fund | - | - | 205,561 | (205,561) |
| 0099 Other Intergovernmental Charges | 200,000 | 189,000 | 169,304 | 19,696 |
| 6030 Total Expenditures | 23,250,825 | 25,510,825 | 21,728,901 | 3,781,924 |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | (2,916,325) | (5,176,325) | (884,386) | 4,291,939 |
| OTHER FINANCING SOURCES (USES): | | | | |
| 8911 Transfers Out (Use) | (300,000) | (300,000) | (229,892) | 70,108 |
| 7080 Total Other Financing Sources (Uses) | (300,000) | (300,000) | (229,892) | 70,108 |
| 1200 Net Change in Fund Balances | (3,216,325) | (5,476,325) | (1,114,278) | 4,362,047 |
| 0100 Fund Balance - September 1 (Beginning) | 6,092,810 | 6,092,810 | 6,092,810 | - |
| 1300 Increase (Decrease) in Fund Balance | - | - | (2,190,623) | (2,190,623) |
| 3000 Fund Balance - August 31 (Ending) | \$ 2,876,485 | \$ 616,485 | \$ 2,787,909 | \$ 2,171,424 |

Other Supplementary Information

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2012

| Last 10 Years Ended August 31 | (1) | (2) | (3) |
|----------------------------------|-------------|--------------|--|
| | Tax Rates | | Assessed/Appraised Value for School Tax Purposes |
| | Maintenance | Debt Service | |
| 2003 and prior years | Various | Various | \$ Various |
| 2004 | 1.500000 | 0.000000 | 725,343,530 |
| 2005 | 1.500000 | 0.000000 | 742,826,810 |
| 2006 | 1.500000 | 0.000000 | 981,952,913 |
| 2007 | 1.370000 | 0.000000 | 1,190,688,630 |
| 2008 | 1.040000 | 0.000000 | 1,326,240,780 |
| 2009 | 1.040000 | 0.000000 | 1,832,831,737 |
| 2010 | 1.040000 | 0.000000 | 1,618,532,692 |
| 2011 | 1.040000 | 0.000000 | 1,871,571,154 |
| 2012 (School year under audit) | 1.040000 | 0.130000 | 1,786,378,974 |
| 1000 TOTALS | | | |

Adjustment for 2012 reflects discounts allowed for early payment.

| (10) Beginning Balance 9/1/2011 | (20) Current Year's Total Levy | (31) Maintenance Collections | (32) Debt Service Collections | (40) Entire Year's Adjustments | (50) Ending Balance 8/31/2012 |
|--|---|------------------------------------|-------------------------------------|---|--|
| \$ 139,816 | \$ - | \$ 3,703 | \$ - | \$ (4,441) | \$ 131,672 |
| 23,277 | - | 403 | - | - | 22,874 |
| 10,816 | - | 785 | - | - | 10,031 |
| 15,274 | - | 664 | - | - | 14,610 |
| 11,169 | - | 1,745 | - | - | 9,424 |
| 8,137 | - | 1,318 | - | - | 6,819 |
| 12,957 | - | 1,985 | - | (6) | 10,966 |
| 26,747 | - | 10,248 | - | (242) | 16,257 |
| 97,141 | - | 68,528 | - | 418 | 29,031 |
| - | 20,900,635 | 17,812,839 | 2,404,602 | (559,193) | 124,001 |
| <u>\$ 345,334</u> | <u>\$ 20,900,635</u> | <u>\$ 17,902,218</u> | <u>\$ 2,404,602</u> | <u>\$ (563,464)</u> | <u>\$ 375,685</u> |

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2013-2014
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2012

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

| Account Number | Account Name | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|----------------|---|-----------------------|--------------------------|------------------------|------------------------|----------------------|--------------------------|-------------------|
| | | (702) School Board | (703) Tax Collections | (701) Supt's Office | (750) Indirect Cost | (720) Direct Cost | (other) Miscellaneous | Total |
| 611X-6146 | PAYROLL COSTS | \$ - | \$ - | \$ 195,776 | \$ 204,489 | \$ - | \$ - | \$ 400,265 |
| 6149 | Leave for Separating Employees in Fn 41 & 53 | - | - | - | - | - | - | - |
| 6149 | Leave - Separating Employees not in 41 & 53 | - | - | - | - | - | - | - |
| 6211 | Legal Services | 15,532 | - | - | - | - | - | 15,532 |
| 6212 | Audit Services | - | - | - | 18,631 | - | - | 18,631 |
| 6213 | Tax Appraisal/Collection - Appraisal in Fn 99 | - | 223,155 | - | - | - | - | 223,155 |
| 6214 | Lobbying | - | - | - | - | - | - | - |
| 621X | Other Professional Services | 3,725 | - | - | - | - | - | 3,725 |
| 6220 | Tuition and Transfer Payments | - | - | - | - | - | - | - |
| 6230 | Education Service Centers | - | - | 365 | 5,450 | - | - | 5,815 |
| 6240 | Contr. Maint. and Repair | - | - | - | - | - | - | - |
| 6250 | Utilities | - | - | - | - | - | - | - |
| 6260 | Rentals | - | - | 9,886 | 3,807 | - | - | 13,693 |
| 6290 | Miscellaneous Contr. | - | - | - | 17,464 | - | - | 17,464 |
| 6320 | Textbooks and Reading | - | - | 466 | - | - | - | 466 |
| 6330 | Testing Materials | - | - | - | - | - | - | - |
| 63XX | Other Supplies Materials | 2,503 | - | 4,428 | 4,097 | - | - | 11,028 |
| 6410 | Travel, Subsistence, Stipends | 13,798 | - | 7,849 | 4,318 | - | - | 25,965 |
| 6420 | Ins. and Bonding Costs | - | - | - | 45 | - | - | 45 |
| 6430 | Election Costs | 1,061 | - | - | - | - | - | 1,061 |
| 6490 | Miscellaneous Operating | 30,656 | - | 3,984 | 5,413 | - | - | 40,053 |
| 6500 | Debt Service | - | - | - | - | - | - | - |
| 6600 | Capital Outlay | - | - | - | - | - | - | - |
| 6000 | TOTAL | \$ 67,275 | \$ 223,155 | \$ 222,754 | \$ 263,714 | \$ - | \$ - | \$ 776,898 |

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 22,401,607

LESS: Deductions of Unallowable Costs

FISCAL YEAR

| | |
|--|-----------------|
| Total Capital Outlay (6600) | (10) \$ 602,321 |
| Total Debt & Lease(6500) | (11) 371,546 |
| Plant Maintenance (Function 51, 6100-6400) | (12) 1,109,818 |
| Food (Function 35, 6341 and 6499) | (13) 99,861 |
| Stipends (6413) | (14) - |
| Column 4 (above) - Total Indirect Cost | 263,714 |

SubTotal: 2,447,260

Net Allowed Direct Cost \$ 19,954,346

CUMULATIVE

| | |
|---|--------------------|
| Total Cost of Buildings before Depreciation (1520) | (15) \$ 19,626,988 |
| Historical Cost of Building over 50 years old | (16) \$ 354,000 |
| Amount of Federal Money in Building Cost (Net of #16) | (17) \$ - |
| Total Cost of Furniture & Equipment before Depreciation (1530 & 1540) | (18) \$ 2,198,909 |
| Historical Cost of Furniture & Equipment over 16 years old | (19) \$ 76,727 |
| Amount of Federal Money in Furniture & Equipment (Net of #19) | (20) \$ - |

(8) NOTE A: \$41,176 in Function 53 expenditures are included in this report on administrative costs.
 \$169,304 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2012

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|--|------------------|-------------|--------------------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ 25,000 | \$ 25,000 | \$ 23,330 | \$ (1,670) |
| 5800 State Program Revenues | 1,000 | 1,000 | 1,196 | 196 |
| 5900 Federal Program Revenues | 87,000 | 87,000 | 86,240 | (760) |
| 5020 Total Revenues | 113,000 | 113,000 | 110,766 | (2,234) |
| EXPENDITURES: | | | | |
| 0035 Food Services | 368,000 | 424,000 | 340,658 | 83,342 |
| 6030 Total Expenditures | 368,000 | 424,000 | 340,658 | 83,342 |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | (255,000) | (311,000) | (229,892) | 81,108 |
| OTHER FINANCING SOURCES (USES): | | | | |
| 7915 Transfers In | 300,000 | 300,000 | 229,892 | (70,108) |
| 7080 Total Other Financing Sources (Uses) | 300,000 | 300,000 | 229,892 | (70,108) |
| 1200 Net Change in Fund Balances | 45,000 | (11,000) | - | 11,000 |
| 0100 Fund Balance - September 1 (Beginning) | - | - | - | - |
| 3000 Fund Balance - August 31 (Ending) | \$ 45,000 | \$ (11,000) | \$ - | \$ 11,000 |

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2012

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|---|------------------|--------------|--------------------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ 2,300,000 | \$ 2,300,000 | \$ 2,410,077 | \$ 110,077 |
| 5020 Total Revenues | 2,300,000 | 2,300,000 | 2,410,077 | 110,077 |
| EXPENDITURES: | | | | |
| Debt Service: | | | | |
| 0071 Principal on Long-Term Debt | 1,620,000 | 1,620,000 | 1,620,000 | - |
| 0072 Interest on Long-Term Debt | 492,800 | 492,800 | 492,800 | - |
| 6030 Total Expenditures | 2,112,800 | 2,112,800 | 2,112,800 | - |
| 1200 Net Change in Fund Balances | 187,200 | 187,200 | 297,277 | 110,077 |
| 0100 Fund Balance - September 1 (Beginning) | 577 | 577 | 577 | - |
| 3000 Fund Balance - August 31 (Ending) | \$ 187,777 | \$ 187,777 | \$ 297,854 | \$ 110,077 |

COMPLIANCE AND INTERNAL CONTROLS SECTION



A Limited Liability Partnership

Michael E. Oliphant, CPA
Calvin Featherston, CPA
Wayne Barr, CPA
Cathryn A. Pitcock, CPA

(325) 944-3571
FAX: (325) 942-1093
www.eckertandcompany.com

Members of
American Institute of CPAs
Texas Society of CPAs

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
Iraan-Sheffield Independent School District
P.O. Box 486
Iraan, TX 79744-0486

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Iraan-Sheffield Independent School District as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The administration of the Iraan-Sheffield Independent School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Iraan-Sheffield 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 Iraan-Sheffield Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iraan-Sheffield 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 the administration 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 District'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 the Iraan-Sheffield 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item: 12-1.

Board of Trustees
Page 2

We also reported this matter to the administration of the Iraan-Sheffield Independent School District in a separate letter dated December 7, 2012.

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

This report is intended solely for the information and use of the administration, the Board of Trustees, others within the District, and the Texas Education Agency and is not intended to be and should not be used by anyone other than these specified parties.

Eckert & Company, LLP

December 7, 2012

IRAAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended August 31, 2012

A. Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the Iraan-Sheffield Independent School District.
2. No significant deficiencies relating to the audit of the basic financial statements are reported in the 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*.
3. One instance of noncompliance material to the basic financial statements of the Iraan-Sheffield Independent School District, which would be required to be reported in accordance with *Government Auditing Standards*, was disclosed during the audit.

B. Findings - Financial Statements Audit

None

C. Findings - State Compliance

Reference Number: 12-1

Criteria:

Section 44.006 of the Texas Education Code states that public funds of the District may not be spent in any manner other than as provided for in the budget as amended by the Board of Trustees.

Condition:

Expenditures exceeded appropriations in the following functions:

| General Fund | |
|-------------------------------------|-----------|
| 11 - Instruction | \$ 75,229 |
| 97 - Payments to Tax Increment Fund | 205,561 |

Cause:

Amendments to the budget were not adequate to ensure that expenditures did not exceed appropriations during the year.

Effect:

Public funds of the District were spent that were not provided for in the budget.

Auditors' Recommendation:

The budget should be monitored closely to see that amendments are made as necessary.

Administration's Response:

The District will monitor the budget closely to see that the amounts appropriated are adequate to cover all expenditures.

IRAAN-SHEFFIELD INDEPENDENT SCHOOL DISTRICT
Corrective Action Plan
Year Ended August 31, 2012

(Prepared by the District's Administration)

The Iraan-Sheffield Independent School District submits the following corrective action plan for the year ended August 31, 2012:

Findings - State Compliance

12-1 Budget Overexpenditure

Recommendation:

The budget should be monitored closely to see that amendments are made as necessary.

Action Taken:

The District will monitor the budget closely to see that the amounts appropriated are adequate to cover all expenditures.

Anticipated Completion Date: Throughout Fiscal Year Ending August 31, 2013

Contact Person

Kevin Allen, Superintendent
432/639-2512