

TERRELL INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2013

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Introductory Section

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Terrell Independent School District
Annual Financial Report
For The Year Ended August 31, 2013

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CERTIFICATE OF BOARD

Terrell Independent School District
Name of School District

Kaufman
County

129-906
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) _____ approved _____ disapproved for the year ended August 31, 2013, at a meeting of the board of trustees of such school district on the ____ day of _____, _____.

Signature of Board Secretary

Signature of Board President

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

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Financial Section

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MICHAEL W. BEDFORD
CERTIFIED PUBLIC ACCOUNTANT
205 WEST HIGH STREET
TERRELL, TEXAS 75160

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Terrell Independent School District ("the District") as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Terrell Independent School District as of August 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A to the financial statements, in 2013, Terrell Independent School District adopted new accounting guidance, Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2013, Terrell Independent School District adopted new accounting guidance, Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Terrell Independent School District's basic financial statements. The introductory section and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2014 on our consideration of Terrell Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements

and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Terrell Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,

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

Michael W. Bedford, CPA

Terrell, Texas
January 24, 2014

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TERRELL INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED AUGUST 31, 2013 (UNAUDITED)

This section of Terrell Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2013. Please read this narrative in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of Terrell Independent School District exceeded its liabilities as of August 31, 2013 by \$15,904,702 (net position).
- The District's total government-wide net position decreased by \$1,931,543.
- At the close of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$9,144,390.
- The general fund reported a fund balance of \$7,963,715, a decrease of \$1,826,374 over the prior fiscal year.
- In December 2012, Series 2001 bonds in the amount of \$385,000 and Series 2002 bonds in the amount of \$5,430,000, for a total of \$5,815,000, were refunded for a total savings of \$1,363,417.78. Proceeds from the sale will be used to refund a portion of the District's outstanding bonds and pay the cost of issuing the bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The District implemented Government Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and early implementation of GASB Statement 65, Items Previously Reported as Assets and Liabilities, which change the structure of the balance sheet and changed the Statement of Net Assets to the Statement of Net Position. Deferred outflows of resources is reported in a separate section following assets, while deferred inflows of resources is reported in a separate section following liabilities. Statement 65 reclassifies items previously reported as assets and liabilities into deferred outflows and inflows of

resources. It also limits the use of the term “deferred” to only items reported as deferred outflows of resources or deferred inflows of resources.

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

Government-Wide Statements

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

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

- Over time, increases or decreases in the District’s net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors, such as changes in the District’s average daily attendance or its property tax base and the condition of the District’s facilities.

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

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The District’s administration establishes other funds to control and manage money for particular purposes (like campus activities).

The District has the following kinds of funds:

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

- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

Net position of the District's governmental activities decreased from \$17,836,245 to \$15,904,702. Unrestricted net position – the part of net position that can be used to finance day-to-day operation without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$10,027,302 at August 31, 2013.

Table I
Terrell Independent School District
NET POSITION

	Governmental Activities	
	<u>2013</u>	<u>2012</u>
Current and other assets	12,682,323	14,912,812
Capital assets	50,919,660	52,738,354
Total assets	<u>63,601,983</u>	<u>67,651,166</u>
Deferred Outflows	<u>599,787</u>	<u>0</u>
Long-term liabilities	42,603,750	44,140,424
Other liabilities	5,693,318	5,674,497
Total liabilities	<u>48,297,068</u>	<u>49,814,921</u>
Net Position:		
Invested in capital assets net of related debt	5,110,763	5,146,698
Restricted	766,637	949,592
Unrestricted	10,027,302	11,739,955
Total net position	<u>15,904,702</u>	<u>17,836,245</u>

Changes in Net Position

The District's total revenues were \$40,795,730. A significant portion, 42.6% of the District's revenue comes from taxes, while 37.5% comes from state aid-grants and contributions. The total cost of all programs and services was \$42,576,150; 53.4% of these costs are instruction, and instructional resources and media services.

Table II
Terrell Independent School District
CHANGES IN NET POSITION

	Governmental Activities	
	<u>2013</u>	<u>2012</u>
Revenue:		
Program Revenues		
Charges for Services	592,178	563,748
Operating Grants and Contributions	7,469,411	7,867,221
General Revenues		
Property Taxes	17,383,537	17,383,844
State Aid – Grants and Contributions	15,310,134	14,603,362
Miscellaneous	40,470	96,795
Total Revenue	<u>40,795,730</u>	<u>40,514,970</u>
Expenses:		
Instruction	22,251,232	21,836,123
Instructional Resources and Media Services	490,452	491,180
Curriculum and Staff Development	1,165,860	895,008
Instructional Leadership	557,518	484,298
School Leadership	2,201,503	2,140,753
Guidance, Counseling and Evaluation Services	1,400,490	1,358,332
Social Work Services	294,111	282,444
Health Services	382,826	405,220
Student Transportation	1,401,001	1,344,555
Food Services	2,310,241	2,266,693
Extracurricular Activities	1,070,548	1,074,325
General Administration	1,503,596	1,314,802
Plant Maintenance And Operation	4,144,705	3,610,190
Security and Monitoring Services	332,394	314,489
Data Processing Services	480,476	336,097
Community Services	126,887	122,065
Interest on Long-term Debt	1,959,457	2,162,318
Bond Issuance Costs and Fees	285,421	221,134
Other Intergovernmental Charges	217,432	225,849
Total Expenses	<u>42,576,150</u>	<u>40,885,875</u>
Change in Net Position	(1,780,420)	(370,905)
Net Position-Beginning	17,836,245	18,207,150
Prior Period Adjustment	(151,123)	
Net Position-Ending	<u>15,904,702</u>	<u>17,836,245</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$9,144,390, which is \$1,869,981 lower than last year's total of \$11,014,371. Included in this year's change in fund balance is a decrease of \$1,826,374 in the District's General Fund.

Over the course of the year, the District revised its budget three times. With these adjustments, actual General Fund expenditures were \$910,996 below final budget amounts and revenues were \$236,605 above the final budget amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2013, the District had \$89,322,606 invested in a broad range of capital assets, including land, equipment, and buildings and improvements. This amount represents a net increase (including additions and deductions) of \$400,845 above last year.

At year-end the District had \$46,373,751 in debt outstanding as compared to \$47,958,670 from the last fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Total revenues budgeted included 13% from federal sources, 43% from state sources, and 44% from local sources.
- The 2013 tax rate remained at \$1.31 (\$1.17 for Maintenance and Operations and \$.14 for Interest and Sinking).
- The 2013 total market value is \$2,084,807,550 compared to \$2,047,944,514 for 2012 which is an increase of \$36,863,036. The 2013 certified taxable value is \$1,346,364,599 compared to \$1,333,859,508 for 2012 which is an increase of \$12,505,091.
- On January 21, 2014, the Board of Trustees adopted a resolution authorizing the issuance of maintenance tax notes in the amount of \$8,830,000 and time warrants in the amount of \$1,000,000. Proposed facility improvements include renovations at Burnett Elementary, Kennedy Elementary, Terrell High School and Memorial Stadium.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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Basic Financial Statements

TERRELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2013

Data Control Codes		1	Governmental Activities
ASSETS:			
1110	Cash and Cash Equivalents	\$	2,232,820
1120	Current Investments		6,877,164
1225	Property Taxes Receivable (Net)		994,773
1240	Due from Other Governments		2,533,462
1290	Other Receivables (Net)		19,417
1300	Inventories		22,700
1410	Unrealized Expenses		1,987
Capital Assets:			
1510	Land		3,303,627
1520	Buildings and Improvements, Net		45,956,409
1530	Furniture and Equipment, Net		1,659,624
1000	Total Assets		<u>63,601,983</u>
DEFERRED OUTFLOWS OF RESOURCES:			
	Deferred Outflows of Resources		599,787
1700	Total Deferred Outflows of Resources		<u>599,787</u>
LIABILITIES:			
2110	Accounts Payable		279,336
2140	Interest Payable		34,934
2165	Accrued Liabilities		1,276,586
2180	Due to Other Governments		210,847
2300	Unearned Revenue		121,615
Noncurrent Liabilities:			
2501	Due Within One Year		3,770,000
2502	Due in More Than One Year		42,603,750
2000	Total Liabilities		<u>48,297,068</u>
NET POSITION			
3200	Net Investment in Capital Assets		5,110,763
Restricted For:			
3850	Debt Service		661,450
3860	Capital Projects		720
3870	Campus Activities		60,072
	Other Purposes		
3890	Nonexpendable		44,395
3900	Unrestricted		10,027,302
3000	Total Net Position	\$	<u>15,904,702</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	<i>Instruction</i>	\$ 22,251,232	\$ 31,204	\$ 3,731,380	\$ (18,488,648)
12	<i>Instructional Resources and Media Services</i>	490,452	—	18,970	(471,482)
13	<i>Curriculum and Staff Development</i>	1,165,860	188	365,506	(800,166)
21	<i>Instructional Leadership</i>	557,518	—	57,699	(499,819)
23	<i>School Leadership</i>	2,201,503	10,239	161,360	(2,029,904)
31	<i>Guidance, Counseling, & Evaluation Services</i>	1,400,490	—	583,795	(816,695)
32	<i>Social Work Services</i>	294,111	—	91,782	(202,329)
33	<i>Health Services</i>	382,826	—	111,396	(271,430)
34	<i>Student Transportation</i>	1,401,001	—	36,857	(1,364,144)
35	<i>Food Service</i>	2,310,241	398,146	1,919,965	7,870
36	<i>Cocurricular/Extracurricular Activities</i>	1,070,548	107,918	34,214	(928,416)
41	<i>General Administration</i>	1,503,596	—	104,197	(1,399,399)
51	<i>Facilities Maintenance and Operations</i>	4,144,705	43,875	141,910	(3,958,920)
52	<i>Security and Monitoring Services</i>	332,394	—	18,318	(314,076)
53	<i>Data Processing Services</i>	480,476	—	15,320	(465,156)
61	<i>Community Services</i>	126,887	608	31,833	(94,446)
72	<i>Interest on Long-term Debt</i>	1,959,457	—	44,909	(1,914,548)
73	<i>Bond Issuance Costs and Fees</i>	285,421	—	—	(285,421)
99	<i>Other Intergovernmental Charges</i>	217,432	—	—	(217,432)
TG	Total Governmental Activities	<u>42,576,150</u>	<u>592,178</u>	<u>7,469,411</u>	<u>(34,514,561)</u>
TP	Total Primary Government	<u>\$ 42,576,150</u>	<u>\$ 592,178</u>	<u>\$ 7,469,411</u>	<u>(34,514,561)</u>
	General Revenues:				
MT	<i>Property Taxes, Levied for General Purposes</i>				15,514,121
DT	<i>Property Taxes, Levied for Debt Service</i>				1,869,416
IE	<i>Investment Earnings</i>				21,144
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>				15,310,134
MI	<i>Miscellaneous</i>				19,326
TR	Total General Revenues and Transfers				<u>32,734,141</u>
CN	Change in Net Position				(1,780,420)
NB	Net Position - Beginning				17,836,245
PA	Prior Period Adjustment				(151,123)
	Net Position - Beginning, as Restated				17,685,122
NE	Net Position - Ending				<u>\$ 15,904,702</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT**BALANCE SHEET - GOVERNMENTAL FUNDS**

AUGUST 31, 2013

Data Control Codes	10 General Fund	50 Debt Service	Other Governmental Funds	98 Total Governmental Funds
ASSETS:				
1110 <i>Cash and Cash Equivalents</i>	\$ 1,938,338	\$ 10,876	\$ (146,719)	\$ 1,802,495
1120 <i>Current Investments</i>	5,786,589	587,316	45,115	6,419,020
1225 <i>Taxes Receivable, Net</i>	852,164	142,609	--	994,773
1240 <i>Due from Other Governments</i>	1,611,744	4,934	916,784	2,533,462
1260 <i>Due from Other Funds</i>	1,045	--	--	1,045
1290 <i>Other Receivables</i>	13,205	--	1,297	14,502
1300 <i>Inventories</i>	22,700	--	--	22,700
1410 <i>Unrealized Expenditures</i>	1,987	--	--	1,987
1000 Total Assets	<u>10,227,772</u>	<u>745,735</u>	<u>816,477</u>	<u>11,789,984</u>
LIABILITIES:				
Current Liabilities:				
2110 <i>Accounts Payable</i>	\$ 256,020	\$ --	\$ 23,316	\$ 279,336
2150 <i>Payroll Deductions & Withholdings</i>	11,162	--	--	11,162
2160 <i>Accrued Wages Payable</i>	964,240	--	26,768	991,008
2170 <i>Due to Other Funds</i>	8,698	--	1,045	9,743
2180 <i>Due to Other Governments</i>	126,562	84,285	--	210,847
2200 <i>Accrued Expenditures</i>	26,615	--	494	27,109
2300 <i>Unearned Revenue</i>	18,596	--	103,019	121,615
2000 Total Liabilities	<u>1,411,893</u>	<u>84,285</u>	<u>154,642</u>	<u>1,650,820</u>
DEFERRED INFLOWS OF RESOURCES:				
<i>Unavailable Revenue - Property Taxes</i>	852,164	142,610	--	994,774
2600 Total Deferred Inflows of Resources	<u>852,164</u>	<u>142,610</u>	<u>--</u>	<u>994,774</u>
FUND BALANCES:				
Nonspendable Fund Balances:				
3410 <i>Inventories</i>	22,700	--	--	22,700
3425 <i>Endowment Principal</i>	--	--	44,395	44,395
3430 <i>Prepaid Items</i>	1,987	--	--	1,987
Restricted Fund Balances:				
3450 <i>Federal/State Funds Grant Restrictions</i>	--	--	556,561	556,561
3480 <i>Retirement of Long-Term Debt</i>	--	518,840	--	518,840
3490 <i>Other Restrictions of Fund Balance</i>	--	--	3,559	3,559
Committed Fund Balances:				
3525 <i>Retirement of Loans/Notes Payable</i>	1,406,900	--	--	1,406,900
3545 <i>Other Committed Fund Balance</i>	--	--	57,320	57,320
3600 <i>Unassigned</i>	6,532,128	--	--	6,532,128
3000 Total Fund Balances	<u>7,963,715</u>	<u>518,840</u>	<u>661,835</u>	<u>9,144,390</u>
Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 10,227,772</u>	<u>\$ 745,735</u>	<u>\$ 816,477</u>	<u>\$ 11,789,984</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2013

Total fund balances - governmental funds balance sheet	\$ 9,144,390
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	50,879,638
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	994,774
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	694,797
Payables for bond principal which are not due in the current period are not reported in the funds.	(29,119,337)
Payables for bond interest which are not due in the current period are not reported in the funds.	(15,934,697)
Payables for notes which are not due in the current period are not reported in the funds.	(1,354,648)
Deferred outflows of resources are not reported in the funds.	599,785
Net position of governmental activities - Statement of Net Position	\$ <u>15,904,702</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	10 General Fund	50 Debt Service	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 Local and Intermediate Sources	\$ 15,791,325	\$ 1,888,937	\$ 557,836	\$ 18,238,098
5800 State Program Revenues	16,421,625	44,909	211,113	16,677,647
5900 Federal Program Revenues	533,155	--	5,460,647	5,993,802
5020 Total Revenues	<u>32,746,105</u>	<u>1,933,846</u>	<u>6,229,596</u>	<u>40,909,547</u>
EXPENDITURES:				
Current:				
0011 Instruction	17,707,625	--	3,047,822	20,755,447
0012 Instructional Resources and Media Services	444,386	--	--	444,386
0013 Curriculum and Staff Development	821,450	--	336,437	1,157,887
0021 Instructional Leadership	522,787	--	33,675	556,462
0023 School Leadership	2,100,290	--	78,815	2,179,105
0031 Guidance, Counseling, & Evaluation Services	1,330,252	--	55,648	1,385,900
0032 Social Work Services	209,565	--	83,627	293,192
0033 Health Services	265,932	--	99,326	365,258
0034 Student Transportation	1,357,906	--	36,857	1,394,763
0035 Food Service	2,460	--	2,196,852	2,199,312
0036 Cocurricular/Extracurricular Activities	874,134	--	30,846	904,980
0041 General Administration	1,445,166	--	1,300	1,446,466
0051 Facilities Maintenance and Operations	4,105,678	--	66,753	4,172,431
0052 Security and Monitoring Services	308,720	--	3,500	312,220
0053 Data Processing Services	718,091	--	--	718,091
0061 Community Services	75,055	--	29,406	104,461
0071 Principal on Long-term Debt	430,000	3,240,000	--	3,670,000
0072 Interest on Long-term Debt	42,075	463,935	--	506,010
0073 Bond Issuance Costs and Fees	500	121,096	--	121,596
0099 Other Intergovernmental Charges	217,432	--	--	217,432
6030 Total Expenditures	<u>32,979,504</u>	<u>3,825,031</u>	<u>6,100,864</u>	<u>42,905,399</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>(233,399)</u>	<u>(1,891,185)</u>	<u>128,732</u>	<u>(1,995,852)</u>
Other Financing Sources and (Uses):				
7901 Refunding Bonds Issued	--	5,815,000	--	5,815,000
7912 Sale of Real or Personal Property	7,025	--	--	7,025
7915 Transfers In	137,054	1,600,000	--	1,737,054
7916 Premium or Discount on Issuance of Bonds	--	609,212	--	609,212
8911 Transfers Out	(1,737,054)	--	--	(1,737,054)
8940 Payment to Bond Refunding Escrow Agent	--	(6,305,366)	--	(6,305,366)
7080 Total Other Financing Sources and (Uses)	<u>(1,592,975)</u>	<u>1,718,846</u>	<u>--</u>	<u>125,871</u>
1200 Net Change in Fund Balances	<u>(1,826,374)</u>	<u>(172,339)</u>	<u>128,732</u>	<u>(1,869,981)</u>
0100 Fund Balances - Beginning	9,790,089	691,179	533,103	11,014,371
3000 Fund Balances - Ending	<u>\$ 7,963,715</u>	<u>\$ 518,840</u>	<u>\$ 661,835</u>	<u>\$ 9,144,390</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2013

Net change in fund balances - total governmental funds	\$ (1,869,981)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	387,286
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,235,418)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(113,818)
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	283,303
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	6,305,366
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	3,240,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	430,000
The accretion of interest on capital appreciation bonds is not reported in the funds.	(1,759,171)
(Increase) decrease in accrued interest from beginning of period to end of period.	22,421
The net revenue (expense) of internal service funds is reported with governmental activities.	117,628
Deferred charges on refunding of bonds in SOA not in the funds.	(163,826)
Issuance of debt is reported as liabilities in the SNP and as other resources in the funds.	(6,424,212)
Rounding difference	2
Change in net position of governmental activities - Statement of Activities	\$ <u>(1,780,420)</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT**STATEMENT OF NET POSITION****INTERNAL SERVICE FUNDS****AUGUST 31, 2013**

<u>Data Control Codes</u>		<u>Internal Service Funds</u>
ASSETS:		
Current Assets:		
1110	<i>Cash and Cash Equivalents</i>	\$ 430,325
1120	<i>Investments</i>	458,144
<i>Receivables:</i>		
1260	<i>Due from Other Funds</i>	8,698
1290	<i>Other Receivables (net)</i>	4,915
	Total Current Assets	<u>902,082</u>
Noncurrent Assets:		
Capital Assets:		
1530	<i>Furniture and Equipment</i>	120,695
1570	<i>Accumulated Depreciation</i>	(80,673)
	Total Noncurrent Assets	<u>40,022</u>
1000	Total Assets	<u>942,104</u>
LIABILITIES:		
Current Liabilities:		
2200	<i>Accrued Expenses</i>	\$ 247,307
	Total Current Liabilities	<u>247,307</u>
2000	Total Liabilities	<u>247,307</u>
NET POSITION:		
3900	<i>Unrestricted</i>	694,797
3000	Total Net Position	<u>\$ 694,797</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

<u>Data Control Codes</u>		<u>Internal Service Funds</u>
	OPERATING REVENUES:	
5700	<i>Local and Intermediate Sources</i>	\$ 423,376
5020	Total Revenues	<u>423,376</u>
	OPERATING EXPENSES:	
6100	<i>Payroll Costs</i>	54,834
6200	<i>Professional and Contracted Services</i>	148,196
6300	<i>Supplies and Materials</i>	53,315
6400	<i>Other Operating Costs</i>	50,956
6030	Total Expenses	<u>307,301</u>
	Operating Income (Loss)	<u>116,075</u>
	NON-OPERATING REVENUES (EXPENSES):	
7951	<i>Gain in Sale of Real and Personal Property</i>	693
7955	<i>Earnings from Temp. Deposits and Investments</i>	861
8030	Total Non-operating Revenues (Expenses)	<u>1,554</u>
1300	Change in Net Position	117,629
0100	Total Net Position - Beginning	577,168
3300	Total Net Position - Ending	<u>\$ 694,797</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT**STATEMENT OF CASH FLOWS****INTERNAL SERVICE FUNDS****FOR THE YEAR ENDED AUGUST 31, 2013**

	Internal Service Funds
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 70,145
<i>Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds</i>	348,811
<i>Cash Payments to Employees for Services</i>	(54,833)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(330,480)
Net Cash Provided (Used) by Operating Activities	<u>33,643</u>
Cash Flows from Non-capital Financing Activities:	
<i>Transfers From (To) Other Funds</i>	(8,698)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(8,698)</u>
Cash Flows from Capital and Related Financing Activities:	
Purchase of Equipment	(33,299)
Proceeds from Sale of Equipment	693
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(32,606)</u>
Cash Flows from Investing Activities:	
<i>Interest and Dividends on Investments</i>	860
Net Cash Provided (Used) for Investing Activities	<u>860</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(6,801)
Cash and Cash Equivalents at Beginning of Year	895,270
Cash and Cash Equivalents at End of Year	\$ <u>888,469</u>
Reconciliation of Operating Income to Net Cash	
<i>Provided by Operating Activities:</i>	
Operating Income (Loss)	\$ 117,629
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
Depreciation	3,862
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	(13,118)
<i>Purchase of equipment</i>	(33,299)
<i>Increase (Decrease) in Accrued Expenses</i>	(81,875)
<i>Total Adjustments</i>	<u>(124,430)</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>(6,801)</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT**STATEMENT OF FIDUCIARY NET POSITION****FIDUCIARY FUNDS****AUGUST 31, 2013**

Data Control Codes		Agency Fund
		Student Activity
	ASSETS:	
1110	<i>Cash and Cash Equivalents</i>	\$ 178,637
1000	Total Assets	<u>178,637</u>
	LIABILITIES:	
	Current Liabilities:	
2110	<i>Accounts Payable</i>	\$ 2,290
2190	<i>Due to Student Groups</i>	<u>176,347</u>
2000	Total Liabilities	<u>178,637</u>
	NET POSITION:	
3000	Total Net Position	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

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TERRELL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

The District reports the following major governmental funds:

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

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

In addition, the District reports the following fund types:

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

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013

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

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

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

b. Measurement Focus, Basis of Accounting

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

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

3. Financial Statement Amounts

a. Cash and Cash Equivalents

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

b. Property Taxes

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

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

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013

c. Inventories and Prepaid Items

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

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

d. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50
Building Improvements	7-20
Equipment	3-20

e. Deferred Outflows and Inflows of Resources

GASB No. 63 and GASB No. 65 provide guidance on financial reporting related to deferred outflows of resources and deferred inflows of resources. The objective of these statements is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

f. Receivable and Payable Balances

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

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

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013

expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net positions.

h. Use of Estimates

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

i. Data Control Codes

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

j. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

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

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

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

k. Net Position Flow Assumption

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

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013

I. Fund Balance Flow Assumptions

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

B. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2013, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,411,456 and the bank balance was \$3,810,205. The District's cash deposits at August 31, 2013 and during the year ended August 31, 2013, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

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

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

The District's investments at August 31, 2013 are shown below.

<u>Investment or Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool	\$ 574,087	56
First Public/Lone Star Investment Pool:		

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013

Government Overnight	6,303,077	57
Total Investments	<u>\$ 6,877,164</u>	

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk. At year end, the District was not significantly exposed to credit risk as balances in Texpool and Lone Star Investment Pool were rated AAA-m and AAA by Standard & Poor's, respectively.

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act,

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013

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

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

C. Capital Assets

Capital asset activity for the year ended August 31, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,303,627	\$ --	\$ --	\$ 3,303,627
Total capital assets not being depreciated	3,303,627	--	--	3,303,627
<i>Capital assets being depreciated:</i>				
Buildings and improvements	81,758,067	--	18,206	81,739,861
Equipment	3,860,067	438,792	19,741	4,279,118
Total capital assets being depreciated	85,618,134	438,792	37,947	86,018,979
Less accumulated depreciation for:				
Buildings and improvements	(33,801,758)	(1,981,694)	--	(35,783,452)
Equipment	(2,381,980)	(257,255)	(19,741)	(2,619,494)
Total accumulated depreciation	(36,183,738)	(2,238,949)	(19,741)	(38,402,946)
Total capital assets being depreciated, net	49,434,396	(1,800,157)	18,206	47,616,033
Governmental activities capital assets, net	\$ 52,738,023	\$ (1,800,157)	\$ 18,206	\$ 50,919,660

Depreciation was charged to functions as follows:

Instruction	\$ 1,613,413
Instructional Resources and Media Services	46,067
Curriculum and Staff Development	7,973
Instructional Leadership	1,056
School Leadership	22,398
Guidance, Counseling, & Evaluation Services	14,590
Social Work Services	919
Health Services	17,568
Student Transportation	6,238
Food Services	110,929
Extracurricular Activities	165,568
General Administration	60,660
Plant Maintenance and Operations	121,388
Security and Monitoring Services	20,174
Data Processing Services	7,582
Community Services	22,426
	<u>\$ 2,238,949</u>

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013

D. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2013, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Food Service Fund	\$ 1,045	Short-term amount
Internal Service Fund	General Fund	8,698	Short-term amount
	Total	\$ 9,743	

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

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2013, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Debt service fund	\$ 1,600,000	Provide resources for excess expenditures over revenue
General fund	General Fund - Athletics Fund	137,054	Provide resources for excess expenditures over revenue
	Total	\$ 1,737,054	

E. Long-Term Obligations

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

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2013, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 31,508,448	\$ 5,815,000	\$ 9,055,000	\$ 28,268,448	\$ 3,335,000
Unamortized premium	544,628	609,213	283,303	870,538	--
Accreted interest payable	14,140,594	1,759,171	--	15,899,765	--
Sub-Total Bonds	46,193,670	8,183,384	9,338,303	45,038,751	3,335,000
Maintenance Tax Notes	1,765,000	--	430,000	1,335,000	435,000
Total governmental activities	\$ 47,958,670	\$ 8,183,384	\$ 9,768,303	\$ 46,373,751	\$ 3,770,000

Bonded debt will be paid by the Debt Service Fund, and the Maintenance Tax Notes will be paid by the General Fund. After adoption of GASB 65, the deferred amounts on refunding are now reported as deferred outflows of resources.

Bonds

On December 12, 2012, the District issued \$5,815,000 in "Terrell Independent School District Unlimited Tax Refunding Bonds, Series 2012" with interest rates of 2% to 3% to advance refund \$5,815,000 of selected maturities of outstanding Series 2001 Bonds (\$385,000) and Series 2002 Bonds (\$5,430,000) with interest rates

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013

of 4.9% to 5.5%. The net proceeds of \$6,306,866 (after payment of \$117,346 in underwriting fees and other issuance costs plus premium received of \$609,212) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the selected maturities of 2001 and 2002 Series bonds. As a result, the selected maturities of the 2001 and 2002 Series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$490,366. This difference, reported in the accompanying financial statements as a deduction from bonds payable is being charged to operations through the year 2031 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 18 years by \$1,363,418 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,170,359.

At August 31, 2013, \$5,430,000 of the Series 2002 outstanding bonds is considered defeased.

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2013, are as follows:

Bonds Payable

Debt service requirements on bonded debt at August 31, 2013, are as follows:

Year Ending August 31,	Bonded Long-Term Debt		
	Principal	Interest	Total
2014	\$ 3,335,000	\$ 385,700	\$ 3,720,700
2015	3,265,000	454,700	3,719,700
2016	1,827,350	2,085,350	3,912,700
2017	1,746,520	2,170,980	3,917,500
2018	1,662,168	2,254,832	3,917,000
2019-2023	7,294,987	12,283,763	19,578,750
2024-2028	5,990,070	13,582,030	19,572,100
2029-2033	3,147,353	8,594,997	11,742,350
Totals	\$ 28,268,448	\$ 41,812,352	\$ 70,080,800

Description	Interest Rates	Original Amount	Outstanding Balance
Unlimited Tax School Building and Refunding Bonds, Series 2001	4.625% - 5.76%	\$ 39,078,681	\$ 16,508,448
Unlimited Tax School Building Bonds, Series 2002	5%	6,950,000	190,000
Unlimited Tax Refunding Bonds, Series 2010	4%	12,135,000	5,980,000
Unlimited Tax Refunding Bonds, Series 2012	2% - 3%	5,815,000	5,590,000
Totals			\$ 28,268,448

Maintenance Tax Notes Payable

As of August 31, 2013, the District's loan payable balance totaled \$1,335,000. Series 2011, Maintenance Tax Notes were executed as of April 1, 2011, for making various repairs and renovations to existing District facilities and paying the costs of issuance on the Notes. The following represents the annual payments due:

Year Ending August 31,	Principal	Interest	Total	Interest Rate
2014	435,000	33,475	468,475	2.00%
2015	445,000	24,775	469,775	2.50%
2016	455,000	13,650	468,650	3.00%

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013

Totals	\$	<u>1,335,000</u>	\$	<u>71,900</u>	\$	<u>1,406,900</u>
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The Maintenance Tax Notes will be paid by the General Fund.

3. Advance Refunding of Debt

GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of August 31, 2013, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows.

<u>Bond Issue</u>	<u>Amount</u>
Unlimited Tax School Building Bonds, Series 2002	<u>5,430,000</u>
Total	<u>5,430,000</u>

F. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2013, as follows:

<u>Year Ending August 31,</u>	
2014	\$ 82,591
2015	73,186
2016	68,244
2017	22,304
Total Minimum Rentals	<u>\$ 246,325</u>
Rental Expenditures in 2013	<u>\$ 93,559</u>

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2013, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Pension Plan

1. Plan Description

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

2. Funding Policy

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2013, 2012 and 2011, and a state contribution rate of 6.4% for fiscal year 2013, 6.0 % for fiscal year 2012, and 6.644% for fiscal year 2011. In certain instances the reporting district is required to make all or a portion of the state's contribution. State contributions to TRS made on behalf of the District's employees for the years ending August 31, 2013, 2012 and 2011 were \$1,111,491, \$1,092,723 and \$1,138,250, respectively. The District paid additional state contributions for the years ending August 31, 2013, 2012 and 2011 in the amount of \$297,842, \$236,879 and \$270,241, respectively, on portion of the employees' salaries that exceeded the statutory minimum.

I. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas and active public school employee contribution rates were 0.5% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2013, 2012 and 2011. For the years ended August 31, 2013, 2012, and 2011, the State's contributions to TRS-Care were \$121,851, \$237,272, and \$239,443, respectively, the active member contributions were \$158,407, \$154,226, and \$155,638, respectively, and the District's contributions were \$134,036, \$130,502, and \$136,684, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013

drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2013, 2012, and 2011, the subsidy payments received by TRS-Care on behalf of the District were \$63,554, \$62,437, and \$55,678, respectively.

J. Employee Health Care Coverage

During the year ended August 31, 2013, employees of the District were covered by the state sponsored health insurance plan (the Plan). The District paid premiums of \$248 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to TRS-ActiveCare, the statewide health coverage program for public education employees administered by Blue Cross and Blue Shield of Texas and Medco Health. The contract between the District and TRS-ActiveCare is renewable September 1 of each year and terms of coverage and premium costs are included in the contractual agreement.

Latest financial statements for Blue Cross and Blue Shield of Texas are available for the most recent year, and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

K. Commitments and Contingencies

1. Contingencies

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

2. Litigation

Attorneys for the District indicate there is no pending litigation at this time.

L. Shared Services Arrangements

Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for three federal programs with the Region 10 ESC and with Mesquite ISD for deaf education services.

M. Subsequent Events

On January 21, 2014, the Board of Trustees authorized the issuance of \$1,000,000 of Time Warrants and issuance of \$8,830,000 of Maintenance Tax Notes. Proceeds will be used for planned District improvements.

N. Adjustment to Beginning Net Position - Prior Period Adjustment

GASB Statement 65 provides standards of accounting and financial reporting for debt issuance costs. These costs are now reported as current debt related expenditures and are no longer capitalized and amortized over the life of the debt issue. For the current year, this change in the standard requires an adjustment of \$151,123 on Exhibit B-1 to record a reduction to the beginning net position in order to recognize all prior unamortized debt issuance costs.

Required Supplementary Information

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

TERRELL INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with
		Budgeted Amounts		Actual	Final Budget Positive (Negative)
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 15,452,075	\$ 15,677,022	\$ 15,791,325	\$ 114,303
5800	State Program Revenues	16,161,491	16,311,491	16,421,625	110,134
5900	Federal Program Revenues	101,434	520,987	533,155	12,168
5020	Total Revenues	31,715,000	32,509,500	32,746,105	236,605
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	18,171,115	18,171,115	17,707,625	463,490
0012	Instructional Resources and Media Services	456,326	456,326	444,386	11,940
0013	Curriculum and Staff Development	799,504	852,504	821,450	31,054
	Total Instruction & Instr. Related Services	19,426,945	19,479,945	18,973,461	506,484
Instructional and School Leadership:					
0021	Instructional Leadership	528,282	528,282	522,787	5,495
0023	School Leadership	2,091,136	2,110,439	2,100,290	10,149
	Total Instructional & School Leadership	2,619,418	2,638,721	2,623,077	15,644
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	1,351,282	1,351,282	1,330,252	21,030
0032	Social Work Services	213,568	213,568	209,565	4,003
0033	Health Services	290,885	290,885	265,932	24,953
0034	Student (Pupil) Transportation	1,396,750	1,396,750	1,357,906	38,844
0035	Food Services	2,700	2,700	2,460	240
0036	Cocurricular/Extracurricular Activities	888,691	888,691	874,134	14,557
	Total Support Services - Student (Pupil)	4,143,876	4,143,876	4,040,249	103,627
Administrative Support Services:					
0041	General Administration	1,391,452	1,477,279	1,445,166	32,113
	Total Administrative Support Services	1,391,452	1,477,279	1,445,166	32,113
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	4,122,540	4,300,540	4,105,678	194,862
0052	Security and Monitoring Services	305,860	314,860	308,720	6,140
0053	Data Processing Services	476,920	751,290	718,091	33,199
	Total Support Services - Nonstudent Based	4,905,320	5,366,690	5,132,489	234,201
Ancillary Services:					
0061	Community Services	87,389	87,389	75,055	12,334
	Total Ancillary Services	87,389	87,389	75,055	12,334
Debt Service:					
0071	Principal on Long-Term Debt	430,000	430,000	430,000	--
0072	Interest on Long-Term Debt	42,100	42,100	42,075	25
0073	Bond Issuance Costs and Fees	500	500	500	--
	Total Debt Service	472,600	472,600	472,575	25
Capital Outlay:					
0081	Capital Outlay	50,000	--	--	--
	Total Capital Outlay	50,000	--	--	--
0099	Other Intergovernmental Charges	224,000	224,000	217,432	6,568

TERRELL INDEPENDENT SCHOOL DISTRICT**GENERAL FUND****BUDGETARY COMPARISON SCHEDULE****FOR THE YEAR ENDED AUGUST 31, 2013****EXHIBIT G-1**

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	Total Intergovernmental Charges	224,000	224,000	217,432	6,568
6030	Total Expenditures	33,321,000	33,890,500	32,979,504	910,996
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(1,606,000)	(1,381,000)	(233,399)	1,147,601
	Other Financing Sources (Uses):				
7912	Sale of Real or Personal Property	--	--	7,025	7,025
7915	Transfers In	140,000	140,000	137,054	(2,946)
8911	Transfers Out	(1,740,000)	(1,740,000)	(1,737,054)	2,946
7080	Total Other Financing Sources and (Uses)	(1,600,000)	(1,600,000)	(1,592,975)	7,025
1200	Net Change in Fund Balance	(3,206,000)	(2,981,000)	(1,826,374)	1,154,626
0100	Fund Balance - Beginning	9,790,089	9,790,089	9,790,089	--
3000	Fund Balance - Ending	\$ 6,584,089	\$ 6,809,089	\$ 7,963,715	\$ 1,154,626

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Other Supplementary Information

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

TERRELL INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF DELINQUENT TAXES RECEIVABLE****FOR THE YEAR ENDED AUGUST 31, 2013**

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2004 and Prior Years	\$	Various	\$	Various	\$	Various
2005		1.50		.24		1,013,087,208
2006		1.50		.27		1,169,247,214
2007		1.37		.27		1,252,861,768
2008		1.04		.27		1,328,206,183
2009		1.04		.27		1,447,901,221
2010		1.04		.27		1,406,918,626
2011		1.17		.14		1,323,383,511
2012		1.17		.14		1,311,002,595
2013 (School Year Under Audit)		1.17		.14		1,303,573,664

1000 Totals

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

10 Beginning Balance 9/1/12	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/13
\$ 253,536	\$ --	\$ 3,207	\$ 460	\$ (135,830)	\$ 114,039
95,667	--	5,006	801	(1,604)	88,256
134,405	--	7,982	1,437	(1,727)	123,259
177,280	--	9,337	1,839	(3,309)	162,795
171,368	--	17,049	4,426	(292)	149,601
194,723	--	24,704	6,414	16,702	180,307
243,745	--	45,375	11,780	18,157	204,747
296,161	--	79,372	9,497	8,017	215,309
650,298	--	306,088	36,626	(13,369)	294,215
--	17,076,815	14,776,098	1,768,080	(75,619)	457,018
<u>\$ 2,217,183</u>	<u>\$ 17,076,815</u>	<u>\$ 15,274,218</u>	<u>\$ 1,841,360</u>	<u>\$ (188,874)</u>	<u>\$ 1,989,546</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

TERRELL INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2014-2015 GENERAL AND SPECIAL REVENUE FUNDS FOR THE YEAR ENDED AUGUST 31, 2013

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ --	\$ --	\$ 332,540	\$ 731,450	\$ --	\$ 44,459	\$ 1,108,449
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)	--	--	--	--	--	--	--
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)	--	--	--	--	--	--	--
6211	Legal Services	51,797	--	--	--	--	--	51,797
6212	Audit Services	--	--	--	21,200	--	--	21,200
6213	Tax Appraisal and Collection	--	228,892	--	--	--	--	228,892
621X	Other Prof. Services	--	--	--	--	--	--	--
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	1,500	--	2,000	17,000	--	--	20,500
6240	Contr. Maint. and Repair	--	--	--	--	--	--	--
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	--	8,834	--	--	8,834
6290	Miscellaneous Contr.	13,102	--	85	53,395	--	--	66,582
6310	Operational Supplies, Materials	--	--	142	718	--	--	860
6320	Textbooks and Reading	79	--	1,142	95	--	--	1,316
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	653	--	5,539	68,654	--	--	74,846
6410	Travel, Subsistence, Stipends	11,133	--	3,491	13,688	--	792	29,104
6420	Ins. and Bonding Costs	25,528	--	--	84	--	--	25,612
6430	Election Costs	5,011	--	--	--	--	--	5,011
6490	Miscellaneous Operating	10,757	--	5,228	19,112	--	700	35,797
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	--	--

Total \$ 119,560 \$ 228,892 \$ 350,167 \$ 934,230 \$ -- \$ 45,951 \$ 1,678,800

Total Expenditures for General and Special Revenue Funds (9) \$ 39,080,368

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 512,286
Total Debt & Lease (6500)	(11)	\$ 472,575
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 3,905,342
Food (Function 35, 6341 and 6499)	(13)	\$ 952,410
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		\$ 934,230

Subtotal 6,776,843

Net Allowed Direct Cost \$ 32,303,525

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 81,739,861
Historical Cost of Buildings over 50 years old	(16)	1,756,690
Amount of Federal Money in Building Cost (Net of #16)	(17)	468,092
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)	3,395,857
Historical Cost of Furniture & Equipment over 16 years old	(19)	653,726
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ 657,544

(8) Note A - \$14,902 in Function 53 expenditures and \$217,432 in Function 99 expenditures are included in this report on administrative costs.

TERRELL INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT J-3

Data Control Codes		1	2	3
		Budget	Actual	Variance Positive (Negative)
	REVENUES:			
5700	Local and Intermediate Sources	\$ 375,000	\$ 401,051	\$ 26,051
5800	State Program Revenues	13,000	12,502	(498)
5900	Federal Program Revenues	1,832,000	1,874,411	42,411
5020	Total Revenues	<u>2,220,000</u>	<u>2,287,964</u>	<u>67,964</u>
	EXPENDITURES:			
	Current:			
	Support Services - Student (Pupil):			
0035	Food Services	2,220,000	2,161,006	58,994
	Total Support Services - Student (Pupil)	<u>2,220,000</u>	<u>2,161,006</u>	<u>58,994</u>
6030	Total Expenditures	<u>2,220,000</u>	<u>2,161,006</u>	<u>58,994</u>
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	--	126,958	126,958
1200	Net Change in Fund Balance	--	126,958	126,958
0100	Fund Balance - Beginning	384,056	384,056	--
3000	Fund Balance - Ending	<u>\$ 384,056</u>	<u>\$ 511,014</u>	<u>\$ 126,958</u>

TERRELL INDEPENDENT SCHOOL DISTRICT

DEBT SERVICE

BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT J-4

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 1,872,000	\$ 1,888,937	\$ 16,937
5800 <i>State Program Revenues</i>	--	44,909	44,909
5020 Total Revenues	<u>1,872,000</u>	<u>1,933,846</u>	<u>61,846</u>
EXPENDITURES:			
Debt Service:			
0071 <i>Principal on Long-Term Debt</i>	3,240,000	3,240,000	--
0072 <i>Interest on Long-Term Debt</i>	480,050	463,935	16,115
0073 <i>Bond Issuance Costs and Fees</i>	120,597	121,096	(499)
Total Debt Service	<u>3,840,647</u>	<u>3,825,031</u>	<u>15,616</u>
6030 Total Expenditures	<u>3,840,647</u>	<u>3,825,031</u>	<u>15,616</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>(1,968,647)</u>	<u>(1,891,185)</u>	<u>77,462</u>
Other Financing Sources (Uses):			
7901 <i>Refunding Bonds Issued</i>	5,815,000	5,815,000	--
7915 <i>Transfers In</i>	1,600,000	1,600,000	--
7916 <i>Premium or Discount on Issuance of Bonds</i>	609,212	609,212	--
8940 <i>Payment to Bond Refunding Escrow Agent</i>	(6,305,866)	(6,305,366)	500
7080 Total Other Financing Sources and (Uses)	<u>1,718,346</u>	<u>1,718,846</u>	<u>500</u>
1200 Net Change in Fund Balance	<u>(250,301)</u>	<u>(172,339)</u>	<u>77,962</u>
0100 Fund Balance - Beginning	691,179	691,179	--
3000 Fund Balance - Ending	<u>\$ 440,878</u>	<u>\$ 518,840</u>	<u>\$ 77,962</u>

MICHAEL W. BEDFORD
CERTIFIED PUBLIC ACCOUNTANT
205 WEST HIGH STREET
TERRELL, TEXAS 75160

**Independent Auditor's Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards**

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

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Terrell Independent School District, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise Terrell Independent School District's basic financial statements, and have issued our report thereon dated January 24, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

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

Michael W. Bedford, CPA

Terrell, Texas
January 24, 2014

MICHAEL W. BEDFORD
CERTIFIED PUBLIC ACCOUNTANT
205 WEST HIGH STREET
TERRELL, TEXAS 75160

**Independent Auditor's Report on Compliance for Each Major Program and
on Internal Control Over Compliance Required by OMB Circular A-133**

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

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited Terrell Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Terrell Independent School District's major federal programs for the year ended August 31, 2013. Terrell Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Terrell Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Terrell Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Terrell Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2013.

Report on Internal Control Over Compliance

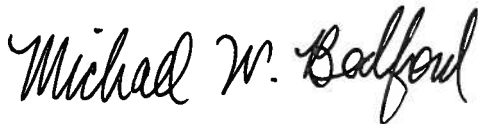
Management of Terrell Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Terrell Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Terrell Independent School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

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

Michael W. Bedford, CPA

Terrell, Texas
January 24, 2014

TERRELL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2013

A. Summary of Auditor's Results

1. Financial Statements

Unmodified

Type of auditor's report issued:

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553	School Breakfast Program
10.555	National School Lunch Program
10.555	National School Lunch Program (Non-cash)
10.559	Summer Food Service Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

TERRELL INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2013

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

TERRELL INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2013

Not applicable

TERRELL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT K-1

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs:			
<i>Head Start</i>	93.600	129-906	\$ 738,477
<i>Head Start</i>	93.600	129-906	226,015
Total Direct Programs			<u>964,492</u>
Total U. S. Department of Health and Human Services			<u>964,492</u>
U. S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
<i>ESEA Title I Part A - Improving Basic Programs *</i>	84.010A	13610101129906	1,268,227
<i>ESEA Title 1 - School Improvement Program *</i>	84.010A	13610104129906102	15,000
Total CFDA Number 84.010A			<u>1,283,227</u>
<i>IDEA-B Formula *</i>	84.027A	13660001129906660C	912,448
<i>Career and Technical - Basic Grant</i>	84.048A	13420006129906	50,711
<i>Career and Technical - Basic Grant</i>	84.048A	14420006129906	6,807
Total CFDA Number 84.048A			<u>57,518</u>
<i>IDEA-B Preschool *</i>	84.173A	13661001129906661C	22,845
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365A	13671001057950	116,132
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	13694501057950	242,327
<i>Summer School LEP</i>	84.369A	69551202	16,018
Total Passed Through State Department of Education			<u>2,650,515</u>
Total U. S. Department of Education			<u>2,650,515</u>
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
School Breakfast Program *	10.553	129-906	420,217
National School Lunch Program *	10.555	129-906	1,329,962
National School Lunch Program (Non-cash) *	10.555	129-906	124,232
Total CFDA Number 10.555			<u>1,454,194</u>
Summer Food Service Program *	10.559	129-906	29,582
Total Passed Through State Department of Education			<u>1,903,993</u>
Total U. S. Department of Agriculture			<u>1,903,993</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 5,519,000</u></u>

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

The accompanying notes are an integral part of this schedule.

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2013

Basis of Presentation

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

Head Start Program

The following is a detail of expenditures for the Head Start Grant No. 06CH5583/47 for the project period ended March 31, 2013, according to Head Start budget classifications.

	<u>Budget</u>	<u>Actual</u>
Personnel	\$ 733,600	\$ 732,294
Fringe benefits	138,104	118,231
Travel	15,390	11,179
Supplies	16,500	21,508
Contractual	1,800	5,345
Other	<u>59,458</u>	<u>76,295</u>
Totals	<u>\$ 964,852</u>	<u>\$ 964,852</u>

TERRELL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2013

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ 15,899,765