

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2012

Introductory Section

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

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
INTRODUCTORY SECTION		
Certificate of Board.....	1	
FINANCIAL SECTION		
Independent Auditor's Report on Financial Statements.....	2	
Management's Discussion and Analysis (Required Supplementary Information).....	4	
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Assets.....	10	A-1
Statement of Activities.....	11	B-1
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	12	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Assets.....	13	C-1R
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	14	C-2
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	15	C-3
Notes to the Financial Statements	16	
<u>Required Supplementary Information:</u>		
Budgetary Comparison Schedules:		
General Fund.....	27	G-1
<u>Combining Statements as Supplementary Information:</u>		
Special Revenue Funds:		
Combining Balance Sheet - Nonmajor Special Revenue Funds.....	28	H-1
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds.....	29	H-2
OTHER SUPPLEMENTARY INFORMATION SECTION		
Schedule of Delinquent Taxes Receivable.....	30	J-1
Indirect Cost Computation Schedule	32	J-2
Fund Balance and Cash Flow Calculation Worksheet (Unaudited)-General Fund.....	33	J-3
Budgetary Comparison Schedules Required by the Texas Education Agency:		
National School Breakfast and Lunch Program.....	34	J-4
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		
	35	
Schedule of Findings and Questioned Costs	37	
Summary Schedule of Prior Audit Findings.....	38	
Corrective Action Plan.....	39	
Schedule of Required Responses to Selected School First Indicators.....	40	K-1

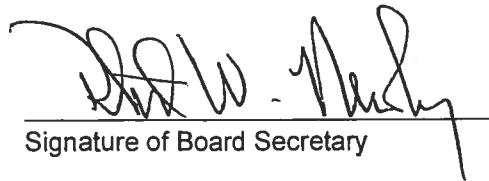
CERTIFICATE OF BOARD

Morgan Mill Independent School District
Name of School District

Erath
County

072-910
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) X approved _____disapproved for the year ended August 31, 2012, at a meeting of the board of trustees of such school district on the 11th day of December, 2012.



Signature of Board Secretary



Signature of Board President

Financial Section

BURL D. LOWERY
CERTIFIED PUBLIC ACCOUNTANT
311 CENTER AVENUE
BROWNWOOD, TEXAS 76801

Independent Auditor's Report on Financial Statements

Board of Trustees
Morgan Mill Independent School District
P.O. Box 8
Morgan Mill, Texas 76465

Members of the Board of Trustees:

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan Mill Independent School District as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Morgan Mill Independent School District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my 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 Morgan Mill Independent School District as of August 31, 2012, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated November 20, 2012, on my consideration of Morgan Mill Independent School District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

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

Respectfully submitted,



Burl D. Lowery
Certified Public Accountant

November 20, 2012

MORGAN MILL INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

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

FINANCIAL HIGHLIGHTS

- The District's total combined net assets were \$2,037,061 at August 31, 2012.
- During the year, the District's expenses were \$95,755 less than \$1,169,809 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs increased approximately 1.3% from last year. No new programs were added this year.
- The general fund reported a fund balance this year of \$973,368.

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.

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

Government-wide Statements

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

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health improving or deteriorating, respectively.

- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

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

Fund Financial Statements

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

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

The District has the following kinds of funds:

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District's combined net assets were \$2,037,061 at August 31, 2012 and \$1,941,305 at August 31, 2011.

The District's net assets include net assets invested in capital assets amounting to \$1,054,137 at August 31, 2012. The District has restricted net assets of \$3,875, which is restricted for food service, which leaves \$979,049 of unrestricted net assets at August 31, 2012. The \$979,049 of unrestricted net assets represents resources available to fund the programs in the general fund of the District next year.

Changes in net assets. The District's total revenues were \$1,169,809. A significant portion, 66%, of the District's revenue comes from taxes. State available and foundation grants provide 20%, while only 2% relates to charges for services. Operating grants provide 10% of the total revenues.

The total cost of all programs and services was \$1,074,054. Costs for instruction and instructional related services make up 61% (Expenditure Functions 11, 12, and 13).

Governmental Activities

- Property tax rates remained at \$1.04 on the 2011 tax roll, as was the 2010 tax rate. Values on the 2011 certified tax roll decreased approximately 6% over the 2010 tax roll. The total taxes assessed for 2011 were \$759,715, which was a decrease of \$46,495 over the 2010 taxes assessed. After the loss from tax freeze, the District actually had total taxes of \$729,883 for 2011.

- The District has no debt.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$1,169,809, a decrease of 5.9% over the preceding year. The net decrease in revenues is a result of decreased state aid – formula, decreased property taxes, and decreased operating grants.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget as needed. Actual expenditures were \$58,126 below final budget amounts of the General Fund. Resources available were \$71,834 above the final budgeted amount. Net difference in the final budget and the actual revenues and expenditures was \$129,960 better than expected or planned.

CAPITAL ASSETS

At the end of 2012, the District had a net investment of \$1,054,137 in a broad range of capital assets, including land, equipment, buildings, and vehicles. This amount represents a net increase (including additions and deductions) of \$58,046 or 5.8% over last year. Additions to capital assets during the year included improvements to the three portable buildings purchased in 2011 and a new fire alarm system throughout the District. The District also purchased a small piece of adjoining land. Depreciation on the capital assets amounted to \$42,171 for the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2012-2013 budget preparation was \$81,603,690, which is approximately \$8.6 million more than the prior year. Tax collections for 2012-2013 were budgeted at approximately 95% of the 2012 certified tax roll. Projected amount of tax collections on the 2012 tax roll is \$780,341, which is approximately \$50,000 more than in 2011-2012. The tax rate stayed at \$1.04 per \$100 valuation.
- General operating fund budgeted expenditures for 2012-2013 decreased \$97,792 from the final 2011-2012 amended budget. This is a 9% decrease. The District has not budgeted any significant capital outlay in the 2012-2013 budget to begin the year. Estimated revenues decreased from \$1,012,421 in the final budget for 2011-2012 to \$1,008,508 in the 2012-2013 budget, a decrease of less than 1%.
- The District's 2011-2012 refined average daily attendance was 114 students. ADA for 2012-2013 is expected to stay approximately the same. State revenue will increase or decrease as the student population changes in size. The District will use any increases in revenues to finance programs currently offered.

If these estimates are realized, the District's budgetary general fund balance is expected to remain approximately the same by the close of 2013.

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 Superintendent and Business Office.

MORGAN MILL INDEPENDENT SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS - TABLES
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District's combined net assets were \$2,037,061 at August 31, 2012 and \$1,941,305 at August 31, 2011. (See Table 1)

Table 1
Morgan Mill Independent School District's Net Assets

	Governmental Activities	
	2012	2011
Current Assets:		
Cash and cash equivalents	\$962,064	\$750,795
Property taxes receivable net of uncollectible	\$5,681	\$14,739
Due from other governments	\$59,194	\$233,880
Other receivables	\$2,810	\$938
Deferred expenses	\$0	\$0
Total Current Assets	\$1,029,749	\$1,000,352
Noncurrent Assets:		
Land	\$29,269	\$27,608
Buildings	\$910,564	\$862,165
Equipment and vehicles	\$114,304	\$106,318
Total Noncurrent Assets	\$1,054,137	\$996,091
Total Assets	\$2,083,886	\$1,996,443
Current Liabilities:		
Accounts payable and accrued expenses	\$43,863	\$53,422
Due to student groups	\$2,962	\$1,716
Unearned revenue	\$0	\$0
Total Current Liabilities	\$46,825	\$55,138
Total Liabilities	\$46,825	\$55,138
Net Assets:		
Invested in capital assets	\$1,054,137	\$996,091
Restricted	\$3,875	\$2,512
Unrestricted	\$979,049	\$942,702
Total Net Assets	\$2,037,061	\$1,941,305

MORGAN MILL INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - TABLES

Table 2
Morgan Mill Independent School District's Changes in Net Assets

	Governmental Activities	
	2012	2011
Program Revenues:		
Charges for services	\$23,720	\$21,334
Operating grants and contributions	\$121,206	\$132,285
Capital grants and contributions	\$0	\$0
General Revenues:		
Property taxes	\$770,269	\$783,112
State aid - formula	\$230,374	\$285,520
Investment earnings	\$817	\$1,016
Other revenues	\$23,423	\$19,452
Total Revenues	\$1,169,809	\$1,242,719
Expenditures:		
Instruction	\$647,263	\$647,037
Instructional resources and media services	\$8,898	\$7,952
Curriculum development and staff development	\$508	\$222
Guidance and counseling services	\$1,680	\$1,619
Health services	\$1,084	\$1,120
Student (pupil) transportation	\$39,721	\$35,503
Food services	\$54,410	\$51,397
Curricular/extracurricular activities	\$13,242	\$8,665
General administration	\$137,999	\$144,328
Plant maintenance & operation	\$116,489	\$101,685
Data processing services	\$37,458	\$41,755
Facilities acquisition and construction	\$0	\$0
Payments to fiscal agent/member districts SSA	\$15,302	\$19,141
Total Expenditures	\$1,074,054	\$1,060,424
Excess (Deficiency) Before Other Resources, Uses, and Transfers	\$95,755	\$182,295
Other Resources (Uses)		
Transfers In (Out)	\$0	\$0
Increase (Decrease) in Net Assets	\$95,755	\$182,295
Net Assets - Beginning	\$1,941,305	\$1,759,010
Prior Period Adjustments - rounding	\$1	\$0
Net Assets - Ending	\$2,037,061	\$1,941,305

MORGAN MILL INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - TABLES

Table 3
Morgan Mill Independent School District's Capital Assets

	Governmental Activities	
	2012	2011
Land	\$29,269	\$27,608
Buildings and improvements	\$1,204,851	\$1,130,301
Equipment and vehicles	\$236,244	\$212,238
Construction in Progress	\$0	\$0
Total Capital Assets	\$1,470,364	\$1,370,147
Total Accumulated Depreciation	\$416,227	\$374,056
Net Capital Assets	<u>\$1,054,137</u>	<u>\$996,091</u>

Table 4
Morgan Mill Independent School District's Long-term Debt

The District has no long-term debt at August 31, 2012 or 2011.

Basic Financial Statements

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

AUGUST 31, 2012

Data Control Codes	1	Governmental Activities
ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 962,064
1225	<i>Property Taxes Receivable (Net)</i>	5,681
1240	<i>Due from Other Governments</i>	59,194
1290	<i>Other Receivables (Net)</i>	2,810
Capital Assets:		
1510	<i>Land</i>	29,269
1520	<i>Buildings and Improvements, Net</i>	910,564
1530	<i>Furniture and Equipment, Net</i>	114,304
1000	Total Assets	<u>2,083,886</u>
LIABILITIES:		
2110	<i>Accounts Payable</i>	2,838
2165	<i>Accrued Liabilities</i>	41,025
2190	<i>Due to Student Groups</i>	2,962
2000	Total Liabilities	<u>46,825</u>
NET ASSETS		
3200	Invested in Capital Assets	1,054,137
Restricted For:		
3820	State and Federal Programs	3,875
3900	Unrestricted	979,049
3000	Total Net Assets	<u>\$ 2,037,061</u>

The accompanying notes are an integral part of this statement.

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Operating Grants and Contributions	
	Governmental Activities:				
11	<i>Instruction</i>	\$ 647,263	\$ --	\$ 79,145	\$ (568,118)
12	<i>Instructional Resources and Media Services</i>	8,898	--	328	(8,570)
13	<i>Curriculum and Staff Development</i>	508	--	--	(508)
31	<i>Guidance, Counseling, & Evaluation Services</i>	1,680	--	--	(1,680)
33	<i>Health Services</i>	1,084	--	--	(1,084)
34	<i>Student Transportation</i>	39,721	--	1,226	(38,495)
35	<i>Food Service</i>	54,410	17,539	31,065	(5,806)
36	<i>Cocurricular/Extracurricular Activities</i>	13,242	6,181	--	(7,061)
41	<i>General Administration</i>	137,999	--	6,582	(131,417)
51	<i>Plant Maintenance and Operations</i>	116,489	--	1,473	(115,016)
53	<i>Data Processing Services</i>	37,458	--	1,387	(36,071)
93	<i>Payments Related to Shared Services Arrangements</i>	15,302	--	--	(15,302)
TG	Total Governmental Activities	<u>1,074,054</u>	<u>23,720</u>	<u>121,206</u>	<u>(929,128)</u>
TP	Total Primary Government	<u>\$ 1,074,054</u>	<u>\$ 23,720</u>	<u>\$ 121,206</u>	<u>(929,128)</u>
	General Revenues:				
MT	<i>Property Taxes, Levied for General Purposes</i>				770,269
IE	<i>Investment Earnings</i>				817
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>				230,374
MI	<i>Miscellaneous</i>				23,423
TR	Total General Revenues				<u>1,024,883</u>
CN	Change in Net Assets				<u>95,755</u>
NB	Net Assets - Beginning				<u>1,941,306</u>
NE	Net Assets - Ending				<u>\$ 2,037,061</u>

The accompanying notes are an integral part of this statement.

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2012

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds	
ASSETS:				
1110	Cash and Cash Equivalents	\$ 958,090	\$ 3,974	\$ 962,064
1225	Taxes Receivable, Net	5,681	--	5,681
1240	Due from Other Governments	58,351	843	59,194
1290	Other Receivables	2,810	--	2,810
1000	Total Assets	\$ 1,024,932	\$ 4,817	\$ 1,029,749
LIABILITIES:				
Current Liabilities:				
2110	Accounts Payable	\$ 2,472	\$ 366	\$ 2,838
2160	Accrued Wages Payable	40,449	576	41,025
2190	Due to Student Groups	2,962	--	2,962
2300	Deferred Revenue	5,681	--	5,681
2000	Total Liabilities	51,564	942	52,506
FUND BALANCES:				
Restricted Fund Balances:				
3450	Federal/State Funds Grant Restrictions	--	3,875	3,875
Committed Fund Balances:				
3510	Construction	850,000	--	850,000
3600	Unassigned	123,368	--	123,368
3000	Total Fund Balances	973,368	3,875	977,243
4000	Total Liabilities and Fund Balances	\$ 1,024,932	\$ 4,817	\$ 1,029,749

The accompanying notes are an integral part of this statement.

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

Total fund balances - governmental funds balance sheet	\$ 977,243
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	1,054,137
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	<u>5,681</u>
Net assets of governmental activities - Statement of Net Assets	<u>\$ 2,037,061</u>

The accompanying notes are an integral part of this statement.

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

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

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 809,746	\$ 17,541	\$ 827,287
5800 <i>State Program Revenues</i>	274,509	1,760	276,269
5900 <i>Federal Program Revenues</i>	--	75,311	75,311
5020 Total Revenues	<u>1,084,255</u>	<u>94,612</u>	<u>1,178,867</u>
EXPENDITURES:			
Current:			
0011 <i>Instruction</i>	575,475	46,006	621,481
0012 <i>Instructional Resources and Media Services</i>	8,544	--	8,544
0013 <i>Curriculum and Staff Development</i>	488	--	488
0031 <i>Guidance, Counseling, & Evaluation Services</i>	1,613	--	1,613
0033 <i>Health Services</i>	1,041	--	1,041
0034 <i>Student Transportation</i>	38,139	--	38,139
0035 <i>Food Service</i>	--	52,243	52,243
0036 <i>Cocurricular/Extracurricular Activities</i>	12,715	--	12,715
0041 <i>General Administration</i>	132,502	--	132,502
0051 <i>Plant Maintenance and Operations</i>	111,849	--	111,849
0053 <i>Data Processing Services</i>	35,966	--	35,966
0081 <i>Capital Outlay</i>	100,216	--	100,216
0093 <i>Payments to Shared Service Arrangements</i>	15,302	--	15,302
6030 Total Expenditures	<u>1,033,850</u>	<u>98,249</u>	<u>1,132,099</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>50,405</u>	<u>(3,637)</u>	<u>46,768</u>
Other Financing Sources and (Uses):			
7915 <i>Transfers In</i>	--	5,000	5,000
8911 <i>Transfers Out</i>	(5,000)	--	(5,000)
7080 Total Other Financing Sources and (Uses)	<u>(5,000)</u>	<u>5,000</u>	<u>--</u>
1200 Net Change in Fund Balances	<u>45,405</u>	<u>1,363</u>	<u>46,768</u>
0100 Fund Balances - Beginning	<u>927,963</u>	<u>2,512</u>	<u>930,475</u>
3000 Fund Balances - Ending	<u>\$ 973,368</u>	<u>\$ 3,875</u>	<u>\$ 977,243</u>

The accompanying notes are an integral part of this statement.

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

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

Net change in fund balances - total governmental funds	\$ 46,768
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	100,216
The depreciation of capital assets used in governmental activities is not reported in the funds.	(42,171)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	<u>(9,058)</u>
Change in net assets of governmental activities - Statement of Activities	<u>\$ 95,755</u>

The accompanying notes are an integral part of this statement.

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2012

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. 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.

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2012

b. Measurement Focus, Basis of Accounting

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

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

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

3. Financial Statement Amounts

a. Property Taxes

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

Allowances for uncollectible tax receivables within the General Fund 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.

b. Inventories and Prepaid Items

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

c. Capital Assets

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

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2012

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>
Infrastructure	30-40
Buildings	30-50
Building Improvements	20-30
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. However, additional disclosure is provided which disaggregates those balances in Notes L and M for additional analysis for TEA.

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

e. Interfund Activity

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

f. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

g. Data Control Codes

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

h. 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.

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2012

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

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

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

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

B. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2012, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$961,914 and the bank balance was \$966,127. The District's cash deposits at August 31, 2012 and during the year ended August 31, 2012, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District did not adhere to the requirements of the Act. Additionally, investment practices of the District were not in accordance with local policies. The Investment Officer has not obtained the required ten hours of investment training every two years.

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2012

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 did not have any investments during the year ended August 31, 2012. The District's bank accounts were all demand deposit NOW accounts that earned less than .25% throughout the year.

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.

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

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2012

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.

C. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 27,608	\$ 1,661	\$ --	\$ 29,269
Construction in progress	--	--	--	--
Total capital assets not being depreciated	<u>27,608</u>	<u>1,661</u>	<u>--</u>	<u>29,269</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	1,130,301	74,550	--	1,204,851
Equipment	16,000	24,006	--	40,006
Vehicles	196,238	--	--	196,238
Total capital assets being depreciated	<u>1,342,539</u>	<u>98,556</u>	<u>--</u>	<u>1,441,095</u>
Less accumulated depreciation for:				
Buildings and improvements	(268,136)	(26,151)	--	(294,287)
Equipment	(7,733)	(2,800)	--	(10,533)
Vehicles	(98,187)	(13,220)	--	(111,407)
Total accumulated depreciation	<u>(374,056)</u>	<u>(42,171)</u>	<u>--</u>	<u>(416,227)</u>
Total capital assets being depreciated, net	<u>968,483</u>	<u>56,385</u>	<u>--</u>	<u>1,024,868</u>
Governmental activities capital assets, net	<u>\$ 996,091</u>	<u>\$ 58,046</u>	<u>\$ --</u>	<u>\$ 1,054,137</u>

Depreciation was charged to functions as follows:

Instruction	\$ 25,781
Instructional Resources and Media Services	354
Curriculum and Staff Development	20
Guidance, Counseling, & Evaluation Services	67
Health Services	43
Student Transportation	1,582
Food Services	2,167
Extracurricular Activities	527
General Administration	5,497
Plant Maintenance and Operations	4,640
Data Processing Services	1,492
	<u>\$ 42,171</u>

D. Interfund Balances and Activities

1. Due To and From Other Funds

There are no balances due to and from at August 31, 2012.

2. Transfers To and From Other Funds

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

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012*

Transfers From	Transfers To	Amount	Reason
General fund	Other Governmental Funds	5,000	Supplement other funds sources
	Total	<u>\$ 5,000</u>	

E. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for equipment are open-ended contracts that can be terminated at any time.

Rental Expenditures in 2012 \$ 3,901

F. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2012, the District purchased commercial insurance to cover vehicles liabilities and damages. 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.

Property Program

During the year ended August 31, 2012, Morgan Mill ISD participated in the TASB Risk Management Fund's (the Fund's) Property Program with coverages in property and equipment breakdown. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2012, the Fund anticipates Morgan Mill ISD has no additional liability beyond the contractual obligations for payment of contributions.

Liability Program

During the year ended August 31, 2012, Morgan Mill ISD participated in the TASB Risk Management Fund's (the Fund's) Liability Program with coverages in general liability, school professional legal liability, and sexual misconduct claims endorsement. The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2012, the Fund anticipates Morgan Mill ISD has no additional liability beyond the contractual obligations for payment of contributions.

Unemployment Compensation Pool

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

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2012

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

Workers' Compensation Pool

During the year ended August 31, 2011, the Morgan Mill ISD met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2011, the Fund carries a discounted reserve of \$72.5 million for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2011, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

TASB Risk Management Fund

The TASB Risk Management Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2011, are available at the TASB offices, and have been filed with the Texas Department of Insurance in Austin.

G. 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

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2012, 2011 and 2010, and a state contribution rate of 6.0% for fiscal year 2012 and 6.644 for fiscal years 2011 and 2010. In certain instances the reporting district is required to make all or a portion of the state's contribution. State contributions to TRS made on

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2012

behalf of the District's employees for the years ending August 31, 2012, 2011 and 2010 were \$35,380, \$38,278 and \$35,804, respectively. The District paid additional state contributions for the years ending August 31, 2012, 2011 and 2010 in the amount of \$4,497, \$3,930 and \$5,164, respectively, on portion of the employees' salaries that exceeded the statutory minimum, the new member entity payments, and the employees' salaries paid with federal grant funds.

H. 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.trstate.tx.us under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2012, 2011 and 2010. For the years ended August 31, 2012, 2011, and 2010, the State's contributions to TRS-Care were \$6,559, \$6,279, and \$5,919, respectively, the active member contributions were \$4,320, \$4,129, and \$4,007, respectively, and the District's contributions were \$3,472, \$3,568, and \$3,635, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2012, 2011, and 2010, the subsidy payments received by TRS-Care on behalf of the District were \$1,446, \$1,430, and \$1,522, respectively.

3. Early Retiree Reinsurance Program (ERRP)

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

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2012

This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first served basis for qualified employers that apply and become certified for the program. TRS has been certified for this program and has received funds from the ERRP program. For the fiscal year ended August 31, 2012, the amount received by TRS-Care on behalf of the District was \$1,595.

I. Employee Health Care Coverage

During the year ended August 31, 2012, employees of the District were covered by a statewide health insurance plan (the Plan). The District paid premiums of \$225 per pay period per employee to TRS ActiveCare. The Plan was authorized by the State Legislature effective for years beginning with September 1, 2003.

J. Commitments and Contingencies

1. Contingencies

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

2. Litigation

No reportable litigation was pending against the District at August 31, 2012.

K. Shared Services Arrangements

Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for a state special education program with the Greater Erath Special Education S.S.A. with the following school districts:

Member Districts

Bluff Dale ISD	Lingleville ISD
Dublin ISD	Three Way ISD
Huckabay ISD	Morgan Mill ISD

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

L. Amounts Due From State

Amounts due from state and federal programs at August 31, 2012 were as follows:

General Fund:

State Foundation - 2011-2012 Near Final Settlement	\$	53,067
State Foundation - Student days in August 2012		<u>5,284</u>
	\$	<u><u>58,351</u></u>

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012*

Special Revenue Fund:	
Food Service - August 2012 Federal Reimbursement	\$ <u> 843</u>
Total Due from State - Governmental Funds	\$ <u> 59,194</u>

All amounts were received during September and October 2012.

M. Unearned Revenues

At August 31, 2012, the District's unearned revenues in its governmental funds consisted of \$5,681 of deferred property taxes.

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.

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	1		2		3		Variance with Final Budget Positive (Negative)
	Budgeted Amounts				Actual		
	Original	Final					
REVENUES:							
5700	Local and Intermediate Sources	\$ 715,228	\$ 715,228	\$ 809,746	\$ 94,518		
5800	State Program Revenues	297,193	297,193	274,509	(22,684)		
5020	Total Revenues	1,012,421	1,012,421	1,084,255	71,834		
EXPENDITURES:							
Current:							
Instruction & Instructional Related Services:							
0011	Instruction	606,754	606,874	575,475	31,399		
0012	Instructional Resources and Media Services	7,189	8,689	8,544	145		
0013	Curriculum and Staff Development	500	600	488	112		
	Total Instruction & Instr. Related Services	614,443	616,163	584,507	31,656		
Support Services - Student (Pupil):							
0031	Guidance, Counseling and Evaluation Services	950	1,800	1,613	187		
0033	Health Services	1,160	1,220	1,041	179		
0034	Student (Pupil) Transportation	36,060	39,980	38,139	1,841		
0036	Cocurricular/Extracurricular Activities	9,250	13,250	12,715	535		
	Total Support Services - Student (Pupil)	47,420	56,250	53,508	2,742		
Administrative Support Services:							
0041	General Administration	142,966	142,201	132,502	9,699		
	Total Administrative Support Services	142,966	142,201	132,502	9,699		
Support Services - Nonstudent Based:							
0051	Plant Maintenance and Operations	100,735	124,105	111,849	12,256		
0053	Data Processing Services	42,027	37,457	35,966	1,491		
	Total Support Services - Nonstudent Based	142,762	161,562	147,815	13,747		
Capital Outlay:							
0081	Capital Outlay	12,000	100,300	100,216	84		
	Total Capital Outlay	12,000	100,300	100,216	84		
Intergovernmental Charges:							
0093	Payments to Fiscal Agent/Member Dist.-SSA	18,500	15,500	15,302	198		
	Total Intergovernmental Charges	18,500	15,500	15,302	198		
6030	Total Expenditures	978,091	1,091,976	1,033,850	58,126		
1100	Excess (Deficiency) of Revenues Over (Under)						
1100	Expenditures	34,330	(79,555)	50,405	129,960		
Other Financing Sources (Uses):							
8911	Transfers Out	(5,000)	(5,000)	(5,000)	--		
7080	Total Other Financing Sources and (Uses)	(5,000)	(5,000)	(5,000)	--		
1200	Net Change in Fund Balance	29,330	(84,555)	45,405	129,960		
0100	Fund Balance - Beginning	927,963	927,963	927,963	--		
3000	Fund Balance - Ending	\$ 957,293	\$ 843,408	\$ 973,368	\$ 129,960		

*Combining Statements and Budget Comparisons
as Supplementary Information*

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

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 AUGUST 31, 2012

Data Control Codes	240 National School Breakfast/Lunch Program	270 ESEA, Title VI Part B, Subpart 2 Rural School	287 Education Jobs Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)	
ASSETS:					
1110	Cash and Cash Equivalents	\$ 3,974	\$ --	\$ --	\$ 3,974
1240	Due from Other Governments	843	--	--	843
1000	Total Assets	\$ 4,817	\$ --	\$ --	\$ 4,817
LIABILITIES:					
Current Liabilities:					
2110	Accounts Payable	\$ 366	\$ --	\$ --	\$ 366
2160	Accrued Wages Payable	576	--	--	576
2000	Total Liabilities	942	--	--	942
FUND BALANCES:					
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	3,875	--	--	3,875
3000	Total Fund Balances	3,875	--	--	3,875
4000	Total Liabilities and Fund Balances	\$ 4,817	\$ --	\$ --	\$ 4,817

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	240 National School Breakfast/Lunch Program	270 ESEA, Title VI Part B, Subpart 2 Rural School	287 Education Jobs Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ 17,541	\$ --	\$ --	\$ 17,541
5800 <i>State Program Revenues</i>	1,760	--	--	1,760
5900 <i>Federal Program Revenues</i>	29,305	22,758	23,248	75,311
5020 Total Revenues	<u>48,606</u>	<u>22,758</u>	<u>23,248</u>	<u>94,612</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	--	22,758	23,248	46,006
0035 <i>Food Service</i>	52,243	--	--	52,243
6030 Total Expenditures	<u>52,243</u>	<u>22,758</u>	<u>23,248</u>	<u>98,249</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>(3,637)</u>	<u>--</u>	<u>--</u>	<u>(3,637)</u>
Other Financing Sources and (Uses):				
7915 <i>Transfers In</i>	5,000	--	--	5,000
7080 Total Other Financing Sources and (Uses)	<u>5,000</u>	<u>--</u>	<u>--</u>	<u>5,000</u>
1200 Net Change in Fund Balances	1,363	--	--	1,363
0100 Fund Balances - Beginning	2,512	--	--	2,512
Fund Balances - Beginning, as Restated	2,512	--	--	2,512
3000 Fund Balances - Ending	<u>\$ 3,875</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 3,875</u>

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.

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2012*

Year Ended August 31	1		2		3
	Tax Rates				Assessed/Appraised Value For School Tax Purposes
	Maintenance	Debt Service			
2003 and Prior Years	\$ Various	\$ Various			\$ Various
2004	1.31	--			38,482,470
2005	1.31	--			40,499,680
2006	1.37	--			45,597,870
2007	1.2548	--			52,322,290
2008	1.04	--			58,707,560
2009	1.04	--			67,848,660
2010	1.04	--			87,733,938
2011	1.04	--			77,520,220
2012 (School Year Under Audit)	1.04	--			73,049,520

1000 Totals

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

10 Beginning Balance 9/1/11	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/12
\$ 1,284	\$ --	\$ --	\$ --	\$ (99)	\$ 1,185
57	--	--	--	--	57
46	--	--	--	--	46
101	--	10	--	--	91
441	--	--	--	--	441
117	--	--	--	--	117
3,227	--	2,263	--	--	964
6,229	--	4,723	--	(79)	1,427
47,454	--	40,627	--	(1,461)	5,366
--	759,715	715,073	--	(31,611)	13,031
<u>\$ 58,955</u>	<u>\$ 759,715</u>	<u>\$ 762,696</u>	<u>\$ --</u>	<u>\$ (33,250)</u>	<u>\$ 22,724</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2013-2014

GENERAL AND SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED AUGUST 31, 2012

FUNCTION 41 - GENERAL ADMINISTRATION

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	\$ --	\$ --	\$ 65,380	\$ 9,386	\$ --	\$ --	\$ 74,766
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	--	--	--	---	--	---	--
6212	Audit Services	---	---	---	8,500	---	---	8,500
6213	Tax Appraisal and Collection	---	27,073	---	---	---	---	27,073
621X	Other Prof. Services	--	--	--	--	--	--	--
6220	Tuition and Transfer Payments	---	---	---	---	---	---	---
6230	Education Service Centers	--	--	--	--	--	--	--
6240	Contr. Maint. and Repair	---	---	---	---	---	---	---
6250	Utilities	---	---	---	---	---	---	---
6260	Rentals	--	--	--	666	--	--	666
6290	Miscellaneous Contr.	--	--	--	--	--	--	--
6310	Operational Supplies, Materials	--	--	--	--	--	--	--
6320	Textbooks and Reading	--	--	--	--	--	--	--
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	--	--	--	1,290	--	--	1,290
6410	Travel, Subsistence, Stipends	546	--	--	705	--	--	1,251
6420	Ins. and Bonding Costs	--	--	--	14,072	--	--	14,072
6430	Election Costs	---	---	---	---	---	---	---
6490	Miscellaneous Operating	--	--	--	4,884	--	--	4,884
6500	Debt Service	---	---	---	---	---	---	---
6600	Capital Outlay	---	---	---	---	---	---	---

Total \$ 546 \$ 27,073 \$ 65,380 \$ 39,503 \$ -- \$ -- \$ 132,502

Total Expenditures for General and Special Revenue Funds (9) \$ 1,132,099

LESS: Deductions of Unallowable Costs

	FISCAL YEAR	
Total Capital Outlay (6600)	(10)	\$ 100,216
Total Debt & Lease (6500)	(11)	\$ --
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 111,849
Food (Function 35, 6341 and 6499)	(13)	\$ 22,630
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		\$ 39,503

Subtotal 274,198

Net Allowed Direct Cost \$ 857,901

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 1,204,851
Historical Cost of Buildings over 50 years old	(16)	57,432
Amount of Federal Money in Building Cost (Net of #16)	(17)	--
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)	236,245
Historical Cost of Furniture & Equipment over 16 years old	(19)	64,039
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ --

(8) Note A - No Function 53 expenditures and no Function 99 expenditures are included in this report on administrative costs.

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET (UNAUDITED)

GENERAL FUND

AS OF AUGUST 31, 2012

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2012 (Exhibit C-1 object 3000 for the General Fund only)	\$ 973,368
2	Total General Fund Nonspendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only)	--
3	Total General Fund Restricted Fund Balance (from Exhibit C-1 - total of object 345X-349X for the General Fund only)	--
4	Total General Fund Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only)	850,000
5	Total General Fund Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	--
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	--
7	Estimate of two months' average cash disbursements during the fiscal year	155,000
8	Estimate of delayed payments from state sources (58XX)	--
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	--
10	Estimate of delayed payments from federal sources (59XX)	--
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	--
12	General Fund Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10+11)	1,005,000
13	Excess (Deficit) Unassigned General Fund Fund Balance (1-12)	\$ (31,632)

If Item 11 is a Positive Number

Explanation of need for and/or projected use of net positive Unassigned General Fund Fund Balance:

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

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

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 15,002	\$ 17,541	\$ 2,539
5800 <i>State Program Revenues</i>	1,643	1,760	117
5900 <i>Federal Program Revenues</i>	21,000	29,305	8,305
5020 Total Revenues	<u>37,645</u>	<u>48,606</u>	<u>10,961</u>
EXPENDITURES:			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	55,798	52,243	3,555
Total Support Services - Student (Pupil)	<u>55,798</u>	<u>52,243</u>	<u>3,555</u>
6030 Total Expenditures	<u>55,798</u>	<u>52,243</u>	<u>3,555</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>(18,153)</u>	<u>(3,637)</u>	<u>14,516</u>
Other Financing Sources (Uses):			
7915 <i>Transfers In</i>	5,000	5,000	--
7080 Total Other Financing Sources and (Uses)	<u>5,000</u>	<u>5,000</u>	<u>--</u>
1200 Net Change in Fund Balance	<u>(13,153)</u>	<u>1,363</u>	<u>14,516</u>
0100 Fund Balance - Beginning	2,512	2,512	--
3000 Fund Balance - Ending	<u>\$ (10,641)</u>	<u>\$ 3,875</u>	<u>\$ 14,516</u>

BURL D. LOWERY
CERTIFIED PUBLIC ACCOUNTANT
311 CENTER AVENUE
BROWNWOOD, TEXAS 76801

Independent Auditor's Report

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

Board of Trustees
Morgan Mill Independent School District
P.O. Box 8
Morgan Mill, Texas 76465

Members of the Board of Trustees:

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan Mill Independent School District as of and for the year ended August 31, 2012, which collectively comprise the Morgan Mill Independent School District's basic financial statements and have issued my report thereon dated November 20, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morgan Mill Independent School District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Respectfully submitted,



Burl D. Lowery
Certified Public Accountant

November 20, 2012

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

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

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

Noncompliance material to financial statements noted? Yes X No

B. Financial Statement Findings

NONE

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2012*

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
2011-1 Unfavorable budget variances		
Condition: The District exceeded its final amended budget at the function level.		
Recommendation: The District should make sure that all year-end adjustments are properly budgeted.	Implemented	

MORGAN MILL INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2012

There are no current year findings.

MORGAN MILL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2012

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