

**MILLER GROVE
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED**

AUGUST 31, 2012

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2012

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	CERTIFICATE OF BOARD	1
	Independent Auditors' Report	2-3
	Management Discussion and Analysis	4-12
	<u>BASIC FINANCIAL STATEMENTS</u>	
	Government Wide Statements:	
A-1	Statement of Net Assets	13
B-1	Statement of Activities	14
	Governmental Fund Financial Statements	
C-1	Balance Sheet	15
C-2	Reconciliation for C-1	16
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balance	17
C-4	Reconciliation for C-3	18
C-5	Budgetary Comparison Schedule - General Fund	19
	Fiduciary Fund Financial Statements	
D-1	Statement of Fiduciary Net Assets	20
	Notes to the Financial Statements	21-35
	<u>Combining Schedules</u>	
	Nonmajor Governmental Funds:	
E-1	Combining Balance Sheet	36-37
E-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	38-39
	<u>Required TEA Schedules</u>	
J-1	Schedule of Delinquent Taxes	40-41
J-2	Schedule of Expenditures for Computation of Indirect Cost	42
J-4	Budgetary Comparison Schedule - Child Nutrition Fund	43
J-5	Budgetary Comparison Schedule - Debt Service Fund	44
	<u>Internal Control Section</u>	
	Report on Compliance and Internal Control Over Financial Reporting Based on an audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45-46
	Schedule of Findings and Questioned Costs	47
	Schedule of Status of Prior Findings	48
	Corrective Action Plan	49

CERTIFICATE OF BOARD

Miller Grove Independent School District
Name of School District

Hopkins
County

112-907
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved _____ disapproved for the year ended August 31, 2012 at a meeting of the Board of Trustees of such school district on the 19 day of November, 2012.

Brian Lennon
Signature of Board Secretary

Eric Mabe
Signature of Board President

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



ARNOLD, WALKER, ARNOLD, & Co., P.C.
Certified Public Accountants and Consultants

Bob J. Arnold, C.P.A.
 Lanny G. Walker, C.P.A.
 Kris Arnold, C.P.A.
 Andrew T. Arnold, C.P.A.
 Melissa J. Godfrey, C.P.A.
 Amy E. Smith, C.P.A.

MEMBER
 American Institute Of
 Certified Public Accountants
 Texas State Society Of
 Certified Public Accountants

**Standard Report on Financial Statements Issued in Accordance with
 Government Auditing Standards or in a Single Audit**

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
 Miller Grove Independent School District
 Cumby, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Miller Grove Independent School District (the District) as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 Miller Grove Independent School District as of August 31, 2012, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2012, on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 12 and pages 43 and 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. The information is in Exhibits identified in the Table of Contents as J-1, J-2, J-4, and J-5. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

October 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the MILLER GROVE Independent School District we offer readers of the MILLER GROVE Independent School District's financial statements this narrative overview and analysis of the financial activities of the MILLER GROVE Independent School District for the year ended August 31, 2012. The information presented here should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

The District's total combined net assets were \$2.56 million at August 31, 2012. During the year, the District's total revenues exceeded expenses by \$218 thousand. Total expenses of the District were \$2.45 million for the year.

The District reported fund balance in the general fund of \$1.49 million at August 31, 2012, which is an increase of approximately \$282 thousand. Revenues and expenditures were approximately the same as the prior year.

\$65 thousand of debt was retired during the year. \$70 thousand of new fixed assets were added.

Approximately 95% of the taxes levied for 2011-12 were collected by fiscal year end.

OVERVIEW OF THE FINANCIAL STATEMENTS

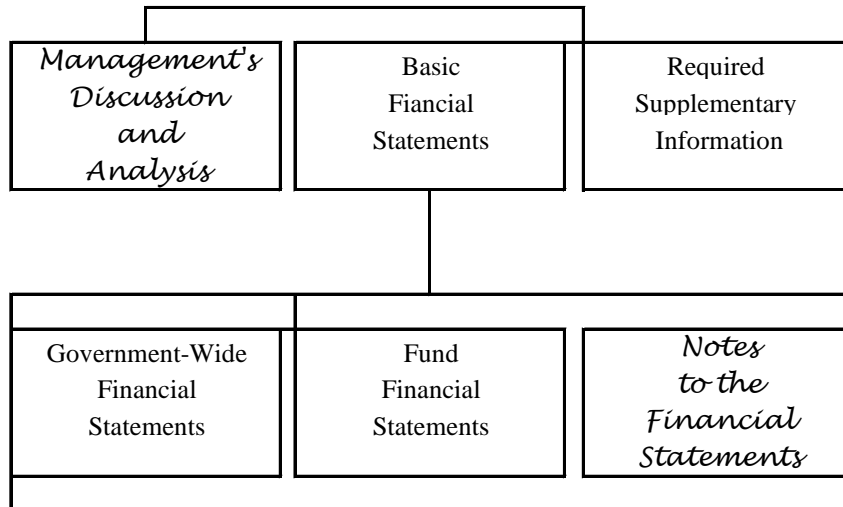
This annual report consists of three parts--*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- 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 notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government wide statements or the fund financial statements.

The combining statements for non-major funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Figure A-1. Required Components of the District's Annual Financial Report



Summary ⇐⇒ Detail

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. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-wide Fund Financial Statements

<i>Type of Statements</i>	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
<i>Required financial statements</i>	*Statement of net assets	*Balance sheet	*Statement of net assets	*Statement of fiduciary net assets
	*Statement of activities	*Statement of revenues, Expenditures & changes in fund balances	*Statement of revenues, expenses and changes in fund net assets	*Statement of changes in fiduciary net assets
			*Statement of cash flows	
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	all assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon after	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

(A) The District has no enterprise funds.

Government-wide Statements

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

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, consideration should be given to additional non-financial 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. Also included are business-type activities. The District charges a fee to "customers" to help cover the costs of services provided.

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 two 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 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, additional information is provided that explains the relationship (or differences) between them.
- *Fiduciary funds*-The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that-because of a trust arrangement-can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded 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

Net assets. The District's combined net assets were approximately \$2.56 million at August 31, 2012.

Table A-1
The District's Net Assets
(in thousands of dollars)

	Governmental Activities	
	2012	2011
Current and other assets	1,595	1,422
Capital and non-current assets	3,149	3,185
TOTAL ASSETS	4,744	4,607
Long-term liabilities	2,135	2,200
Other liabilities	46	62
TOTAL LIABILITIES	2,181	2,262
Net assets		
Invested in capital assets net of related debt	1,014	985
Restricted	43	132
Unrestricted	1,506	1,228
TOTAL NET ASSETS	2,563	2,345

Net assets invested in capital assets net of related debt reflects the book value of the District's capital assets in excess of the debt which financed those assets. The \$1.5 million of unrestricted net assets represents resources available to fund the programs of the District for the next fiscal year.

The \$43 thousand is restricted as follows:

Restricted for food service	3
Restricted for debt service	40
	<u>43</u>

Net assets of the District's governmental activities increased from \$2.34 million to \$2.56 million, or \$218 thousand. The increase was the result of three main factors. First, the District's revenues exceeded expenditures by \$191 thousand. Second, the District paid \$65 thousand principal on long-term debt and purchased fixed assets of \$70 thousand. Third, the District recorded depreciation of \$106 thousand.

Changes in net assets.

The District's total revenues were \$2.67 million. 22% of this comes from taxes, 60% was from state aid formula grants and 12% came from operating grants and contributions.

The total cost of all programs was \$2.45 million. Approximately 64% of this was for instructional and student services.

Net assets increased by \$218 thousand from the excess of expenses over revenues.

Table A-2
The District's Changes in Net Assets
(in thousands of dollars)

	Governmental Activities	
	2012	2011
Revenues		
<u>Program Revenues</u>		
Charges for Services	55	56
Operating Grants and Contributions	331	421
<u>General Revenues</u>		
Property Taxes	593	581
State aid - formula	1,591	1,764
Investment earnings	15	2
Other	82	85
Total Revenues	<u>2,667</u>	<u>2,909</u>
Expenses		
Instruction and instructional related	1,289	1,433
Instructional leadership/school administration	204	196
Guidance, social work, health, transportation	71	68
Food services	167	159
Extracurricular activities	61	57
General Administration	157	159
Plant maintenance and security	249	248
Data processing services	36	36
Debt service	114	105
Pmts to fiscal agent/member districts - shared service	101	94
Total Expenses	<u>2,449</u>	<u>2,555</u>
Increase (Decrease) in Net Assets	218	354
Beginning Net Assets	2,345	1,991
Ending Net Assets	<u>2,563</u>	<u>2,345</u>

Table A-3 presents the cost of each of the District's largest functions as well as each function's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$2.45 million.
- However, the amount that taxpayers paid for these activities through property taxes was only \$593 thousand.
- Some of the cost was paid by those who directly benefited from the programs (\$55 thousand), or by grants and contributions (\$331 thousand).

Table A-3
Net Cost of Selected District Functions
(in thousands of dollars)

	Services		Services	
	2012	2011	2012	2011
Instruction	1,289	1,433	1,073	1,220
School administration	204	196	186	176
Plant Maintenance & Operations	249	248	245	241
Debt Service-Interest & Fiscal Charges	114	105	114	105

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District reported fund balance in its governmental funds of approximately \$1.53 million reflecting a net increase of \$192 thousand.

Expenditures were up \$34 thousand in the general fund. Revenues were down about \$33 thousand. The increase to the general fund balance was \$282 thousand which is about \$68 thousand less than the prior year. The debt service fund balance decreased \$89 thousand as state revenue decreased.

General Fund Budgetary Highlights

Several budget amendments were made during the year. In total, actual expenditures were less than budgeted by \$300 thousand. All functions were properly budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table A-4
District's Capital Assets
(in thousands of dollars)

	Governmental Activities	
	2012	2011
Land	<u>82</u>	<u>67</u>
Buildings and improvements	4,116	4,116
Furniture and equipment	<u>536</u>	<u>511</u>
Totals at historical cost	<u>4,734</u>	<u>4,694</u>
Total accumulated depreciation	<u>(1,585)</u>	<u>(1,509)</u>
Net capital assets	<u><u>3,149</u></u>	<u><u>3,185</u></u>

The District acquired additional land this year.

Long-Term Debt

Table A-5
District's Long-Term Debt
(in thousands of dollars)

	Governmental	
	2012	2011
Bonds payable	<u><u>2,135</u></u>	<u><u>2,200</u></u>

The District paid the required principal as it came due.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Miller Grove Independent School District's Board of Trustees and administrative Staff considered many factors when setting the fiscal year 2013 budget and tax rates. One of these factors is the economy. The district's population growth has been slow over the past few years and we have experienced a slight decrease in ADA of approximately six students this year. This year however, enrollment was a little less than the ending of last year. We do not know where the students went to, but they appear to have moved from the area. For all planning purposes, the old enrollment from 2009-2010 will continue to be used until an established pattern of something different is established.

In the past year, appraised property values have dropped approximately 3%, yet we were fortunate that we were successful in passing a rollback election two years ago allowing us to raise the M&O rate to \$1.17. There has been a small increase in the amount of property available for purchase, yet sales are slow due to the depressed economy. It appears that the majority of the homes sold in the past year are to retired people with no school-aged children. Growth is expected in the future as more affordable housing becomes available.

Miller Grove ISD is primarily an agricultural area. While unemployment remains low, there has been slow change in the occupation of district residents. The number of residents who work in jobs outside district boundaries continues to rise, but is affected by the cost of fuel.

The Board knew that some difficult personnel decisions had to be made and agreed to cut four positions before the 2007-2008 school year. In addition, two more positions were not filled before the 2008-2009 school to provide additional cost savings. Two positions opened this year due to retirements, which were not filled, but absorbed by other teachers.

The above factors were taken into consideration when adopting the General Fund Budget for 2013 The Board knows that several areas must be addressed in the next year or two. We were able to purchase three used busses in the past two years to replace old, high mileage buses used on the routes each day. Changes have to be made in the cafeteria to comply with changes in food preparation and replace failing kitchen equipment. Finally, plant maintenance issues, for example failing A/C units, must plan on being replaced as they fail.

It was the Board's wish to help increase the fund balance and provide additional monies to cover unexpected costs if they arose. The Board voted to maintain the \$1.17 M&O rate allowed by the election. A balanced budget was adopted for the 12-13 school year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Miller Grove Independent School District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the District's Central Business Office.

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2012

Data Control Codes	Primary Government Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 1,522,621
1220 Property Taxes Receivable (Delinquent)	71,524
1230 Allowance for Uncollectible Taxes	(50,424)
1240 Due from Other Governments	49,490
1290 Other Receivables, net	1,084
Capital Assets:	
1510 Land	82,276
1520 Buildings, Net	2,939,126
1530 Furniture and Equipment, Net	127,997
1000 Total Assets	4,743,694
LIABILITIES	
2160 Accrued Wages Payable	39,961
2200 Accrued Expenses	944
2300 Deferred Revenues	5,108
Noncurrent Liabilities	
2501 Due Within One Year	45,000
2502 Due in More Than One Year	2,090,000
2000 Total Liabilities	2,181,013
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	1,014,399
3820 Restricted for Federal and State Programs	3,180
3850 Restricted for Debt Service	39,409
3900 Unrestricted Net Assets	1,505,693
3000 Total Net Assets	\$ 2,562,681

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

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT B-1

Data	Program Revenues			Net (Expense)
Control	1	3	4	Revenue and
Codes	Expenses	Charges for	Operating	Changes in Net
		Services	Grants and	Assets
			Contributions	6
				Primary Gov.
				Governmental
				Activities

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 1,235,297	\$ -	\$ 214,611	\$ (1,020,686)
12 Instructional Resources and Media Services	42,227	-	1,604	(40,623)
13 Curriculum and Staff Development	11,396	-	120	(11,276)
21 Instructional Leadership	3,250	-	-	(3,250)
23 School Leadership	200,754	-	18,266	(182,488)
33 Health Services	241	-	-	(241)
34 Student (Pupil) Transportation	70,842	-	1,160	(69,682)
35 Food Services	166,795	45,119	87,609	(34,067)
36 Extracurricular Activities	60,869	5,297	1,433	(54,139)
41 General Administration	156,751	-	4,547	(152,204)
51 Facilities Maintenance and Operations	249,409	4,150	1,834	(243,425)
53 Data Processing Services	36,349	-	-	(36,349)
72 Debt Service - Interest on Long Term Debt	112,449	-	-	(112,449)
73 Debt Service - Bond Issuance Cost and Fees	1,119	-	-	(1,119)
93 Payments related to Shared Services Arrangements	101,272	-	-	(101,272)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 2,449,020	\$ 54,566	\$ 331,184	\$ (2,063,270)

Data	General Revenues:		
Control	Taxes:		
Codes			
MT	Property Taxes, Levied for General Purposes		527,760
DT	Property Taxes, Levied for Debt Service		65,208
SF	State Aid - Formula Grants		1,591,526
IE	Investment Earnings		14,859
MI	Miscellaneous Local and Intermediate Revenue		81,834
TR	Total General Revenues		2,281,187
CN	Change in Net Assets		217,917
NB	Net Assets--Beginning		2,344,764
NE	Net Assets--Ending		\$ 2,562,681

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

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2012

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 1,482,250	\$ 40,371	\$ 1,522,621
1220 Property Taxes - Delinquent	64,371	7,153	71,524
1230 Allowance for Uncollectible Taxes (Credit)	(48,278)	(2,146)	(50,424)
1240 Receivables from Other Governments	44,238	5,252	49,490
1290 Other Receivables	961	123	1,084
1000 Total Assets	<u>\$ 1,543,542</u>	<u>\$ 50,753</u>	<u>\$ 1,594,295</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2160 Accrued Wages Payable	\$ 37,055	\$ 2,906	\$ 39,961
2200 Accrued Expenditures	691	253	944
2300 Deferred Revenues	16,093	5,005	21,098
2000 Total Liabilities	<u>53,839</u>	<u>8,164</u>	<u>62,003</u>
Fund Balances:			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	3,180	3,180
3480 Retirement of Long-Term Debt	-	39,409	39,409
3600 Unassigned Fund Balance	1,489,703	-	1,489,703
3000 Total Fund Balances	<u>1,489,703</u>	<u>42,589</u>	<u>1,532,292</u>
4000 Total Liabilities and Fund Balances	<u>\$ 1,543,542</u>	<u>\$ 50,753</u>	<u>\$ 1,594,295</u>

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

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

Total Fund Balances - Governmental Funds	\$ 1,532,292
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$4,694,024 and the accumulated depreciation was \$1,509,360. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.	984,664
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2012 capital outlays and debt principal payments is to increase (decrease) net assets.	135,716
3 The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(105,981)
4 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	15,990
19 Net Assets of Governmental Activities	<u>\$ 2,562,681</u>

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

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 628,587	\$ 119,386	\$ 747,973
5800 State Program Revenues	1,661,749	20,673	1,682,422
5900 Federal Program Revenues	-	240,288	240,288
5020 Total Revenues	<u>2,290,336</u>	<u>380,347</u>	<u>2,670,683</u>
EXPENDITURES:			
Current:			
0011 Instruction	1,014,446	148,650	1,163,096
0012 Instructional Resources and Media Services	42,227	-	42,227
0013 Curriculum and Instructional Staff Development	11,276	120	11,396
0021 Instructional Leadership	3,250	-	3,250
0023 School Leadership	192,825	7,929	200,754
0033 Health Services	241	-	241
0034 Student (Pupil) Transportation	110,770	-	110,770
0035 Food Services	24,384	134,883	159,267
0036 Extracurricular Activities	54,874	-	54,874
0041 General Administration	153,754	-	153,754
0051 Facilities Maintenance and Operations	247,471	-	247,471
0053 Data Processing Services	36,349	-	36,349
Debt Service:			
0071 Principal on Long Term Debt	-	65,000	65,000
0072 Interest on Long Term Debt	-	112,449	112,449
0073 Bond Issuance Cost and Fees	-	1,119	1,119
Capital Outlay:			
0081 Facilities Acquisition and Construction	15,466	-	15,466
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	101,272	-	101,272
6030 Total Expenditures	<u>2,008,605</u>	<u>470,150</u>	<u>2,478,755</u>
1200 Net Change in Fund Balances	281,731	(89,803)	191,928
0100 Fund Balance - September 1 (Beginning)	<u>1,207,972</u>	<u>132,392</u>	<u>1,340,364</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 1,489,703</u>	<u>\$ 42,589</u>	<u>\$ 1,532,292</u>

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

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

Total Net Change in Fund Balances - Governmental Funds	\$	191,928
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2012 capital outlays and debt principal payments is to increase (decrease) net assets.		135,716
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(105,981)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(3,746)
Change in Net Assets of Governmental Activities	\$	217,917

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

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 548,404	\$ 628,752	\$ 628,587	\$ (165)
5800 State Program Revenues	1,747,393	1,909,509	1,661,749	(247,760)
5020 Total Revenues	2,295,797	2,538,261	2,290,336	(247,925)
EXPENDITURES:				
Current:				
0011 Instruction	1,144,902	1,193,934	1,014,446	179,488
0012 Instructional Resources and Media Services	43,423	44,701	42,227	2,474
0013 Curriculum and Instructional Staff Development	15,900	15,900	11,276	4,624
0021 Instructional Leadership	3,500	3,500	3,250	250
0023 School Leadership	190,563	197,465	192,825	4,640
0033 Health Services	300	300	241	59
0034 Student (Pupil) Transportation	115,353	121,028	110,770	10,258
0035 Food Services	22,170	25,878	24,384	1,494
0036 Extracurricular Activities	50,368	57,968	54,874	3,094
0041 General Administration	168,274	171,481	153,754	17,727
0051 Facilities Maintenance and Operations	308,805	317,384	247,471	69,913
0053 Data Processing Services	42,625	42,906	36,349	6,557
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	15,466	15,466	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	42,652	103,272	101,272	2,000
6030 Total Expenditures	2,148,835	2,311,183	2,008,605	302,578
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	146,962	227,078	281,731	54,653
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	(14,233)	-	-	-
7080 Total Other Financing Sources (Uses)	(14,233)	-	-	-
1200 Net Change in Fund Balances	132,729	227,078	281,731	54,653
0100 Fund Balance - September 1 (Beginning)	1,207,972	1,207,972	1,207,972	-
3000 Fund Balance - August 31 (Ending)	\$ 1,340,701	\$ 1,435,050	\$ 1,489,703	\$ 54,653

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

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2012

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 24,691
Total Assets	<u>\$ 24,691</u>
LIABILITIES	
Due to Student Groups	\$ 24,691
Total Liabilities	<u>\$ 24,691</u>

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

MILLER GROVE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MILLER GROVE INDEPENDENT SCHOOL DISTRICT (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the MILLER GROVE INDEPENDENT SCHOOL DISTRICT activities with most of the inter-fund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. The District has no business type activities.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. Direct costs are those that are clearly identifiable with a specific function. Program revenues of the District include charges for services and operating grants and contributions. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

Inter-fund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. Inter-fund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 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, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. 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.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

D. FUND ACCOUNTING

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each funds assets, liabilities, equity, revenues and expenditures.

The District reports the following major governmental funds:

1. **The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Additionally, the District reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Debt Service Fund** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Fiduciary Funds:

1. **Agency Funds** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are student activity funds.

E. OTHER ACCOUNTING POLICIES

1. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.
2. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20-50
Vehicles	10
Office Equipment	10
Computer Equipment	10

3. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Commitments of fund balance represent tentative management plans that are subject to change.
4. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
5. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a State-wide data base for policy development and funding plans.
6. School Districts are required to report all expenses by function, except certain indirect expenses. General administration and data processing service functions (data control codes 41 and 53, respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.
7. Investments are carried at fair value.

8. Fund balance measures the net financial resources available to finance expenditures of future periods.

The District's Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund balance may only be appropriated by resolution of the Board of Trustees.

Fund balance of the District may be committed for a specific source by formal action of the Miller Grove ISD Board of Trustees. Amendments or modifications of the committed fund balance must also be approved by formal action of the Miller Grove ISD Board of Trustees.

When it is appropriate for fund balance to be assigned, the Board delegates authority to the Superintendent and Chief Financial Officer.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets</u> <u>at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Value at the</u> <u>Beginning of the</u> <u>Year</u>	<u>Change in Net</u> <u>Assets</u>
Land	66,810	-	66,810	
Buildings	4,116,330	(1,098,727)	3,017,603	
Furniture & Equipment	510,884	(410,633)	100,251	
Construction in progress	-	-	-	
Change in Net Assets	<u>4,694,024</u>	<u>(1,509,360)</u>		<u>3,184,664</u>
<u>Long-term Liabilities</u> <u>at the Beginning of the year</u>			<u>Payable at the</u> <u>Beginning of the</u> <u>Year</u>	
Bonds payable			2,200,000	
Loans payable			-	
Change in Net Assets				<u>(2,200,000)</u>
Net Adjustment to Net Assets				<u>984,664</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current year Capital Outlay</u>			
Land	15,466	15,466	15,466
Furniture & Equipment	55,250	55,250	55,250
Total Capital Outlay	<u>70,716</u>	<u>70,716</u>	<u>70,716</u>
<u>Debt Principal Payments</u>			
Bond Principal	65,000	65,000	65,000
Total Principal Payments	<u>65,000</u>	<u>65,000</u>	<u>65,000</u>
Total Adjustment to Net Assets		<u>135,716</u>	<u>135,716</u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	38,265	(38,265)	-
Uncollected taxes (assumed collectible) from Current Year Levy	15,990	15,990	15,990
Effect of prior year tax entries	18,529	18,529	-
Total		<u>(3,746)</u>	<u>15,990</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds if they are considered major funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5 and the other two reports are in Exhibit J-4 and J-5.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

	August 31, 2012 <u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	3,180
Nonappropriated Budget Funds	<u>-</u>
All Special Revenue Funds	<u><u>3,180</u></u>

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

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

Additional contractual provisions governing deposits and investments for the District are as follows:

Policies Governing Deposits and Investments

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

1. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The District’s policy regarding types of deposits allowed and collateral requirements is that the funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping in an amount sufficient to protect the District’s 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.

Deposits of the District are insured or collateralized with securities held by the pledging financial institution’s trust department or agent in the name of the District.

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 \$1,546,444 and the bank balance was \$1,552,057. The District's cash deposits at 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 at all times.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Alliance Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$1,821,868.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$1,865,765 and occurred during the month of November, 2011.

- d. Total amount of FDIC coverage at the time of the highest combined balance was \$430,149.
2. Custodial Credit Risk – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Positions in external investment pools are not subject to custodial credit risk. The District has no investments exposed to custodial credit risk at the end of the period.
3. Interest- rate Risk – Interest-rate risk occurs when potential purchases of debt securities do not agree to pay face value for these securities if interest rates rise. The District does not purchase investments where the face value is not guaranteed.
4. Concentration Risk – Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investments in external investment pools are not subject to concentration risk. The District is not exposed to any amounts of concentration risk.
5. Other Credit Risk Exposure – The District has no investments in external investment pools.

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 located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 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 school fiscal year.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2012, were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Other	Total Receivables
Governmental Activities:					
General Fund	64,371	45,199	-	-	109,570
Nonmajor Governmental Funds	7,153	5,375	-	-	12,528
Total-Governmental Activities	71,524	50,574	-	-	122,098
Amount not scheduled for collection during the subsequent year	50,424	-	-	-	50,424

Payables at August 31, 2012, were as follows:

	Accounts	Loans, Leases, and Bonds Payable- Current Year	Salaries & Benefits	Due to Other Funds	Due to Other Governments	Other	Total Payables
Governmental Activities:							
General Fund	-	-	37,746	-	-	-	37,746
Nonmajor Governmental Funds	-	-	3,159	-	-	-	3,159
Total-Governmental Activities	-	-	40,905	-	-	-	40,905
Amount not scheduled for collection during the subsequent year	-	-	-	-	-	-	-

E. CAPITAL ASSET ACTIVITY

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

	Beginning			Ending
	Balance	Additions	Retirements	Balance
District:				
Land	66,810	15,466	-	82,276
Buildings and Improvements	4,116,330	-	-	4,116,330
Furniture and Equipment	510,884	55,250	(30,000)	536,134
Totals at Historic Cost	<u>4,694,024</u>	<u>70,716</u>	<u>(30,000)</u>	<u>4,734,740</u>
Less Accumulated Depreciation				
for:				
Buildings and Improvements	(1,098,727)	(78,477)	-	(1,177,204)
Furniture and Equipment	(410,633)	(27,504)	30,000	(408,137)
Total Accumulated Depreciation	<u>(1,509,360)</u>	<u>(105,981)</u>	<u>30,000</u>	<u>(1,585,341)</u>
Governmental Activities Capital				
Assets, Net	<u>3,184,664</u>	<u>(35,265)</u>	<u>-</u>	<u>3,149,399</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	72,201
Student (Pupil) Transportation	15,322
Food Services	7,528
Curricular/ Extracurricular Activities	5,995
General Administration	2,997
Plant Maintenance and Operations	1,938
Total Depreciation Expense	<u>105,981</u>

F. BONDS PAYABLE

Bonds dated September 23, 2002 totaling \$1,500,000 were issued. Proceeds from the Miller Grove Independent School District Unlimited Tax School Building Bonds, Series 2002 were used to construct, renovate, and equip school buildings and to pay costs associated with the issuance of the bonds. The bonds were issued pursuant to sections 45.001 and 45.003 (B)(1) of the Texas Education Code as amended and bear an effective interest rate of 3.80% to 5.50%.

During the 2010-2011 fiscal year as authorized in Chapter 1207 Texas Government Code as amended, the District issued the Unlimited Tax Refunding Bonds Series 2011. This was used to refund the Series 2000 debt and all but \$70 thousand of the Series 2002 debt. Interest is payable from 2%-4%. The advance refunding of the 2000 and 2002 debt was undertaken to reduce total debt payments by approximately \$206 thousand and to obtain an economic gain of approximately \$153 thousand. The balance of the refunded debt at August 31, 2012 is \$2,120,000.

A summary of changes in bond general long-term debt for the year ended August 31, 2012 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Payable Amounts			Outstanding 8/31/2012
				Outstanding 9/1/2011	Issued	Retired	
Unlimiting Tax School Building Bonds-Series 2002	3.80-5.50%	1,500,000	2,249	70,000	-	(35,000)	35,000
Unlimiting Tax Refunding Bonds-Series 2011	2.00%-4.00%	2,130,000	110,200	2,130,000	-	(30,000)	2,100,000
			112,449	2,200,000	-	(65,000)	2,135,000

Bond debt service requirements are as follows:

Year Ended August 31	General Obligations		
	Principal	Interest	Total Requirements
2013	45,000	130,865	175,865
2014	105,000	69,150	174,150
2015	115,000	66,950	181,950
2016	110,000	64,700	174,700
2017	120,000	62,100	182,100
2018-2022	650,000	257,850	907,850
2023-2027	590,000	129,400	719,400
2028-2032	400,000	40,800	440,800
Total	2,135,000	821,815	2,956,815

G. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds	2,200,000	-	(65,000)	2,135,000	45,000
Total Governmental Activities	<u>2,200,000</u>	<u>-</u>	<u>(65,000)</u>	<u>2,135,000</u>	<u>45,000</u>

H. DEFINED BENEFIT PENSION PLAN

Plan Description. MILLER GROVE INDEPENDENT SCHOOL DISTRICT contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, 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. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 8701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. State law provides for fiscal years 2010, 2011 and 2012 a state contribution rate of 6.0% and a member contribution rate of 6.4%. In certain instances the reporting district (I.S.D., college, university, or state agency) is required to make all or a portion of the state's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State contributions to TRS made on behalf of MILLER GROVE INDEPENDENT SCHOOL DISTRICT's employees for the years ended August 31, 2010, 2011 and 2012 were \$88,155, \$84,428, and \$90,161 respectively. These state contributions include amounts allocated the state for the Medicare Part D retiree drug subsidy and the Early Retirement Reinsurance Program in the amount of \$2,543 and \$2,804 respectively. MILLER GROVE INDEPENDENT SCHOOL DISTRICT paid additional state contributions for the years ended August 31, 2010, 2011 and 2012 in the amount of \$8,265, \$13,178, and \$7,688 respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

I. HEALTHCARE COVERAGE

During the year ended August 31, 2012 employees of Miller Grove Independent School District were covered by a health insurance plan with TRS Active-Care. The District paid premiums of \$150 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. The terms of coverage and premium costs are included in the contractual provisions.

Total Annual Premiums for Health Care 2011-2012	52,689
Less non-medical expenditures	<u>-</u>
Maintenance of effort for 2011-2012	<u><u>52,689</u></u>

J. DEFERRED REVENUE

Deferred revenue at year end consisted of the following:

	General Fund	Debt Service Fund	Total
Net Tax Revenue	16,093	5,005	21,098
Special Education	-	-	-
TOTAL	<u><u>16,093</u></u>	<u><u>5,005</u></u>	<u><u>21,098</u></u>

K. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2012 are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

FUND	STATE ENTITLEMENTS	FEDERAL GRANTS	OTHER	TOTAL
General	44,238	-	961	45,199
Special Revenue	-	5,252	-	5,252
Debt Service	-	-	123	123
Total	<u><u>44,238</u></u>	<u><u>5,252</u></u>	<u><u>1,084</u></u>	<u><u>50,574</u></u>

L. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources consisted of the following:

	General Fund	Nonmajor Governmental Funds	Total
Property Taxes	528,930	67,784	596,714
Penalties, Interest and Other Tax-related Income	43,303	5,397	48,700
Investment Income	13,863	996	14,859
Food Sales	-	45,119	45,119
Other	42,491	90	42,581
Total	<u>628,587</u>	<u>119,386</u>	<u>747,973</u>

M. RISK MANAGEMENT

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

N. COMMITMENTS AND CONTINGENCIES

The District has no significant commitments or contingencies at August 31, 2012.

O. LITIGATION

The District has no pending litigation at August 31, 2012.

P. SUBSEQUENT EVENT

Administration has evaluated subsequent events through October 31, 2012, the financial statement issuance date.

COMBINING AND OTHER STATEMENTS

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON MAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2012

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
ASSETS				
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -
1220	Property Taxes - Delinquent	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-
1240	Receivables from Other Governments	1,464	1,622	73
1290	Other Receivables	-	-	-
1000	Total Assets	<u>\$ 1,464</u>	<u>\$ 1,622</u>	<u>\$ 73</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2160	Accrued Wages Payable	\$ 1,347	\$ 1,492	\$ 67
2200	Accrued Expenditures	117	130	6
2300	Deferred Revenues	-	-	-
2000	Total Liabilities	<u>1,464</u>	<u>1,622</u>	<u>73</u>
Fund Balances:				
Restricted Fund Balance:				
3450	Federal or State Funds Grant Restriction	-	-	-
3480	Retirement of Long-Term Debt	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 1,464</u>	<u>\$ 1,622</u>	<u>\$ 73</u>

240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	283 IDEA, Pt. B ARRA Formula	287 Eucation Jobs Fund	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 1,087	\$ -	\$ -	\$ -	\$ -	\$ 1,087	\$ 39,284	\$ 40,371
-	-	-	-	-	-	7,153	7,153
-	-	-	-	-	-	(2,146)	(2,146)
2,093	-	-	-	-	5,252	-	5,252
-	-	-	-	-	-	123	123
<u>\$ 3,180</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,339</u>	<u>\$ 44,414</u>	<u>\$ 50,753</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,906	\$ -	\$ 2,906
-	-	-	-	-	253	-	253
-	-	-	-	-	-	5,005	5,005
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,159</u>	<u>5,005</u>	<u>8,164</u>
3,180	-	-	-	-	3,180	-	3,180
-	-	-	-	-	-	39,409	39,409
<u>3,180</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,180</u>	<u>39,409</u>	<u>42,589</u>
<u>\$ 3,180</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,339</u>	<u>\$ 44,414</u>	<u>\$ 50,753</u>

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	37,782	1,800	30,432	1,705
5020 Total Revenues	<u>37,782</u>	<u>1,800</u>	<u>30,432</u>	<u>1,705</u>
EXPENDITURES:				
Current:				
0011 Instruction	37,782	-	30,432	1,705
0013 Curriculum and Instructional Staff Development	-	-	-	-
0023 School Leadership	-	1,800	-	-
0035 Food Services	-	-	-	-
Debt Service:				
0071 Principal on Long Term Debt	-	-	-	-
0072 Interest on Long Term Debt	-	-	-	-
0073 Bond Issuance Cost and Fees	-	-	-	-
6030 Total Expenditures	<u>37,782</u>	<u>1,800</u>	<u>30,432</u>	<u>1,705</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	283 IDEA, Pt. B ARRA Formula	287 Eucation Jobs Fund	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 45,245	\$ -	\$ -	\$ -	\$ -	\$ 45,245	\$ 74,141	\$ 119,386
735	-	-	-	-	735	19,938	20,673
83,589	6,249	25,032	-	53,699	240,288	-	240,288
129,569	6,249	25,032	-	53,699	286,268	94,079	380,347
-	-	25,032	-	53,699	148,650	-	148,650
-	120	-	-	-	120	-	120
-	6,129	-	-	-	7,929	-	7,929
134,883	-	-	-	-	134,883	-	134,883
-	-	-	-	-	-	65,000	65,000
-	-	-	-	-	-	112,449	112,449
-	-	-	-	-	-	1,119	1,119
134,883	6,249	25,032	-	53,699	291,582	178,568	470,150
(5,314)	-	-	-	-	(5,314)	(84,489)	(89,803)
8,494	-	-	-	-	8,494	123,898	132,392
<u>\$ 3,180</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,180</u>	<u>\$ 39,409</u>	<u>\$ 42,589</u>

T.E.A. REQUIRED SCHEDULES

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2012

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2003 and prior years	Various	Various	\$ Various
2004	1.330000	0.150000	31,852,491
2005	1.380000	0.150000	33,159,804
2006	1.410000	0.150000	36,356,923
2007	1.290000	0.150000	39,239,931
2008	1.040050	0.150000	41,282,551
2009	1.170000	0.150000	44,529,848
2010	1.170000	0.150000	44,836,439
2011	1.170000	0.150000	45,054,167
2012 (School year under audit)	1.170000	0.150000	45,407,348
1000 TOTALS			

(10) Beginning Balance 9/1/2011	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2012
\$ 6,715	\$ -	\$ -	\$ -	\$ -	\$ 6,715
-	-	-	-	-	-
60	-	32	3	-	25
2,211	-	1,010	107	-	1,094
3,075	-	1,291	150	-	1,634
3,958	-	1,526	220	-	2,212
7,629	-	4,107	526	-	2,996
14,689	-	7,451	955	-	6,283
39,472	-	18,513	2,374	-	18,585
-	599,377	495,000	63,449	(8,948)	31,980
<u>\$ 77,809</u>	<u>\$ 599,377</u>	<u>\$ 528,930</u>	<u>\$ 67,784</u>	<u>\$ (8,948)</u>	<u>\$ 71,524</u>

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

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 95,612	\$ -	\$ 2,750	\$ -	\$ 98,362
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	507	-	-	507
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	-	-	314	-	314
6212	Audit Services	-	-	-	7,060	-	-	7,060
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	24,037	-	-	-	-	24,037
6214	Lobbying	-	-	-	-	-	-	-
621X	Other Professional Services	-	-	-	-	-	-	-
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	2,745	3,750	-	-	6,495
6240	Contr. Maint. and Repair	-	-	-	-	763	-	763
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	-	-	-	-
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	-	-	2,295	1,609	2,251	-	6,155
6410	Travel, Subsistence, Stipends	272	-	1,120	166	-	-	1,558
6420	Ins. and Bonding Costs	2,689	-	-	312	-	-	3,001
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	672	-	3,795	29,749	7,634	-	41,850
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 3,633	\$ 24,037	\$ 105,567	\$ 43,153	\$ 13,712	\$ -	\$ 190,102

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 2,300,187

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 70,716
Total Debt & Lease(6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	247,471
Food (Function 35, 6341 and 6499)	(13)	62,927
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		43,153

SubTotal: 424,267

Net Allowed Direct Cost \$ 1,875,920

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 4,116,330
Historical Cost of Building over 50 years old	(16)	-
Amount of Federal Money in Building Cost (Net of #16)	(17)	-
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	\$ 536,134
Historical Cost of Furniture & Equipment over 16 years old	(19)	-
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	-

(8) NOTE A: \$36,350 in Function 53 expenditures are included in this report on administrative costs.
 No Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 48,035	\$ 45,245	\$ 45,245	\$ -
5800 State Program Revenues	750	735	735	-
5900 Federal Program Revenues	81,000	83,589	83,589	-
5020 Total Revenues	129,785	129,570	129,569	(1)
EXPENDITURES:				
0035 Food Services	144,018	134,883	134,883	-
6030 Total Expenditures	144,018	134,883	134,883	-
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(14,233)	(5,313)	(5,314)	(1)
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	14,233	-	-	-
7080 Total Other Financing Sources (Uses)	14,233	-	-	-
1200 Net Change in Fund Balances	-	(5,313)	(5,314)	(1)
0100 Fund Balance - September 1 (Beginning)	8,494	8,494	8,494	-
3000 Fund Balance - August 31 (Ending)	\$ 8,494	\$ 3,181	\$ 3,180	\$ (1)

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 67,314	\$ 74,141	\$ 74,141	\$ -
5800 State Program Revenues	123,437	19,938	19,938	-
5020 Total Revenues	190,751	94,079	94,079	-
EXPENDITURES:				
Debt Service:				
0071 Principal on Long Term Debt	65,000	65,000	65,000	-
0072 Interest on Long Term Debt	112,449	112,449	112,449	-
0073 Bond Issuance Cost and Fees	1,575	1,119	1,119	-
6030 Total Expenditures	179,024	178,568	178,568	-
1200 Net Change in Fund Balances	11,727	(84,489)	(84,489)	-
0100 Fund Balance - September 1 (Beginning)	123,898	123,898	123,898	-
3000 Fund Balance - August 31 (Ending)	\$ 135,625	\$ 39,409	\$ 39,409	\$ -

REPORTS ON
INTERNAL CONTROLS, COMPLIANCE
AND
FEDERAL AWARDS



ARNOLD, WALKER, ARNOLD, & Co., P.C.
Certified Public Accountants and Consultants

Bob J. Arnold, C.P.A.
Lanny G. Walker, C.P.A.
Kris Arnold, C.P.A.
Andrew T. Arnold, C.P.A.
Melissa J. Godfrey, C.P.A.
Amy E. Smith, C.P.A.

MEMBER

American Institute Of
Certified Public Accountants

Texas State Society Of
Certified Public Accountants

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*

Independent Auditor's Report

Board of Trustees
Miller Grove Independent School District
Cumby, Texas

Members of the Board:

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

Internal Control Over Financial Reporting

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

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

October 31, 2012

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

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the Miller Grove Independent School District was an unqualified opinion.
- b. Where applicable, a statement that control deficiencies in internal control were disclosed by the audit of the financial statements and whether they were material weaknesses. None
- c. A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee. NONE
- d. Where applicable, a statement that control deficiencies in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses. N/A
- e. The type of report the auditor issued on compliance for major programs. N/A
- f. A statement as to whether the audit disclosed any audit findings which the auditor is required to report under Section __.510(a). These include: N/A
- g. An identification of major programs: N/A
- h. The dollar threshold used to distinguish between Type A and Type B programs. N/A
- i. A statement as to whether the auditee qualified as a low-risk auditee. N/A

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

NONE

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above

NONE

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

PRIOR YEAR'S FINDINGS/ NONCOMPLIANCE

N/A

STATUS OF PRIOR YEAR'S FINDINGS/ NONCOMPLIANCE

N/A

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2012

CORRECTIVE ACTION

N/A

The contact at the District is Steve Johnson at (903) 459-3288.

SCHOOLS FIRST QUESTIONNAIRE

MILLER GROVE INDEPENDENT SCHOOL DISTRICT

Fiscal Year 2012

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	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	