

**MCKINNEY  
INDEPENDENT SCHOOL DISTRICT**

Financial Report for the Year Ended

June 30, 2012

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
 Financial Report  
 For the Year Ended June 30, 2012

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
<b>CERTIFICATE OF BOARD .....</b>	<b>iii</b>	
 <b>FINANCIAL SECTION</b>		
Independent Auditor’s Report .....	1	
Management’s Discussion and Analysis.....	3	
Basic financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Assets .....	14	A-1
Statement of Activities.....	15	B-1
Fund Financial Statements:		
Balance Sheet – Governmental Funds.....	16	C-1
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	19	C-2
Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds .....	20	C-3
Reconciliation of the Governmental Funds Statement of Revenues, Expen- ditures and Changes in Fund Balance to the Statement of Activities .....	23	C-4
Statement of Net Assets - Fiduciary Funds .....	24	D-1
Statement of changes in Net Assets – Fiduciary Funds.....	25	D-2
Notes to the Financial Statements .....	26	
Required Supplementary Information:		
Budgetary Comparison Schedule - General Fund .....	48	E-1
Combining Statements:		
Combining Balance Sheet - Nonmajor Governmental Funds.....	50	F-1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds.....	56	F-2
Combining Statement of Net Assets – Private Purpose Trust Funds.....	62	F-3
Combining Statement of Changes in Net Assets – Private Purpose Trust Funds...	63	F-4
Required T.E.A. Schedules:		
Schedule of Delinquent Taxes Receivable.....	66	G-1
Schedule of Expenditures for Computations of Indirect Cost .....	68	G-2
Budgetary Comparison Schedule - Child Nutrition Fund .....	69	G-3
Budgetary Comparison Schedule - Debt Service Fund .....	70	G-4

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Financial Report  
For the Year Ended June 30, 2012

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
<b>FEDERAL AWARDS SECTION</b>		
Report on Internal Control Over Financial Reporting and on Compliance Based on an Audit of Basic financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	73	
Report on Compliance with Requirements Applicable to Each Major Program And Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	75	
Schedule of Findings and Questioned Costs .....	77	
Schedule of Status of Prior Findings .....	78	
Corrective Action Plan .....	79	
Schedule of Expenditures of Federal Awards .....	80	H-1

**CERTIFICATE OF BOARD**

McKinney Independent School District	Collin	043-907
_____ Name of School District	_____ County	_____ Co.- Dist. Number

We, the undersigned, certify that the attached financial reports of the above-named school district were reviewed and ( approved ( ) disapproved for the year ended June 30, 2012, at a meeting of the Board of School Trustees of such school district on the 23<sup>rd</sup> day of October, 2012.

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

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

If the auditor's report was disapproved, the reason(s) therefore is/are (attach list if necessary):

## **FINANCIAL SECTION**

**EVANS, PINGLETON and HOWARD, PLLC**

CERTIFIED PUBLIC ACCOUNTANTS  
8950 GARY BURNS DRIVE, SUITE D  
FRISCO, TEXAS 75034  
972-335-9754/FAX 972-335-9758

KIRK EVANS, CPA  
TOM W. PINGLETON, CPA  
RANDY HOWARD, CPA  
ROBIN J. TURNBULL, CPA  
BELINDA BAI, CPA  
BARBARA POLARINAKIS, CPA

MEMBERS  
AMERICAN INSTITUTE of CPAs  
AICPA DIVISION for CPA FIRMS  
TEXAS SOCIETY of CPAs

**UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS  
ACCOMPANIED BY REQUIRED SUPPLEMENTAL INFORMATION AND OTHER  
SUPPLEMENTARY INFORMATION  
AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Independent Auditor's Report**

Board of School Trustees  
**McKinney Independent School District**  
1 Duvall Street  
McKinney, Texas 75069

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McKinney Independent School District, McKinney Texas (the District) as of and for the year ended June 30, 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 an opinion on them 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 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 governmental activities, each major fund, and the aggregate remaining fund information of McKinney Independent School District as of June 30, 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.

Management's discussion and analysis on pages 3 through 11 and the budgetary comparison information on page 48 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the T.E.A. required schedules listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, combining and individual nonmajor fund financial statements and the T.E.A. required 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.

*Evans, Pingleton and Howard, PLLC*

September 20, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the McKinney Independent School District annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2012. Please read in conjunction with the District's financial statements, which follow this section.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets (Exhibit A-1) and the Statement of Activities (Exhibit B-1). These statements provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (Exhibits C-1 and C-3) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (following Exhibit D-2) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA and begin with Exhibit F-1. Exhibits labeled Exhibit G, TEA Required Schedules, and Federal Awards, contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

### REPORTING THE DISTRICT AS A WHOLE

#### *Government-wide Statements: The Statement of Net Assets and the Statement of Activities*

The government-wide statements (Exhibits A-1 and B-1) report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets, Exhibit A-1, includes all of the government's assets and liabilities. The Statement of Activities, Exhibit B-1, accounts for all of the current period's revenues and expenses.

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, consider additional non-financial factors such as changes in the District's tax base.

Within the government-wide financial statements of the District, most of the District's basic services are included, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes, grants and state revenues finance most of the activities.

## REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

### *Fund Financial Statements*

The fund financial statements (Exhibits C-1 and C-3) provide more detailed information about the District's most significant funds, not the District as a whole. Funds are a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives.

- Some funds are required by State law and bond covenants.
- Other funds are established 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 reported in governmental funds. The funds use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances at the end of the fiscal period. The governmental funds statements provide a detailed, short-term view of the District's general operations and the basic services it provides. The differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are described in reconciliation narratives following each of the fund financial statements. (Exhibits C-2 and C-4)
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for money raised by student activities and alumnae scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets, Exhibits D-1 and D-2 respectively. These resources are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purpose.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net assets.** The District's combined net assets were \$105,497,340 on June 30, 2012. (See Table A-1).

**Table A-1**  
**The District's Net Assets**

	Governmental Activities		Percentage
	2012	2011	Change
Current & Other Assets	148,077,597	122,942,594	20.44%
Capital & Non-Current Assets	451,567,237	442,219,876	2.11%
<b>Total Assets</b>	<b>599,644,834</b>	<b>565,162,470</b>	<b>6.10%</b>
Current Liabilities	56,796,789	58,219,301	-2.44%
Long Term Liabilities	437,350,705	412,097,319	6.13%
<b>Total Liabilities</b>	<b>494,147,494</b>	<b>470,316,620</b>	<b>5.07%</b>
<b>Net Assets</b>			
Invested in Capital Assets			
net of related debt	22,444,064	20,619,960	8.85%
Restricted	21,774,829	20,441,021	6.53%
Unrestricted	61,278,447	53,784,869	13.93%
<b>Total Net Assets</b>	<b>105,497,340</b>	<b>94,845,850</b>	<b>11.23%</b>

### Governmental Activities - Net Assets

Current assets increased as 20.44% from the previous year primarily as a result of the sale of School Building Unlimited Tax Bonds, Series 2011 Bonds. Long term liabilities also increased from the sale of Series 2011 Bonds and Unlimited Tax Refunding Bonds, Series 2011.

**Table A-2**  
**Changes in Net Assets**

	Governmental Activities 2012	2011	Percentage Change
<b>Revenues</b>			
<u>Program Revenues</u>			
Charges for services	8,618,376	8,498,667	1.41%
Operating grants & contributions	24,007,525	26,799,898	-10.42%
<u>General Revenues</u>			
Property taxes	137,533,823	135,949,216	1.17%
State aid - formula	69,751,436	73,659,469	-5.31%
Investment earnings	194,212	262,864	-26.12%
Grants & contributions not restricted	620,045	832,546	-25.52%
Other	6,111,271	5,757,778	6.14%
<b>Total Revenues</b>	246,836,688	251,760,438	-1.96%
<b>Expenses</b>			
Instruction and instructional related	139,741,687	141,556,214	-1.28%
Instructional leadership/school administration	14,712,770	15,649,385	-5.98%
Guidance, social work, health, transportation	15,851,621	15,996,714	-9.1%
Food services	8,957,524	8,544,943	4.83%
Extracurricular activities	6,812,273	7,301,303	-6.70%
General administration	3,769,343	4,401,093	-14.35%
Plant maintenance & security	18,321,819	19,383,249	-5.48%
Community services	2,182,610	2,702,326	-19.23%
Data processing services	3,700,346	3,629,190	1.96%
Debt service	21,156,803	20,425,493	3.58%
Contracted instructional services between public schools	118,310	138,229	-14.41%
Other intergovernmental charges	860,092	876,907	-1.92%
<b>Total Expenses</b>	236,185,198	240,605,046	-1.84%
<b>Increase/ (Decrease) in Net Assets</b>	10,651,490	11,155,392	-4.52%
<b>Beginning Net Assets</b>	94,845,850	83,690,458	13.33%
<b>Ending Net Assets</b>	105,497,340	94,845,850	11.23%

**Governmental Activities-Changes in Net Assets**

- Operating grants and contributions decreased with the completion of the American Recovery and Reinvestment grant in fiscal year (FY) 2011.
- Investment earnings decreased as interest rates declined.
- General administration, community services, and contracted instructional services between public schools decreased as staff reductions were made for FY 12.

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 period was \$236,185,198.
- The amount paid by MISD taxpayers for these governmental activities through property taxes was \$137,533,823.
- Some of the cost (\$8,618,376) was paid by those who directly benefited from the programs or by grants and contributions of \$24,007,525.
- State aid formula grants paid for \$69,751,436 of the costs.

**Table A-3  
Net Cost of Selected District Functions**

	<u>Total Cost of Services</u>			<u>Net Cost of Services</u>		
	<u>2012</u>	<u>2011</u>	% Change	<u>2012</u>	<u>2011</u>	% Change
Instruction	\$133,425,127	\$134,301,001	-0.65%	\$116,051,026	\$113,811,796	1.97%
School leadership	12,152,605	12,558,748	-3.23%	11,592,871	11,992,779	-3.33%
Plant maintenance & operations	17,510,989	18,583,961	-5.77%	16,446,006	17,605,814	-6.59%
Debt service-interest & fiscal charges	21,156,803	20,425,493	3.58%	21,156,803	20,425,493	3.58%

Plant maintenance and operations decreased as utility expenditures fell as mild weather conditions prevailed in FY 12. School leadership decreased as staff reductions were made for FY 12. Debt service charges increased with the issuance of capital project bonds.

**FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS**

As the District completed the year, governmental funds (as presented in the balance sheet on Exhibit C-1) reported a combined fund balance of \$118,125,309 as compared to a fund balance ending June 30, 2011 of \$89,894,061. The primary reason for the increase was an increase in funds due to the issuance of capital project bonds in FY 12.

## General Fund Budgetary Highlights

During the course of the fiscal year, the District reviews and revises its budget on a monthly basis in accordance with Texas Education Agency Financial Accountability System Resource Guide standards. General Fund revenues for the fiscal year ended June 30, 2012 exceeded budget by \$1,860,808 due primarily to state revenues exceeding expectations as student enrollment was more than projected. Total expenditures for the fiscal year were \$7,176,561 under budget. This was attributable primarily to the categories of Instruction where the budget was based on full staffing for the entire year; however, there were miscellaneous vacancies throughout the year. Facilities Maintenance and Operations also under spent a significant portion of their non-payroll budget. In addition, projects scheduled in Facilities Maintenance and Operations were not completed as scheduled but assigned in fund balance.

At the end of fiscal year 2011, the ending general fund balance of \$55.7million represented 31.8% of the 2011-2012 final operating budget. At fiscal year-end 2012, the ending fund balance of \$62.4 million represented 34.6% of the 2012-2013 operating budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2012, the District had invested \$451,567,237 in a broad range of capital assets, including land, equipment, buildings, and construction in progress. (See Table A-4.) Land increased as property was acquired for future school sites. Construction in Progress increased due to the ongoing remodeling of two schools. Additional information on capital assets is contained in Note 4, Section D of the Notes to the Financial Statements.

**Table A-4**  
**District's Capital Assets**  
**Governmental Activities**

	<u>2012</u>	<u>2011</u>	<u>Total % Change</u>
Land	\$ 36,925,605	\$ 26,988,369	36.82%
Buildings & improvements	524,684,184	516,318,297	1.62%
Furniture & equipment	13,584,309	12,028,268	12.94%
Construction in progress	12,197,270	8,574,637	42.25%
Totals at historical cost	<u>\$ 587,391,368</u>	<u>\$ 563,909,571</u>	4.16%
Total accumulated depreciation	135,824,131	121,689,695	11.62%
Net capital assets	<u>\$ 451,567,237</u>	<u>\$ 442,219,876</u>	2.11%

At the 2012 year-end, the District had \$461,310,705 in bonds outstanding as compared to \$435,432,319 at 2011 year-end. More detailed information about the District's debt is presented in the Notes to the Financial Statements.

**Table A-5**  
**District's Long Term Debt**

	<u>2012</u>	<u>2011</u>	<u>Total % Change</u>
Bonds payable	\$ 461,310,705	\$ 435,432,319	5.94%
Total bonds & notes payable	<u>\$ 461,310,705</u>	<u>\$ 435,432,319</u>	5.94%

All of the District's bonds except the Series 2009 and 2010 Bonds presently carry AAA Ratings by virtue of the Texas Permanent School Fund Bond Guarantee Program. The District's underlying ratings (and stand alone ratings in the case of the Series 2009 and 2010 Bonds) are as follows:

Moody's Investor Services "Aa2"  
 Standard & Poor's "AA"

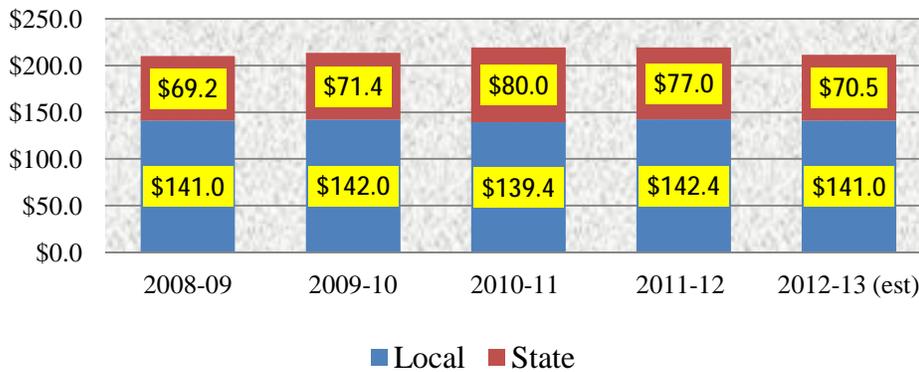
**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- Net taxable appraised value used for the 2013 budget preparation has increased approximately \$50.4 million, which represents an increase of .6% from 2012 values. New construction for 2013 amounts to approximately \$141.9 million. Value lost for new exemptions totals \$27.6 million.
- A comparison of budgeted general operating fund spending per pupil (based on fall enrollment) in the 2011-12 fiscal year of \$7,234 to the budgeted 2012-13 spending per pupil of \$7,386 represents a budgeted increase in spending per pupil of 2.1%.
- The District's 2013 fall enrollment is expected to be approximately 24,382 which represents a 1.4% decrease over 2012. The anticipated decrease is due to the opening of a new local charter school.

These indicators were taken into account when adopting the general fund budget for 2012-13. Revenues available for appropriation in the general fund budget are \$167,277,281 a decrease of 3.1% over the final 2011-12 budget of \$172,526,327. Contributing to the decrease is \$3,832,961 of federal fiscal stabilization funds used to supplement the 2011-12 budget will no longer be available.

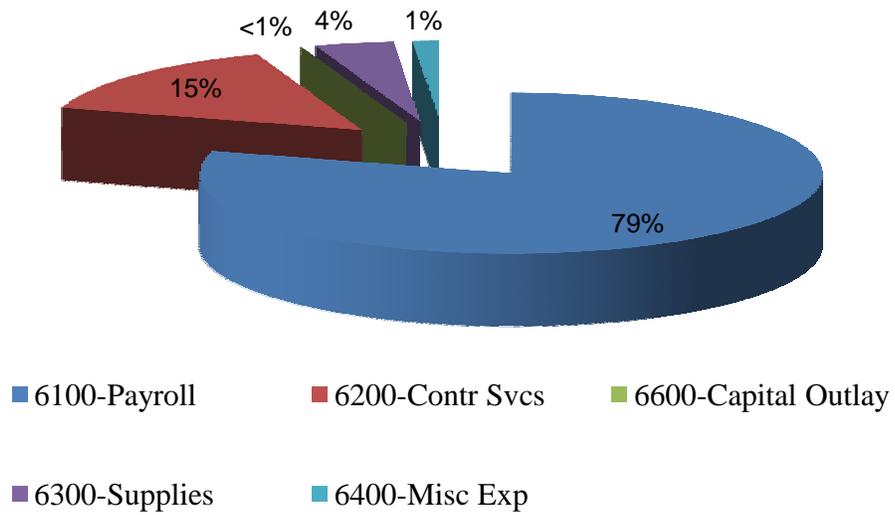
The District's projected 2012-13 tax rate remains at \$1.540. The following chart demonstrates the relationship of state and local funding for the past four years along with estimated amounts for 2012-13.

**State vs. Local Revenue (in millions)  
 (General & Debt Service Funds)**



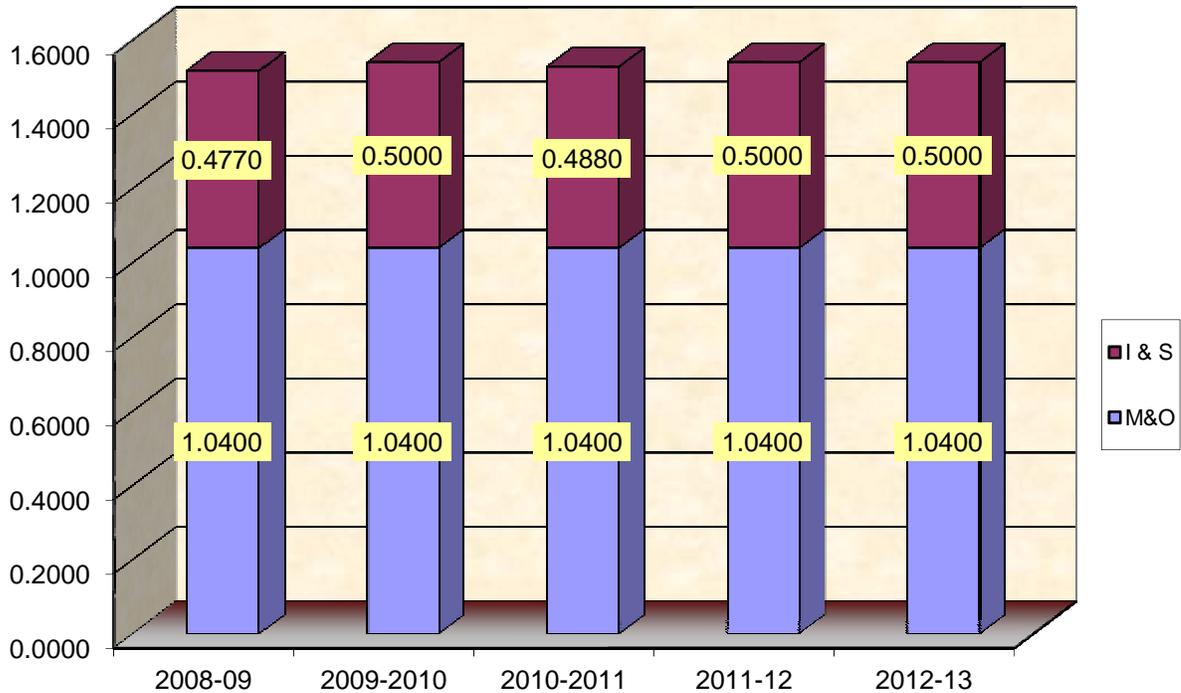
General fund expenditures for 2012-13 are budgeted to increase 1.4% to \$180.1 million. The largest increase is expected in payroll costs due to district wide salary increases granted in FY 13.

### 2012-2013 Percent of General Fund Budget by Object



The District tax rate will be \$1.540 in 2013, with the debt portion at \$0.500 and the M & O portion at \$1.04. The average taxable value of an average residence is expected to stay virtually unchanged from \$198,837 in 2012 to \$198,038 in 2013.

### Historic Tax Rate Comparison



TEA implemented and has annually assigned financial accountability ratings to Texas state school districts since the 2001-2002 fiscal audit. The McKinney ISD has received a ‘Superior Achievement’ rating for all applicable fiscal years, which represents the highest rating that a district can achieve.

### CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for funds received. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the following:

Business Services Group  
 McKinney Independent School District  
 #1 Duvall Street  
 McKinney, TX 75069  
 469-742-4000

This page left blank intentionally.

## **BASIC FINANCIAL STATEMENTS**

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

Data Control Codes	Primary Government  Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 126,306,846
1220 Property Taxes Receivable (Delinquent)	3,890,110
1230 Allowance for Uncollectible Taxes	(116,515)
1240 Due from Other Governments	14,913,678
1250 Accrued Interest	409
1290 Other Receivables, net	1,093,607
1300 Inventories	491,055
1410 Deferred Expenses	370,104
1420 Capitalized Bond and Other Debt Issuance Costs	1,128,303
Capital Assets:	
1510 Land	36,925,605
1520 Buildings, Net	397,855,317
1530 Furniture and Equipment, Net	4,589,045
1580 Construction in Progress	12,197,270
1000 Total Assets	599,644,834
<b>LIABILITIES</b>	
2110 Accounts Payable	4,181,405
2140 Interest Payable	7,786,399
2150 Payroll Deductions & Withholdings	47,085
2160 Accrued Wages Payable	18,322,198
2180 Due to Other Governments	643,523
2200 Accrued Expenses	1,248,188
2300 Deferred Revenues	607,991
Noncurrent Liabilities	
2501 Due Within One Year	23,960,000
2502 Due in More Than One Year	437,350,705
2000 Total Liabilities	494,147,494
<b>NET ASSETS</b>	
3200 Invested in Capital Assets, Net of Related Debt	22,444,064
3820 Restricted for Federal and State Programs	2,083,431
3850 Restricted for Debt Service	19,691,398
3900 Unrestricted Net Assets	61,278,447
3000 Total Net Assets	\$ 105,497,340

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

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT B-1

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

**Primary Government:**

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 133,425,127	\$ 299,604	\$ 17,074,497	\$ (116,051,026)
12 Instructional Resources and Media Services	3,807,220	-	137,904	(3,669,316)
13 Curriculum and Staff Development	2,509,340	-	372,689	(2,136,651)
21 Instructional Leadership	2,560,165	-	234,714	(2,325,451)
23 School Leadership	12,152,605	-	559,734	(11,592,871)
31 Guidance, Counseling and Evaluation Services	5,714,628	-	459,002	(5,255,626)
32 Social Work Services	275,222	-	6,173	(269,049)
33 Health Services	1,810,416	-	90,063	(1,720,353)
34 Student (Pupil) Transportation	8,051,355	-	67,614	(7,983,741)
35 Food Services	8,957,524	4,528,023	4,172,017	(257,484)
36 Extracurricular Activities	6,812,273	466,044	171,457	(6,174,772)
41 General Administration	3,769,343	-	128,250	(3,641,093)
51 Facilities Maintenance and Operations	17,510,989	684,805	380,178	(16,446,006)
52 Security and Monitoring Services	810,830	-	11,659	(799,171)
53 Data Processing Services	3,700,346	-	80,221	(3,620,125)
61 Community Services	2,182,610	2,639,900	61,353	518,643
72 Debt Service - Interest on Long Term Debt	21,067,467	-	-	(21,067,467)
73 Debt Service - Bond Issuance Cost and Fees	89,336	-	-	(89,336)
95 Payments to Juvenile Justice Alternative Ed. Prg.	118,310	-	-	(118,310)
99 Other Intergovernmental Charges	860,092	-	-	(860,092)
<b>[TP] TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 236,185,198</b>	<b>\$ 8,618,376</b>	<b>\$ 24,007,525</b>	<b>(203,559,297)</b>

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		92,874,269
DT	Property Taxes, Levied for Debt Service		44,659,554
SF	State Aid - Formula Grants		69,751,436
GC	Grants and Contributions not Restricted		620,045
IE	Investment Earnings		194,212
MI	Miscellaneous Local and Intermediate Revenue		6,111,271
TR	Total General Revenues		214,210,787
CN	Change in Net Assets		10,651,490
NB	Net Assets--Beginning		94,845,850
NE	Net Assets--Ending		\$ 105,497,340

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

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 66,978,968	\$ 18,711,862	\$ 36,396,423
1220 Property Taxes - Delinquent	2,714,333	1,175,777	-
1230 Allowance for Uncollectible Taxes (Credit)	(81,242)	(35,273)	-
1240 Receivables from Other Governments	12,423,642	-	-
1250 Accrued Interest	409	-	-
1290 Other Receivables	1,066,020	27,587	-
1300 Inventories	491,055	-	-
1410 Deferred Expenditures	330,526	-	-
1000 Total Assets	<u>\$ 83,923,711</u>	<u>\$ 19,879,953</u>	<u>\$ 36,396,423</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
2110 Accounts Payable	\$ 229,036	\$ -	\$ 3,900,268
2150 Payroll Deductions and Withholdings Payable	47,084	-	-
2160 Accrued Wages Payable	16,942,848	-	-
2180 Due to Other Governments	642,203	-	-
2200 Accrued Expenditures	931,456	-	308,623
2300 Deferred Revenues	2,774,348	1,329,059	-
2000 Total Liabilities	<u>21,566,975</u>	<u>1,329,059</u>	<u>4,208,891</u>
Fund Balances:			
Nonspendable Fund Balance:			
3410 Inventories	491,055	-	-
3430 Prepaid Items	341,175	-	-
Restricted Fund Balance:			
3450 Federal or State Grants	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	32,187,532
3480 Retirement of Long-Term Debt	-	18,550,894	-
Assigned Fund Balance:			
3560 Litigation and Claims	300,000	-	-
3580 Insurance Deductibles	117,000	-	-
3590 2012-2013 Budget Deficit	12,800,000	-	-
3590 Encumbrance Carry Forwards	1,306,774	-	-
3590 Projected 2013-14 Budget Deficit	14,300,000	-	-
3600 Unassigned Fund Balance	32,700,732	-	-
3000 Total Fund Balances	<u>62,356,736</u>	<u>18,550,894</u>	<u>32,187,532</u>
4000 Total Liabilities and Fund Balances	<u>\$ 83,923,711</u>	<u>\$ 19,879,953</u>	<u>\$ 36,396,423</u>

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

Other Funds	Total Governmental Funds
\$ 4,219,593	\$ 126,306,846
-	3,890,110
-	(116,515)
2,490,036	14,913,678
-	409
-	1,093,607
-	491,055
39,578	370,104
<u>\$ 6,749,207</u>	<u>\$ 146,949,294</u>
\$ 52,101	\$ 4,181,405
1	47,085
1,379,350	18,322,198
1,320	643,523
8,109	1,248,188
278,179	4,381,586
<u>1,719,060</u>	<u>28,823,985</u>
-	491,055
28,929	370,104
2,083,431	2,083,431
-	32,187,532
-	18,550,894
-	300,000
-	117,000
-	12,800,000
12,138	1,318,912
-	14,300,000
2,905,649	35,606,381
<u>5,030,147</u>	<u>118,125,309</u>
<u>\$ 6,749,207</u>	<u>\$ 146,949,294</u>

This page left blank intentionally.

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2012

<b>Total Fund Balances - Governmental Funds</b>	\$	118,125,309
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 \$563,909,571 and the accumulated depreciation was \$121,689,695. In addition, long-term liabilities, including bonds payable of \$424,325,000 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 net assets.		17,894,876
2 Current year capital outlays of \$23,536,592 and long-term debt principal payments of \$23,350,000 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 current year capital outlays and debt principal payments is to increase net assets.		46,886,592
3 Accrued interest payable on long-term debt is not reflected on the fund financial statements, but is shown on the government-wide financial statements. The effect of showing accrued interest payable is to decrease net assets.		(7,786,399)
4 The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(14,167,838)
5 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 decrease net assets.		(55,455,200)
<b>19 Net Assets of Governmental Activities</b>	<b>\$</b>	<b>105,497,340</b>

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

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 97,157,354	\$ 45,291,035	\$ 40,093
5800 State Program Revenues	76,609,735	-	-
5900 Federal Program Revenues	620,046	-	-
5020 Total Revenues	<u>174,387,135</u>	<u>45,291,035</u>	<u>40,093</u>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
0011 Instruction	103,269,792	-	5,252,231
0012 Instructional Resources and Media Services	3,231,449	-	-
0013 Curriculum and Instructional Staff Development	2,185,544	-	-
0021 Instructional Leadership	2,434,499	-	-
0023 School Leadership	11,079,420	-	-
0031 Guidance, Counseling and Evaluation Services	5,522,414	-	-
0032 Social Work Services	275,222	-	-
0033 Health Services	1,808,098	-	-
0034 Student (Pupil) Transportation	7,954,363	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	5,320,426	-	-
0041 General Administration	3,633,788	-	-
0051 Facilities Maintenance and Operations	17,018,553	-	-
0052 Security and Monitoring Services	583,428	-	-
0053 Data Processing Services	2,619,912	-	-
0061 Community Services	111,919	-	-
<b>Debt Service:</b>			
0071 Principal on Long Term Debt	-	23,350,000	-
0072 Interest on Long Term Debt	-	19,737,675	-
0073 Bond Issuance Cost and Fees	-	186,866	165,686
<b>Capital Outlay:</b>			
0081 Facilities Acquisition and Construction	-	-	24,364,207
<b>Intergovernmental:</b>			
0095 Payments to Juvenile Justice Alternative Ed. Prg.	118,310	-	-
0099 Other Intergovernmental Charges	860,092	-	-
6030 Total Expenditures	<u>168,027,229</u>	<u>43,274,541</u>	<u>29,782,124</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>6,359,906</u>	<u>2,016,494</u>	<u>(29,742,031)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
7911 Capital Related Debt Issued (Regular Bonds)	-	38,740,000	48,605,000
7912 Sale of Real and Personal Property	6,869	-	-
7915 Transfers In	300,000	-	-
7916 Premium or Discount on Issuance of Bonds	-	4,922,005	357,247
8911 Transfers Out (Use)	-	-	-
8949 Other (Uses)	-	(44,465,692)	-
7080 Total Other Financing Sources (Uses)	<u>306,869</u>	<u>(803,687)</u>	<u>48,962,247</u>
1200 Net Change in Fund Balances	6,666,775	1,212,807	19,220,216
0100 Fund Balance - July 1 (Beginning)	<u>55,689,961</u>	<u>17,338,087</u>	<u>12,967,316</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ 62,356,736</u>	<u>\$ 18,550,894</u>	<u>\$ 32,187,532</u>

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

Other Funds	Total Governmental Funds
\$ 11,035,717	\$ 153,524,199
2,105,877	78,715,612
15,043,348	15,663,394
28,184,942	247,903,205
14,061,993	122,584,016
279,249	3,510,698
323,796	2,509,340
125,666	2,560,165
774,070	11,853,490
192,214	5,714,628
-	275,222
2,318	1,810,416
64,870	8,019,233
8,167,758	8,167,758
315,704	5,636,130
25,810	3,659,598
256,913	17,275,466
88,335	671,763
4,095	2,624,007
2,070,691	2,182,610
-	23,350,000
-	19,737,675
-	352,552
-	24,364,207
-	118,310
-	860,092
26,753,482	267,837,376
1,431,460	(19,934,171)
-	87,345,000
-	6,869
-	300,000
-	5,279,252
(300,000)	(300,000)
-	(44,465,692)
(300,000)	48,165,429
1,131,460	28,231,258
3,898,687	89,894,051
\$ 5,030,147	\$ 118,125,309

This page left blank intentionally.

MCKINNEY 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 JUNE 30, 2012

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	28,231,258
Current year capital outlays of \$23,536,592 and long-term debt principal payments of \$23,350,000 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 current year capital outlays and debt principal payments is to increase net assets.		46,886,592
Accrued interest payable on long-term debt is not reflected on the fund financial statements, but is shown on the government-wide financial statements. The effect of showing accrued interest payable is to decrease net assets.		(259,966)
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.		(14,167,838)
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 decrease net assets.		(50,038,556)
<b>Change in Net Assets of Governmental Activities</b>	<u>\$</u>	<u>10,651,490</u>

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

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2012

EXHIBIT D-1

	Private Purpose Trust Funds	Agency Fund
<hr/>		
ASSETS		
Cash and Cash Equivalents	\$ 15,543	\$ 467,121
Total Assets	<u>15,543</u>	<u>\$ 467,121</u>
LIABILITIES		
Due to Student Groups	-	\$ 467,121
Total Liabilities	<u>-</u>	<u>\$ 467,121</u>
NET ASSETS		
Restricted for Scholarships	<u>15,543</u>	
Total Net Assets	<u>\$ 15,543</u>	

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

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN NET ASSETS  
 FIDUCIARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012

	Private Purpose Trust Funds
<hr/>	
ADDITIONS:	
Local and Intermediate Sources	\$ 126
Total Additions	<u>126</u>
Change in Net Assets	126
Total Net Assets - July 1 (Beginning)	<u>15,417</u>
Total Net Assets - June 30 (Ending)	<u><u>\$ 15,543</u></u>

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

# MCKINNEY INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements  
at and for the  
Year Ended June 30, 2012

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

McKinney 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 accounting principles generally accepted in the United States of America 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 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 government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Notes to the Financial Statements  
at and for the  
Year Ended June 30, 2012  
-continued-

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets, current liabilities and fund balances are included 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 unmatu-  
red interest and principal on long-term debt, which is recognized when due. The expenditures related to certain 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 sixty 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.

The Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities

-continued-

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Notes to the Financial Statements  
at and for the  
Year Ended June 30, 2012  
-continued-

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**  
(continued)

associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

**D. Fund Accounting**

The District reports the following major governmental funds:

1. **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.
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.
3. **Capital Projects Fund** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Additionally, the District reports the following fund types(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.

Fiduciary Funds:

2. **Private Purpose Trust Fund** - The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Funds are for scholarships.
3. **Agency Funds** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is for student groups.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Notes to the Financial Statements  
at and for the  
Year Ended June 30, 2012  
-continued-

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**E. Assets, Liabilities, and Net Assets or Equity**

**1. Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**2. Due From (To) Other Funds**

Interfund receivables and payables arise from interfund transactions and are recorded in all affected funds in the period in which transactions are executed in the normal course of operations.

**3. Inventories and Prepaid Items**

In the General Fund, reported inventories are offset by a fund balance reserve indicating that they are unavailable as current expendable financial resources.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**4. Capital Assets**

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities columns 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.

Property, plant, and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Notes to the Financial Statements  
at and for the  
Year Ended June 30, 2012  
-continued-

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**E. Assets, Liabilities, and Net Assets or Equity** (continued)

4. **Capital Assets** (continued)

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Vehicles	10
Office equipment	7
Computer equipment	5

5. **Vacation and Sick Leave**

Vacations are allowed to be accumulated but do not vest. Therefore, no liability has been accrued in the accompanying basic financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying basic financial statements.

6. **Long-term Obligations**

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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

7. **Fund Equity**

Fund Balance Classification: The governmental fund financial statements present fund balance classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements  
at and for the  
Year Ended June 30, 2012  
-continued-

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**E. Assets, Liabilities, and Net Assets or Equity** (continued)

**7. Fund Equity** (continued)

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees. These amounts cannot be used for any other purpose unless the Board of Trustees removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of June 30, 2012.
- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by an official to which the Board of Trustees delegates this authority.
- Unassigned: This classification includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When an expenditure is incurred for purposes 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, as needed.

As of June 30, 2012, fund balances are composed of the following:

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements

at and for the

Year Ended June 30, 2012

-continued-

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**E. Assets, Liabilities, and Net Assets or Equity** (continued)

**7. Fund Equity** (continued)

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Inventories	\$ 491,055				491,055
Prepaid items	341,175			28,929	370,104
Restricted:					
Debt service		18,550,894			18,550,894
Federal grants				1,965,657	1,965,657
State grants				117,774	117,774
Construction			32,187,532		32,187,532
Committed:					
Assigned:					
Litigation and claims	300,000				300,000
2012-2013 budget deficit	12,800,000				12,800,000
Insurance deductibles	117,000				117,000
Encumbrance carry forwards	1,306,774			12,138	1,318,912
Projected 2013-14 budget deficit	14,300,000				14,300,000
Unassigned:	<u>32,700,732</u>			<u>2,905,649</u>	<u>35,606,381</u>
Total fund balances	<u>\$ 62,356,736</u>	<u>18,550,894</u>	<u>32,187,532</u>	<u>5,030,147</u>	<u>118,125,309</u>

**8. Data Control Codes**

The Data Control Codes refer to the account code structure prescribed by T.E.A. in the *Financial Accountability System Resources 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 Statewide data base for policy development and funding plans.

9. 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.

-continued-

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements

at and for the

Year Ended June 30, 2012

-continued-

**NOTE 2 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 a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting.” The details of this \$(55,455,200) adjustment are as follows:

Deferred revenue:

To remove the current year uncollected tax levy from deferred revenue	\$ 1,541,542
To remove prior year collectible delinquent tax levy receivable from from deferred revenue	2,232,053
	3,773,595

Long-term debt:

Premium and issuance costs on bonds	(14,495,248)
Deferred gain on refunding bonds	1,832,846
Issuance of Bonds Payable	(46,545,000)
	(59,207,402)

Capital assets:

Disposal of capital assets	(21,393)
----------------------------	----------

Net adjustment to decrease fund balance - total governmental funds to arrive at net assets - governmental activities	\$ (55,455,200)
---	-----------------

**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 *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “various other reclassifications are necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting.” The details of this \$(50,038,556) adjustment are as follows:

Taxes:

To move the current year uncollected tax levy to revenue	\$ 1,541,542
To remove the prior year tax collection from current year revenue	(2,593,535)
	(1,051,993)

Long-term debt:

Current year amortization	(1,159,162)
Issuance of Bonds Payable	(46,545,000)
Current year premium and issuance cost on bonds	(4,926,700)
Current year deferred loss on refunding bonds	3,665,692
	(48,965,170)

Capital assets:

Disposal of capital assets	(21,393)
----------------------------	----------

Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes to net assets of governmental activities	\$ (50,038,556)
--	-----------------

-continued-

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Notes to the Financial Statements  
at and for the  
Year Ended June 30, 2012  
-continued-

**NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Data**

The Board of Trustees adopts an “appropriated budget” for the General Fund, Debt Service 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. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit E-1 and the other two reports are in Exhibit G-4 and G-5.

The following procedures were followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to June 19, the District prepares a budget for the next succeeding fiscal period beginning July 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 July 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. The budget was properly amended throughout the year by the Board of Trustees.
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 nonappropriated budget special revenue funds is as follows:

June 30, 2012 Fund Balance

Appropriated budget funds - Food Service Special Revenue Fund	\$1,965,912
Nonappropriated budget funds	<u>3,064,235</u>
All Special Revenue Funds	<u><u>\$5,030,147</u></u>

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Notes to the Financial Statements  
at and for the  
Year Ended June 30, 2012  
-continued-

**NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY** (continued)

**B. Encumbrance Accounting**

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment or Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at June 30 and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at year end.

**NOTE 4 DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

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 and trust with the District's agent bank 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.

At June 30, 2012, the carrying amount of the District's cash, savings, and time deposits was \$(1,239,138). The bank balance was \$1,771,633. The District's combined deposits at June 30, 2012 and during the year ended June 30, 2012 were fully insured by federal depository insurance or collateralized with securities pledged to the District and held by the District's agent.

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

- a. Name of bank American National Bank of Texas.
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$ 10,003,853.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$ 2,424,657 and occurred during the month of November.
- d. Total amount of FDIC coverage at the time of highest combined balance was \$250,000.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Notes to the Financial Statements  
at and for the  
Year Ended June 30, 2012  
-continued-

**NOTE 4 DETAILED NOTES ON ALL FUNDS** (continued)

**A. Deposits and Investments** (continued)

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

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

- a. Custodial Credit Risk - Deposits: In the case of deposits this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's policy regarding types of deposits allowed and collateral requirements is: the Depository may be a state bank authorized and regulated under Texas law; a national bank, savings and loan association, or savings bank authorized and regulated by federal law;
- a. Custodial Credit Risk - Deposits: (continued)  
or a savings and loan association or savings bank organized under Texas law; but shall not be any bank the deposits of which are not insured by the Federal Deposit Insurance Corporation (FDIC). The District is not exposed to custodial credit risk for its deposits, as all are covered by depository insurance and pledged securities.
- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District investments are with American National Bank of Texas, Texas Local Government Investment Pool ("TexPool"), and the TexStar Investment Pool ("TexStar"). The pools are public funds investment pools created to provide a safe environment for the placement of local government funds in authorized short-term investments. Local investment pools operate in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. The Texas Comptroller of Public Accounts exercises oversight responsibility over TexPool. Administration

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Notes to the Financial Statements  
at and for the  
Year Ended June 30, 2012  
-continued-

**NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)**

**A. Deposits and Investments (continued)**

- b. Custodial Credit Risk - Investments: (continued)  
of TexStar is performed by a Board of Directors, which is an administrative agency created under the Interlocal Act. The District is not exposed to custodial credit risk for its investments.
- c. Credit Risk - This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for TexPool at year end was AAAM by Standard & Poor's. The credit quality rating for TexStar at year end was Aaa by Moody's Investor Service.
- d. Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for the District's investment in external investment pools is less than 60 days.
- e. Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. The District is not exposed to foreign currency risk.
- f. Concentration of Credit Risk - This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investments issued by the U. S. Government and investments in investment pools are excluded from the 5 percent disclosure requirement. The District is not exposed to concentration of credit risk.

The District's temporary investments at June 30, 2012, were as follows:

<u>Investment type:</u>	<u>Fair Value</u>
TexStar investment pool	\$77,167,286
State Treasurer's investment pool	49,861,165
Certificate of Deposit	<u>1,000,000</u>
Total	<u><u>\$128,028,451</u></u>

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Notes to the Financial Statements  
at and for the  
Year Ended June 30, 2012  
-continued-

**NOTE 4 DETAILED NOTES ON ALL FUNDS** (continued)

**B. Property Taxes**

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the period following the October 1 levy date. The assessed value of the property tax roll on August 1, 2011, upon which the levy for the 2011-12 fiscal period was based, was \$8,895,337,056. The roll was subsequently decreased to a period end assessed value of \$8,890,584,037. Taxes are delinquent if not paid by January 31. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs after June 30.

The tax rates assessed for the period ended June 30, 2012, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.04 and \$0.50 per \$100 valuation, respectively, for the total of \$1.54 per \$100 valuation.

Total tax collections for the year ended June 30, 2012, were 100% of the period end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting 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. As of June 30, 2012, property taxes receivable, net of estimated uncollectible taxes, totaled \$2,633,091 and \$1,140,504 for the General and Debt Service Funds, respectively.

**C. 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 June 30, 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 Other Governments.

	<u>Local</u> <u>Governments</u>	<u>State</u> <u>Entitlements</u>	<u>Federal</u> <u>Grants</u>	<u>Total</u>
General	\$141,256	12,282,386		12,423,642
Special revenue		11,416	2,478,620	2,490,036
Total	<u>\$141,256</u>	<u>12,293,802</u>	<u>2,478,620</u>	<u>14,913,678</u>

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements

at and for the

Year Ended June 30, 2012

-continued-

**NOTE 4 DETAILED NOTES ON ALL FUNDS** (continued)

**D. Capital Assets**

Capital asset activity for the year ended June 30, 2012, was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Government activities:				
Land	\$ 26,988,369	9,937,236		36,925,605
Buildings and improvements	516,318,297	8,365,887		524,684,184
Furniture and equipment	12,028,268	1,610,836	(54,795)	13,584,309
Construction in progress	<u>8,574,637</u>	<u>11,988,520</u>	<u>(8,365,887)</u>	<u>12,197,270</u>
Totals at historical cost	<u>563,909,571</u>	<u>31,902,479</u>	<u>(8,420,682)</u>	<u>587,391,368</u>
Less accumulated depreciation for:				
Buildings and improvements	(113,888,014)	(12,940,853)		(126,828,867)
Furniture and equipment	<u>(7,801,681)</u>	<u>(1,226,985)</u>	<u>33,402</u>	<u>(8,995,264)</u>
Total accumulated depreciation	<u>(121,689,695)</u>	<u>(14,167,838)</u>	<u>33,402</u>	<u>(135,824,131)</u>
Governmental activities capital assets, net	<u>\$ 442,219,876</u>	<u>17,734,641</u>	<u>(8,387,280)</u>	<u>451,567,237</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 10,372,275
Instructional resources and media	296,522
School leadership	176,795
Student transportation	32,122
Food services	885,864
Extracurricular activities	1,227,413
General administration	58,290
Plant maintenance and operations	253,483
Security and monitoring services	136,681
Data processing services	<u>728,393</u>
Total depreciation expense	<u>\$ 14,167,838</u>

-continued-

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Notes to the Financial Statements  
at and for the  
Year Ended June 30, 2012  
-continued-

**NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)**

**E. Construction Commitments**

At June 30, 2012, the District had the following projects under construction. A summary of the status of these projects and the related binding contracts with contractors is as follows:

<u>Project Name</u>	<u>Scheduled Completion Date</u>	<u>Contract Amount</u>	<u>Costs Incurred Through 6/30/2012</u>	<u>Amount Retained</u>
MHS Ren.	02/14	\$51,901,158	7,720,227	275,177
Faubion MS Ren.	08/13	\$19,953,884	1,536,532	33,446

**F. Bonds Payable**

Bonds payable activity for the year ended June 30, 2012, was as follows:

<u>Governmental Activities</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonded Indebtedness:							
2002 School Bldg.	4.54	\$50,000,000	22,055,000		(22,055,000)	0	0
2003 Refunding	4.23	46,075,000	26,305,000		(22,995,000)	3,310,000	2,440,000
2004 Sch. Bldg. & Ref.	4.97	42,885,000	33,605,000		(1,550,000)	32,055,000	1,610,000
2004 Refunding	4.57	10,395,000	6,735,000		(985,000)	5,750,000	1,035,000
2005 Refunding	5.17	77,905,000	75,125,000		(4,300,000)	70,825,000	8,110,000
2005 School Bldg.	4.41	30,630,000	24,135,000		(830,000)	23,305,000	870,000
2006 School Bldg.	4.50	67,450,000	60,485,000		(1,925,000)	58,560,000	2,000,000
2007 School Bldg.	4.65	52,695,000	48,075,000		(1,360,000)	46,715,000	1,425,000
2008 School Bldg.	4.65	50,580,000	47,240,000		(1,215,000)	46,025,000	1,275,000
2009 Sch. Bldg. & Ref.	4.60	58,805,000	51,855,000		(1,015,000)	50,840,000	720,000
2010 Refunding	3.46	31,110,000	28,710,000		(5,405,000)	23,305,000	1,635,000
2011 School Bldg.	3.73	48,605,000	-	48,605,000	(515,000)	48,090,000	525,000
2011 Sch. Bldg. & Ref	4.39	\$38,740,000	-	38,740,000	-	38,740,000	2,315,000
<b>Total bonded indebtedness</b>			<b>424,325,000</b>	<b>87,345,000</b>	<b>(64,150,000)</b>	<b>447,520,000</b>	<b>23,960,000</b>
Deferred (gain)/loss on Refunding Bonds			(672,480)	(3,665,692)	2,505,326	(1,832,846)	
Bond Premium			11,779,799	5,279,252	(1,435,500)	15,623,551	
<b>Total bonds payable</b>			<b>\$435,432,319</b>	<b>88,958,560</b>	<b>(63,080,174)</b>	<b>461,310,705</b>	<b>23,960,000</b>

General obligation bonds consist of 2004-2009, and 2011 School Building Bonds bearing interest at 2.00 - 6.00% per annum and 2003-2005, and 2009-2011 Refunding Bonds bearing interest at 2.00 - 5.38% per annum. Interest expense for the year on all bonded indebtedness was \$19,737,675.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Notes to the Financial Statements  
at and for the  
Year Ended June 30, 2012  
-continued-

**NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)**

**F. Bonds Payable (continued)**

Debt service requirements for the general obligation bonds are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2013	\$23,960,000	20,763,729	44,723,729
2014	24,430,000	19,756,826	44,186,826
2015	25,210,000	18,693,104	43,903,104
2016	26,100,000	17,522,279	43,622,279
2017	26,950,000	16,271,291	43,221,291
2018-2022	128,065,000	62,254,434	190,319,434
2023-2027	100,690,000	34,854,594	135,544,594
2028-2032	76,890,000	13,407,600	90,297,600
2033-2036	15,225,000	1,288,462	16,513,462
Total	<u>\$447,520,000</u>	<u>204,812,319</u>	<u>652,332,319</u>

There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at June 30, 2012.

**G. Defeasance of Debt**

On July 28, 2011, the District issued general obligation bonds (refunding bonds) of \$38,740,000 (par value) with an effective interest rate of 2.69 percent to advance refund a portion of the Unlimited Tax School Building Bonds, Series 2002 and 2003 (refunded bonds), with an effective interest rate of 4.80 percent and par value of \$40,800,000. The refunding bonds were issued at par and, after paying issuance costs of \$174,777 and underwriter's discount of \$216,417, and receiving a premium of \$5,138,422, the net proceeds were \$43,487,228. The net proceeds and \$978,464 from the Debt Service Fund was used to purchase U.S. Government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded portion is paid. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the District's Long-Term Debt Payable.

As a result of the advance refunding, the District decreased its total debt service requirements by \$2,737,544, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$2,567,233. The District issued the refunding bonds in order to restructure the District's debt service payments.

In prior years, the District defeased previously issued and outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On June 30, 2012, \$52,345,000 of the bonds outstanding (including those defeased in 2011) are considered defeased.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements

at and for the

Year Ended June 30, 2011

-continued-

**NOTE 5 OTHER INFORMATION**

**A. 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.

**B. Litigation and Contingencies**

The District is currently involved in various litigation. Management believes the District will prevail in each matter.

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2012, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**C. Revenues from Local and Intermediate Sources**

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Private Purpose Funds	Total
Property taxes	\$93,611,986		44,973,829			138,585,815
Food sales		4,528,023				4,528,023
Investment income	140,395		24,589	40,093	126	205,203
Penalties, interest and other tax related income	703,573		292,617			996,190
Co-curricular student activities	466,044	3,773,424				4,239,468
Tuition and fees	299,604	2,639,900				2,939,504
Other	1,935,752	94,370				2,030,122
 Total	<u>\$97,157,354</u>	<u>11,035,717</u>	<u>45,291,035</u>	<u>40,093</u>	<u>126</u>	<u>153,524,325</u>

**D. Deferred Revenue**

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

-continued-

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements

at and for the

Year Ended June 30, 2011

-continued-

**NOTE 5 OTHER INFORMATION** (continued)

**D. Deferred Revenue** (continued)

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Net tax revenue	\$2,633,091		1,140,504	3,773,595
State revenue			188,555	188,555
LEP		13,318		13,318
State textbooks		183,739		183,739
Detachment revenue	141,257			141,257
Advanced placement initiatives		<u>81,122</u>		<u>81,122</u>
 Total	 <u>\$2,774,348</u>	 <u>278,179</u>	 <u>1,329,059</u>	 <u>4,381,586</u>

**E. Health Care Coverage**

For the year ended June 30, 2012, employees of the District were covered by the TRS active care insurance plan (the plan). The District paid premiums of \$306, per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to licensed insurer. The plan was authorized by Article 3.51-2., Texas Insurance Code, and was documented by contractual agreement.

Latest financial statements for the Blue Cross Blue Shield are available for the year ended December 31, 2011, are filed with the Texas State Board of Insurance, Austin, Texas and are public records.

**F. Pension Plan Obligations**

1. Teacher Retirement System of Texas

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 writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by

-continued-

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Notes to the Financial Statements  
at and for the  
Year Ended June 30, 2012  
-continued-

**NOTE 5 OTHER INFORMATION** (continued)

**F. Pension Plan Obligations**

1. Teacher Retirement System of Texas (continued)

Plan Description (continued)

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](http://www.trs.state.tx.us), under the TRS Publications heading.

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 the 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 2010, 2011 and 2012 and a state contribution rate of 6.644% for calendar year 2010 and 2011, and 7.644% for calendar year 2012. In certain instances the reporting district is required to make all or a portion of the state's contribution. State contributions to TRS made on behalf of the District's employees for the years ended June 30, 2010, 2011 and 2012 were \$5,988,052, \$6,057,706, and \$6,858,300, respectively. The District paid additional state contributions for the years ended June 30, 2010, 2011 and 2012 in the amount of \$1,951,261, \$1,858,617, and \$1,497,697, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

2. Teacher/Employee Recruitment and Retention Program Trust

Plan Description - The District contributes to the Teacher/Employee Recruitment and Retention Program Trust. The Trust is a defined contribution retirement plan. The Trust's annual financial report and other required disclosure information are available by writing the TERRP Plan Administrator, JEM Resource Partners, 4201 Bee Caves Road, Suite C-101, Austin, Texas 78746.

Funding Policy - Under the plan provisions, the District contributes 100% of plan members contributions to their 403(b) or 457 plan, up to one-half of one percent of the plan member's gross annual compensation. District contributions for the year ended June 30, 2012 were \$148,547. Plan members are 100% vested in their account after attaining five credited years of participation in the plan. Upon meeting the requirements of "qualification for unreduced retirement" in accordance with the Teacher Retirement System of Texas, obtaining normal retirement age, or upon death or permanent disability, a plan member shall be 100% vested regardless of years of service.

-continued-

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements

at and for the

Year Ended June 30, 2012

-continued-

**NOTE 5 OTHER INFORMATION** (continued)

**G. Retiree Health Plan**

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-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at [www.trs.state.tx.us](http://www.trs.state.tx.us), by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

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. 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 2010, 2011, and 2012. 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. For the years ended June 30, 2010, 2011, and 2012, the State's contributions to TRS-Care were \$1,234,285, \$1,247,754, and \$1,205,492, respectively, the active member contributions were \$802,371, \$811,043, and \$783,547, respectively, and the school district's contributions were \$678,939, \$686,267, and \$662,996, respectively, which equaled the required contributions each year. In addition to the pension plan and TRS-Care on behalf, the District is allocated a portion of the Medicare Part D retiree drug subsidy the TRS-Care receives. The amount allocated on behalf for the year ended June 30, 2012 is estimated by TRS at \$284,383.

**H. Workers' Compensation Insurance**

During the year ended June 30, 2012, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's workers' compensation program is authorized by Chapter 504, Texas Labor Code. All districts 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 District participates in the Fund's reimbursable aggregate deductible program. As such, the District is responsible for a certain amount of claims liability as outlined on the District's Contribution and Coverage Summary document. After the District's deductible has been met, the Fund is responsible for additional claims.

-continued-

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Notes to the Financial Statements  
at and for the  
Year Ended June 30, 2012  
-continued-

**NOTE 5 OTHER INFORMATION** (continued)

**H. Workers' Compensation Insurance** (continued)

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

The Fund engages the services of independent auditors to conduct a financial audit after the close of each plan year on August 31 and is approved by the Fund's Board of Trustee 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 State Board of Insurance in Austin.

**I. Subsequent Event**

On August 30, 2012, the District issued \$53,975,000 of Unlimited Tax School Building and Refunding Bonds, Series 2012 to advance refund a portion (\$23,030,000) of the Unlimited Tax and Refunding Bonds, Series 2004 and provide \$30,945,000 in new funds for construction.

**NOTE 6 EVALUATION OF SUBSEQUENT EVENTS**

The District has evaluated subsequent events through September 20, 2012, the date which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTAL INFORMATION**

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 94,198,572	\$ 97,194,412	\$ 97,157,354	\$ (37,058)
5800 State Program Revenues	77,312,230	75,106,915	76,609,735	1,502,820
5900 Federal Program Revenues	4,101,043	225,000	620,046	395,046
5020 Total Revenues	175,611,845	172,526,327	174,387,135	1,860,808
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	109,371,433	105,861,784	103,269,792	2,591,992
0012 Instructional Resources and Media Services	3,332,246	3,346,090	3,231,449	114,641
0013 Curriculum and Instructional Staff Development	2,232,242	2,282,418	2,185,544	96,874
0021 Instructional Leadership	2,539,896	2,609,886	2,434,499	175,387
0023 School Leadership	11,279,486	11,250,058	11,079,420	170,638
0031 Guidance, Counseling and Evaluation Services	5,636,729	5,624,232	5,522,414	101,818
0032 Social Work Services	287,919	287,919	275,222	12,697
0033 Health Services	1,850,008	1,847,415	1,808,098	39,317
0034 Student (Pupil) Transportation	8,261,924	8,307,613	7,954,363	353,250
0036 Extracurricular Activities	5,566,183	5,594,671	5,320,426	274,245
0041 General Administration	3,856,629	3,856,110	3,633,788	222,322
0051 Facilities Maintenance and Operations	18,515,414	18,581,683	17,018,553	1,563,130
0052 Security and Monitoring Services	776,951	779,261	583,428	195,833
0053 Data Processing Services	2,664,296	2,749,870	2,619,912	129,958
0061 Community Services	196,838	160,603	111,919	48,684
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	1,033,426	-	1,033,426
Intergovernmental:				
0095 Payments to Juvenile Justice Alternative Ed. Prg.	175,000	165,000	118,310	46,690
0099 Other Intergovernmental Charges	910,000	865,751	860,092	5,659
6030 Total Expenditures	177,453,194	175,203,790	168,027,229	7,176,561
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,841,349)	(2,677,463)	6,359,906	9,037,369
<b>OTHER FINANCING SOURCES (USES):</b>				
7912 Sale of Real and Personal Property	-	-	6,869	6,869
7915 Transfers In	300,000	300,000	300,000	-
7080 Total Other Financing Sources (Uses)	300,000	300,000	306,869	6,869
1200 Net Change in Fund Balances	(1,541,349)	(2,377,463)	6,666,775	9,044,238
0100 Fund Balance - July 1 (Beginning)	55,689,961	55,689,961	55,689,961	-
3000 Fund Balance - June 30 (Ending)	\$ 54,148,612	\$ 53,312,498	\$ 62,356,736	\$ 9,044,238

## **COMBINING STATEMENTS**

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012

Data Control Codes	205 Head Start	206 ESEA Title X, Pt.C Homeless	211 ESEA I, A Improving Basic Program
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ (119,728)	\$ (39,024)	\$ (188,454)
1240 Receivables from Other Governments	168,142	39,247	497,141
1410 Deferred Expenditures	-	-	5,443
1000 Total Assets	<u>\$ 48,414</u>	<u>\$ 223</u>	<u>\$ 314,130</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
2110 Accounts Payable	\$ -	\$ -	\$ -
2150 Payroll Deductions and Withholdings Payable	-	-	-
2160 Accrued Wages Payable	48,414	223	312,984
2180 Due to Other Governments	-	-	-
2200 Accrued Expenditures	-	-	1,146
2300 Deferred Revenues	-	-	-
2000 Total Liabilities	<u>48,414</u>	<u>223</u>	<u>314,130</u>
Fund Balances:			
Nonspendable Fund Balance:			
3430 Prepaid Items	-	-	-
Restricted Fund Balance:			
3450 Federal or State Grants	-	-	-
Assigned Fund Balance:			
3592 Encumbrance Carry Forwards	-	-	-
3600 Unassigned Fund Balance	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 48,414</u>	<u>\$ 223</u>	<u>\$ 314,130</u>

212 ESEA Title I Part C Migrant	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition
\$ (563)	\$ (258,792)	\$ (3,015)	\$ (7,058)	\$ 1,921,851	\$ (14,435)	\$ (24,406)	\$ (78,843)
563	656,128	3,015	7,058	44,993	14,435	74,542	94,006
-	1,201	-	-	255	-	-	-
<u>\$ -</u>	<u>\$ 398,537</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,967,099</u>	<u>\$ -</u>	<u>\$ 50,136</u>	<u>\$ 15,163</u>
\$ -	\$ 892	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	1	-	-	-	-	-	-
-	396,836	-	-	-	-	50,136	15,163
-	-	-	-	-	-	-	-
-	808	-	-	1,187	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>398,537</u>	<u>-</u>	<u>-</u>	<u>1,187</u>	<u>-</u>	<u>50,136</u>	<u>15,163</u>
-	-	-	-	255	-	-	-
-	-	-	-	1,965,657	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,965,912</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 398,537</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,967,099</u>	<u>\$ -</u>	<u>\$ 50,136</u>	<u>\$ 15,163</u>

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012

Data Control Codes	280 ESEA, X, C ARRA Homeless	283 IDEA, Pt. B ARRA Formula	284 IDEA, Pt. B ARRA Preschool	285 ESEA I, A Improving Basic Program
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
1240 Receivables from Other Governments	-	-	-	-
1410 Deferred Expenditures	-	-	-	-
1000 Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
2110 Accounts Payable	\$ -	\$ -	\$ -	\$ -
2150 Payroll Deductions and Withholdings Payable	-	-	-	-
2160 Accrued Wages Payable	-	-	-	-
2180 Due to Other Governments	-	-	-	-
2200 Accrued Expenditures	-	-	-	-
2300 Deferred Revenues	-	-	-	-
2000 Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Nonspendable Fund Balance:				
3430 Prepaid Items	-	-	-	-
Restricted Fund Balance:				
3450 Federal or State Grants	-	-	-	-
Assigned Fund Balance:				
3592 Encumbrance Carry Forwards	-	-	-	-
3600 Unassigned Fund Balance	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

287 Education Jobs Fund	289 Other Federal Special Revenue Funds	385 Visually Impaired SSVI	392 Non-Ed. Community Based Support	394 Life Skills Program	397 Advanced Placement Incentives	404 Student Success Initiative	410 State Textbook Fund
\$ (327,616)	\$ 13,318	\$ -	\$ (7,800)	\$ -	\$ 77,117	\$ -	\$ 185,059
879,350	-	-	11,416	-	-	-	-
-	-	-	-	-	4,005	-	-
<u>\$ 551,734</u>	<u>\$ 13,318</u>	<u>\$ -</u>	<u>\$ 3,616</u>	<u>\$ -</u>	<u>\$ 81,122</u>	<u>\$ -</u>	<u>\$ 185,059</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
551,734	-	-	3,616	-	-	-	-
-	-	-	-	-	-	-	1,320
-	-	-	-	-	-	-	-
-	13,318	-	-	-	81,122	-	183,739
<u>551,734</u>	<u>13,318</u>	<u>-</u>	<u>3,616</u>	<u>-</u>	<u>81,122</u>	<u>-</u>	<u>185,059</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 551,734</u>	<u>\$ 13,318</u>	<u>\$ -</u>	<u>\$ 3,616</u>	<u>\$ -</u>	<u>\$ 81,122</u>	<u>\$ -</u>	<u>\$ 185,059</u>

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012

Data Control Codes	411 Technology Allotment	425 Teacher Induction and Mentoring	429 Other State Special Revenue Funds	461 Campus Activity Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 117,774	\$ -	\$ -	\$ 2,356,671
1240 Receivables from Other Governments	-	-	-	-
1410 Deferred Expenditures	-	-	-	21,055
1000 Total Assets	<u>\$ 117,774</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,377,726</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
2110 Accounts Payable	\$ -	\$ -	\$ -	\$ 51,142
2150 Payroll Deductions and Withholdings Payable	-	-	-	-
2160 Accrued Wages Payable	-	-	-	244
2180 Due to Other Governments	-	-	-	-
2200 Accrued Expenditures	-	-	-	1,196
2300 Deferred Revenues	-	-	-	-
2000 Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,582</u>
Fund Balances:				
Nonspendable Fund Balance:				
3430 Prepaid Items	-	-	-	21,055
Restricted Fund Balance:				
3450 Federal or State Grants	117,774	-	-	-
Assigned Fund Balance:				
3592 Encumbrance Carry Forwards	-	-	-	12,138
3600 Unassigned Fund Balance	-	-	-	2,291,951
3000 Total Fund Balances	<u>117,774</u>	<u>-</u>	<u>-</u>	<u>2,325,144</u>
4000 Total Liabilities and Fund Balances	<u>\$ 117,774</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,377,726</u>

480 After School Program	Total Nonmajor Governmental Funds
\$ 617,537	\$ 4,219,593
-	2,490,036
7,619	39,578
<u>\$ 625,156</u>	<u>\$ 6,749,207</u>
\$ 67	\$ 52,101
-	1
-	1,379,350
-	1,320
3,772	8,109
-	278,179
<u>3,839</u>	<u>1,719,060</u>
7,619	28,929
-	2,083,431
-	12,138
613,698	2,905,649
<u>621,317</u>	<u>5,030,147</u>
<u>\$ 625,156</u>	<u>\$ 6,749,207</u>

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012

Data Control Codes	205 Head Start	206 ESEA Title X, Pt.C Homeless	211 ESEA I, A Improving Basic Program
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-
5900 Federal Program Revenues	419,908	106,042	1,894,412
5020 Total Revenues	<u>419,908</u>	<u>106,042</u>	<u>1,894,412</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	417,235	48,671	1,795,633
0012 Instructional Resources and Media Services	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	23,038
0021 Instructional Leadership	-	42,378	11,299
0023 School Leadership	-	-	7,448
0031 Guidance, Counseling and Evaluation Services	-	6,548	51,467
0033 Health Services	-	-	687
0034 Student (Pupil) Transportation	-	7,681	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	-	-	-
0041 General Administration	-	-	-
0051 Facilities Maintenance and Operations	-	-	-
0052 Security and Monitoring Services	-	-	-
0053 Data Processing Services	-	-	-
0061 Community Services	2,673	764	4,840
6030 Total Expenditures	<u>419,908</u>	<u>106,042</u>	<u>1,894,412</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
8911 Transfers Out (Use)	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	-	-	-
0100 Fund Balance - July 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - June 30 (Ending)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

212 ESEA Title I Part C Migrant	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition
\$ -	\$ -	\$ -	\$ -	\$ 4,528,023	\$ -	\$ -	\$ -
-	-	-	-	39,114	-	-	-
5,387	3,084,052	41,925	143,411	4,329,964	143,347	360,581	244,947
5,387	3,084,052	41,925	143,411	8,897,101	143,347	360,581	244,947
1,953	2,847,052	41,925	143,411	-	141,433	298,491	149,364
-	-	-	-	-	-	-	-
-	94,843	-	-	-	-	62,090	9,240
3,434	4,223	-	-	-	1,914	-	60,433
-	-	-	-	-	-	-	1,182
-	113,186	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	1,618
-	-	-	-	8,167,758	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	197,061	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	24,748	-	-	-	-	-	23,110
5,387	3,084,052	41,925	143,411	8,364,819	143,347	360,581	244,947
-	-	-	-	532,282	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	532,282	-	-	-
-	-	-	-	1,433,630	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ 1,965,912	\$ -	\$ -	\$ -

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012

Data Control Codes	280 ESEA, X, C ARRA Homeless	283 IDEA, Pt. B ARRA Formula	284 IDEA, Pt. B ARRA Preschool	285 ESEA I, A Improving Basic Program	
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800	State Program Revenues	-	-	-	-
5900	Federal Program Revenues	1,048	406,569	6,337	6,544
5020	Total Revenues	<u>1,048</u>	<u>406,569</u>	<u>6,337</u>	<u>6,544</u>
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	83	314,688	6,337	(7,798)
0012	Instructional Resources and Media Services	-	-	-	-
0013	Curriculum and Instructional Staff Development	-	11,584	-	7,788
0021	Instructional Leadership	965	1,020	-	-
0023	School Leadership	-	-	-	6,554
0031	Guidance, Counseling and Evaluation Services	-	21,013	-	-
0033	Health Services	-	1,590	-	-
0034	Student (Pupil) Transportation	-	55,571	-	-
0035	Food Services	-	-	-	-
0036	Extracurricular Activities	-	-	-	-
0041	General Administration	-	-	-	-
0051	Facilities Maintenance and Operations	-	-	-	-
0052	Security and Monitoring Services	-	-	-	-
0053	Data Processing Services	-	-	-	-
0061	Community Services	-	1,103	-	-
6030	Total Expenditures	<u>1,048</u>	<u>406,569</u>	<u>6,337</u>	<u>6,544</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
8911	Transfers Out (Use)	-	-	-	-
7080	Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200	Net Change in Fund Balance	-	-	-	-
0100	Fund Balance - July 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000	Fund Balance - June 30 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

287 Education Jobs Fund	289 Other Federal Special Revenue Funds	385 Visually Impaired SSVI	392 Non-Ed. Community Based Support	394 Life Skills Program	397 Advanced Placement Incentives	404 Student Success Initiative	410 State Textbook Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	3,940	27,856	6,996	23,868	5,333	1,947,684
<u>3,832,961</u>	<u>15,913</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>3,832,961</u>	<u>15,913</u>	<u>3,940</u>	<u>27,856</u>	<u>6,996</u>	<u>23,868</u>	<u>5,333</u>	<u>1,947,684</u>
3,832,961	11,818	3,940	27,856	6,996	2,814	(270)	1,947,684
-	-	-	-	-	-	-	-
-	-	-	-	-	21,054	5,603	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	4,095	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>3,832,961</u>	<u>15,913</u>	<u>3,940</u>	<u>27,856</u>	<u>6,996</u>	<u>23,868</u>	<u>5,333</u>	<u>1,947,684</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012

Data Control Codes	411 Technology Allotment	425 Teacher Induction and Mentoring	429 Other State Special Revenue Funds	461 Campus Activity Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 3,867,794
5800 State Program Revenues	-	51,034	52	-
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>-</u>	<u>51,034</u>	<u>52</u>	<u>3,867,794</u>
EXPENDITURES:				
Current:				
0011 Instruction	96,749	-	-	1,932,967
0012 Instructional Resources and Media Services	-	-	52	279,197
0013 Curriculum and Instructional Staff Development	-	51,034	-	37,522
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	758,886
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0033 Health Services	-	-	-	41
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	-	-	315,704
0041 General Administration	-	-	-	25,810
0051 Facilities Maintenance and Operations	-	-	-	59,852
0052 Security and Monitoring Services	-	-	-	88,335
0053 Data Processing Services	-	-	-	-
0061 Community Services	-	-	-	12,661
6030 Total Expenditures	<u>96,749</u>	<u>51,034</u>	<u>52</u>	<u>3,510,975</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(96,749)</u>	<u>-</u>	<u>-</u>	<u>356,819</u>
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	-	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	(96,749)	-	-	356,819
0100 Fund Balance - July 1 (Beginning)	<u>214,523</u>	<u>-</u>	<u>-</u>	<u>1,968,325</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ 117,774</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,325,144</u>

480 After School Program	Total Nonmajor Governmental Funds
\$ 2,639,900	\$ 11,035,717
-	2,105,877
-	15,043,348
<u>2,639,900</u>	<u>28,184,942</u>
-	14,061,993
-	279,249
-	323,796
-	125,666
-	774,070
-	192,214
-	2,318
-	64,870
-	8,167,758
-	315,704
-	25,810
-	256,913
-	88,335
-	4,095
<u>2,000,792</u>	<u>2,070,691</u>
<u>2,000,792</u>	<u>26,753,482</u>
<u>639,108</u>	<u>1,431,460</u>
<u>(300,000)</u>	<u>(300,000)</u>
<u>(300,000)</u>	<u>(300,000)</u>
339,108	1,131,460
<u>282,209</u>	<u>3,898,687</u>
<u>\$ 621,317</u>	<u>\$ 5,030,147</u>

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF NET ASSETS  
 PRIVATE PURPOSE TRUST FUNDS  
 JUNE 30, 2012

	828 Virginia Dodson Finch Trust Fund	829 Avery Dowell Library Trust Fund	Total Private Purpose Trust Funds
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 15,152	\$ 391	\$ 15,543
Total Assets	<u>15,152</u>	<u>391</u>	<u>15,543</u>
<b>NET ASSETS</b>			
Restricted for Scholarships	<u>15,152</u>	<u>391</u>	<u>15,543</u>
Total Net Assets	<u><u>\$ 15,152</u></u>	<u><u>\$ 391</u></u>	<u><u>\$ 15,543</u></u>

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PRIVATE PURPOSE TRUST FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012

Data Control Codes	828 Virginia Dodson Finch Trust Fund	829 Avery Dowell Library Trust Fund	Total Private Purpose Trust Funds
ADDITIONS:			
Local and Intermediate Sources	\$ 12	\$ 114	\$ 126
Total Additions	<u>12</u>	<u>114</u>	<u>126</u>
Change in Net Assets	12	114	126
Total Net Assets - July 1 (Beginning)	<u>15,140</u>	<u>277</u>	<u>15,417</u>
Total Net Assets - June 30 (Ending)	<u><u>\$ 15,152</u></u>	<u><u>\$ 391</u></u>	<u><u>\$ 15,543</u></u>

This page left blank intentionally.

**REQUIRED T.E.A. STATEMENTS**

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FISCAL YEAR ENDED JUNE 30, 2012

Last 10 Years	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2003 and prior years	Various	Various	\$ Various
2004	1.500000	0.480000	5,448,114,091
2005	1.500000	0.500000	5,958,317,700
2006	1.500000	0.500000	6,623,153,750
2007	1.370000	0.471000	7,457,875,177
2008	1.040000	0.477000	8,417,974,951
2009	1.040000	0.477000	8,935,038,695
2010	1.040000	0.500000	8,942,913,766
2011	1.040000	0.488000	8,876,867,670
2012 (School year under audit)	1.040000	0.500000	8,787,242,338
1000 TOTALS			

(10) Beginning Balance 7/1/2011	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 6/30/2012
308,311	-	9,151	2,631	(47,791)	248,738
115,629	-	5,239	1,677	(8,675)	100,038
202,208	-	9,217	3,072	(23,336)	166,583
284,712	-	25,174	8,392	(7,226)	243,920
269,588	-	68,208	23,450	50,570	228,500
224,711	-	83,132	38,129	84,830	188,280
426,284	-	93,414	42,844	(3,614)	286,412
744,469	-	240,586	115,666	(18,290)	369,927
2,398,580	-	953,456	447,390	(529,239)	468,495
-	138,087,595	92,124,409	44,290,579	(83,390)	1,589,217
<u>\$ 4,974,492</u>	<u>\$ 138,087,595</u>	<u>\$ 93,611,986</u>	<u>\$ 44,973,830</u>	<u>\$ (586,161)</u>	<u>\$ 3,890,110</u>

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2013-2014  
 GENERAL AND SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 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	\$ -	\$ -	\$ 347,596	\$ 2,564,881	\$ -	\$ -	\$ 2,912,477
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	246,614	-	-	-	-	-	246,614
6212	Audit Services	40,500	-	-	-	-	-	40,500
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	-	-	894,737	-	-	894,737
6214	Lobbying	-	-	-	-	-	-	-
621X	Other Professional Services	12,853	-	-	255,653	-	-	268,506
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	50,931	-	-	50,931
6240	Contr. Maint. and Repair	-	-	700	41,596	-	-	42,296
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	700	31,636	-	-	32,336
6290	Miscellaneous Contr.	-	-	1,267	16,379	-	-	17,646
6320	Textbooks and Reading	-	-	608	5,600	-	-	6,208
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	100	-	1,915	90,973	-	-	92,988
6410	Travel, Subsistence, Stipends	13,114	-	14,485	23,940	-	-	51,539
6420	Ins. and Bonding Costs	-	-	-	81,948	-	-	81,948
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	17,725	-	13,324	50,160	-	-	81,209
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	<b>TOTAL</b>	<b>\$ 330,906</b>	<b>\$ -</b>	<b>\$ 380,595</b>	<b>\$ 4,108,434</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,819,935</b>

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 194,780,712

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 452,792
Total Debt & Lease(6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	17,250,021
Food (Function 35, 6341 and 6499)	(13)	-
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		<u>4,108,434</u>

SubTotal: 21,811,247

Net Allowed Direct Cost \$ 172,969,465

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 524,684,184
Historical Cost of Building over 50 years old	(16)	\$ 1,778,390
Amount of Federal Money in Building Cost (Net of #16)	(17)	\$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	\$ 13,584,309
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 9,500
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ -

(8) NOTE A: \$300,246 in Function 53 expenditures are included in this report on administrative costs.  
 \$860,092 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE  
 CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED JUNE 30, 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	\$ 4,598,787	\$ 4,598,787	\$ 4,528,023	\$ (70,764)
5800 State Program Revenues	40,635	40,635	39,114	(1,521)
5900 Federal Program Revenues	3,814,975	3,955,507	4,329,964	374,457
5020 Total Revenues	8,454,397	8,594,929	8,897,101	302,172
EXPENDITURES:				
0035 Food Services	8,063,810	8,350,440	8,167,758	182,682
0051 Facilities Maintenance and Operations	249,800	199,800	197,061	2,739
6030 Total Expenditures	8,313,610	8,550,240	8,364,819	185,421
1200 Net Change in Fund Balances	140,787	44,689	532,282	487,593
0100 Fund Balance - July 1 (Beginning)	1,433,630	1,433,630	1,433,630	-
3000 Fund Balance - June 30 (Ending)	\$ 1,574,417	\$ 1,478,319	\$ 1,965,912	\$ 487,593

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE  
 DEBT SERVICE FUND  
 FOR THE YEAR ENDED JUNE 30, 2012

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 44,197,200	\$ 45,254,563	\$ 45,291,035	\$ 36,472
5020 Total Revenues	44,197,200	45,254,563	45,291,035	36,472
<b>EXPENDITURES:</b>				
Debt Service:				
0071 Principal on Long Term Debt	23,335,000	23,350,000	23,350,000	-
0072 Interest on Long Term Debt	20,659,142	19,737,676	19,737,675	1
0073 Bond Issuance Cost and Fees	50,000	224,777	186,866	37,911
6030 Total Expenditures	44,044,142	43,312,453	43,274,541	37,912
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	153,058	1,942,110	2,016,494	74,384
<b>OTHER FINANCING SOURCES (USES):</b>				
7911 Capital Related Debt Issued (Regular Bonds)	-	38,523,583	38,740,000	216,417
7916 Premium or Discount on Issuance of Bonds	-	5,138,423	4,922,005	(216,418)
8949 Other (Uses)	-	(44,465,693)	(44,465,692)	1
7080 Total Other Financing Sources (Uses)	-	(803,687)	(803,687)	-
1200 Net Change in Fund Balances	153,058	1,138,423	1,212,807	74,384
0100 Fund Balance - July 1 (Beginning)	17,338,087	17,338,087	17,338,087	-
3000 Fund Balance - June 30 (Ending)	\$ 17,491,145	\$ 18,476,510	\$ 18,550,894	\$ 74,384

**FEDERAL AWARDS SECTION**

This page left blank intentionally.

# EVANS, PINGLETON and HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS  
8950 GARY BURNS DRIVE, SUITE D  
FRISCO, TEXAS 75034  
972-335-9754/FAX 972-335-9758

KIRK EVANS, CPA  
TOM W. PINGLETON, CPA  
RANDY HOWARD, CPA  
ROBIN J. TURNBULL, CPA  
BELINDA BAI, CPA  
BARBARA POLARINAKIS, CPA

MEMBERS  
AMERICAN INSTITUTE of CPAs  
AICPA DIVISION for CPA FIRMS  
TEXAS SOCIETY of CPAs

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

### INDEPENDENT AUDITOR'S REPORT

Board of School Trustees  
**McKinney Independent School District**  
1 Duvall Street  
McKinney, Texas 75069

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McKinney Independent School District, as of and for the year ended June 30, 2012, which collectively comprise the McKinney Independent School District's basic financial statements and have issued our report thereon dated September 20, 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

In planning and performing our audit, we considered McKinney Independent School 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 McKinney Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of McKinney 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

This report is intended for the information and use of management, 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.

*Evans, Pingleton and Howard, PLLC*

September 20, 2012

**EVANS, PINGLETON and HOWARD, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS  
8950 GARY BURNS DRIVE, SUITE D  
FRISCO, TEXAS 75034  
972-335-9754/FAX 972-335-9758

KIRK EVANS, CPA  
TOM W. PINGLETON, CPA  
RANDY HOWARD, CPA  
ROBIN J. TURNBULL, CPA  
BELINDA BAI, CPA  
BARBARA POLARINAKIS, CPA

MEMBERS  
AMERICAN INSTITUTE of CPAs  
AICPA DIVISION for CPA FIRMS  
TEXAS SOCIETY of CPAs

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees  
**McKinney Independent School District**  
1 Duvall Street  
McKinney, Texas 75069

Members of the Board:

Compliance

We have audited the McKinney Independent School District's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The McKinney Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the McKinney Independent School District's management. Our responsibility is to express an opinion on the McKinney Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the McKinney Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the McKinney Independent School District's compliance with those requirements.

In our opinion the McKinney Independent School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The administration of McKinney Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered McKinney Independent School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the McKinney Independent School District's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended for the information of management, 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.

*Evans, Pingleton and Howard, PLLC*

September 20, 2012

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2012

<u>Program</u>	<u>Description</u>	
Type of Report on Financial Statements	Unqualified	
Control Deficiencies	None	
Material Weaknesses Involving Control Deficiencies	None	
Noncompliance Material to the Financial Statements	None	
Type of Report on Compliance with Major Programs	Unqualified Opinion	
Findings and Questioned Costs for Federal Awards as Defined in Section.510(a), OMB Circular A-133	None	
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$469,902	
Low Risk Auditee Statements	The District was classified as a low risk Auditee in the context of OMB Circular A-133.	
Major Federal Programs	National School Breakfast and Lunch Program	10.555
	ESEA, Title I, Part A	84.010
	IDEA, Part B, Formula	84.027
	Education Jobs Fund	84.410
Pass-through Entity	Texas Education Agency	

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**

Schedule of Status of Prior Findings

For the Year Ended June 30, 2011

<u>Program</u>	<u>Status of Prior Year's Finding/ Noncompliance</u>
----------------	--

- NONE -

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Corrective Action Plan  
For the Year Ended June 30, 2011

Program

Corrective Action Plan

- NONE -

Contact person: Mr. Edd Bigbee, Ed.D.  
Chief Financial Officer

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed Through Region X ESC</u>			
ESEA, Title I, Part C - Migratory Children	84.011A	12615001057950	\$ 5,387
ESEA, Title X, Pt. C - ARRA Education for Homeless	84.387	A09-018	1,048
ESEA, Title X, Part C - Homeless Children	84.196A	00-037	108,283
Title III, Part A - English Language Acquisition	84.365A	12671001057950	244,947
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	12694501057950	360,581
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	12610101059750	1,547,842
Total Passed Through Region X ESC			<u>\$ 2,268,088</u>
<u>Passed Through State Department of Education</u>			
*ESEA Title I, D-2 - Delinquent Programs	84.010A	12610103043907	\$ 222,812
ESEA School Improvement	84.010A	126101043907100	19,393
Total CFDA Number 84.010A			<u>242,205</u>
ESEA School Improvement Effective Strategies	84.019A	12610110043907100	114,039
*IDEA - Part B, Formula	84.027A	126600010439076600	3,130,480
*IDEA - Part B, Discretionary	84.027A	126600020439076677	143,411
Total CFDA Number 84.027A			<u>3,273,891</u>
*IDEA - Part B, Preschool	84.173A	126600060439076610	41,925
*IDEA, Part B, Formula - ARRA	84.391A	10554001043907	409,140
*IDEA, Part B, Preschool - ARRA	84.392A	10555001043907	6,807
Total Special Education Cluster (IDEA)			<u>3,731,763</u>
Career and Technical - Basic Grant	84.048A	12420006043907	145,013
Summer School LEP	84.369A	12955050243907	11,818
SLDS - Classroom Link to ISDS	84.372A	10635002043907	4,095
ESEA Title I, D-2 - ARRA - Delinquent Programs	84.389A	10551003043907	6,657
Education Jobs Fund- ARRA	84.410A	11550101043907	3,832,961
Total Passed Through State Department of Education			<u>\$ 8,088,551</u>
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<u>\$ 10,356,639</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Passed Through Region X ESC</u>			
Head Start	93.600	06CH0391	\$ 419,908
Total Passed Through Region X ESC			<u>\$ 419,908</u>
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u>\$ 419,908</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through Texas Dept of Human Services</u>			
Donated Commodities	10.550		\$ 380,941
Total Passed Through Texas Dept of Human Services			<u>\$ 380,941</u>
<u>Passed Through the State Department of Agriculture</u>			
National School Breakfast & Lunch Program	10.555		\$ 3,949,023
Total Passed Through the State Department of Agriculture			<u>\$ 3,949,023</u>
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<u>\$ 4,329,964</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 15,106,511</u>

MCKINNEY INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2012

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
--	----------------------------------	---	--------------------------------

School Health and Related Services reimbursements of \$556,883 are recorded as federal program revenue in the general fund, but are not considered awards for the purpose of this schedule.

**MCKINNEY INDEPENDENT SCHOOL DISTRICT**  
Notes to Schedule of Expenditures of Federal Awards  
For Year Ended June 30, 2012

1. For all federal programs, the District uses the fund types specified in Texas Education Agency's "Financial Accountability System Resource Guide." Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance is generally accounted for in a Special Revenue Fund.
  
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.  
  
The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred.  
  
Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred expenditures until earned.
  
3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions of Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement - Provisional 6/97.
  
4. The District participates in numerous Federal grant programs that 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, in any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2011, 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 provisions have been recorded in the accompanying financial statements for such contingencies.