

**TAYLOR INDEPENDENT
SCHOOL DISTRICT**

**Annual Financial Report
for the Fiscal Year Ended
August 31, 2012**



TAYLOR INDEPENDENT SCHOOL DISTRICT

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CERTIFICATE OF BOARD

Taylor Independent School District Williamson 246911
Name of School District County Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) ___ approved ___ disapproved for the fiscal year ended August 31, 2012 at a meeting of the Board of Trustees of such school district on the ___ day of _____, 2013.

Signature of Board Secretary

Signature of Board President

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

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Taylor Independent School District:

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

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2012, the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The combining and individual fund statements, other schedules, and the schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements, other schedules, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Maxwell Socha + Ritter LLP

January 11, 2013

TAYLOR INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the fiscal year by approximately \$15.0 million. Of this amount, approximately \$3.4 million (unrestricted net assets) may be used to meet the District's ongoing obligations.
- As of the close of the fiscal year, the District's governmental funds reported combined ending fund balances of approximately \$12.0 million. Approximately 47 percent of this amount, \$5.6 million, is available for spending at the government's discretion (unassigned fund balance). Fund balance of approximately \$3.5 million, about 29 percent, is restricted for current and future capital projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three parts: 1.) government-wide financial statements, 2.) fund financial statements, and 3.) notes to the financial statements. This report also contains required supplementary information and other financial information in addition to the basic financial statements themselves.

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

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

The Statement of Activities presents information showing how the District's net assets changed during the most recent fiscal period. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as uncollected property tax and earned but unused sick leave.

The government-wide financial statements distinguish functions of the District that are principally supported by taxes, intergovernmental revenues, and user fees and charges (governmental activities). The governmental activities of the District include the education of District students and the programs necessary to support such education.

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

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

By doing so readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The District maintains numerous governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund and Capital Projects Fund as they are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget. Supplementary budgetary comparison schedules have also been prepared for the Food Service and Debt Service Funds and are included in the Combining and Individual Fund Statements section of this report.

Fiduciary Funds - The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that - because of a trust arrangement - can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

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

Other Information - The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the Notes to Basic Financial Statements. In addition, certain information required by the Texas Education Agency and the federal government regarding tax collection, food service, grant expenditures, and indirect cost calculation is also presented.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of the District's financial position. For the year ending August 31, 2012, net assets were \$15,020,523, a decrease of \$945,906 as compared to net assets for the year ending August 31, 2011.

Net assets for the year ended August 31, 2012 as compared to the year ended August 31, 2011 can be presented as follows:

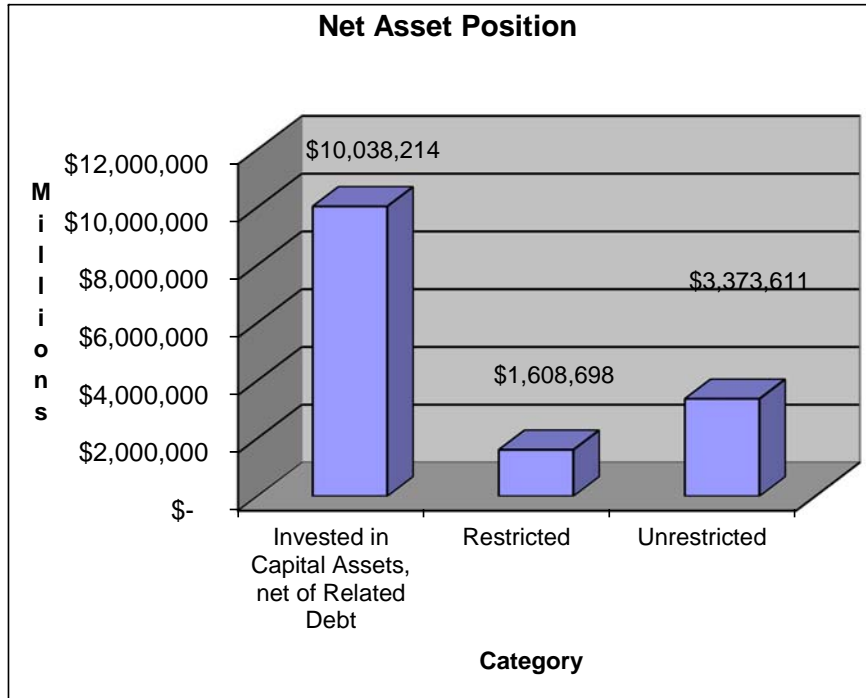
**Taylor Independent School District's
Net Assets**

	Governmental Activities as of	
	August 31, 2012	August 31, 2011
Current assets:		
Cash and temporary investments	\$ 11,917,016	\$ 16,591,834
Property taxes, net	228,466	283,979
Due from other governments	803,665	343,301
Other receivables and inventories	349,636	157,423
Total current assets	13,298,783	17,376,537
Non-current assets:		
Deferred charge - bond issuance costs	1,458,060	1,534,831
Capital assets, net of accumulated depreciation	61,859,669	63,584,657
Total assets	\$ 76,616,512	\$ 82,496,025
Current liabilities:		
Accounts payable and accrued liabilities	\$ 791,782	\$ 4,291,425
Bond interest payable	100,303	103,439
Bonds and accretion payable	1,535,000	1,456,603
Capital lease and note payable	88,687	133,252
Accumulated unpaid vacation and benefits	124,144	110,843
Due to other governments and student groups	51,034	108,067
Deferred revenue	261,569	304,895
Total current liabilities	2,952,519	6,508,524
Long-term liabilities:		
Bonds and accretion payable	57,867,253	59,169,428
Capital lease payable	413,063	486,490
Accumulated unpaid vacation and benefits	363,154	365,154
Total liabilities	\$ 61,595,989	\$ 66,529,596
Net assets:		
Invested in capital assets, net of related debt	\$ 10,038,214	\$ 11,485,485
Restricted	1,608,698	1,306,846
Unrestricted	3,373,611	3,174,098
Total net assets	\$ 15,020,523	\$ 15,966,429

The District covers 76 square miles. It is approximately 35 miles from Austin. Property values have increased an average of 4% over the last five years. Enrollment increased by 1.3% after two years of slight decreases.

The District completed building a new high school located on FM 973 in south Taylor. The old high school is being renovated to accommodate an intermediate elementary campus, support operations center, technology center, central administration and the East Williamson County Co-op headquarters.

The District has unrestricted net assets of \$3,373,611 as of August 31, 2012. For the fiscal year ending August 31, 2012, restricted net assets increased by \$301,852 and unrestricted net assets increased by \$199,513. Overall cash and investments decreased from the previous fiscal year.



Net assets may be restricted for a variety of uses by the District. These restrictions are imposed by bond covenants or grant agreements. Restricted net assets are available for use in the designated areas only. Unrestricted net assets may be used by the District to meet ongoing operating obligations as determined by the Board of Trustees (the "Board").

Governmental Activities

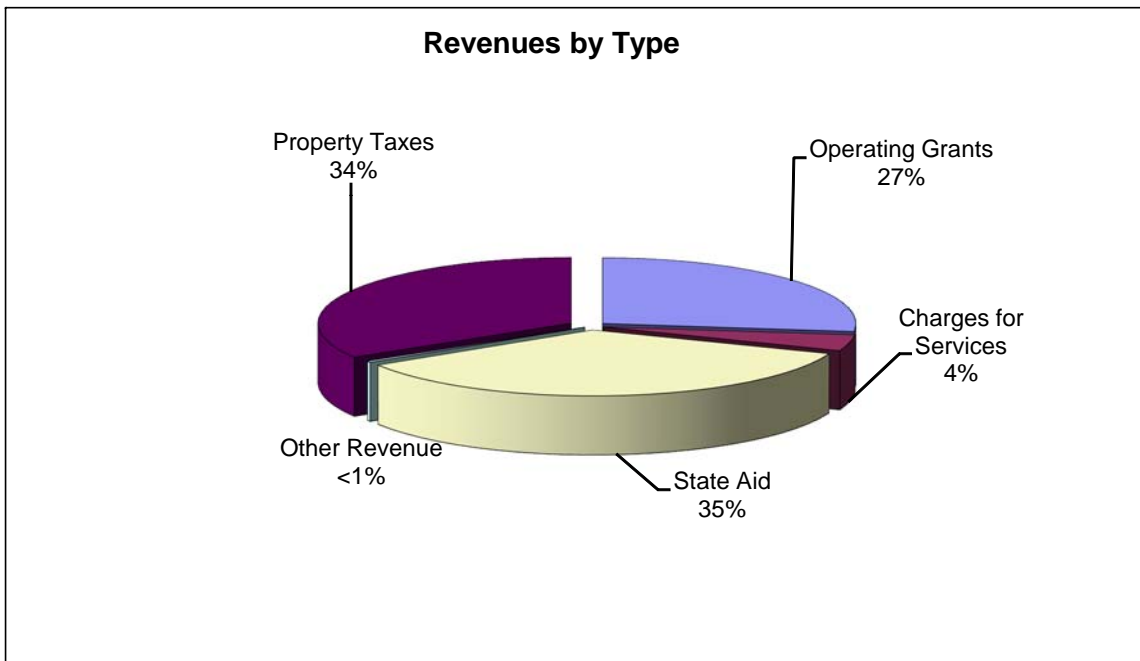
Governmental activities decreased the District's net assets by \$945,906 during the current fiscal year compared to the year ended August 31, 2011. Key elements of this decrease are as follows:

Taylor Independent School District's Changes in Net Assets

	Governmental Activities as of	
	August 31, 2012	August 31, 2011
Revenues:		
Program Revenues:		
Charges for services	\$ 1,330,344	\$ 1,339,578
Operating grants and contributions	9,126,566	9,867,508
General Revenues:		
Property taxes	11,391,365	11,366,726
State aid – formula grants	11,899,055	12,536,576
Investment earnings	47,578	149,036
Miscellaneous	57,540	199,143
Total Revenues	33,852,448	35,458,567
Expenses:		
Instructional	18,034,389	18,141,303
Instructional leadership	2,493,210	2,219,337
Student support services	2,137,818	2,191,414
Food services	1,745,215	1,494,865
Extracurricular activities	1,162,988	1,342,593
General administration	900,795	914,108
Support services	3,352,642	2,821,339
Community services	417,744	486,472
Debt service	2,737,380	2,737,287
Facilities acquisition and construction	99,342	2,186,035
Payments to other districts/agencies	1,716,831	1,884,848
Total Governmental Activities	34,798,354	36,419,601
Change in Net Assets	(945,906)	(961,034)
Net Assets Beginning	15,966,429	16,927,463
Net Assets Ending	\$ 15,020,523	\$ 15,966,429

Investment earnings decreased significantly in the last several years due to the Federal Reserve Bank dropping the interest rate to practically 0%. Due to requirements of the Public Funds Investment Act, it makes it very difficult to invest in any type of fiduciary instrument other than investment pools and certificates of deposit. The District's enrollment is approximately 70% economically disadvantaged which qualifies the District for more funding from state and federal sources. The District actively pursues this avenue to acquire much needed funding for the District.

Overall property taxes account for 34% of the District's revenue sources while state funding represents 35%. Operating grants account for 27% of revenue sources.



The District complies with Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Those fund balance classifications are described below.

Nonspendable - Amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board.

Assigned - For the General Fund, amounts that are appropriated by the Board or Board designee that are to be used for specific purposes. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted, or committed.

Unassigned - Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$11,965,932. Of this amount \$5,576,165 constitutes unassigned fund balance available for use in the General Fund activities at the District's discretion. The remainder of the fund balance is nonspendable, restricted, or assigned to indicate that it is not available for new spending because it is in nonspendable form or it will be used for bond projects, debt service and other obligations of the District.

The Texas Education Agency recommends that districts keep a fund balance that is between 12% to 20% of annual general fund operating expenses. As a measure of the General Fund's liquidity, unassigned fund balance represents 25% of the total General Fund expenditures.

The District sets maintenance and debt tax rates in August of each year. For the 2011-12 fiscal year the District adopted a maintenance and operations tax rate of \$1.04 per \$100 in valuation, the maximum maintenance and operations tax rate allowed by law, and a debt service rate of \$0.41.

The Debt Service Fund had a total fund balance of \$1,269,034, all of which is restricted for payment of debt service.

The Capital Projects Fund had a fund balance of \$3,499,947 at the end of the fiscal year which represents funds from the 2010 bond sale of \$5 million. These funds will be used to finish out the new high school and make renovations to other existing District facilities.

Budgetary Highlights

The District had eight major budget amendments during the 2011-12 fiscal year. Most of the budget amendments were made in Function 51, Facilities Maintenance and Operations. The budget was increased \$90,000 to upgrade the lighting fixtures in the T.H. Johnson Elementary Building to make it more energy efficient. The budget was also increased by \$73,423 to replace carpet in the T.H. Johnson Elementary Gym that had been there since 1984. A budget amendment of \$33,000 was made to install new VCT tile at Naomi Pasemann Elementary and another budget amendment of \$30,000 was made to renovate some classrooms at Naomi Pasemann Elementary to accommodate the third grade move from T.H. Johnson Elementary. With the opening of the new high school, maintenance costs increased primarily in the telephone budget and utility budget. An additional \$150,000 was budgeted to absorb the increased costs. The District started a Breakfast in the Classroom program in fiscal year 2011-12 to ensure that all elementary students would have the opportunity to have breakfast every day at school. As a result of this a budget amendment of \$120,000 was made in the Food Service Fund budget to allow for the increased costs. The Food Service Fund budget was also increased by \$47,000 to purchase a new van and some cafeteria tables at the District’s middle school.

Capital Assets and Debt Administration:

Capital Assets

The District’s investment in capital assets for its governmental activities as of August 31, 2012 amounts to \$61,859,669 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, and furniture and equipment.

**Taylor Independent School District
Capital Assets
(Net of accumulated depreciation)**

Land	\$	1,437,326
Construction in progress		275,741
Buildings and improvements		58,809,045
Furniture and equipment		1,337,557
		1,337,557
Total	\$	61,859,669

Additional information on the District’s capital assets can be found in Note 7 of this report.

Long-term Debt

At the end of the current fiscal year the District had total bonded debt outstanding of \$57,229,943. The bonded debt constitutes a direct obligation of the District from a continuing, direct ad valorem tax levied against all taxable property of the District without legal limit as to rate or amount. The bonds are also guaranteed by the corpus of the Permanent School fund of the State of Texas. Both Standard & Poor's Rating Services and Moody's Investors Services have provided bond ratings of AAA and Aaa, respectively, to the District's outstanding debt obligations.

Additional information on the District's long-term debt can be found in Note 8 of this report.

Economic Factors and Next Year's Budgets and Rates

The District's elected and appointed officials considered population growth and available resources from State revenues and tax revenues when setting the fiscal year 2012 budget and tax rate. The student population increased by approximately 1.3% and the District expects a higher increase in 2012-13. Assessed property values increased by approximately 1% over last year. The District adopted a \$28,940,943 budget for fiscal year 2013. As a result of a successful TRE in September 2012, it will be funded through a \$1.45 overall tax rate consisting of a \$1.17 M&O tax rate and \$0.28 I&S tax rate, State Per Capita and Foundation revenues, and other local revenues. The total tax rate adopted is the same total tax rate adopted in fiscal year 2012. The 2013 fiscal year budget is approximately 3% more than the 2012 fiscal year final amended budget. If the District does not incur any unforeseen expenditures or reductions in revenues, it should accomplish the task of educating the students in the District with the available resources and not use any significant amount of its General Fund fund balance after the impact of the successful TRE.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office at Taylor Independent School District, 602 West 12th Street, Taylor, Texas 76574.

BASIC FINANCIAL STATEMENTS

TAYLOR INDEPENDENT SCHOOL DISTRICT

Statement of Net Assets

August 31, 2012

	Governmental Activities
ASSETS:	
Cash and temporary investments	\$ 11,917,016
Receivables:	
Property taxes - delinquent	285,583
Allowance for uncollectible taxes	(57,117)
Due from other governments	803,665
Other receivables	161,027
Inventories	188,609
Deferred charge - bond issuance costs	1,458,060
Capital assets (net of accumulated depreciation):	
Land	1,437,326
Construction in progress	275,741
Buildings and improvements	58,809,045
Furniture and equipment	1,337,557
Total assets	<u>\$ 76,616,512</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 163
Payroll deductions and withholdings payable	3,866
Accrued wages payable	787,753
Bond interest payable	100,303
Bonds payable	1,535,000
Capital lease payable	88,687
Accumulated unpaid vacation and benefits	124,144
Due to other governments	103
Due to student groups	50,931
Deferred revenue	261,569
Noncurrent liabilities:	
Bonds payable	54,742,712
Accretion payable	3,124,541
Capital lease payable	413,063
Accumulated unpaid vacation and benefits	363,154
Total liabilities	<u>61,595,989</u>
NET ASSETS:	
Invested in capital assets, net of related debt	10,038,214
Restricted for:	
Debt service	1,219,537
Food service	389,161
Unrestricted	3,373,611
Total net assets	<u>\$ 15,020,523</u>

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

TAYLOR INDEPENDENT SCHOOL DISTRICT

Statement of Activities

Year Ended August 31, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction	\$ 17,024,236	785,048	4,358,582	(11,880,606)
Instructional resources and media services	314,723	-	116,555	(198,168)
Curriculum and staff development	695,430	1,466	421,933	(272,031)
Instructional leadership	763,401	-	408,527	(354,874)
School leadership	1,729,809	110,962	395,477	(1,223,370)
Guidance, counseling, and evaluation services	970,682	63,195	391,560	(515,927)
Social work services	52,000	-	52,000	-
Health services	290,371	-	106,636	(183,735)
Student transportation	824,765	-	33,820	(790,945)
Food services	1,745,215	262,498	1,353,080	(129,637)
Extracurricular activities	1,162,988	76,597	242,454	(843,937)
General administration	900,795	5,430	32,892	(862,473)
Facilities maintenance and operations	3,015,243	25,148	257,966	(2,732,129)
Security and monitoring services	60,131	-	164	(59,967)
Data processing services	277,268	-	11,823	(265,445)
Community services	417,744	-	71,991	(345,753)
Debt service	2,737,380	-	871,106	(1,866,274)
Facilities acquisition and construction	99,342	-	-	(99,342)
Payments related to shared services arrangements	1,538,050	-	-	(1,538,050)
Payments to juvenile justice alternative education programs	87,415	-	-	(87,415)
Other intergovernmental charges	91,366	-	-	(91,366)
Total governmental activities	\$ 34,798,354	1,330,344	9,126,566	(24,341,444)
General revenues:				
Property taxes				\$ 11,391,365
State aid-formula grants				11,899,055
Investment earnings				47,578
Miscellaneous				57,540
Total general revenues				23,395,538
Change in net assets				(945,906)
Net assets - beginning				15,966,429
Net assets - ending				\$ 15,020,523

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

TAYLOR INDEPENDENT SCHOOL DISTRICT

Balance Sheet Governmental Funds August 31, 2012

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and temporary investments	\$ 6,388,890	1,277,618	3,492,812	757,696	11,917,016
Receivables:					
Property taxes - delinquent	222,075	63,508	-	-	285,583
Allowance for uncollectible taxes	(44,415)	(12,702)	-	-	(57,117)
Due from other governments	3,813	33,810	-	766,042	803,665
Due from other funds	683,920	871	7,135	2,500	694,426
Other receivables	161,027	-	-	-	161,027
Inventories	188,609	-	-	-	188,609
Total assets	<u>\$ 7,603,919</u>	<u>1,363,105</u>	<u>3,499,947</u>	<u>1,526,238</u>	<u>13,993,209</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts payable	\$ 163	-	-	-	163
Payroll deductions and withholdings payable	-	-	-	3,866	3,866
Accrued wages payable	660,275	-	-	127,478	787,753
Due to other funds	3,371	7,135	-	683,920	694,426
Due to other governments	-	-	-	103	103
Due to student groups	-	-	-	50,931	50,931
Deferred revenue	394,591	86,936	-	8,508	490,035
Total liabilities	<u>1,058,400</u>	<u>94,071</u>	<u>-</u>	<u>874,806</u>	<u>2,027,277</u>
Fund balances:					
Nonspendable-					
Inventories	188,609	-	-	-	188,609
Restricted for:					
Retirement of long-term debt	-	1,269,034	-	-	1,269,034
Authorized construction	-	-	3,499,947	-	3,499,947
Food service	-	-	-	389,161	389,161
Assigned to:					
Self insurance	153,890	-	-	-	153,890
Special education	-	-	-	101,488	101,488
Legacy High School	-	-	-	154,400	154,400
Other state programs	-	-	-	6,383	6,383
Subsequent year's budget deficit	626,855	-	-	-	626,855
Unassigned	5,576,165	-	-	-	5,576,165
Total fund balances	<u>6,545,519</u>	<u>1,269,034</u>	<u>3,499,947</u>	<u>651,432</u>	<u>11,965,932</u>
Total liabilities and fund balances	<u>\$ 7,603,919</u>	<u>1,363,105</u>	<u>3,499,947</u>	<u>1,526,238</u>	

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. \$ 61,859,669

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds 228,466

The following liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Bonds and contractual obligations payable, including premiums	(57,243,737)
Less: Deferred charge for issuance costs	1,458,060
Less: Issuance discount	966,025
Accretion of interest payable	(3,124,541)
Interest payable	(100,303)
Capital lease payable	(501,750)
Accumulated unpaid vacation and benefits	(487,298)

Net assets of governmental activities \$ 15,020,523

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

TAYLOR INDEPENDENT SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended August 31, 2012

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Local and intermediate sources	\$ 8,795,618	3,234,370	17,064	1,197,422	13,244,474
State program revenues	12,919,938	871,106	-	976,465	14,767,509
Federal program revenues	291,951	-	-	5,604,027	5,895,978
Total revenues	<u>22,007,507</u>	<u>4,105,476</u>	<u>17,064</u>	<u>7,777,914</u>	<u>33,907,961</u>
EXPENDITURES:					
Current:					
Instruction	11,796,896	-	-	4,045,274	15,842,170
Instructional resources and media services	186,098	-	-	109,545	295,643
Curriculum and staff development	273,168	-	-	394,256	667,424
Instructional leadership	315,055	-	-	416,045	731,100
School leadership	1,170,591	-	-	439,203	1,609,794
Guidance, counseling, and evaluation services	466,332	-	-	456,539	922,871
Social work services	-	-	-	52,000	52,000
Health services	176,116	-	-	96,199	272,315
Student transportation	740,176	-	-	-	740,176
Food services	1,154	-	-	1,591,709	1,592,863
Extracurricular activities	861,562	-	-	216,592	1,078,154
General administration	815,981	-	-	-	815,981
Facilities maintenance and operations	2,744,109	-	-	10,291	2,754,400
Security and monitoring services	54,539	-	-	-	54,539
Data processing services	251,485	-	-	-	251,485
Community services	330,958	-	-	52,855	383,813
Payments related to shared services arrangements	1,446,369	-	-	91,681	1,538,050
Payments to juvenile justice alternative education programs	87,415	-	-	-	87,415
Other intergovernmental charges	91,366	-	-	-	91,366
Debt service	167,764	3,850,430	-	-	4,018,194
Facilities acquisition and construction	-	-	571,552	-	571,552
Total expenditures	<u>21,977,134</u>	<u>3,850,430</u>	<u>571,552</u>	<u>7,972,189</u>	<u>34,371,305</u>
Excess (deficiency) of revenues over (under) expenditures	<u>30,373</u>	<u>255,046</u>	<u>(554,488)</u>	<u>(194,275)</u>	<u>(463,344)</u>
OTHER FINANCING SOURCES:					
Proceeds from capital lease	23,980	-	-	-	23,980
Sale of real and personal property	13,871	-	-	3,254	17,125
Total other financing sources	<u>37,851</u>	<u>-</u>	<u>-</u>	<u>3,254</u>	<u>41,105</u>
Net change in fund balances	68,224	255,046	(554,488)	(191,021)	(422,239)
Fund balances - beginning	6,477,295	1,013,988	4,054,435	842,453	12,388,171
Fund balances - ending	<u>\$ 6,545,519</u>	<u>1,269,034</u>	<u>3,499,947</u>	<u>651,432</u>	<u>11,965,932</u>

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

TAYLOR INDEPENDENT SCHOOL DISTRICT
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended August 31, 2012

Net change in fund balances-total governmental funds	\$ (422,239)
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>	
Capital outlay	562,812
Depreciation expense	(2,287,800)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Change in deferred tax revenue	(55,513)
<p>Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	
Capital lease proceeds	(23,980)
Repayment of bond principal and contractual obligations	825,304
Repayment of capital lease principal	79,353
Repayment of note payable principal	62,619
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
Change in accretion payable	432,794
Change in bond interest payable	3,136
Amortization of issuance costs	(76,771)
Amortization of bond premiums	1,459
Amortization of bond issuance discounts	(35,779)
Change in accumulated unpaid vacation and benefits	(11,301)
Change in net assets of governmental activities	<u>\$ (945,906)</u>

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

TAYLOR INDEPENDENT SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended August 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local and intermediate sources	\$ 8,377,083	8,663,526	8,795,618	132,092
State program revenues	13,252,631	12,938,431	12,919,938	(18,493)
Federal program revenues	264,522	294,022	291,951	(2,071)
Total revenues	<u>21,894,236</u>	<u>21,895,979</u>	<u>22,007,507</u>	<u>111,528</u>
EXPENDITURES:				
Current:				
Instruction	11,976,605	11,982,540	11,796,896	185,644
Instructional resources and media services	198,696	198,696	186,098	12,598
Curriculum and staff development	304,868	304,648	273,168	31,480
Instructional leadership	328,884	329,684	315,055	14,629
School leadership	1,169,081	1,191,941	1,170,591	21,350
Guidance, counseling, and evaluation services	514,248	498,548	466,332	32,216
Health services	182,697	182,797	176,116	6,681
Student transportation	842,531	796,031	740,176	55,855
Food services	2,095	1,895	1,154	741
Extracurricular activities	885,612	895,921	861,562	34,359
General administration	821,311	821,311	815,981	5,330
Facilities maintenance and operations	2,227,084	2,746,991	2,744,109	2,882
Security and monitoring services	65,645	65,645	54,539	11,106
Data processing services	258,083	258,083	251,485	6,598
Community services	345,564	346,214	330,958	15,256
Payments related to shared services arrangements	1,522,234	1,522,234	1,446,369	75,865
Payments to juvenile justice alternative education programs	87,415	87,415	87,415	-
Other intergovernmental charges	99,777	99,777	91,366	8,411
Debt service	159,046	167,766	167,764	2
Total expenditures	<u>21,991,476</u>	<u>22,498,137</u>	<u>21,977,134</u>	<u>521,003</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(97,240)</u>	<u>(602,158)</u>	<u>30,373</u>	<u>632,531</u>
OTHER FINANCING SOURCES:				
Proceeds from capital lease	-	21,800	23,980	2,180
Sale of real and personal property	2,000	13,000	13,871	871
Total other financing sources	<u>2,000</u>	<u>34,800</u>	<u>37,851</u>	<u>3,051</u>
Net change in fund balance	(95,240)	(567,358)	68,224	635,582
Fund balance - beginning	6,477,295	6,477,295	6,477,295	-
Fund balance - ending	<u>\$ 6,382,055</u>	<u>5,909,937</u>	<u>6,545,519</u>	<u>635,582</u>

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

TAYLOR INDEPENDENT SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

August 31, 2012

	Private Purpose Trust Funds	Agency Funds
ASSETS-		
Cash and temporary investments	\$ 2,703,476	\$ 174,979
Total assets	<u>\$ 2,703,476</u>	<u>\$ 174,979</u>
LIABILITIES-		
Due to student groups	\$ -	\$ 174,979
Total liabilities	<u>\$ -</u>	<u>\$ 174,979</u>
NET ASSETS-		
Held in trust for private purposes	<u>\$ 2,703,476</u>	

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

TAYLOR INDEPENDENT SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended August 31, 2012

	Private Purpose Trust Funds
ADDITIONS-	
Contributions	<u>\$ 342,535</u>
Total additions	<u>342,535</u>
DEDUCTIONS-	
Other operating costs	<u>223,625</u>
Total deductions	<u>223,625</u>
Change in net assets	118,910
Net assets - beginning of year	<u>2,584,566</u>
Net assets - end of year	<u><u>\$ 2,703,476</u></u>

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

TAYLOR INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

This report includes those activities, organizations and functions which are related to the Taylor Independent School District (the "District") and which are controlled by or dependent upon the District's governing body, the Board of School Trustees (the "Board"). The Board, a seven member group, is the level of government which has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the District. Since the District receives funding from local, state and federal government sources, it must comply with the requirements of the entities providing those funds. However, the District is not included in any other governmental "reporting entity" as defined by Statement No. 14 of the Governmental Accounting Standards Board ("GASB"), since Board members are elected by the public and have decision making authority. There are no component units included within the reporting entity.

The accounting policies of the District comply with the rules prescribed by the Texas Education Agency's ("TEA") Financial Accountability System Resource Guide. These accounting policies conform to generally accepted accounting principles applicable to state and local governments.

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 nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which 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 District has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. 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.

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. 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. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Major revenue sources considered susceptible to accrual include state and federal program revenues and interest income. No accrual for property taxes collected within sixty days of year end has been made as such amounts are deemed immaterial; delinquent property taxes at year end are reported as deferred revenue.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The District reports the following major governmental funds:

The General Fund includes financial resources used for general operations. It is a budgeted fund, and any unassigned fund balances are considered resources available for current operations.

The Debt Service Fund includes debt service taxes and other revenues collected to retire bond principal and to pay interest due. It is a budgeted fund.

The Capital Projects Fund includes the proceeds from the sale of bonds and other revenues to be used for authorized construction and other capital asset acquisitions.

Additionally, the District reports the following fund types:

Special Revenue Funds are governmental funds which include resources restricted, committed, or assigned for specific purposes by a grantor or the Board. Federally financed programs where unused balances are returned to the grantor at the close of specified project periods are accounted for in these funds. The District uses project accounting to maintain integrity for the various sources of funds.

Private Purpose Trust Funds are fiduciary trust funds and are used to account for the principal and income that benefit individuals in the form of scholarships.

Agency Funds are unbudgeted funds and are used to account for activities of student groups and other types of activities requiring clearing accounts. These funds have no equity, assets are equal to liabilities, and they do not include revenues and expenditures for general operations of the District.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Budgetary Information

Budgets are prepared annually for the General Fund, Debt Service Fund, and Food Service Fund (special revenue fund) on the modified accrual basis, which is consistent with generally accepted accounting principles. A formal budget is prepared by August 20th and is adopted by the Board at a public meeting after ten days public notice of the meeting has been given. The legal level of control for budgeted expenditures is the function level within the budgeted funds. Amendments to the budget are required prior to expending amounts greater than the budgeted amounts at the function level. Budgets are controlled at the departmental or campus level, the same level at which responsibility for operations is assigned. The budgets were amended by the Board as needed throughout the year.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or provided for in the subsequent year's budget. There were no material outstanding encumbrances at August 31, 2012, that were provided for in the subsequent year's budget.

Assets, Liabilities, and Net Assets or Equity

Investments - Temporary investments throughout the year consisted of investments in external investment pools and certificates of deposit. The District is entitled to invest any and all of its funds in certificates of deposit, direct debt securities of the United States of America or the State of Texas, certain Federal agency securities and other types of municipal bonds, fully collateralized repurchase agreements, commercial paper and local government investment pools. The District's investment policies and types of investments are governed by Section 2256 of the Texas Government Code ("Public Funds Investment Act"). The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments.

Capital Assets - Capital assets, which include land, construction in progress, buildings and improvements, and furniture and equipment, are reported in the governmental activities column in the government-wide financial statements. The District has no infrastructure assets. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000. Such assets are recorded at historical cost if purchased or estimated fair value at the date of donation if donated. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Capital assets (other than land and construction in progress) are depreciated using the straight line method over the following estimated useful lives: buildings and improvements - 50 years, furniture and equipment - 5 to 10 years.

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

Accumulated Unpaid Vacation and Benefits - The District provides employees with compensation benefits for absences for vacation, sick leave, and personal matters. The costs of these benefits are recognized by the District when paid. There are limitations on carryover and accumulation of benefits, and the liability for accrued but unpaid benefits is included in the statement of net assets.

Fund Equity - The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 9 for additional information on those fund balance classifications.

Inventories - Inventories in the General Fund consist of expendable supplies held for consumption. Inventories are charged to expenditures when consumed. Supply inventory is recorded at cost using the FIFO method.

Cash and Cash Equivalents - The District considers all liquid investments (including external investment pools) with original maturities of 90 days or less to be cash equivalents.

Recently Issued Accounting Pronouncements

In December 2010, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for fiscal years beginning after December 15, 2011. The objective of GASB Statement No. 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' ("AICPA") Committee on Accounting Procedure issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. Management believes GASB Statement No. 62 will have little effect on its financial statements for the year ended August 31, 2013.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for fiscal years beginning after December 15, 2011. The objective of GASB Statement No. 63 is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. GASB Statement No. 63 amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Management is still evaluating the effects that the full implementation of GASB Statement No. 63 will have on its financial statements for the year ended August 31, 2013.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for fiscal years beginning after December 15, 2012. The objective of GASB Statement No. 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and to recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities, such as deferred bond issuance costs. Management is still evaluating the effects that the full implementation of GASB Statement No. 65 will have on its financial statements for the year ended August 31, 2014.

2. CASH AND TEMPORARY INVESTMENTS

The Public Funds Investment Act authorizes the District to invest in funds under a written investment policy, which is approved annually by the Board. The primary objectives of the District's investment strategy, in order of priority, are preservation and safety of principal, liquidity and yield.

The District is authorized to invest in the following investment instruments provided that they meet the guidelines established in the investment policy:

- Obligations of, or guaranteed by, governmental entities
- Certificates of deposit and share certificates
- Fully collateralized repurchase agreements
- Banker's acceptance
- Commercial paper
- Money market funds and no-load mutual funds
- Public funds investment pools

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. Therefore, the District is not exposed to custodial credit risk.

Under the depository contract, the District, at its own discretion, may invest funds in time deposits and certificates of deposit provided by the depository bank at interest rates approximating United States Treasury Bill rates.

At August 31, 2012, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$12,591,664 and the bank balance was \$12,995,163.

The District's deposits with financial institutions at August 31, 2012 and during the year ended August 31, 2012 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. The deposits were collateralized in accordance with Texas law and the Texas Education Agency maintains copies of all safekeeping receipts in the name of the District.

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

- a) Name of depository bank: Citizens National Bank
- b) Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$15,881,915.
- c) Largest cash, savings and time deposit combined account balance amounted to \$15,266,424 and occurred during the month of February 2012.
- d) Total amount of FDIC coverage at the time of highest combined balance was \$250,000.

Investments held at August 31, 2012 consisted of the following:

Type	Fair Value	Weighted Average Maturity (Days)	Standard & Poor's Rating
Local Governmental Investment Pools:			
MBIA	\$ 1,899,625	1	AAAm
Lone Star	304,182	1	AAAf
Total	<u>\$ 2,203,807</u>		

The District had investments in two external local government investment pools at August 31, 2012: MBIA Texas CLASS (“MBIA”) and Lone Star Investment Pool (“Lone Star”). Although Lone Star is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC’s Rule 2a7-of the Investment Company Act of 1940. MBIA is registered with the SEC. These investments are stated at fair value which is the same as the value of the pool shares.

MBIA is administered by MBIA-Municipal Investors Service Corporation (“MISC”) and Wells Fargo Bank Texas. MISC is a subsidiary of MBIA Asset Management Group, one of the nation’s largest providers of administrative and portfolio management services for local government investment pools. MBIA is supervised by a board of trustees who are elected by participants. The responsibility of the board includes the ability to influence operations, designation of management and accountability for fiscal matters. In addition, MBIA has an advisory board which provides input and feedback on the operations and direction of the program. Standard and Poor’s reviews the pool on a weekly basis to ensure the pool’s compliance with its rating requirements. MBIA’s investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

Lone Star is governed by an eleven member board of trustees, in which all of the members are also participants in Lone Star. The board meets quarterly to review operations, adopt or make changes to the investment policy, review financial activity and approve contractor agreements. Lone Star also has an advisory board consisting of participants and nonparticipants. RBC Dain Rauscher, Inc. is an independent consultant for Lone Star that reviews daily operations, analyzes all investment transactions for compliance with the Public Funds Investment Act, and performs monitoring activities. The Bank of New York provides custody and valuation services for Lone Star. American Beacon Advisors and Standish Mellon provide other investment management services. Lone Star’s investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

The investments are reported by the District at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At August 31, 2012, investments were included in local government investment pools with ratings in compliance with the District’s investment policy.

Custodial Credit Risk - Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution’s trust department or agent but not in the District’s name. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the District, and are held by either the counterparty or the counterparty’s trust department or agent not in the District’s name. At August 31, 2012, the District was not exposed to custodial credit risk.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investments in a single issuer. At August 31, 2012, all of the District’s investments were in external local investment pools.

Interest Rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the investment policy requires that maturities for internally created pool fund groups will not exceed the dollar weighted average maturity of 180 days. Maturities of any other individual investment owned by the District should not exceed one year from the time of purchase. The Board may specifically authorize a longer maturity for a given investment, within legal limits. The District considers the holdings in the local government investment pools to have a one day weighted average maturity due to the fact that the share position can usually be redeemed each day at the discretion of the shareholders, unless there has been a significant change in value.

The District's management believes that it complied with the requirements of the Public Funds Investment Act and the District's investment policy.

3. APPRAISAL DISTRICT

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code (the "Code") which established a county-wide appraisal district and an appraisal review board in each county in the State. The Williamson Central Appraisal District (the "Appraisal District") is responsible for the recording and appraisal of all property in the District. Under the Code, the District's Board sets the tax rates on property and the Appraisal District's tax department provides tax collection services. The Appraisal District is required under the Code to assess property at 100% of its appraised value. Further, real property must be reappraised at least every four years. Under certain circumstances, taxpayers and taxing units, including the District, may challenge orders of the Appraisal Review Board through various appeals and, if necessary, legal action.

Property taxes are levied as of October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, and penalties and interest that are ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period, including those property taxes expected to be collected during a 60 day period after the end of the District's fiscal year. The assessed value at January 1, 2011, upon which the October 2011 levy was based, was \$809,861,018. The District levied taxes based on a combined tax rate of \$1.45 per \$100 of assessed valuation for local maintenance (general governmental services) and debt service.

In May 1993, the Texas Legislature passed Senate Bill 7. Senate Bill 7 significantly changed certain aspects of the school finance system relative to accountability, teacher appraisal, career ladder, funding allotments, district local share, distribution of Foundation School Funds, tax limitations and rollback tax provisions. Funding equalization for school districts is a major component of the bill. Districts with wealth per student in excess of \$319,500 are required to take action to bring their wealth down to the equalized State level. Each year, the TEA notifies school districts in which property wealth per Weighted Average Daily Attendance ("WADA") meets or exceeds \$319,500. However, the final determination of whether a school district will be required to make recapture payments is based on the district's tax effort and the extent to which the district's wealth per WADA exceeds the first equalized wealth level of \$476,500. The District was not above the equalized wealth level for the 2011-2012 fiscal year.

4. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully fund certain activities. The District also receives entitlements from the State through the School Foundation and Per Capita Programs. In addition, the District has entered into interlocal agreements with local governments in which the District is to be reimbursed for certain construction costs. These amounts are reported in the basic financial statements as Due from Other Governments and are summarized below as of August 31, 2012.

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
State entitlements	\$ 3,813	33,810	-	37,623
Federal and state grants	-	-	766,042	766,042
Total	<u>\$ 3,813</u>	<u>33,810</u>	<u>766,042</u>	<u>803,665</u>

5. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of August 31, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 683,920
Capital Projects Fund	Debt Service Fund	7,135
Debt Service Fund	General Fund	871
Nonmajor Governmental Funds	General Fund	2,500
Total		<u>\$ 694,426</u>

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds.”

6. DEFERRED REVENUE

At August 31, 2012, deferred revenue in governmental funds consisted of the following:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Net tax revenue	\$ 177,660	50,806	-	228,466
Federal and state grants	190,331	36,130	8,508	234,969
Other	26,600	-	-	26,600
Total	<u>\$ 394,591</u>	<u>86,936</u>	<u>8,508</u>	<u>490,035</u>

7. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,437,326	-	-	1,437,326
Construction in progress	-	275,741	-	275,741
Total capital assets, not being depreciated	<u>1,437,326</u>	<u>275,741</u>	<u>-</u>	<u>1,713,067</u>
Capital assets, being depreciated:				
Buildings and improvements	77,009,832	172,094	-	77,181,926
Furniture and equipment	4,833,226	114,977	-	4,948,203
Total capital assets being depreciated	<u>81,843,058</u>	<u>287,071</u>	<u>-</u>	<u>82,130,129</u>
Less accumulated depreciation for:				
Buildings and improvements	(16,339,958)	(2,032,923)	-	(18,372,881)
Furniture and equipment	(3,355,769)	(254,877)	-	(3,610,646)
Total accumulated depreciation	<u>(19,695,727)</u>	<u>(2,287,800)</u>	<u>-</u>	<u>(21,983,527)</u>
Total capital assets, being depreciated, net	<u>62,147,331</u>	<u>(2,000,729)</u>	<u>-</u>	<u>60,146,602</u>
Governmental activities capital assets, net	<u>\$ 63,584,657</u>	<u>(1,724,988)</u>	<u>-</u>	<u>61,859,669</u>

Depreciation expense was charged to functions/programs of the District as follows:

Governmental activities:

Instruction	\$ 1,220,661
Instructional resources and media services	19,080
Curriculum and staff development	28,006
Instructional leadership	32,301
School leadership	120,015
Guidance, counseling, and evaluation services	47,811
Health services	18,056
Student transportation	84,589
Food service	174,063
Extracurricular activities	90,748
General administration	84,814
Plant maintenance and operations	302,350
Security and monitoring services	5,592
Data processing services	25,783
Community services	33,931
Total depreciation expense - governmental activities	<u>\$ 2,287,800</u>

8. LONG-TERM DEBT

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

	Beginning Balance	Additions	Retirements	Ending Balance
General obligation bonds	\$ 58,055,247	-	(825,304)	57,229,943
Accretion payable	3,557,335	211,902	(644,696)	3,124,541
Premium on bonds	15,253	-	(1,459)	13,794
Issuance discount on bonds	(1,001,804)	-	35,779	(966,025)
Capital lease payable	557,123	23,980	(79,353)	501,750
Note payable	62,619	-	(62,619)	-
Accumulated unpaid vacation and benefits	475,997	152,593	(141,292)	487,298
Total	<u>\$ 61,721,770</u>	<u>388,475</u>	<u>(1,718,944)</u>	<u>60,391,301</u>

Bonded debt consists of the following at August 31, 2012:

General obligation bonds:

Series	Date of Issue	Amounts of Original Issue	Matures Through	Interest Rate	Outstanding at 8-31-12	Due Within One Year
2005	5-25-05	\$ 9,044,992	2025	3.00 - 4.25%	\$ 7,210,000	220,000
2009	5-19-09	37,999,943	2039	2.00 - 5.25%	37,299,943	250,000
2009 Refunding	5-19-09	8,805,000	2021	1.30 - 3.75%	7,935,000	845,000
2010	12-22-10	<u>5,000,000</u>	2029	2.00 - 3.70%	<u>4,785,000</u>	<u>220,000</u>
Total		<u>\$ 60,849,935</u>			<u>\$ 57,229,943</u>	<u>\$ 1,535,000</u>

For the general obligation bonds, the District has pledged as collateral the proceeds of a continuing, direct annual tax levied against taxable property within the District without limitation as to rate. The Texas Education Code generally prohibits issuance of additional ad valorem tax bonds if the tax rate needed to pay aggregate principal and interest amounts of the District's tax bond indebtedness exceeds \$0.50 per \$100 of assessed valuation of taxable property within the District. The District's debt service rate for the current year is \$0.41.

The annual principal installments for each of the outstanding issues vary each year. As of August 31, 2012, the debt service requirements of bonded indebtedness to maturity are as follows:

Year Ended August 31,	Principal	Interest	Total
2013	\$ 1,535,000	2,349,056	3,884,056
2014	1,615,000	2,307,993	3,922,993
2015	1,670,000	2,261,721	3,931,721
2016	1,720,000	2,210,893	3,930,893
2017	1,775,000	2,154,499	3,929,499
2018 - 2022	9,900,000	9,757,299	19,657,299
2023 - 2027	8,109,846	11,590,311	19,700,157
2028 - 2032	9,320,097	10,488,860	19,808,957
2033 - 2037	16,595,000	3,281,394	19,876,394
2038 - 2039	<u>4,990,000</u>	<u>176,825</u>	<u>5,166,825</u>
Total	<u>\$ 57,229,943</u>	<u>46,578,851</u>	<u>103,808,794</u>

The outstanding 2009 Series Bonds include both Serial Bonds and Capital Appreciation Bonds. The interest shown above, with respect to the Capital Appreciation Bonds, includes the interest to be paid on bonds maturing in the respective years and does not include accrued interest on bonds not maturing in those years.

As of August 31, 2012, there were no general obligation bonds authorized by voters of the District, but unissued.

The District financed the purchase of school buses through a capital lease agreement with a finance company. The purchase price of the school buses was \$557,123 which equates to the original capital lease principal amount. At August 31, 2012, these assets had accumulated depreciation of \$55,712 and a net book value of \$501,411. Under the terms of the capital lease agreement, principal and interest payments of \$92,668 are due annually on August 5th beginning on August 5, 2012 through August 5, 2018. The effective interest rate on the lease is 3.96%. Lease payment requirements are as follows:

Year Ended August 31,	Principal	Interest	Total
2013	\$ 73,427	19,241	92,668
2014	76,331	16,337	92,668
2015	79,350	13,318	92,668
2016	82,489	10,179	92,668
2017	85,751	6,917	92,668
2018	89,142	3,526	92,668
Total	<u>\$ 486,490</u>	<u>69,518</u>	<u>556,008</u>

The District financed the purchase of two lawn tractors through a capital lease agreement with a finance company. The purchase price was \$23,980 which equates to the capital lease principal amount. At August 31, 2012, these assets had accumulated depreciation of \$1,599 and a net book value of \$22,381. Under the terms of the agreement, eleven principal payments of \$2,180 are due monthly beginning on May 1, 2012. The remaining principal balance at August 31, 2012 was \$15,260.

Upon retirements or death of certain employees, the District pays any accrued sick leave and vacation leave in a lump cash payment to such employees or their estate. A summary of changes in the accumulated unpaid vacation and benefits liability for the year ended August 31, 2012 are as follows:

	Sick Leave	Vacation Leave	Total	Due Within One Year
Beginning Balance	\$ 232,203	243,794	475,997	110,843
Additions	37,833	114,760	152,593	64,288
Deductions	<u>(35,700)</u>	<u>(105,592)</u>	<u>(141,292)</u>	<u>(50,987)</u>
Ending Balance	<u>\$ 234,336</u>	<u>252,962</u>	<u>487,298</u>	<u>124,144</u>

9. FUND BALANCES

The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Those fund balance classifications are described below.

Nonspendable - Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board.

Assigned - For the General Fund, amounts that are appropriated by the Board or Board designee that are to be used for specific purposes. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed.

Unassigned - Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The detail of the fund balances is included in the Governmental Funds Balance Sheet on page 14.

Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board has delegated the authority to assign fund balance for a specific purpose to the Superintendent or his or her designee.

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

10. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

For the period ended August 31, 2012, revenues from local and intermediate sources in governmental funds consisted of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Property taxes	\$ 8,120,376	3,200,343	-	-	11,320,719
Food services	-	-	-	262,516	262,516
Investment income	30,466	30	17,064	18	47,578
Penalties, interest, and other tax related income	92,162	33,997	-	-	126,159
Tuition and fees from patrons	141,731	-	-	-	141,731
Co-curricular student activities	80,581	-	-	215,146	295,727
Shared services arrangements	-	-	-	691,234	691,234
Other	330,302	-	-	28,508	358,810
Total	\$ 8,795,618	3,234,370	17,064	1,197,422	13,244,474

11. PENSION PLAN OBLIGATIONS

The District's employees participate in the Teacher Retirement System of Texas (the "System"), a public employee retirement system ("PERS"). It is a cost-sharing multiple employer defined benefit pension plan with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. During the year ended August 31, 2012, contributions of \$926,468 were made by the State. These contributions made by the State on behalf of the District have been reflected in the accompanying basic financial statements as both revenue and expenditures. The System's annual financial report and other required disclosures are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.0% of the District's covered payroll. The District's employees' contributions to the System for the years ended August 31, 2012, 2011, and 2010 were approximately \$1,150,000, \$1,079,000, and \$1,044,000, respectively, which were equal to the required contributions for the years. Other contributions made from federal grants and from the District for salaries above the statutory minimum for the year ended August 31, 2012, 2011, and 2010 were approximately \$170,000, \$177,000, and \$175,000, respectively, which was equal to the required contributions for the year.

12. ON-BEHALF PAYMENTS

The District recognizes as revenues and expenditures retiree drug subsidy reimbursements under the provisions of Medicare Part D made by the federal government to the System on behalf of the District. In addition, the District recognizes as revenues and expenditures reimbursements made by the federal government to the System on behalf of the District under the provisions of the Early Retiree Reinsurance Program for health benefits to retirees between the ages of 55 and 64 and their covered dependents regardless of age. For the year ended August 31, 2012, reimbursements of \$94,395 were received by the System and allocated to the District.

13. RISK MANAGEMENT

The District's risk management program includes coverages through third party insurance providers for property, casualty, automobile liability, school professional liability and workers compensation. During the year ended August 31, 2012, there were no significant reductions in insurance coverage from coverage in the prior year. Losses in excess of the various deductible levels are covered through traditional indemnity coverage for buildings and contents, and vehicle liability with various insurance firms. Settled claims have not exceeded insurance limits for the past three years.

The District participates in a public entity risk pool for its workers compensation insurance with transfer of risk, whereas member districts pool risks and funds and share in the costs of losses. The plan year of the public entity risk pool begins September 1 and ends August 31 of each year. During the year ended August 31, 2012, the District was responsible for paying the cost of each of its claim occurrences up to a per-occurrence limit of \$59,300. For costs exceeding this limit, the member districts shared responsibility for paying the claims not covered by excess insurance. The District's maximum financial exposure for the year ended August 31, 2012 was \$197,667. Excess insurance is provided by a commercial carrier. The policy provides for specific stop-loss attachment at \$250,000 per occurrence and additional aggregate stop-loss attachment of 125% of pool funds. At August 31, 2012, the General Fund has assigned fund balance of \$153,890 to pay for any open claims. Incurred but not reported claims were minimal at August 31, 2012.

14. SHARED SERVICES ARRANGEMENTS

The District is the fiscal agent for a Shared Services Arrangement (“SSA”) which provides speech therapists for special education to the member districts listed below. All services are provided by the fiscal agent and the member districts provide the funds to the fiscal agent. The District has accounted for the fiscal agent’s activities of the SSA in a special revenue fund, Shared Services Arrangements - Special Education. Contributions from the SSA are summarized below:

Taylor ISD	\$	483,740
Coupland ISD		14,440
Bartlett ISD		57,760
Granger ISD		72,200
Thrall ISD		93,860
Total	\$	<u>722,000</u>

15. COMMITMENTS AND CONTINGENCIES

The District participates in a number of federal financial assistance programs. Although the District’s grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through August 31, 2012, these programs are subject to financial and compliance audits. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

16. SUBSEQUENT EVENT

On December 3, 2012, the District issued \$2,575,000 in Maintenance Tax Notes, Series 2012, to renovate the District’s old high school in order to accommodate a 4th and 5th grade intermediate elementary campus, the District’s central administration and technology departments, and the East Williamson County Co-op headquarters.

COMBINING AND INDIVIDUAL FUND STATEMENTS

TAYLOR INDEPENDENT SCHOOL DISTRICT
Combining Balance Sheet
All Nonmajor Governmental Funds
August 31, 2012

	ESEA Title I, Part A Improving Basic Programs	ESEA Title I, Part C Education of Migratory Children	National School Breakfast and Lunch Program	Vocational Education Basic	ESEA, Title II Part A, Principal and Teacher Training and Recruiting	Title III, Part A English Language Acquisition and Language Enhancement	Title IV Part B 21st Century	IDEA - Part B Formula Recovery Act	IDEA - Part B Preschool Recovery Act	Education Jobs Fund	Summer School LEP
Assets:											
Cash and temporary investments \$	-	-	364,866	287	2,147	507	-	-	-	-	7,531
Receivables:											
Due from other governments	57,522	10,861	30,185	-	5,388	150	37,208	-	-	49,900	-
Due from other funds	-	-	-	-	-	2,164	-	-	-	-	-
Total assets	<u>\$ 57,522</u>	<u>10,861</u>	<u>395,051</u>	<u>287</u>	<u>7,535</u>	<u>2,821</u>	<u>37,208</u>	<u>-</u>	<u>-</u>	<u>49,900</u>	<u>7,531</u>
Liabilities and fund balances:											
Payroll deductions and withholdings payable \$	-	94	53	-	-	97	530	-	-	-	-
Accrued wages payable	9,297	1,479	5,837	-	2,240	2,724	3,612	-	-	-	-
Due to other funds	48,225	9,288	-	287	5,295	-	33,066	-	-	49,900	-
Due to other governments	-	-	-	-	-	-	-	-	-	-	-
Due to student groups	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	-	-	7,531
Total liabilities	<u>57,522</u>	<u>10,861</u>	<u>5,890</u>	<u>287</u>	<u>7,535</u>	<u>2,821</u>	<u>37,208</u>	<u>-</u>	<u>-</u>	<u>49,900</u>	<u>7,531</u>
Fund balances:											
Restricted	-	-	389,161	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>389,161</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 57,522</u>	<u>10,861</u>	<u>395,051</u>	<u>287</u>	<u>7,535</u>	<u>2,821</u>	<u>37,208</u>	<u>-</u>	<u>-</u>	<u>49,900</u>	<u>7,531</u>

(continued)

TAYLOR INDEPENDENT SCHOOL DISTRICT
Combining Balance Sheet
All Nonmajor Governmental Funds (continued)
August 31, 2012

	Striving Readers Comprehensive Literacy Program	SSA IDEA - Part B Formula	SSA IDEA - Part B Preschool	SSA IDEA - Part B Formula Recovery Act	SSA IDEA - Part B Preschool Recovery Act	Pregnancy Education and Parenting	Advanced Placement Incentives	Student Success Initiative	Instructional Materials Allotment	AP Campus Awards	SSA Visually Impaired	SSA Special Education	SSA Local Funded Legacy HS
Assets:													
Cash and temporary investments \$	-	8,323	1,314	-	-	2	6,267	4,345	422	555	-	132,482	177,717
Receivables:													
Due from other governments	484,141	79,480	2,515	-	-	-	-	-	-	-	1,994	6,698	-
Due from other funds	-	-	-	-	-	336	-	-	-	-	-	-	-
Total assets	<u>\$ 484,141</u>	<u>87,803</u>	<u>3,829</u>	<u>-</u>	<u>-</u>	<u>338</u>	<u>6,267</u>	<u>4,345</u>	<u>422</u>	<u>555</u>	<u>1,994</u>	<u>139,180</u>	<u>177,717</u>
Liabilities and fund balances:													
Payroll deductions and withholdings payable	\$ 625	966	80	-	-	-	222	-	-	-	-	652	547
Accrued wages payable	6,945	34,644	890	-	-	-	-	-	-	-	-	37,040	22,770
Due to other funds	476,571	52,193	2,834	-	-	-	-	4,345	-	-	1,916	-	-
Due to other governments	-	-	25	-	-	-	-	-	-	-	78	-	-
Due to student groups	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-	422	555	-	-	-
Total liabilities	<u>484,141</u>	<u>87,803</u>	<u>3,829</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>222</u>	<u>4,345</u>	<u>422</u>	<u>555</u>	<u>1,994</u>	<u>37,692</u>	<u>23,317</u>
Fund balances:													
Restricted	-	-	-	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	338	6,045	-	-	-	-	101,488	154,400
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>338</u>	<u>6,045</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>101,488</u>	<u>154,400</u>
Total liabilities and fund balances	<u>\$ 484,141</u>	<u>87,803</u>	<u>3,829</u>	<u>-</u>	<u>-</u>	<u>338</u>	<u>6,267</u>	<u>4,345</u>	<u>422</u>	<u>555</u>	<u>1,994</u>	<u>139,180</u>	<u>177,717</u>

(continued)

TAYLOR INDEPENDENT SCHOOL DISTRICT

Combining Balance Sheet

All Nonmajor Governmental Funds (continued)

August 31, 2012

	Campus Activity Fund	Total Nonmajor Governmental Funds
Assets:		
Cash and temporary investments	\$ 50,931	757,696
Receivables:		
Due from other governments	-	766,042
Due from other funds	-	2,500
Total assets	<u>\$ 50,931</u>	<u>1,526,238</u>
Liabilities and fund balances:		
Payroll deductions and withholdings payable	\$ -	3,866
Accrued wages payable	-	127,478
Due to other funds	-	683,920
Due to other governments	-	103
Due to student groups	50,931	50,931
Deferred revenue	-	8,508
Total liabilities	<u>50,931</u>	<u>874,806</u>
Fund balances:		
Restricted	-	389,161
Assigned	-	262,271
Total fund balances	<u>-</u>	<u>651,432</u>
Total liabilities and fund balances	<u>\$ 50,931</u>	<u>1,526,238</u>

TAYLOR INDEPENDENT SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
All Nonmajor Governmental Funds
Year Ended August 31, 2012

	ESEA Title I, Part A Improving Basic Programs	ESEA Title I, Part C Education of Migratory Children	National School Breakfast and Lunch Program	Vocational Education Basic	ESEA, Title II Part A, Principal and Teacher Training and Recruiting	Title III, Part A English Language Acquisition and Language Enhancement	Title IV Part B 21st Century	IDEA - Part B Formula Recovery Act	IDEA - Part B Preschool Recovery Act	Education Jobs Fund	Summer School LEP
Revenues:											
Local and intermediate sources	\$ -	-	289,299	-	-	-	-	-	-	-	-
State program revenues	-	-	8,894	-	-	-	-	-	-	-	-
Federal program revenues	809,383	90,525	1,344,167	51,306	190,782	35,957	533,911	44,496	1,430	528,299	-
Total revenues	809,383	90,525	1,642,360	51,306	190,782	35,957	533,911	44,496	1,430	528,299	-
Expenditures:											
Current:											
Instruction	420,279	86,624	-	51,306	190,031	35,436	270,148	38,204	567	-	-
Instructional resources and media services	-	-	-	-	-	-	-	-	-	109,545	-
Curriculum and staff development	283,981	3,291	-	-	751	150	9,998	6,292	863	-	-
Instructional leadership	2,563	-	-	-	-	-	252,451	-	-	-	-
School leadership	-	-	-	-	-	-	-	-	-	322,555	-
Guidance, counseling and evaluation services	-	-	-	-	-	-	-	-	-	-	-
Social work services	52,000	-	-	-	-	-	-	-	-	-	-
Health services	-	-	-	-	-	-	-	-	-	96,199	-
Food services	-	-	1,591,709	-	-	-	-	-	-	-	-
Extracurricular activities	-	-	-	-	-	-	-	-	-	-	-
Facilities maintenance and operations	-	-	-	-	-	-	-	-	-	-	-
Community services	50,560	610	-	-	-	371	1,314	-	-	-	-
Payments related to shared services arrangements	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	809,383	90,525	1,591,709	51,306	190,782	35,957	533,911	44,496	1,430	528,299	-
Excess (deficiency) of revenues over (under) expenditures	-	-	50,651	-	-	-	-	-	-	-	-
Other Financing Sources-											
Sale of real and personal property	-	-	3,254	-	-	-	-	-	-	-	-
Net change in fund balances	-	-	53,905	-	-	-	-	-	-	-	-
Fund balances - beginning	-	-	335,256	-	-	-	-	-	-	-	-
Fund balances - ending	\$ -	-	389,161	-	-	-	-	-	-	-	-

(continued)

TAYLOR INDEPENDENT SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
All Nonmajor Governmental Funds (continued)
Year Ended August 31, 2012

	Striving Readers Comprehensive Literacy Program	SSA IDEA - Part B Formula	SSA IDEA - Part B Preschool	SSA IDEA - Part B Formula Recovery Act	SSA IDEA - Part B Preschool Recovery Act	Pregnancy Education and Parenting	Advanced Placement Incentives	Student Success Initiative	Instructional Materials Allotment	AP Campus Awards	SSA Visually Impaired	SSA Special Education	SSA Local Funded Legacy HS
Revenues:													
Local and intermediate sources	\$ -	-	-	-	-	-	-	-	-	-	-	1,743	691,234
State program revenues	-	-	-	-	-	-	2,025	-	241,552	-	1,994	722,000	-
Federal program revenues	514,288	1,203,540	30,161	84,201	7,803	-	-	-	-	-	-	133,778	-
Total revenues	514,288	1,203,540	30,161	84,201	7,803	-	2,025	-	241,552	-	1,994	857,521	691,234
Expenditures:													
Current:													
Instruction	414,960	940,906	29,140	323	-	-	-	-	237,502	-	1,994	811,256	516,598
Instructional resources and media services	-	-	-	-	-	-	-	-	-	-	-	-	-
Curriculum and staff development	69,844	10,091	1,021	-	-	-	-	-	4,050	-	-	2,458	1,466
Instructional leadership	23,798	-	-	-	-	-	-	-	-	-	-	137,233	-
School leadership	5,686	-	-	-	-	-	-	-	-	-	-	-	110,962
Guidance, counseling and evaluation services	-	252,543	-	-	-	-	-	-	-	-	-	140,801	63,195
Social work services	-	-	-	-	-	-	-	-	-	-	-	-	-
Health services	-	-	-	-	-	-	-	-	-	-	-	-	-
Food services	-	-	-	-	-	-	-	-	-	-	-	-	-
Extracurricular activities	-	-	-	-	-	-	-	-	-	-	-	-	1,446
Facilities maintenance and operations	-	-	-	-	-	-	-	-	-	-	-	10,291	-
Community services	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments related to shared services arrangements	-	-	-	83,878	7,803	-	-	-	-	-	-	-	-
Total expenditures	514,288	1,203,540	30,161	84,201	7,803	-	-	-	241,552	-	1,994	1,102,039	693,667
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	2,025	-	-	-	-	(244,518)	(2,433)
Other Financing Sources-													
Sale of real and personal property	-	-	-	-	-	-	-	-	-	-	-	-	-
Net change in fund balances	-	-	-	-	-	-	2,025	-	-	-	-	(244,518)	(2,433)
Fund balances - beginning	-	-	-	-	-	338	4,020	-	-	-	-	346,006	156,833
Fund balances - ending	\$ -	-	-	-	-	338	6,045	-	-	-	-	101,488	154,400

(continued)

TAYLOR INDEPENDENT SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
All Nonmajor Governmental Funds (continued)
Year Ended August 31, 2012

	Campus Activity Fund	Total Nonmajor Governmental Funds
Revenues:		
Local and intermediate sources	\$ 215,146	1,197,422
State program revenues	-	976,465
Federal program revenues	-	5,604,027
Total revenues	215,146	7,777,914
Expenditures:		
Current:		
Instruction	-	4,045,274
Instructional resources and media services	-	109,545
Curriculum and staff development	-	394,256
Instructional leadership	-	416,045
School leadership	-	439,203
Guidance, counseling and evaluation services	-	456,539
Social work services	-	52,000
Health services	-	96,199
Food services	-	1,591,709
Extracurricular activities	215,146	216,592
Facilities maintenance and operations	-	10,291
Community services	-	52,855
Payments related to shared services arrangements	-	91,681
Total expenditures	215,146	7,972,189
Excess (deficiency) of revenues over (under) expenditures	-	(194,275)
Other Financing Sources-		
Sale of real and personal property	-	3,254
Net change in fund balances	-	(191,021)
Fund balances - beginning	-	842,453
Fund balances - ending	\$ -	651,432

TAYLOR INDEPENDENT SCHOOL DISTRICT
Combining Statement of Fiduciary Net Assets
Private Purpose Trust Funds
August 31, 2012

	Non-Expendable Trust Fund	Expendable Trust Fund	TOTALS
ASSETS-			
Cash and temporary investments	\$ 1,969,210	734,266	2,703,476
Total assets	\$ 1,969,210	734,266	2,703,476
NET ASSETS-			
Held in trust for private purposes	\$ 1,969,210	734,266	2,703,476

TAYLOR INDEPENDENT SCHOOL DISTRICT
Combining Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Funds
Year Ended August 31, 2012

	Non-Expendable Trust Fund	Expendable Trust Fund	TOTALS
ADDITIONS-			
Contributions	\$ 231,132	111,403	342,535
Total additions	231,132	111,403	342,535
DEDUCTIONS-			
Other operating costs	162,318	61,307	223,625
Total deductions	162,318	61,307	223,625
Change in net assets	68,814	50,096	118,910
Net assets - beginning of year	1,900,396	684,170	2,584,566
Net assets - end of year	\$ 1,969,210	734,266	2,703,476

TAYLOR INDEPENDENT SCHOOL DISTRICT
Major Governmental Fund - Debt Service Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year Ended August 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local and intermediate sources	\$ 3,092,313	3,092,313	3,234,370	142,057
State program revenues	763,208	763,208	871,106	107,898
Total revenues	<u>3,855,521</u>	<u>3,855,521</u>	<u>4,105,476</u>	<u>249,955</u>
EXPENDITURES-				
Debt service	<u>3,855,332</u>	<u>3,855,332</u>	<u>3,850,430</u>	<u>4,902</u>
Total expenditures	<u>3,855,332</u>	<u>3,855,332</u>	<u>3,850,430</u>	<u>4,902</u>
Excess of revenues over expenditures	189	189	255,046	254,857
Fund balance - beginning	<u>1,013,988</u>	<u>1,013,988</u>	<u>1,013,988</u>	<u>-</u>
Fund balance - ending	<u><u>\$ 1,014,177</u></u>	<u><u>1,014,177</u></u>	<u><u>1,269,034</u></u>	<u><u>254,857</u></u>

TAYLOR INDEPENDENT SCHOOL DISTRICT
Nonmajor Special Revenue Fund - Food Service
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year Ended August 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local and intermediate sources	\$ 375,410	303,240	289,299	(13,941)
State program revenues	10,100	10,100	8,894	(1,206)
Federal program revenues	1,170,668	1,240,218	1,344,167	103,949
Total revenues	<u>1,556,178</u>	<u>1,553,558</u>	<u>1,642,360</u>	<u>88,802</u>
EXPENDITURES-				
Current-				
Food services	<u>1,406,178</u>	<u>1,658,758</u>	<u>1,591,709</u>	<u>67,049</u>
Total expenditures	<u>1,406,178</u>	<u>1,658,758</u>	<u>1,591,709</u>	<u>67,049</u>
Excess (deficiency) of revenues over (under) expenditures	150,000	(105,200)	50,651	155,851
OTHER FINANCING SOURCE-				
Sale of real and personal property	<u>-</u>	<u>3,200</u>	<u>3,254</u>	<u>54</u>
Net change in fund balance	150,000	(102,000)	53,905	155,905
Fund balance - beginning	<u>335,256</u>	<u>335,256</u>	<u>335,256</u>	<u>-</u>
Fund balance - ending	<u><u>\$ 485,256</u></u>	<u><u>233,256</u></u>	<u><u>389,161</u></u>	<u><u>155,905</u></u>

OTHER SCHEDULES

TAYLOR INDEPENDENT SCHOOL DISTRICT
Schedule of Delinquent Taxes Receivable
Year Ended August 31, 2012

Years Ended	Tax Rates		Assessed/ Appraised Value for School Tax Purposes	Beginning Balance 8/31/2011	Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustment	Ending Balance 8/31/2012
	Maintenance	Debt Service							
2003 & Prior	Various	Various	-	58,867	-	620	61	(20,370)	37,816
2004	1.50	0.15	595,314,631	19,925	-	596	60	(1,246)	18,023
2005	1.50	0.17	624,364,910	14,760	-	1,643	186	(695)	12,236
2006	1.50	0.17	659,065,219	16,432	-	4,296	487	(3,814)	7,835
2007	1.37	0.17	698,977,875	15,080	-	2,078	258	(4,265)	8,479
2008	1.04	0.16	756,752,497	8,031	-	1,180	182	(471)	6,198
2009	1.04	0.16	795,151,526	10,117	-	1,877	289	(323)	7,628
2010	1.04	0.45	812,805,823	25,676	-	7,327	3,171	(421)	14,757
2011	1.04	0.43	802,297,119	186,086	-	108,173	44,726	(6,567)	26,620
2012	1.04	0.41	809,861,018	-	11,270,630	7,992,586	3,150,923	18,870	145,991
Totals				\$ 354,974	11,270,630	8,120,376	3,200,343	(19,302)	285,583

TAYLOR INDEPENDENT SCHOOL DISTRICT
Schedule of Expenditures for Computation of Indirect Cost
for General and Special Revenue Funds
Year Ended August 31, 2012

FUNCTION 41 AND RELATED FUNCTIONS 53 AND 99 - GENERAL ADMINISTRATION

Account Number	Account Name	A School Board	B Tax Collection	C Supt's Office	D Indirect Cost	E Direct Cost	F Miscellaneous	G Total
611x-6146	Payroll costs	\$ -	-	196,493	372,519	-	-	569,012
6149	Fringe benefits (unused leave for separating employees in function 41 and related 53)	-	-	-	2,468	-	-	2,468
6149	Fringe benefits (unused leave for separating employees in all functions except function 41 and related 53)	-	-	-	-	-	-	-
6211	Legal services	-	-	77,878	-	-	-	77,878
6212	Audit services	-	-	-	32,175	-	-	32,175
6213	Tax appraisal and collection	-	2,346	-	-	-	-	2,346
621x	Other professional services	-	-	12,710	667	-	-	13,377
6220	Tuition and transfer payments	-	-	-	-	-	-	-
6230	Education service centers	250	-	-	125	-	-	375
6240	Contr. maintenance and repairs	-	-	-	95	-	-	95
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	16,178	-	-	16,178
6290	Miscellaneous contr.	-	-	-	30,010	-	-	30,010
6320	Textbooks and reading	-	-	-	-	-	-	-
6330	Testing materials	-	-	-	-	-	-	-
63xx	Other supplies, materials	109	-	4,345	19,121	-	-	23,575
6410	Travel, subsistence, stipends	582	-	3,862	3,406	-	-	7,850
6420	Insurance and bonding costs	2,500	-	-	-	-	-	2,500
6430	Election costs	9,536	-	-	-	-	-	9,536
6490	Miscellaneous operating	3,213	-	16,845	5,726	-	-	25,784
6000 - TOTAL		<u>\$ 16,190</u>	<u>2,346</u>	<u>312,133</u>	<u>482,490</u>	<u>-</u>	<u>-</u>	<u>813,159</u>

Total expenditures/expenses for General and Special Revenue Funds \$ 29,949,323
Less: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	\$ 404,615
Total Debt & Lease (6500)	167,764
Plant Maintenance (Function 51, 6100-6400)	2,697,045
Food (Function 35, 6341 and 6499)	1,100
Stipends (6413)	-
Total Indirect Cost	<u>482,490</u>
Subtotal	<u>3,753,014</u>
Net Allowed Direct Cost	<u>\$ 26,196,309</u>

CUMULATIVE

Total Cost of Buildings before Depreciation	\$ 77,181,926
Historical Cost of Buildings over 50 Years Old	\$ 2,500,737
Amount of Federal Money in Building Cost (Net of Above)	\$ -
Total Cost of Furniture & Equipment before Depreciation	\$ 4,948,203
Historical Cost of Furniture & Equipment Over 16 Years Old	\$ 914,908
Amount of Federal Money in Furniture & Equipment (Net of Above)	\$ -

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

FEDERAL AWARDS SECTION



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**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***

The Board of Trustees of
Taylor Independent School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Taylor Independent School District (the “District”) as of and for the year ended August 31, 2012, which collectively comprise the District’s basic financial statements and have issued our report thereon dated January 11, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

*“A Registered Investment Advisor”
This firm is not a CPA firm*

Our consideration of internal control over financial reporting was for the limited purposes 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 previously. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting (2012-1). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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

This report is intended solely for the information and use of the Board of Trustees, management, others within the District, 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.

Maxwell Socha + Ritter LLP

January 11, 2013



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INDEPENDENT AUDITORS' 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

The Board of Trustees of
Taylor Independent School District:

Compliance

We have audited Taylor Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2012. The District's major federal programs are identified in the summary of auditors' 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 District's management. Our responsibility is to express an opinion on the 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 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 District's compliance with those requirements.

In our opinion, the 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 August 31, 2012.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

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Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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 solely for the information and use of the Board of Trustees, management, others within the District, 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.

Maxwell Soche + Ritter LLP

January 11, 2013

TAYLOR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended August 31, 2012

Project Number	Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<u>Passed Through Texas Education Agency:</u>			
12610101246911	ESEA Title I, Part A	84.010A	\$ 809,383
12615001246911	ESEA Title I, Part C	84.011A	90,525
12420006246911	Vocational Education Basic	84.048A	51,306
12694501246911	ESEA Title II, Part A	84.367A	190,782
12671001246911	Title III, Part A	84.365A	35,957
126950177110057	Title IV, Part B, 21st Century	84.287C	533,911
10554001246911	IDEA-B, Formula, Recovery Act	84.391A	44,496
10554001246911	SSA - IDEA-B, Formula, Recovery Act	84.391A	84,201
10555001246911	IDEA-B, Preschool, Recovery Act	84.392A	1,430
10555001246911	SSA - IDEA-B, Preschool, Recovery Act	84.392A	7,803
126600012469116000	SSA - IDEA-B, Formula	84.027A	1,203,540
126610012469116000	SSA - IDEA-B, Preschool	84.173A	30,161
11550101246911	Education Jobs Fund	84.410A	528,299
126460037110027	Striving Readers Literacy Program	84.371C	514,288
TOTAL DEPARTMENT OF EDUCATION			4,126,082
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<u>Passed Through Texas Education Agency:</u>			
71301201	National School Lunch Program	10.555	870,021
71401201	School Breakfast Program	10.553	389,709
<u>Passed Through the Texas Department of Human Services:</u>			
	Non-cash assistance - Food Distribution Program	10.555	84,437
TOTAL DEPARTMENT OF AGRICULTURE			1,344,167
<u>U.S. GENERAL SERVICES ADMINISTRATION</u>			
<u>Passed Through Texas Facilities Commission:</u>			
	Non-cash assistance - Donation of Federal Surplus Property	39.003	11,276
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 5,481,525

The accompanying notes are an integral part of this schedule.

TAYLOR INDEPENDENT SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED AUGUST 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - The accompanying schedule of expenditures of federal awards presents all federal expenditures of the Taylor Independent School District (the "District").

Basis of Accounting - The expenditures on the accompanying schedule of expenditures of federal awards are presented using the modified accrual basis of accounting, with the exception of the National School Lunch Program, School Breakfast Program and the Food Distribution Program. Under the modified accrual basis of accounting, revenue is recognized in the accounting period in which they become available and measurable, and expenditures in the accounting period in which the fund liability is incurred, if measurable. Expenditures in the National School Lunch Program, School Breakfast Program and the Food Distribution Program are not specifically attributable to this revenue source and are shown on the accompanying schedule of expenditures of federal awards in an amount equal to revenue for balancing purposes only.

Relationship to Basic Financial Statements - Expenditures of federal awards are reported in the District's basic financial statements in the General and Special Revenue Funds.

Relationship to Federal Financial Reports - Amounts reported in the accompanying schedule of expenditures of federal awards agree with the amounts reported in the related federal financial reports in all significant respects.

Valuation of Non-cash Programs - The District values revenues and expenditures for the Food Distribution Program based on the value of commodities received. The District values revenues and expenditures related to the donation of federal surplus property based on the value of the property received.

TAYLOR INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED AUGUST 31, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Type of auditors' report issued on compliance for major programs:

Special Education Cluster	unqualified
Child Nutrition Cluster	unqualified
Education Jobs Fund	unqualified
Striving Readers Literacy Program	unqualified

Any audit findings disclosed that are required to be reported with section 510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Special Education Cluster:
84.027A	IDEA-B, Formula
84.173A	IDEA-B, Preschool
84.391A	IDEA-B, Formula, Recovery Act
84.392A	IDEA-B, Preschool, Recovery Act
	Child Nutrition Cluster:
10.555	National School Lunch Program
10.553	School Breakfast Program
10.555	Food Distribution Program
84.410A	Education Jobs Fund
84.371C	Striving Readers Literacy Program

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

TAYLOR INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED AUGUST 31, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

Findings Relating to Internal Control over Financial Reporting in Accordance with Government Auditing Standards:

2012-1

- Criteria: The District records adjusting journal entries noted during the financial statement audit.
- Condition Found: Prior year adjusting journal entries in the District's Capital Projects Fund were not recorded by the District.
- Effect: In the District's Capital Projects Fund for the year ended August 31, 2012, the beginning fund balance and capital outlay expenditures were significantly overstated. This resulted in significant audit adjustments in the current year to correct these balances.
- Recommendations: District management should ensure that policies and procedures are in place and functioning so that all adjusting journal entries noted during the financial statement audit are recorded in a timely manner.
- Corrective Action Plan: The Business Manager will implement procedures to ensure that all adjusting entries are properly recorded in a timely manner.

2011-1

- Criteria: The District records expenditures in the reporting period in which they are incurred.
- Condition Found: There were multiple invoices for expenditures incurred related to capital projects that were not recorded in the proper reporting period.
- Effect: There were \$2,819,224 in capital outlay expenditures incurred in August 2011 in the Capital Projects Fund that were not recorded as of August 31, 2011, thus expenditures and the related liability balances were understated.
- Recommendations: District management should ensure that policies and procedures are in place and functioning so that all expenditures are recorded in the proper reporting period based on when the expenditures were incurred by the District.
- Corrective Action Plan: The Business Manager has implemented procedures to ensure that all expenditures are properly recorded when the expenditures are incurred.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned cost required to be reported in accordance with Section 510(a) of OMB Circular A-133 for the year ended August 31, 2012. There were three findings required to be reported in accordance with Section 510(a) of OMB Circular A-133 for the year ended August 31, 2011.

Findings Relating to Federal Awards Reported in Accordance with section 510(a) of OMB Circular A-133:

2011-2

- Criteria: OMB Circular A-87 requires that employees who work solely on a single cost objective must furnish a semi-annual certification that they have been engaged solely in activities supported by the applicable source.
- Condition Found: The District's employees who worked on the Child Nutrition program only completed one semi-annual certification during the current year.
- Questioned Costs: None
- Effect: Noncompliance with requirements of OMB Circular A-87 and OMB Circular A-133 Compliance Supplement if semi-annual certifications are not completed.
- Recommendations: District management should ensure that policies and procedures are in place and functioning so that employees complete semi-annual certifications.
- Corrective Action Plan: The District has implemented policies and procedures to ensure that employees complete semi-annual certifications or maintain time and effort activity reports.

2011-3

- Criteria: OMB Circular A-87 requires that employees who work solely on a single cost objective must furnish a semi-annual certification that they have been engaged solely in activities supported by the applicable source.
- Condition Found: Some of the District's employees who worked on the IDEA-B program only completed one semi-annual certification during the current year.
- Questioned Costs: None
- Effect: Noncompliance with requirements of OMB Circular A-87 and OMB Circular A-133 Compliance Supplement if semi-annual certifications are not completed.
- Recommendations: District management should ensure that policies and procedures are in place and functioning so that employees complete semi-annual certifications.

Corrective Action Plan: The District has implemented policies and procedures to ensure that employees complete semi-annual certifications or maintain time and effort activity reports.

2011-4

Criteria: OMB Circular A-87 requires that employees who work on multiple cost objectives to complete a personnel activity report, which reflects the actual time spent on each cost objective. These personnel activity reports must be prepared at least monthly and signed by the employee or a supervisor with knowledge of how an employee's time has been spent.

Condition Found: Payroll expenditures recorded to the Title I, Part A program for one employee who worked on the Title I, Part A program and another cost objective were based on a budgeted allocation instead of personnel activity reports reflecting actual time spent on the program.

Questioned Costs: Payroll expenditures recorded to the Title I, Part A program related to this employee who worked on the Title I, Part A program and another cost objective were \$29,095.

Effect: Noncompliance with requirements of OMB Circular A-87 and OMB Circular A-133 Compliance Supplement if personnel activity reports do not support the allocation of payroll expenditures to a federal program.

Recommendations: District management should ensure that policies and procedures are in place and functioning so that the allocation of payroll expenditures to federal programs is supported by personnel activity reports.

Corrective Action Plan: The District has monitored all of its federal program payroll expenditures to ensure that they are supported by personnel activity reports.