

GRAFORD INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2012

Introductory Section

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

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CERTIFICATE OF BOARD

Graford Independent School District
Name of School District

Palo Pinto
County

182-902
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2012, at a meeting of the board of trustees of such school district on the 16th day of JANUARY, 2013.

Kay L Budge
Signature of Board Secretary

Matt By
Signature of Board President

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

Financial Section



SNOW GARRETT WILLIAMS
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Financial Statements

Board of Trustees
Graford Independent School District
400 W. Division Street
Graford, Texas 76449

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Graford Independent School District as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Graford Independent School 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 above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Graford Independent School District as of August 31, 2012, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2013, on our consideration of Graford Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Graford Independent School District's financial statements as a whole. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the financial statements. Other supplementary information, except for Exhibit J-2, 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 to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. Exhibit J-2 of the other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Respectfully submitted,



Snow Garrett Williams
January 7, 2013

Management's Discussion and Analysis (Unaudited)

As management of the District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2012. We encourage readers to consider the information presented here 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 most recent period by \$4,628,965 (*net assets*). Of this amount, \$2,890,074 (*unrestricted net assets*) may be used to meet the District's ongoing obligations.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,761,943. Approximately 67 percent of this total amount, \$1,855,039, is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,855,039, or 24 percent of the total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary 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 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 of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (*governmental activities*) as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no *business-type activities* and no component units for which it is financially accountable. The government-wide financial statements can be found on pages 11-12 of this report.

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 requirements. The fund financial statements provide more detailed information about the District's most significant funds-not the District as a whole.

- Some funds are required by State law and/or bond covenants.
- Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants.

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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The District adopts an annual appropriated budget for its general fund, debt service fund and food service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 13-16 of this report.
- **Fiduciary funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The District is the trustee, or *fiduciary*, for these funds and 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 that can be found on page 17.
- **Notes to the financial statements.** The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-29 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 30-31 of this report.

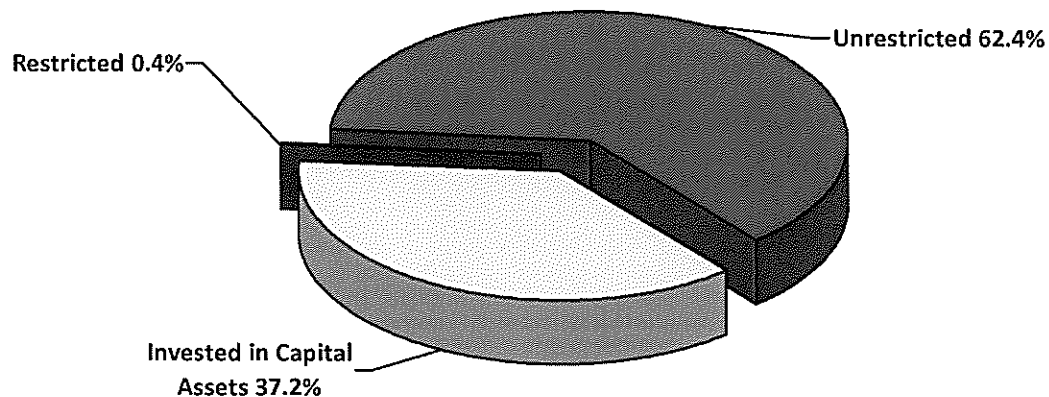
Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$4,628,965 as of August 31, 2012.

The District's Net Assets

	<u>August 31, 2012</u>	<u>August 31, 2011</u>
Current assets	\$ 4,050,040	\$ 4,018,206
Capital assets	5,314,003	5,439,066
Total assets	<u>9,364,043</u>	<u>9,457,272</u>
Current liabilities	1,098,419	1,707,027
Long-term liabilities outstanding	3,636,659	3,664,263
total liabilities	<u>4,735,078</u>	<u>5,371,290</u>
Net assets:		
Invested in capital assets, net of related debt	1,721,359	1,821,209
Restricted	17,532	21,410
Unrestricted	2,890,074	2,243,363
Total net assets	<u>\$ 4,628,965</u>	<u>\$ 4,085,982</u>

Net Assets as of 8/31/12

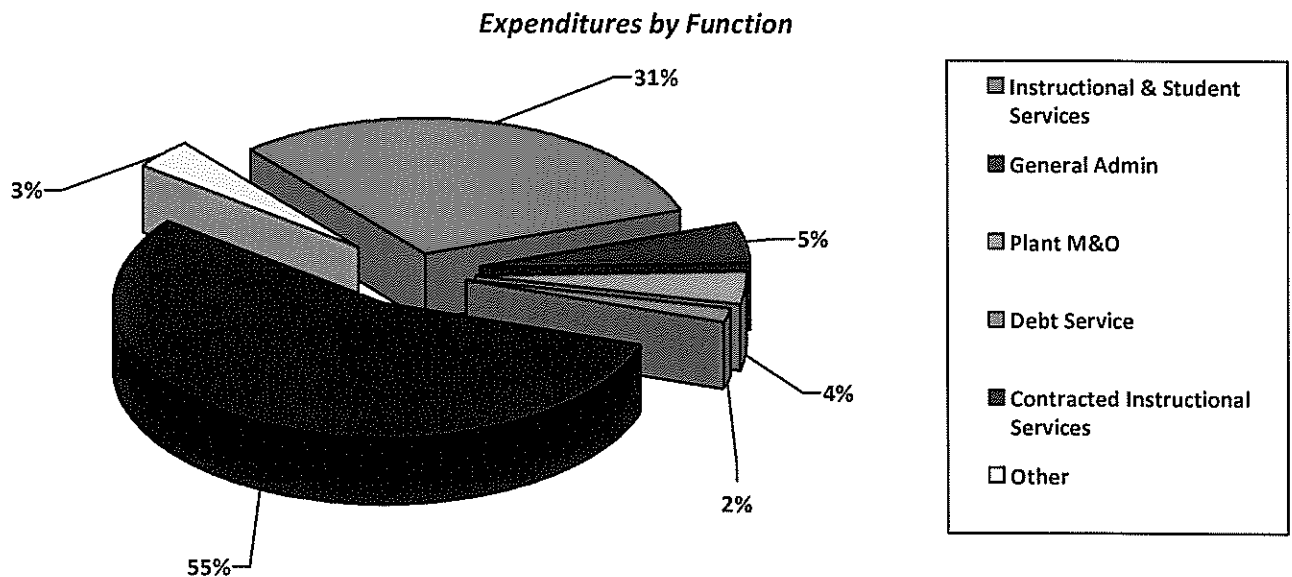


Investment in capital assets (e.g., land, buildings, and furniture and equipment) less any related debt used to acquire those assets that is still outstanding is \$1,721,359. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional \$17,532 of the District's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$2,890,074, may be used to meet the District's ongoing obligations. This surplus is not an indication that the District has significant resources available to meet financial obligations next year, but rather the result of having *long-term* commitments that are less than currently available resources.

Governmental activities. The District's total net assets increased \$542,983. The total cost of all *governmental activities* this year was \$8,464,595. The amount that our taxpayers paid for these activities through property taxes was \$7,819,260 or 92%.

Changes in the District's Net Assets

	<u>Fiscal Year</u> <u>August 31, 2012</u>	<u>Fiscal Year</u> <u>August 31, 2011</u>
Revenues:		
Program revenues		
Charges for services	\$ 83,947	\$ 27,205
Operating grants and contributions	411,212	410,428
General revenues		
Property taxes	7,819,260	7,656,746
State grants	564,530	280,910
Other	128,629	68,712
Total revenues	<u>9,007,578</u>	<u>8,444,001</u>
Expenses:		
Instruction	1,774,523	2,087,134
Instruction resources and media services	75,549	67,850
Curriculum and staff development	843	3,554
School leadership	229,127	263,507
Guidance, counseling & evaluation services	42,870	59,656
Health services	28,253	27,981
Student transportation	144,258	125,396
Food service	192,284	219,073
Cocurricular/extracurricular activities	124,498	113,088
General administration	386,157	353,242
Plant maintenance and operations	351,055	318,848
Security & monitoring services	660	2,251
Interest on long-term debt	110,136	115,867
Bond issuance costs	24,648	23,475
Capital outlay	-	7,447
Contracted instructional services between schools	4,686,147	4,362,540
Payments related to shared service arrangements	131,126	129,160
Other intergovernmental charges	162,461	166,910
Total expenses	<u>8,464,595</u>	<u>8,446,979</u>
Increase (decrease) in net assets	542,983	(2,978)
Beginning net assets	4,085,982	4,088,960
Ending net assets	<u>\$ 4,628,965</u>	<u>\$ 4,085,982</u>



Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,761,943, an increase of \$692,542. Approximately 67 percent of this total amount (\$1,855,039) constitutes *unassigned fund balance*. The remainder of fund balance is *restricted* or *committed* to indicate that it is not available for new spending because it has already been restricted to pay debt service (\$13,017), and committed (1) for construction (\$800,000), and (2) for capital expenditures for equipment (\$93,887).

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,855,039. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to the total fund expenditures. Unassigned fund balance represents 24 percent of the total general fund expenditures.

The fund balance of the District's general fund increased \$694,543 during the current fiscal year.

The debt service fund has a total fund balance of \$13,017, all of which is restricted for the payment of debt service. The net decrease in fund balance during the period in the debt service fund was \$2,001.

Budgetary Highlights

Over the course of the year, the District recommended and the Board approved revisions to budgeted revenue and appropriations. These amendments fall into the following categories:

- Bus Lease Purchase
- Lighting Lease Purchase
- Athletic State Revenue/Expenses
- Summer Feeding Program
- Legal Expenses
- Counselor Salary
- Chapter 41 Recapture

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of August 31, 2012, amounts to \$5,314,003 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment.

Districts Capital Assets (net of depreciation)

	<u>August 31, 2012</u>	<u>August 31, 2011</u>
Land	\$ 81,268	\$ 81,268
Buildings and improvements	4,888,921	5,034,708
Furniture and equipment	343,814	323,090
Total at historical cost	<u>\$ 5,314,003</u>	<u>\$ 5,439,066</u>

Additional information on the District's capital assets can be found in Note C on page 23 of this report.

Long-term debt. As of August 31, 2012, the District had total general obligation bonded debt outstanding of \$2,984,999, a decrease of \$110,000 from the prior year. Accretion on CAB's increased by \$21,565 for fiscal year 2012, resulting in an ending balance of \$377,323. The amortization on bond premiums for fiscal year 2012 was \$10,675, resulting in an ending balance of \$202,831. The District entered into a new capital lease for \$90,974 in fiscal year 2012 and made one payment of \$19,468 during the year resulting in an ending balance of \$71,506.

The District's bonds presently carry "AAA" ratings with the underlying ratings as follows: Standard & Poor's underlying rating on the District's Bonds is "A" and Moody's Investor Services rating is "A3".

State statutes limit the amount of general obligation debt a governmental entity may issue up to 10 percent of its total assessed valuation. The current debt limitation for the District is \$72,404,346, which is significantly in excess of the District's outstanding general obligation debt.

Additional information on the District's long-term debt can be found in Note E on pages 24-25 of this report.

Economic Factors and Next Year's Budgets and Rates

- The District's property values increased 6.65 percent from the prior year; the tax rate increased to \$1.04005 resulting in \$8,200,000 local revenue for the District.
- The District's student attendance rate decreased to 96.35 percent.
- The District's taxable valuation has increased by 2.91 percent and the tax rate increased thereby generating more tax revenue in the general fund. (The District is currently at \$1.072859 per \$100 in assessed property value)
- The District's I&S (interest & sinking) rate for 2012-2013 is \$0.032809 per \$100 in assessed property value. The I&S rate is necessary to service the bond approved by voters for the capital building project.
- The District has appropriated revenues and expenditures in the 2012-2013 budget of \$9,141,850 and \$9,141,850 respectively.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Graford Independent School District, 400 W. Division Street, Graford, Texas 76449.

Basic Financial Statements

GRAFORD INDEPENDENT SCHOOL DISTRICT**STATEMENT OF NET ASSETS**

AUGUST 31, 2012

1

Data Control Codes	Governmental Activities
ASSETS:	
1110 <i>Cash and Cash Equivalents</i>	\$ 3,846,716
1225 <i>Property Taxes Receivable (Net)</i>	145,663
1240 <i>Due from Other Governments</i>	8,505
1250 <i>Accrued Interest</i>	71
1420 <i>Capitalized Bond and Other Debt Issuance Costs</i>	49,085
Capital Assets:	
1510 <i>Land</i>	81,268
1520 <i>Buildings and Improvements, Net</i>	4,888,921
1530 <i>Furniture and Equipment, Net</i>	343,814
1000 Total Assets	<u>9,364,043</u>
LIABILITIES:	
2140 <i>Interest Payable</i>	5,070
2165 <i>Accrued Liabilities</i>	70,083
2180 <i>Due to Other Governments</i>	16,979
2300 <i>Unearned Revenue</i>	1,006,287
Noncurrent Liabilities:	
2501 <i>Due Within One Year</i>	156,965
2502 <i>Due in More Than One Year</i>	3,479,694
2000 Total Liabilities	<u>4,735,078</u>
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	1,721,359
Restricted For:	
3850 <i>Debt Service</i>	17,532
3900 <i>Unrestricted</i>	2,890,074
3000 Total Net Assets	<u>\$ 4,628,965</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Assets
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	<i>Instruction</i>	\$ 1,774,523	\$ 6,751	\$ 283,432	\$ (1,484,340)
12	<i>Instructional Resources and Media Services</i>	75,549	--	--	(75,549)
13	<i>Curriculum and Staff Development</i>	843	--	--	(843)
23	<i>School Leadership</i>	229,127	--	--	(229,127)
31	<i>Guidance, Counseling, & Evaluation Services</i>	42,870	--	--	(42,870)
33	<i>Health Services</i>	28,253	--	--	(28,253)
34	<i>Student Transportation</i>	144,258	--	--	(144,258)
35	<i>Food Service</i>	192,284	42,265	127,780	(22,239)
36	<i>Cocurricular/Extracurricular Activities</i>	124,498	20,431	--	(104,067)
41	<i>General Administration</i>	386,157	--	--	(386,157)
51	<i>Plant Maintenance and Operations</i>	351,055	14,500	--	(336,555)
52	<i>Security and Monitoring Services</i>	660	--	--	(660)
72	<i>Interest on Long-term Debt</i>	110,136	--	--	(110,136)
73	<i>Bond Issuance Costs and Fees</i>	24,648	--	--	(24,648)
91	<i>Contracted Instructional Services between Schools</i>	4,686,147	--	--	(4,686,147)
93	<i>Payments Related to Shared Services Arrangements</i>	131,126	--	--	(131,126)
99	<i>Other Intergovernmental Charges</i>	162,461	--	--	(162,461)
TG	Total Governmental Activities	<u>8,464,595</u>	<u>83,947</u>	<u>411,212</u>	<u>(7,969,436)</u>
TP	Total Primary Government	<u>\$ 8,464,595</u>	<u>\$ 83,947</u>	<u>\$ 411,212</u>	<u>(7,969,436)</u>
	General Revenues:				
MT	<i>Property Taxes, Levied for General Purposes</i>				7,591,816
DT	<i>Property Taxes, Levied for Debt Service</i>				227,444
IE	<i>Investment Earnings</i>				28,425
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>				564,530
MI	<i>Miscellaneous</i>				100,204
TR	Total General Revenues				<u>8,512,419</u>
CN	Change in Net Assets				<u>542,983</u>
NB	Net Assets - Beginning				<u>4,085,982</u>
NE	Net Assets - Ending				<u>\$ 4,628,965</u>

The accompanying notes are an integral part of this statement.

GRAFORD INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2012

Data Control Codes	10	Other	98	
	General Fund	Governmental Funds	Total Governmental Funds	
ASSETS:				
1110	Cash and Cash Equivalents	\$ 3,838,966	\$ 7,749	\$ 3,846,715
1225	Taxes Receivable	218,299	8,437	226,736
1230	Allowance for Uncollectible Taxes (credit)	(77,151)	(3,922)	(81,073)
1240	Due from Other Governments	--	8,505	8,505
1250	Accrued Interest	71	--	71
1260	Due from Other Funds	3,913	4,286	8,199
1000	Total Assets	\$ 3,984,098	\$ 25,055	\$ 4,009,153
LIABILITIES:				
Current Liabilities:				
2160	Accrued Wages Payable	\$ 65,246	\$ 3,319	\$ 68,565
2170	Due to Other Funds	4,286	3,913	8,199
2180	Due to Other Governments	16,979	--	16,979
2200	Accrued Expenditures	1,226	291	1,517
2300	Deferred Revenue	1,147,435	4,515	1,151,950
2000	Total Liabilities	1,235,172	12,038	1,247,210
FUND BALANCES:				
Restricted Fund Balances:				
3480	Retirement of Long-Term Debt	--	13,017	13,017
Committed Fund Balances:				
3510	Construction	800,000	--	800,000
3530	Capital Expenditures for Equipment	93,887	--	93,887
3600	Unassigned	1,855,039	--	1,855,039
3000	Total Fund Balances	2,748,926	13,017	2,761,943
4000	Total Liabilities and Fund Balances	\$ 3,984,098	\$ 25,055	\$ 4,009,153

The accompanying notes are an integral part of this statement.

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

Total fund balances - governmental funds balance sheet	\$ 2,761,943
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	5,314,003
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	145,663
Payables for bond principal which are not due in the current period are not reported in the funds.	(2,984,999)
Payables for capital leases which are not due in the current period are not reported in the funds.	(71,506)
Payables for bond interest which are not due in the current period are not reported in the funds.	(5,070)
Bond issuance costs are capitalized in the SNA but not in the funds.	49,085
Premiums on bonds are capitalized for the SNA but not in the funds.	(202,831)
Accumulated accretion on capital appreciation bonds are reported in the SNA but not in the funds.	<u>(377,323)</u>
Net assets of governmental activities - Statement of Net Assets	<u>\$ 4,628,965</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 7,809,778	\$ 271,767	\$ 8,081,545
5800 <i>State Program Revenues</i>	686,000	6,413	692,413
5900 <i>Federal Program Revenues</i>	--	283,329	283,329
5020 Total Revenues	<u>8,495,778</u>	<u>561,509</u>	<u>9,057,287</u>
EXPENDITURES:			
Current:			
0011 <i>Instruction</i>	1,450,562	161,962	1,612,524
0012 <i>Instructional Resources and Media Services</i>	68,734	--	68,734
0013 <i>Curriculum and Staff Development</i>	766	--	766
0023 <i>School Leadership</i>	208,210	--	208,210
0031 <i>Guidance, Counseling, & Evaluation Services</i>	38,956	--	38,956
0033 <i>Health Services</i>	25,674	--	25,674
0034 <i>Student Transportation</i>	213,757	--	213,757
0035 <i>Food Service</i>	4,564	170,084	174,648
0036 <i>Cocurricular/Extracurricular Activities</i>	113,132	--	113,132
0041 <i>General Administration</i>	350,904	--	350,904
0051 <i>Plant Maintenance and Operations</i>	317,425	--	317,425
0052 <i>Security and Monitoring Services</i>	600	--	600
0071 <i>Principal on Long-term Debt</i>	19,468	110,000	129,468
0072 <i>Interest on Long-term Debt</i>	--	121,003	121,003
0073 <i>Bond Issuance Costs and Fees</i>	--	500	500
0081 <i>Capital Outlay</i>	99,684	--	99,684
0091 <i>Contracted Instructional Services</i>			
0091 <i>Between Public Schools</i>	4,686,147	--	4,686,147
0093 <i>Payments to Shared Service Arrangements</i>	131,126	--	131,126
0099 <i>Other Intergovernmental Charges</i>	162,461	--	162,461
6030 Total Expenditures	<u>7,892,170</u>	<u>563,549</u>	<u>8,455,719</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>603,608</u>	<u>(2,040)</u>	<u>601,568</u>
Other Financing Sources and (Uses):			
7913 <i>Issuance of Capital Leases</i>	90,974	--	90,974
7915 <i>Transfers In</i>	--	39	39
8911 <i>Transfers Out</i>	(39)	--	(39)
7080 Total Other Financing Sources and (Uses)	<u>90,935</u>	<u>39</u>	<u>90,974</u>
1200 Net Change in Fund Balances	<u>694,543</u>	<u>(2,001)</u>	<u>692,542</u>
0100 Fund Balances - Beginning	<u>2,054,383</u>	<u>15,018</u>	<u>2,069,401</u>
3000 Fund Balances - Ending	<u>\$ 2,748,926</u>	<u>\$ 13,017</u>	<u>\$ 2,761,943</u>

The accompanying notes are an integral part of this statement.

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

Net change in fund balances - total governmental funds	\$ 692,542
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	190,658
The depreciation of capital assets used in governmental activities is not reported in the funds.	(315,721)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(49,708)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	110,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	19,468
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(2,583)
The accretion of interest on capital appreciation bonds is not reported in the funds.	(21,565)
(Increase) decrease in accrued interest from beginning of period to end of period.	191
Premiums on bonds are amortized in the SOA but not in the funds.	10,675
Proceeds of leases do not provide revenue in the SOA, but are reported as current resources in the funds.	<u>(90,974)</u>
Change in net assets of governmental activities - Statement of Activities	<u>\$ 542,983</u>

The accompanying notes are an integral part of this statement.

GRAFORD INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

AUGUST 31, 2012

Data Control Codes		Agency Fund
<u>ASSETS:</u>		<u>Student Activity</u>
1110	Cash and Cash Equivalents	\$ 49,220
1000	Total Assets	<u>\$ 49,220</u>
<u>LIABILITIES:</u>		
Current Liabilities:		
2190	Due to Student Groups	\$ 49,220
2000	Total Liabilities	<u>49,220</u>
<u>NET ASSETS</u>		
3000	Total Net Assets	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

GRAFORD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

The District reports the following major governmental funds:

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

In addition, the District reports the following fund types:

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

GRAFORD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

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

b. Measurement Focus, Basis of Accounting

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

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

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

3. Financial Statement Amounts

a. Property Taxes

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

Allowances for uncollectible tax receivables within the General 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.

b. Inventories and Prepaid Items

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

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

GRAFORD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

c. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	10-30
Equipment	5-10

d. Receivable and Payable Balances

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

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

e. Interfund Activity

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

f. Use of Estimates

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

g. Data Control Codes

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

h. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

GRAFORD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

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

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

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

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

B. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2012, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,895,936 and the bank balance was \$3,930,829. The District's cash deposits at August 31, 2012 and during the year ended August 31, 2012, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

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

GRAFORD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

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

The District had no investments at August 31, 2012.

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

GRAFORD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

C. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 81,268	\$ --	\$ --	\$ 81,268
Total capital assets not being depreciated	81,268	--	--	81,268
<i>Capital assets being depreciated:</i>				
Buildings and improvements	7,635,996	82,364	--	7,718,360
Equipment	1,019,270	108,294	--	1,127,564
Total capital assets being depreciated	8,655,266	190,658	--	8,845,924
Less accumulated depreciation for:				
Buildings and improvements	(2,601,288)	(228,151)	--	(2,829,439)
Equipment	(696,180)	(87,570)	--	(783,750)
Total accumulated depreciation	(3,297,468)	(315,721)	--	(3,613,189)
Total capital assets being depreciated, net	5,357,798	(125,063)	--	5,232,735
Governmental activities capital assets, net	\$ 5,439,066	\$ (125,063)	\$ --	\$ 5,314,003

Depreciation was charged to functions as follows:

Instruction	\$ 161,999
Instructional Resources and Media Services	6,815
Curriculum and Staff Development	77
School Leadership	20,917
Guidance, Counseling, & Evaluation Services	3,914
Health Services	2,579
Student Transportation	21,475
Food Services	17,636
Extracurricular Activities	11,366
General Administration	35,253
Plant Maintenance and Operations	33,630
Security and Monitoring Services	60
	\$ 315,721

D. Interfund Balances and Activities

1. Due To and From Other Funds

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

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Special Revenue Fund	\$ 3,913	For transfer of federal receipts.
Debt Service Fund	General Fund	4,286	Short-term loans.
	Total	\$ 8,199	

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

GRAFORD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

2. Transfers To and From Other Funds

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

Transfers From	Transfers To	Amount	Reason
General Fund	Special Revenue Fund	\$ 39	Supplement other fund sources.
	Total	<u>\$ 39</u>	

E. Long-Term Obligations

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

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2012, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
General obligation bonds	\$ 3,094,999	\$ --	\$ 110,000	\$ 2,984,999	\$ 140,000
Premium on Bonds	213,506	--	10,675	202,831	--
Accretion on CAB's	355,758	21,565	--	377,323	--
Capital leases	--	90,974	19,468	71,506	16,965
Total governmental activities	<u>\$ 3,664,263</u>	<u>\$ 112,539</u>	<u>\$ 140,143</u>	<u>\$ 3,636,659</u>	<u>\$ 156,965</u>

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2012, are as follows:

<u>Year Ending August 31,</u>	Governmental Activities		
	Principal	Interest	Total
2013	\$ 140,000	\$ 116,602	\$ 256,602
2014	145,000	111,002	256,002
2015	150,000	105,202	255,202
2016	160,000	99,204	259,204
2017	44,462	218,342	262,804
2018-2022	430,537	862,074	1,292,611
2023-2027	975,000	322,581	1,297,581
2028-2032	940,000	101,892	1,041,892
Totals	<u>\$ 2,984,999</u>	<u>\$ 1,936,899</u>	<u>\$ 4,921,898</u>

The interest on the Unlimited Tax School Refunding Bonds, Series 2007 range from 4.00% to 4.20% and mature on August 15, 2031.

GRAFORD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of August 31, 2012, as follows:

<u>Year Ending August 31:</u>	
2013	\$ 19,468
2014	19,468
2015	19,468
2016	19,468
Total Minimum Rentals	\$ 77,872
Less: Amount representing interest	(6,366)
Present value of minimum lease payments	<u>71,506</u>
 Rental Expenditures in 2012	 \$ <u>19,468</u>

The effective interest rate on capital leases is 3.50%.

F. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2012, as follows:

<u>Year Ending August 31,</u>	
2013	\$ 13,538
2014	16,247
2015	16,247
2016	16,247
2017-2018	18,954
Total Minimum Rentals	\$ <u>81,233</u>
 Rental Expenditures in 2012	 \$ <u>11,806</u>

G. Risk Management

Property Casualty Program

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2012, the District participated in the Texas Association of School Boards Risk Management Fund (the Fund) with coverage in Auto Liability, Auto Physical Damage, Crime, Equipment Breakdown, General Liability, Property, Sexual Misconduct Endorsement and Special Legal Liability. The Fund was created under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three years.

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

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in November or December of the current year. The Fund's audited financial statements as of August 31, 2011 are available at the TASB offices.