

MONTGOMERY INDEPENDENT SCHOOL DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

AUGUST 31, 2011

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INTRODUCTORY SECTION

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
CERTIFICATE OF BOARD**

Montgomery Independent
School District

Name of Local Education Agency

Montgomery
County

170-903

County-District-Number No.

We, the undersigned, certify that the attached annual financial report of the above named school district was reviewed and

approved disapproved

for the year ended August 31, 2011 at a meeting of the Board of Trustees of such school district on the 13th day of December, 2011.

Signature of Board Secretary

Signature of Board President

If the Board of Trustees disapproved the auditor's report, the reason(s) for disapproving it is (are):

December 13, 2011

Mrs. Trish Mayne, President, and
Members of the Board of Trustees
Montgomery Independent School District
13159 Walden Road
Montgomery, TX 77356

Dear Members of the Board of Trustees:

The Texas Education Code requires that all school districts file a complete set of financial statements with the Texas Education Agency (TEA) within 150 days of the close of each fiscal year. The financial statements must be presented in conformity with generally accepted accounting principles (GAAP) and audited by a firm of licensed certified public accountants in accordance with generally accepted auditing standards. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report of the Montgomery Independent School District (the District) for the fiscal year ended August 31, 2011.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operation of the various funds and account groups of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

Management of the District is responsible for establishing and maintaining internal control structures designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

The financial statements of the District have been audited by Weaver and Tidwell, L.L.P., a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the District for the fiscal year ended August 31, 2011, are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended August 31, 2011, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements is part of a broader, federally mandated “Single Audit” designed to meet the special need of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and legal requirements involving the administration of federal awards. These reports are available in the Federal Awards section of this report. The results of the District’s Single Audit for the fiscal year ended August 31, 2011, provided no instances of material weaknesses in the internal control structures or material violations of applicable laws and regulations.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The District’s MD&A can be found immediately following the report of the independent auditors.

Profile of the District

Residents of the District elect a seven-member Board of Trustees (the Board), each of which serves for three years. Monthly meetings of the Board are posted and advertised as prescribed under state laws so that the Board may fulfill its charge to the students, parents, staff, and taxpayers of the District. Special meetings or workshops are scheduled as needed. The Board has final control over all school matters except as limited by state law.

Serving the community of Montgomery, the District’s boundaries encompass approximately 237 square miles in Montgomery County. During the 2010-2011 fiscal years, the District operated one senior high school, one junior high school, one middle school, one intermediate school, and four elementary schools. The District serves over 6800 students, and provides a full range of educational services appropriate to grade levels Pre-K through 12. These include regular and enriched academic education, special education for children with special needs, career and technology education, and programs for students with limited English proficiency. These basic programs are supplemented by a wide variety of offerings in fine arts and athletics.

The District’s vision of where it is headed is the culmination of months of study, collective thought, and thoughtful activities by all constituent groups in the District.

A Vision for MISD

The mission of Montgomery ISD is to provide for all its students a comprehensive, quality education that meets “exemplary” accountability standards. This result requires a continuous collaborative effort of parents, community, District employees, and the Board of Trustees.

Montgomery ISD students are prepared academically to successfully pursue their chosen careers or advanced study. The District’s focus is on academics with a locally developed kindergarten – grade 12 aligned curriculum that is implemented in the classroom through the use of a variety of professionally sound teaching practices. Students are proficient in reading, English, mathematics, science, technology, foreign language, and social studies. Parents participate as full partners in students’ education at school and continue the learning process in the home and in the community.

Campuses provide a positive and safe learning environment that promotes good discipline and respect for fellow students and adults. Caring, effective, dedicated teachers strengthen the learning environment. Students display self-reliance; a positive work ethic; a strong desire to learn; respect for people, their country, and property; and the ability to work as members of a team. Through participation in varied curricular and extracurricular activities, students develop personally, culturally, and physically, and develop a civic awareness.

Service to the customer is the evident operating philosophy of all District programs and staff. The District's resource management and planning for improvement, growth and operations is exemplary. Competitive, results-oriented compensation and positive work conditions attract and retain highly qualified and committed employees. Community trust, support, and pride are a result of student achievement, timely and open communication, and prudent use of the taxpayer's dollar.

The District attracts highly qualified personnel because of its commitment to excellence. During the 2010-2011 school years, the District employed 833 employees consisting of professionals, office professionals, paraprofessionals, and auxiliary staff. Professional employees include 445 classroom teachers.

Economic Condition and Outlook

The information presented in the financial statements is perhaps best understood when it is considered within the broader perspective of the specific environment in which the District operates.

Located just north of Houston, Texas in Montgomery County, the Montgomery Independent School District covers 237 square miles and is a dynamic factor in the quality of life and economic development efforts of the area. Since the early 2000's and until recently, the District has been experiencing a rapid and consistent growth of 300-400 students per year or 6% to 10%. In 2010-2011, student growth slowed to 186 or 2% due to the economy. The residential and commercial growth and the overall economic health of the area have increased but at a much slower rate in recent years. Increased property values and growth in the District's tax base have been around 3% in the last few years.

Financial Information

Accounting Systems – The Board of Trustees maintains a system of accounting controls designed to assist the administration in meeting its responsibility for accurately reporting the financial condition of the District. The system is designed to provide reasonable assurance that assets are safeguarded against loss, theft, or misuse so activities can be recorded and transacted by the administration for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's framework of internal controls has been designed to provide reasonable, rather than an absolute, assurance that the financial statements will be free from material misstatement.

The cost of operating the District's schools and the revenues to cover these costs are accounted for through the General Fund. Special programs funded by state or federal government grants are accounted for in Special Revenue Funds. The Child Nutrition program is accounted for as an Enterprise Fund.

The District accounts for school construction financed by bond sales through a Capital Projects Fund. A specific portion of the tax rate is dedicated to payment of bond principal and interest. These transactions are recorded in the Debt Service Fund.

Included in the CAFR as Agency Funds are financial schedules for student activity funds.

The District's accounting records are maintained on a modified accrual basis for governmental fund types and a full accrual basis for the proprietary fund types as prescribed by Texas Education Agency Financial Accountability System Resource Guide (FASRG). Additionally, the District has prepared the government-wide financial statements on the full accrual basis as required by GASB Statement No. 34.

Financial data is submitted by the District to the Texas Education Agency through the Public Education Information Management System (PEIMS). The data is analyzed, reviewed and presented to the State Board of Education.

Budgetary Process – State law requires that every local education agency in Texas prepare and file an annual budget of anticipated revenues and expenditures with the Texas Education Agency. The budget itself is prepared utilizing a detailed line item approach for governmental fund types and is prepared in accordance with the budgeting requirements as outlined in the FASRG. The annual budget serves as the foundation for the District's financial planning and control. The District maintains budgetary controls throughout all of its financial systems. The objective of these controls is to ensure compliance with legal provisions embodied in the annually appropriated budget approved by the Board of Trustees. Activities of the general fund, child nutrition fund, debt service fund and capital projects funds are included in the annually appropriated budget. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is established by function within each individual fund. The District also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Although encumbered amounts lapse at year-end, they are generally re-appropriated as part of the next year's budget through a Board-adopted budget amendment. The budget may be amended during the year to address unanticipated or changing needs of the District. Changes to functional expenditures categories, revenue objects, or other sources and uses require Board approval.

Significant Financial Activities – During the special session of the 2005 Texas Legislative Session, House Bill 1 (HB1) was enacted in response to a ruling made by the Texas Supreme Court and made substantial changes in the manner the state school finance system is funded. HB1 became effective for the 2006-2007 fiscal year and essentially allowed the state treasury to collect new tax revenues by broadening the State Business Franchise Tax, modifying the State Motor Vehicles Sales and Use Tax, and increasing state taxes on tobacco products. These additional revenues funded teacher pay raises, allotted additional funds to high schools and mandated the reductions of maintenance and operations (M&O) property taxes over a two year period.

The District's total tax base was over \$2.9 billion, an increase of 2.2% from the previous year. The tax rates per \$100 of assessed value for the past five years are shown on the following table.

Year	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
M & O	1.33	1.04	1.04	1.04	1.04
I & S	.21	.31	.31	.30	.30

For the ninth consecutive year, the District scored the highest possible rating of "Superior Achievement" for the Schools FIRST (Financial Integrity Rating System of Texas), a financial accountability system for Texas School Districts developed by the Texas Education Agency in response to Senate Bill 875 of the 76th Texas Legislature in 1999. The primary goal of Schools FIRST is to ensure quality performance in the management of school districts' financial resources, a goal made more significant due to the complexity of accounting associated with Texas' school finance system.

Cash Management – The District continues to practice strong cash management techniques by investing available cash balances in allowable investments and monitoring cash flow. The procedures below outline additional steps taken to help maximize earnings:

- Lockbox services and automated transfers are used by the Montgomery County Tax Office for collection of ad-valorem taxes in order to speed deposits,
- The District utilizes investment pools,
- Vendor payments are scheduled to maximize investment income, and
- Cash forecasting and investment analyses are performed through the use of various personal computer programs.

Major Indicators

In looking at the most common indicators of quality in a school system, the following are examples of what is going on in the District:

Test Scores – Since the Texas Assessment of Knowledge and Skills (TAKS) test began in 2002-03 Montgomery Independent School District has consistently outperformed the State in student performance scores in every subject and in every grade level tested. Montgomery Independent School District was rated as a Texas Acceptable District for 2010-2011 school year. The campus ratings were as follows:

Montgomery High School	Recognized
Montgomery Junior High School	Recognized
Montgomery Middle School	Recognized
Montgomery Elementary School	Exemplary
Stewart Creek Elementary School	Recognized
Lone Star Elementary School	Exemplary
Madeley Ranch Elementary School	Exemplary

Scholastic Aptitude Test (SAT) scores have also risen over the last several years and are above the state and national averages. The 2011 MISD composite score was 1511 compared to the State 1462.

Attendance Rate – Despite the rapid growth in the District and the problems facing families today, the attendance rate in the District remains high at 95.8%.

Completion and Dropout Rate – The completion rate for MISD is 97.6%, while the dropout rate has remained at 0.0%, meaning more students are finishing high school with their cohort group and within four years and are entering college or the work force.

Public Support – Parents and community members continue to be extremely supportive of the District's efforts.

Other Information

Awards – Montgomery ISD has qualified for additional acknowledgement by the Texas Education Agency because of strong student performance on TAKS. Of 13 Gold Performance measures evaluated for MISD, the District received a Gold Performance Acknowledgement in five areas; % of students scoring in the college-ready range, % of students scoring in the commended range in Social Studies, % of students scoring in the commended range in Writing, % of students scoring at or above the standard for the Texas Success Initiative in ELA, and the % of students scoring at or above the standard for the Texas Success Initiative in Mathematics.

Acknowledgments – We would like to express appreciation to the Board of Trustees for concern in providing fiscal accountability to the patrons of our District and for its leadership in the development of one of the best educational operations within the State of Texas. Many hours have been devoted to this District by teachers, principals and administrators, and supporting staff and thanks is extended to the entire Montgomery Independent School District Team who have worked so hard to provide a high-quality, cost-efficient education to the students we serve. Additionally, the preparation of this report was accomplished through much time and effort on the part of the District finance department, and special appreciation is expressed to them.

Dr. Jim Gibson
Superintendent

Sharon Fields
Chief Financial Officer

LIST OF PRINCIPAL OFFICIALS

BOARD OF TRUSTEES

<u>Name</u>	<u>Elected to Board</u>	<u>Term Expires</u>	<u>Occupation</u>
Trish Mayne, Board President	May 2004	May 2013	Flight Attendant
Mary Miller, Board Vice President	May 2006	May 2012	Retired Attorney
Ken Thomet, Board Secretary	May 2007	May 2013	CPA
Dale Dossey, Board Member	April 2010	May 2014	Attorney/CPA
David Eargle, Board Member	May 2011	May 2014	Retired Oil & Gas Executive
Skip Stanberry, Board Member	May 2002	May 2014	University Professor
Steve Williams, Board Member	May 2009	May 2012	Finance Director, City of Conroe

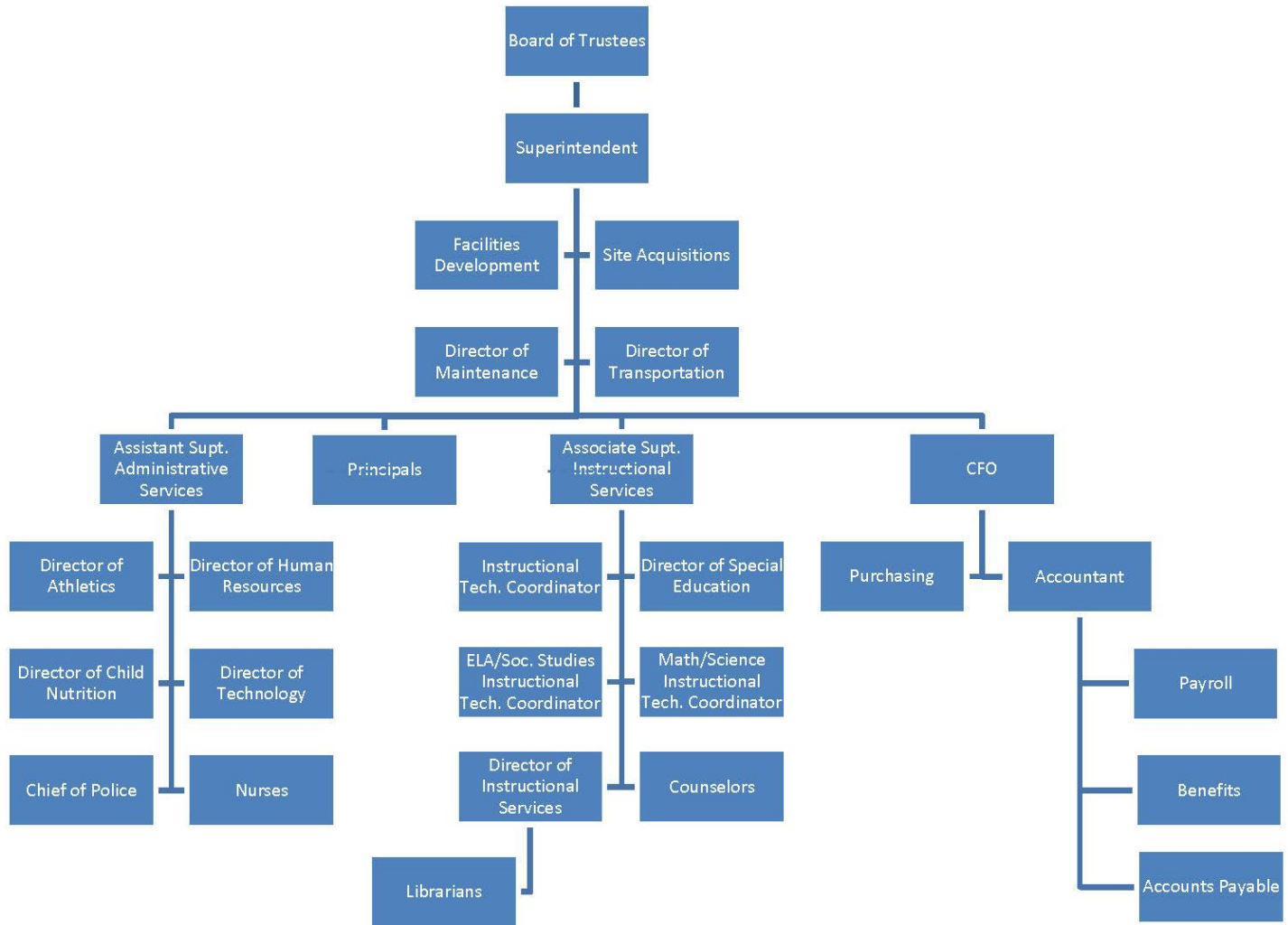
ADMINISTRATIVE OFFICIALS

<u>Name</u>	<u>Position</u>
Jim Gibson, Ed. D.	Superintendent
Babette Eikenberg, Ed. D.	Associate Superintendent, Instructional Services
Bobby Morris	Assistant Superintendent, Administrative Services
Ms. Sharon Fields	Chief Financial Officer

CONSULTANTS AND ADVISORS

Weaver and Tidwell, L.L.P. Houston, Texas	Independent Auditors
Thompson & Horton LLP Houston, Texas	District Counsel
Andrews Kurth LLP Houston, Texas	Bond Counsel
First Southwest Company Houston, Texas	Financial Advisor
Amegy Bank Houston, Texas	Official Depository

MONTGOMERY INDEPENDENT SCHOOL DISTRICT ORGANIZATIONAL CHART



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Montgomery Independent School District
Montgomery, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery Independent School District (the District) as of and for the year ended August 31, 2011, 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 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, business-type activities, each major fund, and the aggregate remaining fund information of Montgomery Independent School District as of August 31, 2011 and the respective changes in financial position and cash flows, where applicable, thereof 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 December 13, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and Budgetary Comparison Schedule – General Fund are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the supplementary information and express no opinion on it.

Board of Trustees
Montgomery Independent School District

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Montgomery Independent School District's basic financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, the required TEA schedules, and the statistical section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and required TEA schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
December 13, 2011

**Montgomery Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2011**

As management of the Montgomery Independent School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2011. We encourage readers to consider the information presented here in conjunction with the notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial condition.

Financial Highlights

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by \$(68,115). Of this amount, \$415,703 represents the District's unrestricted net assets.
- The District's total net assets increased by \$898,056.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$8,946,756, a decrease of \$3,089,323 in comparison with the prior year. The decrease in governmental fund balances was primarily due to a decrease in the capital projects fund balance of \$2,508,682 and a decrease of \$1,241,419 in the general fund balance.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,786,969 or 11.7 percent of total current year general fund expenditures.
- The District's total long-term debt decreased by \$3,623,358 or 2.5 percent during the current fiscal year.

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 components: 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 supplementary information in addition to the basic financial statements.

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 showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of 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 (e.g., uncollected taxes).

**Montgomery Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2011**

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. The government-wide financial statements can be found on pages 12 through 13 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 legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary 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 District'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 District'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 maintains thirty two (32) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and the capital projects fund, all of which are considered to be major funds. Data from the other non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the financial statements. The District adopts an annual appropriated budget for its general fund, debt service fund, and food service fund.

The basic governmental fund financial statements can be found on pages 14 through 17 of this report.

**Montgomery Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2011**

Internal Service Funds

The District maintains two internal service funds. *Internal service funds* are an accounting device used to account for revenues and expenses related to services provided to parties inside the district. The District uses an internal service fund to account for its Health Insurance and Worker's compensation. The financial statements for the internal service funds can be found on pages 18 through 20 of this report.

Private-Purpose Trust Funds

These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The District's private purpose trust fund is a scholarship fund and the financial statements can be found on pages 21 and 22 of this report.

Fiduciary Funds

The fiduciary fund is used to account for resources held for the benefit of students. The fiduciary fund is *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The fiduciary funds are the student activity funds.

The basic fiduciary fund financial statements can be found on pages 21 and 22 of this report.

Notes to the 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. The notes to the financial statements can be found beginning on page 23 of this report.

Required Supplementary 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. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds. The District did not have any major special revenue funds; therefore, only the general fund is presented as required supplementary information. The required supplementary information can be found immediately following the notes to the financial statements of this report.

**Montgomery Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2011**

Other Information

The combining and individual fund statements and schedules and other supplementary information are presented immediately following the required supplementary information and can be found beginning on page 52 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, liabilities exceed its assets by \$(68,115) at the close of the most recent fiscal year. The largest portion of the District's net assets (deficit), (\$3,869,620) reflects its investment in capital assets (e.g., land, buildings and improvements, furniture and equipment and construction in progress), less any outstanding related debt used to acquire those assets. 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.

Summary Schedule of District Net Assets – Comparative

Description	Governmental Activities		Business-Type Activities		Total 2011
	2011	2010	2011	2010	
Current Assets	\$16,540,116	\$15,960,754	\$1,347,240	\$1,118,692	\$17,887,356
Capital Assets	128,726,851	131,545,078	192,098	184,978	128,918,949
Total Assets	145,266,967	147,505,832	1,539,338	1,303,670	146,806,305
Current Liabilities	9,161,566	7,631,332	117,718	89,555	9,279,284
Long-Term Liabilities	137,595,136	142,054,786	-	-	137,595,136
Total Liabilities	146,756,702	149,686,118	117,718	89,555	146,874,420
Net Assets:					
Invested in Capital Assets	(4,061,718)	(9,376,083)	192,098	184,978	(3,869,620)
Restricted	2,152,210	1,553,536	1,233,592	1,021,783	3,385,802
Unrestricted	419,773	5,642,261	(4,070)	7,354	415,703
Total Net Assets	\$(1,489,735)	\$(2,180,286)	\$1,421,620	\$1,214,115	\$ (68,115)

Net assets in governmental activities of \$2,152,210 are restricted for debt service activities and net assets of \$1,233,592 are restricted for Child Nutrition. The District's net assets increased \$898,056 during the current fiscal year.

**Montgomery Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2011**

Schedule of Changes in Net Assets – Comparative

Description	Governmental Activities		Business-Type Activities	
	2011	2010	2011	2010
Program Revenues:				
Charges for Service	\$ 263,016	\$ 233,682	\$ 2,582,104	\$ 2,539,911
Operating Grants and Contributions	7,954,918	7,565,958	1,406,415	1,255,912
General Revenues-				
Property Taxes	48,102,352	46,964,788	-	-
State Foundation Program	9,762,699	9,761,575	-	-
Investment Earnings	23,804	64,310	1,573	1,064
Other Revenues	582,346	693,781	15,561	-
Total Revenues	66,689,135	65,284,094	4,005,653	3,796,887
Program Expenditures:				
Instruction	35,059,525	35,286,346	-	-
Instructional Resources and Media Services	998,001	992,038	-	-
Curriculum and Staff Development	463,540	426,568	-	-
Instructional Leadership	381,276	369,045	-	-
School Leadership	3,119,416	3,173,805	-	-
Guidance and Counseling	1,593,307	1,696,625	-	-
Health Services	645,993	630,223	-	-
Student Transportation	3,637,980	3,508,720	-	-
Food Services	285,512	282,693	3,560,688	3,191,389
Extracurricular Activities	2,141,328	2,259,316	-	-
General Administration	1,447,166	1,518,395	-	-
Plant Operation and Maintenance	7,013,443	7,510,144	-	-
Security and Monitoring Services	448,555	465,661	-	-
Data Processing Services	718,164	776,747	-	-
Community Service	501,644	218,131	-	-
Interest on Debt and Costs of Issuance	6,442,419	6,943,614	-	-
Day Care	-	-	332,316	335,511
Capital Outlay	578,747	-	-	-
Contracted Instructional Services Between Schools	101,187	87,505	-	-
Payments to Juvenile Justice Alt. Ed. Programs	8,000	-	-	-
Other Intergovernmental Charges	318,525	359,301	-	-
Total Expenses	65,903,728	66,504,877	3,893,004	3,526,900
Excess (Deficiency) Before Other Resources and Uses and Transfers	785,407	(1,220,783)	112,649	269,987
Other Resources (Uses)				
Transfers In (Out)	(94,856)	(129,299)	94,856	129,299
Increase (Decrease) in Net Assets	\$ 690,551	\$ (1,350,082)	\$ 207,505	\$ 399,286

**Montgomery Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2011**

Governmental Activities

Governmental activities increased the District's net assets by \$690,551. Key elements of this increase are as follows: SHARS/MAC revenue and miscellaneous revenues.

Revenues are generated primarily from two sources. Grants and contributions (program and general revenues totaling \$7,954,918 represent 11.93 percent of total revenues and property taxes of \$48,102,352 represent 72.13 percent of total revenues. The remaining \$10,631,865 is generated from charges for services, investment earnings, miscellaneous revenues and state funding.

The primary functional expense of the District is instruction, \$35,059,525, which represents 50.2 percent of total expenses. Plant maintenance and operations, \$7,013,443, represents 10.0 percent and Debt Service, \$6,442,419, represents 9.2 percent of total expenses. For the most part, increases in expenses are related to student transportation and capital outlay.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 a District's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$8,946,756, a decrease of \$3,089,323 in comparison with the prior year. The decrease in governmental fund balances was primarily due to a decrease in the capital projects fund balance of \$2,508,682 and the transfer to the self funded health insurance plan of \$2,724,965. The general fund balance decreased \$1,241,149 and the debt service fund balanced increased by \$532,848.

At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,786,969, or 11.7 percent of total general fund expenditures.

The debt service fund has a total fund balance of \$2,067,700, all of which is restricted for the payment of debt service. The net increase in the debt service fund balance during the current year of \$532,848 was primarily due to increase in the property values.

The capital projects fund has a total fund balance of \$798,221, all of which is restricted for authorized construction, plant maintenance and technology projects/enhancements. The decrease in the fund balance during the current year was due to completed construction.

**Montgomery Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2011**

General Fund Budgetary Highlights

The primary difference between the original budget and the final amended budget of the general fund was a decrease of \$115,695 due to lower expenditures than expected.

Capital Assets and Long-Term Liabilities

Capital Assets

The District's investment in capital assets for its governmental type activities as of August 31, 2011, amounts to \$128,726,851 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, and vehicles and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was \$2,818,227. A comparison of capital asset balances at current and prior fiscal year end follows:

Summary Schedule of Capital Assets – Comparative

Asset Description	Governmental Activities			Business Type Activities		
	2011	2010	Total Percentage Change 2011-2010	2011	2010	Total Percentage Change 2011-2010
Land	\$ 7,068,637	\$ 6,878,659	3%	\$ -	\$ -	-
Construction in Progress	-	826,545	(100%)	-	-	-
Buildings and Improvements	155,233,027	152,664,534	2%	-	-	-
Vehicles	6,124,295	6,708,673	(9%)	21,777	21,777	-
Equipment	1,545,866	1,459,705	6%	207,305	186,143	11%
Total Historical Cost	169,971,825	168,538,116	1%	229,082	207,920	10%
Accumulated Depreciation	41,244,974	36,993,038	11%	36,984	22,942	61%
Net Capital Assets	\$128,726,851	\$131,545,078	(2%)	\$192,098	\$184,978	4%

Major capital asset construction completed during the current fiscal year included the transportation facility, Maintenance Warehouse and other renovations.

Additional information on the District's capital assets can be found in note 4 of the notes to the financial statements.

**Montgomery Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2011**

Long-term Liabilities

At the end of the current fiscal year, the District had \$142,272,818 in total debt outstanding, a decrease of \$3,623,358 as compared to the previous year. The underlying ratings of the bonds for general obligation debt are "A+" from Standard and Poor's and "A2" from Moody's Investors Service, and are guaranteed through the Texas Permanent School Fund Guarantee Program or by a municipal bond insurance policy.

A comparison of long-term debt as of current and prior fiscal year end follows:

Summary Schedule of Long Term Debt – Comparative

Description of Debt Outstanding	Governmental Activities		Total Percentage Change 2011-2010
	2011	2010	
Bonds Payable	\$137,028,670	\$140,684,765	(3%)
Accreted Bond Interest Payable	6,302,479	6,371,263	(1%)
Premium on Bonds	1,514,075	665,124	128%
Deferred Loss on Bond Refundings	(2,572,406)	(1,824,976)	41%
Total Debt Outstanding	\$142,272,818	\$145,896,176	(2%)

Additional information on the District's long-term liabilities can be found in notes 2 and 3 of the notes to the financial statements.

Economic Factors and Next Year's Budgets and Tax Rates

The following are highlights of the 2011-2012 General Operating Budget:

Expenditures:

- Continuation of successful instructional plans and activities of the District.
- Supports the Board Goals as established by the Board of Trustees.
- Supports the Campus Improvement Plans of the campuses.
- The Chapter 41 payment of \$100,000.
- Satisfies all state requirements and mandates.
- Staff reductions of 15.5 FTE's. There were no reductions in teaching staff.
- Reduction of \$3.3 million dollars.

**Montgomery Independent School District
Management's Discussion and Analysis
Year Ended August 31, 2011**

Operational expenditures such as Utilities, Insurance, and Contract services have been properly budgeted to reflect contractual amounts or best estimates for next year expenditures based on actual expenditures for this year. The District discontinued District cell phones, security monitoring, legal fees, copier costs, food related expenditures, and travel and reduced copier costs and legal fees.

Campus budgets were reduced 15% and all departments budgets were reduced 20%.

We continue to reallocate some budgeted amounts among Functional areas as needed to comply with proper coding needs.

Revenues:

- 2011 Certified Values (Freeze adjusted taxable) of \$3,195,403,569 (2.9% increase from last year's comparable value)
- 100% current and delinquent collection of local taxes
- State Funding Formula using enrollment of students of 7,109, 6,789 ADA, and WADA of 7,586.
- Tax rate: \$1.04 for Maintenance & Operations and \$0.30 for Debt Service for a combined total of \$1.34 (same as last year)
- Investment earnings were reduced to reflect low interest rates.

All of these factors were considered in preparing the District's budget for the 2012 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Montgomery Independent School District Administration Office at 936-582-1333.

BASIC FINANCIAL STATEMENTS

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2011**

EXHIBIT A-1

Data Control Codes		<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	ASSETS			
	CURRENT ASSETS			
1110	Cash and cash equivalents	\$ 7,628,150	\$ 922,475	\$ 8,550,625
1120	Current investments	5,002,636	500,264	5,502,900
1220	Property taxes receivables	2,236,701	-	2,236,701
1230	Allowance for uncollectible taxes	(447,340)	-	(447,340)
1240	Due from other governments	507,798	49,282	557,080
1260	Internal balances	169,888	(169,888)	-
1300	Inventories	-	45,107	45,107
1420	Capital bond and other debt issuance costs	1,429,824	-	1,429,824
1990	Other assets	12,459	-	12,459
	Total current and other assets	<u>16,540,116</u>	<u>1,347,240</u>	<u>17,887,356</u>
	CAPITAL ASSETS			
1510	Land	7,068,637	-	7,068,637
1520	Buildings and improvements	155,233,027	-	155,233,027
1530	Furniture and equipment	7,670,161	229,082	7,899,243
1580	Construction in progress	-	-	-
1560	Less accumulated depreciation	<u>(41,244,974)</u>	<u>(36,984)</u>	<u>(41,281,958)</u>
	Total capital assets (net)	<u>128,726,851</u>	<u>192,098</u>	<u>128,918,949</u>
1000	Total assets	145,266,967	1,539,338	146,806,305
	LIABILITIES			
	CURRENT LIABILITIES			
2110	Accounts payable	150,872	25,640	176,512
2140	Interest payable	272,247	92,078	364,325
2160	Accrued wages payable	2,137,650	-	2,137,650
2300	Unearned revenue	1,923,115	-	1,923,115
2501	Noncurrent liabilities due within one year	<u>4,677,682</u>	<u>-</u>	<u>4,677,682</u>
	Total current liabilities	<u>9,161,566</u>	<u>117,718</u>	<u>9,279,284</u>
	NONCURRENT LIABILITIES			
2502	Noncurrent liabilities due in more than one year	<u>137,595,136</u>	<u>-</u>	<u>137,595,136</u>
	Total noncurrent liabilities	<u>137,595,136</u>	<u>-</u>	<u>137,595,136</u>
2000	Total liabilities	<u>146,756,702</u>	<u>117,718</u>	<u>146,874,420</u>
	NET ASSETS (DEFICIT)			
3200	Invested in capital assets, net of related debt	(4,061,718)	192,098	(3,869,620)
	Restricted for:			
3840	Food services	-	1,233,592	1,233,592
3850	Debt service	2,152,210	-	2,152,210
3900	Unrestricted	<u>419,773</u>	<u>(4,070)</u>	<u>415,703</u>
	Total net assets (deficit)	<u>\$ (1,489,735)</u>	<u>\$ 1,421,620</u>	<u>\$ (68,115)</u>

See Notes to Basic Financial Statements.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011**

EXHIBIT B-1

Data Control Codes	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
GOVERNMENTAL ACTIVITIES							
11	Instruction	\$ 35,059,525	\$ 81,889	\$ 3,898,775	\$ (31,078,861)	\$ -	\$ (31,078,861)
12	Instructional resources and media services	998,001	-	479,999	(518,002)	-	(518,002)
13	Curriculum and staff development	463,540	-	223,917	(239,623)	-	(239,623)
21	Instructional leadership	381,276	-	69,792	(311,484)	-	(311,484)
23	School leadership	3,119,416	-	864,035	(2,255,381)	-	(2,255,381)
31	Guidance and counseling	1,593,307	-	682,237	(911,070)	-	(911,070)
33	Health services	645,993	-	34,083	(611,910)	-	(611,910)
34	Student (pupil) transportation	3,637,980	-	1,042,605	(2,595,375)	-	(2,595,375)
35	Food services	285,512	-	-	(285,512)	-	(285,512)
36	Cocurricular/extracurricular activities	2,141,328	181,127	472,330	(1,487,871)	-	(1,487,871)
41	General administration	1,447,166	-	64,224	(1,382,942)	-	(1,382,942)
51	Plant maintenance and operations	7,013,443	-	70,586	(6,942,857)	-	(6,942,857)
52	Security and monitoring services	448,555	-	13,044	(435,511)	-	(435,511)
53	Data processing services	718,164	-	26,839	(691,325)	-	(691,325)
61	Community services	501,644	-	12,452	(489,192)	-	(489,192)
71	Debt service - interest and fees	6,442,419	-	-	(6,442,419)	-	(6,442,419)
81	Facilities Acquisition and Construction	578,747	-	-	(578,747)	-	(578,747)
91	Contracted instructional services	101,187	-	-	(101,187)	-	(101,187)
95	Payments to Juvenile Justice Alternative Education Program	8,000	-	-	(8,000)	-	(8,000)
99	Other intergovernmental charges	318,525	-	-	(318,525)	-	(318,525)
TG	Total governmental activities	65,903,728	263,016	7,954,918	(57,685,794)	-	(57,685,794)
BUSINESS-TYPE ACTIVITIES							
05	Food services	3,560,688	2,358,910	1,392,149	-	190,371	190,371
01	Daycare	332,316	223,194	14,266	-	(94,856)	(94,856)
TB	Total business-type activities	3,893,004	2,582,104	1,406,415	-	95,515	95,515
TP	TOTAL PRIMARY GOVERNMENT	\$ 69,796,732	\$ 2,845,120	\$ 9,361,333	(57,685,794)	95,515	(57,590,279)
Data Control Codes							
General revenues:							
Taxes:							
MT	Property taxes, levied for general purposes			37,328,421	-		37,328,421
DT	Property taxes, levied for debt service			10,773,931	-		10,773,931
SF	State aid-grants and contributions not restricted to specific programs			9,762,699	-		9,762,699
IE	Investment earnings			23,804	1,573		25,377
S1	SHARS/MAC			156,906	-		156,906
S2	Loss on disposal of capital assets			(58,657)	-		(58,657)
MI	Miscellaneous			484,097	15,561		499,658
FR	Transfers			(94,856)	94,856		-
TR	Total general revenues and transfers			58,376,345	111,990		58,488,335
CN	Change in net assets			690,551	207,505		898,056
NB	Net assets - beginning			(2,180,286)	1,214,115		(966,171)
NE	Net assets - ending			<u>\$ (1,489,735)</u>	<u>\$ 1,421,620</u>		<u>\$ (68,115)</u>

See Notes to Basic Financial Statements.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2011**

EXHIBIT C-1

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund	Non-major Governmental Funds	Total Governmental Funds
ASSETS						
1110	Cash and cash equivalents	\$ 5,156,786	\$ 1,036,185	\$ 794,562	\$ 287,215	\$ 7,274,748
1120	Current investments	4,002,109	1,000,527	-	-	5,002,636
	Receivables					
1220	Property taxes - delinquent	1,790,756	445,945	-	-	2,236,701
1230	Allowance for uncollectible taxes	(358,152)	(89,188)	-	-	(447,340)
1240	Due from other governments	77,164	-	-	430,634	507,798
1260	Due from other funds	666,889	30,988	-	-	697,877
1990	Other assets	8,800	-	3,659	-	12,459
1000	Total assets	<u>\$ 11,344,352</u>	<u>\$ 2,424,457</u>	<u>\$ 798,221</u>	<u>\$ 717,849</u>	<u>\$ 15,284,879</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
2110	Accounts payable	\$ 24,074	\$ -	\$ -	\$ -	\$ 24,074
2160	Accrued wages payable	2,137,650	-	-	-	2,137,650
2170	Due to other funds	31,140	-	-	432,783	463,923
2300	Deferred revenue	3,355,719	356,757	-	-	3,712,476
2000	Total liabilities	<u>5,548,583</u>	<u>356,757</u>	<u>-</u>	<u>432,783</u>	<u>6,338,123</u>
FUND BALANCES						
	Non-spendable					
3445	Other assets	8,800	-	-	-	8,800
	Restricted for					
3450	Grant funds	-	-	-	130,901	130,901
3470	Capital acquisitions	-	-	798,221	-	798,221
3480	Retirement of long-term debt	-	2,067,700	-	-	2,067,700
	Committed for					
3545	Local special revenue funds	-	-	-	154,165	154,165
3600	Unassigned					
	General fund	5,786,969	-	-	-	5,786,969
3000	Total fund balances	<u>5,795,769</u>	<u>2,067,700</u>	<u>798,221</u>	<u>285,066</u>	<u>8,946,756</u>
4000	Total liabilities and fund balances	<u>\$ 11,344,352</u>	<u>\$ 2,424,457</u>	<u>\$ 798,221</u>	<u>\$ 717,849</u>	<u>\$ 15,284,879</u>

See Notes to Basic Financial Statements.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET ASSETS
AUGUST 31, 2011**

EXHIBIT C-2

Total fund balances - governmental funds \$ 8,946,756

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 as assets in governmental funds.

Historical cost	169,971,825	
Accumulated depreciation	<u>(41,244,974)</u>	128,726,851

Property taxes have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. 1,789,361

Internal service funds are used by the District's management to charge the costs of the District's insurance programs to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. 162,538

Bond issuance costs are not financial resources and therefore are not reported as assets in governmental funds. These costs are to be amortized over the life of the bonds. 1,429,824

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds payable	(137,028,670)	
Deferred loss on refunding	2,572,406	
Premiums on issuance	(1,514,075)	
Accreted interest on capital appreciation bonds	(6,302,479)	
Accrued interest payable	<u>(272,247)</u>	<u>(142,545,065)</u>

Total net assets - governmental activities \$ (1,489,735)

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011**

EXHIBIT C-3

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund	Non-major Governmental Funds	Total Governmental Funds
Revenues						
5700	Total local and intermediate sources	\$ 38,011,018	\$ 10,754,623	\$ 1,990	\$ 601,798	\$ 49,369,429
5800	State program revenues	12,821,890	-	-	409,438	13,231,328
5900	Federal program revenues	156,906	-	-	3,893,326	4,050,232
5020	Total revenues	<u>50,989,814</u>	<u>10,754,623</u>	<u>1,990</u>	<u>4,904,562</u>	<u>66,650,989</u>
Expenditures						
Current						
0011	Instruction	30,345,869	-	-	2,380,078	32,725,947
0012	Instructional resources and media services	402,887	-	-	431,885	834,772
0013	Curriculum and instructional staff development	227,630	-	-	199,394	427,024
0021	Instructional administration	333,184	-	-	48,076	381,260
0023	School administration	2,337,448	-	-	690,439	3,027,887
0031	Guidance and counseling	960,540	-	-	596,705	1,557,245
0033	Health services	608,283	-	-	-	608,283
0034	Student (pupil) transportation	3,553,346	-	-	-	3,553,346
0036	Cocurricular/extracurricular activities	1,141,847	-	-	430,055	1,571,902
0041	General administration	1,447,101	-	-	-	1,447,101
0051	Plant maintenance and operations	6,146,812	-	-	-	6,146,812
0052	Security and monitoring services	466,443	-	-	-	466,443
0053	Data processing services	718,127	-	-	-	718,127
0061	Community services	301,868	-	-	-	301,868
0070	Debt service					
0071	Principal	-	3,466,095	-	-	3,466,095
0072	Interest	-	6,379,273	-	-	6,379,273
0073	Bond issuance cost and fees	-	193,604	-	-	193,604
0081	Facilities acquisition and construction	-	-	2,510,672	-	2,510,672
0090	Intergovernmental					
0091	Contracted instructional services	101,187	-	-	-	101,187
0095	Payments to Juvenile Justice Alternative Education Programs	8,000	-	-	-	8,000
0099	Other intergovernmental charges	318,525	-	-	-	318,525
6030	Total expenditures	<u>49,419,097</u>	<u>10,038,972</u>	<u>2,510,672</u>	<u>4,776,632</u>	<u>66,745,373</u>
1100	Excess of revenues over (under) expenditures	1,570,717	715,651	(2,508,682)	127,930	(94,384)
Other financing sources and (uses)						
7901	Refunding bonds issued	-	14,495,000	-	-	14,495,000
7912	Sale of real or personal property	7,685	-	-	-	7,685
7916	Premium or discount on issuance of bonds	-	939,907	-	-	939,907
7915	Transfers in	-	-	-	-	-
8911	Transfers out	(2,819,821)	-	-	-	(2,819,821)
8940	Payment to bond refunding escrow agent	-	(15,617,710)	-	-	(15,617,710)
	Total other financing sources and (uses)	<u>(2,812,136)</u>	<u>(182,803)</u>	<u>-</u>	<u>-</u>	<u>(2,994,939)</u>
	Net change in fund balances	(1,241,419)	532,848	(2,508,682)	127,930	(3,089,323)
0100	Fund balance - September 1	7,037,188	1,534,852	3,306,903	157,136	12,036,079
3000	Fund balance - August 31	<u>\$ 5,795,769</u>	<u>\$ 2,067,700</u>	<u>\$ 798,221</u>	<u>\$ 285,066</u>	<u>\$ 8,946,756</u>

See Notes to Basic Financial Statements.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF
ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011**

EXHIBIT C-4

Total net change in fund balances - governmental funds \$ (3,089,323)

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

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. This is the amount of capital assets recorded in the current period. 2,446,055

The loss on disposal of capital assets is not recorded in the fund financial statements (58,657)

Proceeds received from the sale of capital assets is recorded as an other resource in the fund financial statements but reduces the loss on disposal assets recorded in the statement of activities. (7,685)

The depreciation of capital assets reported in governmental activities is not reported in the funds. (5,197,940)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In the statement of activities, a portion of the current year property tax is recognized as income in the current year along with the related penalty and interest. The difference between the fund basis and full accrual basis on property taxes was: 49,423

The issuance of long term debt (e.g. bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items was:

Proceeds from issuance of long-term debt	(15,434,907)	
Payment to escrow agent for advance refunding	15,617,710	
Long-term debt issuance costs	193,604	
Amortization of deferred loss on refunding bonds	(185,280)	
Amortization of bond issuance costs	(81,244)	
Amortization of premium on bonds payable	90,956	
Repayment of bond principal	3,466,095	
Accreted interest on capital appreciation bonds	68,784	3,735,718

The change in the interest expense accrual amount for the current year from prior year amount was: 43,638

The net revenue (expense) of internal service funds is reported with governmental activities. 2,769,322

Change in net assets - governmental activities \$ 690,551

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2011**

EXHIBIT D-1

<u>Data Control Codes</u>		<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
	ASSETS		
	CURRENT ASSETS		
1110	Cash and cash equivalents	\$ 922,475	\$ 353,402
1120	Current investments	500,264	-
1240	Due from other governments	49,282	-
1310	Inventories, at cost	45,107	-
	Total current assets	<u>1,517,128</u>	<u>353,402</u>
	NONCURRENT ASSETS		
1530	Furniture and equipment	229,082	-
1570	Accumulated depreciation	(36,984)	-
	Total noncurrent assets	<u>192,098</u>	<u>-</u>
1000	Total assets	<u>1,709,226</u>	<u>353,402</u>
	LIABILITIES		
	CURRENT LIABILITIES		
2110	Accounts payable	25,640	126,798
2160	Accrued wages payable	92,078	-
2171	Due to general operating	169,888	64,066
	Total current liabilities	<u>287,606</u>	<u>190,864</u>
2000	Total liabilities	<u>287,606</u>	<u>190,864</u>
	NET ASSETS (DEFICIT)		
3200	Invested in capital assets, net of related debt	192,098	-
	Restricted for:		
3840	Food services	1,233,592	-
3300	Unrestricted net assets	(4,070)	162,538
3000	Total net assets (deficit)	<u>\$ 1,421,620</u>	<u>\$ 162,538</u>

See Notes to Basic Financial Statements.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011**

EXHIBIT D-2

<u>Data Control Codes</u>		<u>Business-Type Activities</u>	<u>Governmental Activities</u>
		<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
	Operating revenues		
5700	Local and intermediate sources	\$ 2,597,665	\$ 9,241
5020	Total revenues	<u>2,597,665</u>	<u>9,241</u>
	Operating expenses		
6100	Payroll costs	1,896,433	-
6200	Professional and contracted services	157,537	-
6300	Supplies and materials	1,810,767	-
6400	Other operating costs	<u>28,267</u>	<u>12,264</u>
6030	Total expenses	<u>3,893,004</u>	<u>12,264</u>
	Operating loss	(1,295,339)	(3,023)
	Non-operating revenues (expenses)		
5800	State program revenues	105,484	-
7952	National school breakfast grant	241,544	-
7953	National school lunch grant	858,887	-
7954	USDA commodities	200,500	-
7955	Interest income	1,573	452
7989	Other non-operating revenues	-	<u>46,928</u>
7020	Total non-operating revenues	<u>1,407,988</u>	<u>47,380</u>
	Income (loss) before transfers	112,649	44,357
7915	Transfers in	<u>94,856</u>	<u>2,724,965</u>
1300	Change in net assets	207,505	2,769,322
0100	Net assets - September 1 (beginning)	<u>1,214,115</u>	<u>(2,606,784)</u>
3300	Net assets (deficit) - August 31 (ending)	<u>\$ 1,421,620</u>	<u>\$ 162,538</u>

See Notes to Basic Financial Statements.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011**

EXHIBIT D-3

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,597,665	\$ -
Cash received from charges for services	-	9,241
Cash payments to employees for services	(1,893,910)	-
Cash payments to other suppliers for goods and services	(1,959,347)	-
Cash payments for insurance claims	-	(132,675)
Net cash used in operating activities	<u>(1,255,592)</u>	<u>(123,434)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating transfers from other funds	152,462	-
Cash received from grants	1,395,862	-
Net cash provided by noncapital financing activities	<u>1,548,324</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(21,162)	-
Net cash used in noncapital financing activities	<u>(21,162)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and other nonoperating income	1,573	47,380
Purchases of investments, net	(500,264)	-
Net cash (used in) provided by investing activities	<u>(498,691)</u>	<u>47,380</u>
Net change in cash and cash equivalents	(227,121)	(76,054)
Cash and cash equivalents at beginning of the year	<u>1,149,596</u>	<u>429,456</u>
Cash and cash equivalents at the end of the year	<u>\$ 922,475</u>	<u>\$ 353,402</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,295,339)	\$ (3,023)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	14,042	-
Effect or increases and decreases in current assets and liabilities:		
Increase in inventory	(2,458)	-
Decrease in accounts payable	25,640	(120,411)
Increase in accrued wages payable	2,523	-
Net cash used in operating activities	<u>\$ (1,255,592)</u>	<u>\$ (123,434)</u>

See Notes to the Basic Financial Statements.

See Notes to Basic Financial Statements.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
AUGUST 31, 2011**

EXHIBIT E-1

<u>Data Control Code</u>		<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
	ASSETS		
1110	Cash and cash equivalents	\$ 641,579	\$ 349,100
1120	Current investments	196,673	-
	Total assets	<u>838,252</u>	<u>349,100</u>
	LIABILITIES		
2190	Due to student groups	-	349,100
	Total liabilities	<u>-</u>	<u>349,100</u>
	NET ASSETS		
3800	Restricted	<u>\$ 838,252</u>	<u>\$ -</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2011**

EXHIBIT E-2

	<u>Private-Purpose Trust Funds</u>
Additions	
Gifts and contributions	\$ 48,033
Investment income	978
Increase in the fair value of investments	<u>25,247</u>
Total additions	<u>74,258</u>
Deductions	
Scholarships awarded	28,395
Administrative expenses	<u>2,151</u>
Total deductions	<u>30,546</u>
Change in net assets	43,712
Net assets, beginning of year	<u>794,540</u>
Net assets, end of year	<u><u>\$ 838,252</u></u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Montgomery Independent School District (the District) is a public educational agency operating under the applicable laws and regulations of the state of Texas. It is governed by a seven member Board of Trustees that is elected by registered voters of the District. The District prepares its basic financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement of Auditing Standards No. 69* of the American Institute of Certified Public Accountants. Additionally, the District complies with the requirements of the appropriate version of the Texas Education Agency (TEA) *Financial Accountability System Resource Guide (FASRG)* and the requirements of contracts and grants of agencies from which it receives funds. The following is a summary of the significant accounting policies of the District.

A. Reporting Entity

The Board of Trustees (the Board) is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the GASB in its Statement No. 14, *The Financial Reporting Entity* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. There are no component units included within the reporting entity and the District is not included in any other governmental reporting entity.

B. Government-Wide and Fund Financial Statements

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the District's non-fiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function 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 operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as *general revenues*.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Government-Wide and Fund Financial Statements – Continued

Interfund activities between governmental funds and between governmental and proprietary funds appear as *due to other funds* or *due from other funds* on the governmental funds Balance Sheet and proprietary funds Statement of Net Assets and as *transfers in* or *transfers out* on the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance and on the proprietary funds Statement of Revenues, Expenses, and Changes in Net Assets. All interfund transactions between governmental funds and between governmental funds and proprietary funds are eliminated on the government-wide statements. Interfund services provided and used are not eliminated in the process of consolidation.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The 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 non-major funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are non-operating.

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

Measurement focus is the accounting convention which determines which assets and liabilities are included on the balance sheet of a fund type and whether a fund type's operating statement presents "financial flow" or capital maintenance information.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurements made, regardless of the measurement focus applied.

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements (with the exception of Agency funds which are custodial in nature thus do not have a measurement focus). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the state are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

The proprietary and fiduciary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. Net assets are segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Fund Accounting

The District's accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. District resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The District reports the following major funds:

Governmental Funds:

The General Fund – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. Major program revenues include local property taxes, state funding under the Foundation School Program, and interest earnings. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal or state government, food service, debt service, and capital projects.

Debt Service Fund – The debt service fund is utilized to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs arising from general obligation bonds.

Capital Projects Fund – The capital projects fund is utilized to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived from proceeds of general obligation bonds and interest earned on such monies and local sources designated for such purposes.

Proprietary Funds:

Enterprise Fund – The District accounts for activities with established fees and charges designed to recover the costs, including capital costs, of the activity in enterprise funds. The District accounts for its food service activities and daycare operations in enterprise funds, which are combined for financial reporting purposes and reported as a single major fund.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Fund Accounting – Continued

Additionally, the District reports the following non-major fund types:

Governmental Funds:

Special Revenue Funds – The District accounts for resources restricted to, or committed for, specific purposes by the District or a grantor in a special revenue fund. Most federal and some state financial assistance is accounted for in a special revenue fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Proprietary Funds:

Internal Service Funds – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in internal service funds. The District's internal service funds are a worker's compensation insurance fund and a health insurance fund. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's ongoing operations. All other revenues and expenses are nonoperating items.

Fiduciary Funds:

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

Private-Purpose Trust Funds – These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types. The District's trust fund is a scholarship fund.

E. Budgets and Budgetary Accounting

The District facilitates budgeting and budgetary control by preparing annual budgets for the General Fund, Child Nutrition Fund, and Debt Service Fund and appropriately amending the budgets as circumstances dictate; the annual budgets as amended are an integral part of the accounting system, providing appropriate budgetary control over revenues, expenditures, and transfers through comparison of actual data and encumbrances to budgetary data.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. Budgets and Budgetary Accounting – Continued

The Superintendent of Schools is designated as the budget officer of the District and is responsible for preparing and submitting to the Board a proposed budget and administering the budget.

The Board may approve amendments to the budget, which are required when a change is made to any one of the functional expenditure categories or revenue object accounts defined by the TEA. Such amendments must be reflected in the official minutes of the Board, and may not, by law, occur after August 31. Therefore, the legal level of budgetary control is at the function level within each budgeted fund. Management may transfer appropriations between objects, sub-objects, organizations, programs, and projects without approval from the Board, as long as appropriations are not increased at the function level.

The TEA requires the budgets to be filed with them through regular submissions to the Public Education Information Management System (PEIMS). The budget should not be exceeded in any functional expenditure category under TEA requirements. The final amended versions of these budgets are used in this report.

Unused appropriations lapse at the end of each fiscal year; however, the District increases the subsequent year appropriations by an amount equal to outstanding encumbrances. Supplemental appropriations were not significant to the original budget for the fiscal year ended August 31, 2011.

Budgets for the general fund, child nutrition fund, and debt service fund are adopted on a basis consistent with GAAP.

F. Cash and Cash Equivalents

The District's cash is comprised of demand accounts and imprest funds. All daily receipts are deposited to the demand accounts until the funds are invested under the terms of the District's depository contract. The District considers cash equivalents to be all highly liquid investments with initial maturities of ninety days or less from the date of purchase.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

G. Temporary Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, 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 the time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

H. Inventory

The District records purchases of supplies as expenditures in the governmental funds, utilizing the purchase method of accounting for inventory in accordance with the FASRG. The District accounts for inventories in the child nutrition fund (business-type) utilizing the consumption method of accounting whereby inventories are recorded as assets when acquired and as expenses when consumed.

I. Account Code Reporting

In accordance with the Texas Education Code, the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure prescribed by the TEA in the FASRG. Mandatory codes are recorded in the order provided in that section.

J. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula becomes available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimate as of August 31, 2011 will change.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

K. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 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 school fiscal year.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general fund and debt service fund are based upon historical experience in collecting property taxes. The District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

The District expects to receive all significant receivables within one year of August 31, 2011.

L. Capital Assets

Capital assets, which include land, buildings and improvements, vehicles, and furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	15 – 40
Furniture and Equipment	5 – 20

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

M. Long-Term Obligations

In the government-wide financial statements and proprietary fund type fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

N. Interfund Transactions

During the course of normal operations, it is necessary for the District to enter into transactions among its various funds. These transactions consist of one or more of the following types:

- Reimbursements to a fund, which are generally reflected through the allocation of pooled cash accounts, for expenditures or expenses initially made from it that are properly applicable to another fund.
- Transfers of equity balances from one fund to another.
- Transfers in and out, as appropriate, which are shown as other financing sources or uses in the fund financial statements.
- All other outstanding balances between funds are reported as “due to/from other funds” in the fund financial statements.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

O. Fund Balances and Net Assets

Government-Wide Financial Statements:

Net assets on the Statement of Net Assets includes the following categories:

Invested in capital assets, net of related debt – the component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, net of premiums and discounts, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted for debt service – the component of net assets that reports the difference between assets and liabilities with constraints placed on their use by law.

Restricted for food services – the component of net assets that reports the difference between assets and liabilities with constraints placed on their use by the United States Department of Agriculture.

Unrestricted – the difference between the assets and liabilities that is not reported in any of the classifications above.

Governmental Fund Financial Statements:

During the year ended August 31, 2011 the District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions* (GASB 54). The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement 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. Fund balance classifications, under GASB 54 are non-spendable, restricted, committed, assigned, and unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of constraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the general fund. The general fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

O. Fund Balances and Net Assets – Continued

Governmental Fund Financial Statements:

In accordance with GASB 54, the District classifies governmental fund balances as follows:

Non-spendable – includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid items and long term receivables.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This classification includes retirement of long term debt, construction programs and other federal and state grants.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action in an open meeting of the highest level of decision making authority. Committed fund balance is reported pursuant to resolution passed by the District's Board of Trustees. This classification includes campus activity funds and local special revenue funds.

Assigned – includes fund balance amounts that are self-imposed by the District to be used for a particular purpose. Fund balance can be assigned by the District's Board, the Superintendent, or the Superintendent's designee pursuant to the District's fund balance policy. At August 31, 2011 the District had no assigned fund balance classifications.

Unassigned – includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When both restricted and unrestricted fund balances are available for use, it is the District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications are available.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. BONDED DEBT PAYABLE

Bonded debt payable as of August 31, 2011 is as follows:

Description	Interest Rate Payable	Amount of Original Issue	Amount Outstanding 9/1/2010	Issued Current Year	Retired Current Year	Amount Outstanding 8/31/2011
Unlimited Tax School Building and Refunding Bonds Series 1997	4.550 - 5.875	\$ 9,474,996	\$ 395,000	\$ -	\$ 395,000	\$ -
Unlimited Tax School Building Bonds Series 1998	4.500 - 7.000	5,000,000	1,230,000	-	1,230,000	-
Unlimited Tax School Building Bonds Series 2000	5.100	4,999,053	361,913	-	361,913	-
Unlimited Tax School Building and Refunding Bonds Series 2001	4.000 - 5.500	28,994,996	8,985,000	-	8,985,000	-
Unlimited Tax School Building and Refunding Bonds Series 2004	1.800 - 4.500	20,199,996	18,339,996	-	5,275,222	13,064,774
Unlimited Tax School Building and Refunding Bonds Series 2006	4.000 - 5.000	41,662,060	39,572,856	-	678,960	38,893,896
Unlimited Tax School Building and Refunding Bonds Series 2007	4.000 - 4.875	50,000,000	48,515,000	-	80,000	48,435,000
Unlimited Tax School Building Bonds Series 2008	3.500 - 4.750	23,700,000	23,285,000	-	1,145,000	22,140,000
Unlimited Tax Refunding Bonds Series 2010	3.000 - 4.000	14,495,000	-	14,495,000	-	14,495,000
Total General Obligation Bonds			<u>\$ 140,684,765</u>	<u>\$ 14,495,000</u>	<u>\$ 18,151,095</u>	<u>\$ 137,028,670</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. BONDED DEBT PAYABLE – CONTINUED

The debt service requirements on the above bonds are as follows:

Due Fiscal Year Ending August 31	Principal	Interest	Total
2012	\$ 4,105,081	\$ 6,284,619	\$ 10,389,700
2013	5,683,900	5,887,012	11,570,912
2014	5,435,774	5,835,813	11,271,587
2015	5,470,712	5,830,119	11,300,831
2016	4,572,384	6,727,241	11,299,625
2017-2021	29,321,538	27,126,372	56,447,910
2022-2026	38,319,281	16,666,233	54,985,514
2027-2031	19,210,000	8,168,351	27,378,351
2032-2036	20,235,000	3,736,409	23,971,409
2037	4,675,000	115,225	4,790,225
	<u>\$ 137,028,670</u>	<u>\$ 86,377,394</u>	<u>\$ 223,406,064</u>

Bonded debt payable is collateralized by revenue from the District's tax collections.

On November 15, 2010, the District issued \$14.495 million in Unlimited Tax Refunding Bonds with an average interest rate of 3.566 percent to advance refund \$14.685 million of outstanding 1997, 1998, 2001, and 2004 series bonds (the Refunded Bonds) with an average interest rate of 5.086 percent. The net proceeds of \$15.260 million (after payment of \$196,390 in underwriting fees, insurance, and other issuance costs) plus an additional \$380,949 of Refunded Bonds sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Refunded Bonds. As a result, the Refunded Bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide Statement of Net Assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$932,710. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 15 years by \$2.265 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1.789 million.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. BONDED DEBT PAYABLE – CONTINUED

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At August 31, 2011, approximately \$44.1 million of the 1996, 1997, 1998, 2000, 2001, and 2004 series bond issues were outstanding but considered defeased.

NOTE 3. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Total general obligation bonds	\$ 140,684,765	\$ 14,495,000	\$ 18,151,095	\$ 137,028,670	\$ 4,105,081
Accreted interest on bonds	6,371,263	740,121	808,905	6,302,479	666,925
Premium on bonds	665,124	939,907	90,956	1,514,075	90,956
Deferred loss on bond refundings	(1,824,976)	(932,710)	(185,280)	(2,572,406)	(185,280)
Total governmental activities	<u>\$ 145,896,176</u>	<u>\$ 15,242,318</u>	<u>\$ 18,865,676</u>	<u>\$ 142,272,818</u>	<u>\$ 4,677,682</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. CAPITAL ASSET ACTIVITY

Capital asset activity for the District's governmental activities for the year ended August 31, 2011 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities				
Capital assets not being depreciated				
Land	\$ 6,878,659	\$ 189,978	\$ -	\$ 7,068,637
Construction in progress	826,545	-	826,545	-
Total capital assets not being depreciated	7,705,204	189,978	826,545	7,068,637
Capital assets being depreciated				
Buildings and improvements	152,664,534	2,568,493	-	155,233,027
Furniture and equipment	8,168,378	514,129	1,012,346	7,670,161
Total capital assets being depreciated	160,832,912	3,082,622	1,012,346	162,903,188
Less accumulated depreciation for				
Buildings and improvements	(32,247,968)	(4,652,721)	-	(36,900,689)
Furniture and equipment	(4,745,070)	(545,219)	946,004	(4,344,285)
Total accumulated depreciation	(36,993,038)	(5,197,940)	946,004	(41,244,974)
Total capital assets being depreciated, net	123,839,874	(2,115,318)	66,342	121,658,214
Governmental activities capital assets, net	<u>\$ 131,545,078</u>	<u>\$ (1,925,340)</u>	<u>\$ 892,887</u>	<u>\$ 128,726,851</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. CAPITAL ASSET ACTIVITY – CONTINUED

Capital asset activity for the District’s business-type activities for the year ended August 31, 2011 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities				
Capital assets not being depreciated				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated				
Buildings and improvements	-	-	-	-
Furniture and equipment	207,920	21,162	-	229,082
Total capital assets being depreciated	207,920	21,162	-	229,082
Less accumulated depreciation for:				
Buildings and improvements	-	-	-	-
Furniture and equipment	(22,942)	(14,042)	-	(36,984)
Total accumulated depreciation	(22,942)	(14,042)	-	(36,984)
Total capital assets being depreciated, net	184,978	7,120	-	192,098
Business-type activities capital assets, net	<u>\$ 184,978</u>	<u>\$ 7,120</u>	<u>\$ -</u>	<u>\$ 192,098</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. CAPITAL ASSET ACTIVITY – CONTINUED

Depreciation expense of the governmental activities was charged to functions as follows:

Instruction	\$ 2,362,753
Instructional resources and media services	163,186
Curriculum and staff development	36,497
School leadership	91,281
Guidance, counseling, and evaluation services	35,963
Health services	37,667
Student transportation	519,978
Food services	285,512
Extracurricular activities	569,391
Facilities maintenance and operations	888,500
Security and monitoring services	7,453
Community services	<u>199,759</u>
 Total depreciation expense	 <u><u>\$ 5,197,940</u></u>

The District had no active construction projects as of August 31, 2011.

NOTE 5. 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 its 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.

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

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. DEPOSITS AND INVESTMENTS – CONTINUED

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

1. Obligations of, or guaranteed by governmental entities as permitted by Government Code 2256.009
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011
4. A securities lending program as permitted by Government Code 2256.0115
5. Banker's acceptances as permitted by Government Code 2256.012
6. Commercial paper as permitted by Government Code 2256.013
7. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014
8. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015
9. Public funds investment pools as permitted by Government Code 2256.016.

The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Cash and investments as of August 31, 2011 are classified in the accompanying financial statements as follows:

Governmental funds	\$ 12,277,384
Proprietary funds	1,776,141
Fiduciary funds	<u>1,187,352</u>
	<u><u>\$ 15,240,877</u></u>

Cash and investments as of August 31, 2011 consist of the following:

Cash on deposit with financial institutions	\$ 9,541,304
Investments	<u>5,699,573</u>
	<u><u>\$ 15,240,877</u></u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. DEPOSITS AND INVESTMENTS – CONTINUED

As of August 31, 2011, the District had the following investments:

Fiduciary fund investments:

<u>Investment or Investment Type</u>	<u>Credit Rating</u>	<u>Maturity</u>	<u>Fair Value</u>
Edward Jones Mutual Funds	N/A	N/A	\$ 179,010
Corporate Bonds	AAA/Aaa	9/1/2012	17,663
			196,673

Governmental and proprietary fund investments:

<u>Investment or Investment Type</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
Texas Class	AAAm	53 days	5,502,900
Total Investments			\$ 5,699,573

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. To reduce exposure to changes in interest rates that could adversely affect the value of investments, the District uses final and weighted-average-maturity limits and diversification. During the year ended August 31, 2011, the District did not invest in any securities which were highly sensitive to interest rate fluctuations.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. DEPOSITS AND INVESTMENTS – CONTINUED

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. During the year ended August 31, 2011 the District was not significantly exposed to credit risk. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

<u>Investment or Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Rating as of August 31, 2011</u>
Edward Jones Mutual Funds	N/A	N/A
Corporate Bonds	N/A	AAA/Aaa
Texas Class	AAA/AAAm	AAAm

Concentration of Credit Risk

The investment policy of the District requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. DEPOSITS AND INVESTMENTS – CONTINUED

Custodial Credit Risk – Continued

As of August 31, 2011, the District's deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

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

- A. Depository: Amegy Bank
- B. Security pledged as of the date of the highest combined balance on deposit was \$50,000,000.
- C. Largest cash, savings and time deposit combined account balance amounted to \$45,912,036 and occurred during the month of February 2011.
- D. Total amount of FDIC coverage at the time of largest combined balance was \$250,000.

Investment in State Investment Pool

The District is a voluntary participant in the Texas Class investment pool. Texas Class was established in 1996 pursuant to the Texas Public Funds Investment Act. The pool is governed by a 7 member board of trustees, who are elected by pool participants. The Cutwater Investor Services Corp. serves as the pools program administrator and Wells Fargo Bank Texas, NA, serves as custodian.

Texas Class is a 2a7-like pool. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The District's investments in these pools are the same as the value of the pool shares, which are valued based on quoted market rates.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. RETIREMENT PLAN

Plan Description. The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67 and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2011-2009, and a state contribution rate of 6.644% for fiscal years 2011-2010 and 6.58% for fiscal year 2009. In certain instances the reporting district is required to make all or a portion of the state's 6.644% contribution, limited to 6.4% for the period of September through December 2009 and increased to 6.644% for the period of January 2010 through August 2011. State contributions to TRS made on behalf of the District's employees for the years ended August 31, 2011, 2010 and 2009 were approximately \$2.2 million, \$2.2 million, and \$2.0 million, respectively. The District paid additional state contributions for the years ended August 31, 2011, 2010, and 2009 in the amount of approximately \$340,000, \$330,000, and \$350,000, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 7. SCHOOL DISTRICT RETIREE HEALTH PLAN

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

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2011, 2010 and 2009. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2011, 2010, and 2009, the State's contributions to TRS-Care were approximately \$353,000, \$337,000, and \$311,000, respectively, the active member contributions were approximately \$230,000, \$218,000, and \$202,000, respectively, and the school district's contributions were \$194,000, \$185,000, and \$171,000, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2011, 2010, and 2009, the subsidy payments received by TRS-Care on behalf of the District were \$95,585, \$83,465, and \$69,190, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District is a participant in TRS-ActiveCare, a fully-insured statewide health coverage program for public education employees sponsored by the Teacher Retirement System of Texas.

In addition, the District is a member of the Deep East Texas Self Insurance Fund (the Fund). Members purchase workers' compensation coverage through the Fund, which is a public entity risk pool and is self-sustained through member contributions. The Fund reinsures to statutory limits through commercial companies for claims in excess of \$750,000 for year 2010-2011. The Fund contracts with independent actuaries to determine the adequacy of reserves and fully funds those reserves.

The members of the Fund have no known premium liabilities for workers' compensation coverage in excess of their contracted annual premium. However, if the assets of the Fund were to be exhausted, members would be liable for their portion of the Fund's liabilities. This would indicate that members would be contingently liable for the portion of the liability applicable to their political entity. Independent auditors conduct a financial audit at the close of each plan year and as of the most recent audit, the Fund has adequate assets to more than cover 100% of all liabilities.

During previous years, the District participated in an interlocal agreement providing for pooled coverage of workers' compensation benefits for employees. Claims incurred by the employees of the District were handled by a third party administrator who was responsible for estimating losses to be incurred by the District and ultimately paid to the claimant. The District has accrued claims payable of \$126,798 as of August 31, 2011 which includes provisions for claims reported but not paid and claims incurred but not reported. The provision for reported claims and claims incurred but not yet reported is determined by estimating the amount that will ultimately be paid each claimant and is calculated and provided by the District's third party administrator. Accrued claims payable have not been discounted to their present value as the District expects such claims to be paid within the following fiscal year. The District believes that any discount of the claims payable would not be material to the overall financial statements.

Changes in the fund's claims liability amount for the years ended August 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Liability, beginning of year	\$ 247,209	\$ 1,159,089
Current year claims and changes in estimates	(46,178)	209,472
Claim payments	(74,233)	(1,121,352)
Liability, end of year	<u>\$ 126,798</u>	<u>\$ 247,209</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9. LITIGATION

The District is a party to various legal actions, none of which is believed by the administration or its legal counsel to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying basic financial statements for such contingencies.

NOTE 10. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the state through the School Foundation and Per Capita programs. Amounts due from other governments at August 31, 2011, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as *due from other governments*.

Fund	Local Governments	State Entitlements	Federal Grants	Total
General	\$ 77,164	\$ -	\$ -	\$ 77,164
Special revenue	-	29,591	401,043	430,634
Child nutrition	-	-	49,282	49,282
Total	<u>\$ 77,164</u>	<u>\$ 29,591</u>	<u>\$ 450,325</u>	<u>\$ 557,080</u>

NOTE 11. DEFERRED REVENUE

Deferred revenue at August 31, 2011 consisted of the following:

	General Fund	Debt Service Fund	Total
Net tax revenue	\$ 1,432,604	\$ 356,757	\$ 1,789,361
Grants received in advance of expenditures	<u>1,923,115</u>	<u>-</u>	<u>1,923,115</u>
Total	<u>\$ 3,355,719</u>	<u>\$ 356,757</u>	<u>\$ 3,712,476</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 12. INTERFUND BALANCES AND ACTIVITIES

Interfund balances (net) at August 31, 2011 consisted of the following individual fund balances:

Due To Fund	Due From Fund	Amount	Purpose
General fund	Internal service fund	\$ 64,066	Reimbursement of expenditures
General fund	Special revenue fund	432,783	Reimbursement of expenditures
General fund	Enterprise fund	169,888	Reimbursement of expenditures
Debt service fund	General fund	<u>30,988</u>	Reimbursement of expenditures
		<u>\$ 697,725</u>	

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

During the year ended August 31, 2011 transfers between funds occurred as described below:

Transfer from	Transfer to	Amount	Purpose
General fund	Enterprise fund	\$ 94,856	Cover operating expenses
General fund	Internal service fund	2,724,965	Cover fund deficit

NOTE 13. OPERATING LEASES

Commitments under operating lease (non-capitalized) agreements for facilities and equipment are subject to fiscal funding clauses and are cancellable by the District. The District is therefore not obligated for minimum future rental payments as of August 31, 2011. The imputed interest on the leases is not readily determinable.

Rental expenditures for the year ended August 31, 2011 amounted to \$466,530.

NOTE 14. COMMITMENTS AND CONTINGENCIES

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

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 15. SHARED SERVICES ARRANGEMENTS

The District participates in three shared services arrangements as follows:

(1) Title III, Part A, English Language Acquisition and Language Enhancement

For the improvement of the education of limited English proficient children funded under ESEA Title III, Part A, English Language Acquisition and Language Enhancement.

(2) ESEA, Title IV Safe and Drug-Free School and Communities Act

To develop age appropriate comprehensive violence and drug/alcohol education prevention program, funded under ESEA, Title IV Safe and Drug-Free School and Communities Act.

(3) State Supplemental Visually Impaired Fund

For the education of students with a visual impairment, funded under State Supplemental Visually Impaired funds, TEC Section 30.002, 19 TAC 89.238(6).

The Education Service Center, Region VI acts as the fiscal agent in the above shared services arrangements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the District have a new equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the shared services arrangements.

REQUIRED SUPPLEMENTARY INFORMATION

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2011**

EXHIBIT G-1

		General Fund			
		2011			
Data Control Codes		Original Budget	Final Amended Budget	Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
Revenues					
5700	Local and intermediate sources	\$ 37,382,637	\$ 37,747,456	\$ 38,011,018	\$ 263,562
5800	State program revenues	13,086,767	13,240,761	12,821,890	(418,871)
5900	Federal program revenues	50,000	156,906	156,906	-
	Total revenues	<u>50,519,404</u>	<u>51,145,123</u>	<u>50,989,814</u>	<u>(155,309)</u>
Expenditures					
0011	Instruction	30,811,645	30,535,249	30,345,869	189,380
0012	Instruction resources and media services	421,651	423,887	402,887	21,000
0013	Curriculum and instructional staff development	163,426	301,617	227,630	73,987
0021	Instructional administration	284,536	391,699	333,184	58,515
0023	School administration	2,339,201	2,350,386	2,337,448	12,938
0031	Guidance and counseling services	898,871	977,274	960,540	16,734
0033	Health services	613,188	626,678	608,283	18,395
0034	Student (pupil) transportation	3,517,756	3,557,223	3,553,346	3,877
0036	Co-curricular/extracurricular activities	1,089,426	1,192,278	1,141,847	50,431
0041	General administration	1,564,238	1,489,836	1,447,101	42,735
0051	Plant maintenance and operations	6,833,535	6,458,708	6,146,812	311,896
0052	Security and monitoring services	502,614	502,614	466,443	36,171
0053	Data processing services	790,692	790,692	718,127	72,565
0061	Ancillary services	256,616	351,393	301,868	49,525
Intergovernmental					
0091	Contracted instructional services	85,000	101,699	101,187	512
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	25,000	25,000	8,000	17,000
0099	Other Intergovernmental Charges	313,058	318,525	318,525	-
6030	Total expenditures	<u>50,510,453</u>	<u>50,394,758</u>	<u>49,419,097</u>	<u>975,661</u>
1100	Excess of revenues over (under) expenditures	8,951	750,365	1,570,717	820,352
Other financing sources (uses)					
	Other sources(uses)	-	(109,757)	(2,812,136)	2,702,379
	Total other financing sources and (uses)	<u>-</u>	<u>(109,757)</u>	<u>(2,812,136)</u>	<u>(2,702,379)</u>
	Net change in fund balance	8,951	640,608	(1,241,419)	(1,882,027)
	Fund balance - September 1	7,037,188	7,037,188	7,037,188	-
	Fund balance - August 31	<u>\$ 7,046,139</u>	<u>\$ 7,677,796</u>	<u>\$ 5,795,769</u>	<u>\$ (1,882,027)</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

NOTE 1. BUDGETARY DATA

The District adopts annual appropriations type budgets for the general fund, child nutrition fund, and the debt service fund using the same method of accounting as for financial reporting, as required by law. The remaining special revenue funds (primarily federal grant programs) utilize a managerial type budget approved at the fund level by the Board of Trustees upon acceptance of the grants. These grants are subject to federal, state and locally imposed project length budgets and monitoring through submission of reimbursement reports.

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Board of Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end.

The administrative level at which responsibility for control of budgeted appropriations begins is at the organizational level within each function of operations. The finance department reviews closely the expenditure requests submitted by the various organizational heads (principal and department heads) throughout the year to ensure proper spending compliance. No public funds of the District shall be expended in any manner other than as provided for in the budget adopted by the Board of Trustees.

The official school budget was prepared for adoption for budgeted governmental fund types by August 20, 2010. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency through inclusion in the annual financial and compliance report.

Encumbrance accounting is utilized in all government fund types. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at year end.

COMBINING STATEMENTS AND SCHEDULES

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 TOTAL NON-MAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2011**

Data Control Codes		211 ESEA Title I Improving Basic Programs	224 IDEA Part B Formula	225 IDEA Part B Preschool	244 Career and Tech Basic Grant	255 ESEA Title II Training and Recruiting
ASSETS						
1110	Cash and temporary investments	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables						
1240	Due from other governments	85,140	110,619	-	1,005	25,666
1000	Total assets	<u>\$ 85,140</u>	<u>\$ 110,619</u>	<u>\$ -</u>	<u>\$ 1,005</u>	<u>\$ 25,666</u>
LIABILITIES						
CURRENT LIABILITIES						
2170	Due to other funds	\$ 85,140	\$ 110,619	\$ -	\$ 1,005	\$ 25,666
2300	Deferred Revenues	-	-	-	-	-
2000	Total liabilities	<u>85,140</u>	<u>110,619</u>	<u>-</u>	<u>1,005</u>	<u>25,666</u>
FUND BALANCE						
3450	Restricted for grant funds	-	-	-	-	-
3545	Committed for local special revenue funds	-	-	-	-	-
3000	Total fund equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total liabilities and fund equity	<u>\$ 85,140</u>	<u>\$ 110,619</u>	<u>\$ -</u>	<u>\$ 1,005</u>	<u>\$ 25,666</u>

263 English Language Acquisition and Enhancement	266 ARRA, Title XIV State Fiscal Stabilization	283 IDEA Part B Formula - ARRA	284 IDEA Part B Preschool - ARRA	285 Improving Basic Programs - ARRA	289 Federally Funded Special Revenue
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,149
-	-	122,961	10,555	45,097	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,961</u>	<u>\$ 10,555</u>	<u>\$ 45,097</u>	<u>\$ 2,149</u>
\$ -	\$ -	\$ 122,961	\$ 10,555	\$ 45,097	\$ 2,149
-	-	-	-	-	-
-	-	122,961	10,555	45,097	2,149
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,961</u>	<u>\$ 10,555</u>	<u>\$ 45,097</u>	<u>\$ 2,149</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 TOTAL NON-MAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2011**

Data Control Codes		383 Professional Staff Development	385 Supplemental Visually Impaired	397 Advanced Placement Incentives	404 Student Success Initiative
ASSETS					
1110	Cash and temporary investments	\$ 409	\$ -	\$ 13,191	\$ -
Receivables:					
1240	Due from other governments	-	554	-	6,663
1000	Total assets	<u>\$ 409</u>	<u>\$ 554</u>	<u>\$ 13,191</u>	<u>\$ 6,663</u>
LIABILITIES					
CURRENT LIABILITIES					
2170	Due to other funds	\$ -	\$ 554	\$ -	\$ 6,663
2300	Deferred Revenues	-	-	-	-
2000	Total liabilities	-	554	-	6,663
FUND BALANCE					
3450	Restricted for grant funds	409	-	13,191	-
3545	Committed for local special revenue funds	-	-	-	-
3000	Total fund equity	<u>409</u>	<u>-</u>	<u>13,191</u>	<u>-</u>
4000	Total liabilities and fund equity	<u>\$ 409</u>	<u>\$ 554</u>	<u>\$ 13,191</u>	<u>\$ 6,663</u>

410 State Textbook Fund	411 Technology Allotment	429 State Funded Special Revenue	461 Campus Activity Funds	Total August 31, 2010
\$ -	\$ 113,058	\$ 4,243	\$ 154,165	\$ 287,215
-	-	22,374	-	430,634
<u>\$ -</u>	<u>\$ 113,058</u>	<u>\$ 26,617</u>	<u>\$ 154,165</u>	<u>\$ 717,849</u>
\$ -	\$ -	\$ 22,374	\$ -	\$ 432,783
-	-	-	-	-
-	-	22,374	-	432,783
-	113,058	4,243	-	130,901
-	-	-	154,165	154,165
<u>-</u>	<u>113,058</u>	<u>4,243</u>	<u>154,165</u>	<u>285,066</u>
-	-	-	-	-
<u>\$ -</u>	<u>\$ 113,058</u>	<u>\$ 26,617</u>	<u>\$ 154,165</u>	<u>\$ 717,849</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE – NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2011**

Data Control Codes	211 ESEA Title I Improving Basic Programs	224 IDEA Part B Formula
Revenues		
5700 Local and intermediate sources	\$ -	\$ -
5800 State program revenues	-	-
5900 Federal program revenues	479,260	513,643
5020 Total revenues	<u>479,260</u>	<u>513,643</u>
Expenditures		
0011 Instruction	479,260	383,134
0012 Instructional resources and media services	-	-
0013 Curriculum and instructional staff development	-	-
0021 Instructional administration	-	126
0023 School administration	-	-
0031 Guidance and counseling services	-	130,383
0034 Student transportation	-	-
0036 Cocurricular/extracurricular activities	-	-
0051 Plant maintenance and operations	-	-
6030 Total expenditures	<u>479,260</u>	<u>513,643</u>
1100 Excess (deficiency) revenues over expenditures	-	-
Other financing sources and (uses)		
8911 Transfers out	-	-
Total other financing sources and (uses)	<u>-</u>	<u>-</u>
1200 Net change in fund balance	-	-
0100 Fund balance - September 1 (beginning)	<u>-</u>	<u>-</u>
3000 Fund balance - August 31 (ending)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

225 IDEA Part B Preschool	244 Career and Tech Basic Grant	255 ESEA Title II Training and Recruiting	263 English Language Acquisition and Enhancement
\$ -	\$ -	\$ -	\$ -
-	-	-	-
91	45,606	158,857	8,305
<u>91</u>	<u>45,606</u>	<u>158,857</u>	<u>8,305</u>
91	44,999	122,081	8,305
-	-	-	-
-	-	36,776	-
-	-	-	-
-	607	-	-
-	-	-	-
-	-	-	-
<u>91</u>	<u>45,606</u>	<u>158,857</u>	<u>8,305</u>
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE – NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2011**

Data Control Codes	266 ARRA, Title XIV State Fiscal Stabilization	283 IDEA Part B Formula - ARRA
Revenues		
5700	\$ -	\$ -
5800	-	-
5900	1,798,607	708,600
5020	<u>1,798,607</u>	<u>708,600</u>
Expenditures		
0011	-	708,600
0012	431,885	-
0013	162,618	-
0021	47,950	-
0023	690,439	-
0031	465,715	-
0034	-	-
0036	-	-
0051	-	-
6030	<u>1,798,607</u>	<u>708,600</u>
1100	-	-
Other financing sources and (uses)		
8911	-	-
	<u>-</u>	<u>-</u>
1200	-	-
0100	<u>-</u>	<u>-</u>
3000	<u>\$ -</u>	<u>\$ -</u>

284 IDEA Part B Preschool - ARRA	285 Improving Basic Programs - ARRA	289 Federally Funded Special Revenue
\$ -	\$ -	\$ -
-	-	-
16,149	162,059	2,149
<u>16,149</u>	<u>162,059</u>	<u>2,149</u>
16,149	162,059	2,149
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>16,149</u>	<u>162,059</u>	<u>2,149</u>
-	-	-
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
-	-	-
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
\$ -	\$ -	\$ -
<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011**

Data Control Codes		383 Professional Staff Development	385 Supplemental Visually Impaired	397 Advanced Placement Incentives	404 Student Success Initiative
Revenues					
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	4,026	-	22,002
5900	Federal program revenues	-	-	-	-
5020	Total revenues	-	4,026	-	22,002
Expenditures					
0011	Instruction	-	4,026	1,094	22,002
0012	Instructional resources and media services	-	-	-	-
0013	Curriculum and instructional staff development	-	-	-	-
0021	Instructional administration	-	-	-	-
0023	School administration	-	-	-	-
0031	Guidance and counseling services	-	-	-	-
0034	Student transportation	-	-	-	-
0036	Cocurricular/extracurricular activities	-	-	-	-
0051	Plant maintenance and operations	-	-	-	-
6030	Total expenditures	-	4,026	1,094	22,002
1100	Excess (deficiency) revenues over expenditures	-	-	(1,094)	-
Other financing sources and (uses)					
8911	Transfers out	-	-	-	-
	Total other financing sources and (uses)	-	-	-	-
1200	Net change in fund balance	-	-	(1,094)	-
0100	Fund balance - September 1 (beginning)	409		14,285	-
3000	Fund balance - August 31 (ending)	\$ 409	\$ -	\$ 13,191	\$ -

410 State Textbook Fund	411 Technology Allotment	429 State Funded Special Revenue	461 Campus Activity Funds	Total August 31, 2010
\$ -	\$ -	\$ -	\$ 601,798	\$ 601,798
80,287	193,618	109,505	-	409,438
-	-	-	-	3,893,326
<u>80,287</u>	<u>193,618</u>	<u>109,505</u>	<u>601,798</u>	<u>4,904,562</u>
80,287	102,187	109,408	134,247	2,380,078
-	-	-	-	431,885
-	-	-	-	199,394
-	-	-	-	48,076
-	-	-	-	690,439
-	-	-	-	596,705
-	-	-	-	-
-	-	-	430,055	430,055
-	-	-	-	-
<u>80,287</u>	<u>102,187</u>	<u>109,408</u>	<u>564,302</u>	<u>4,776,632</u>
-	91,431	97	37,496	127,930
-	-	-	-	-
-	-	-	-	-
-	91,431	97	37,496	127,930
-	21,627	4,146	116,669	157,136
<u>\$ -</u>	<u>\$ 113,058</u>	<u>\$ 4,243</u>	<u>\$ 154,165</u>	<u>\$ 285,066</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 COMBINING SCHEDULE OF CAMPUS ACTIVITY FUNDS
 AUGUST 31, 2011**

	460 Montgomery Intermediate School	461 Montgomery Elementary School	462 Montgomery Middle School	463 Montgomery Junior High School
ASSETS				
Cash and temporary investments	\$ 24,363	\$ 20,739	\$ 19,149	\$ 12,067
LIABILITIES				
	-	-	-	-
FUND BALANCE				
Committed for local special revenue funds	24,363	20,739	19,149	12,067
Total fund equity	<u>24,363</u>	<u>20,739</u>	<u>19,149</u>	<u>12,067</u>
Total liabilities and fund equity	<u>\$ 24,363</u>	<u>\$ 20,739</u>	<u>\$ 19,149</u>	<u>\$ 12,067</u>
REVENUES				
Local and intermediate sources	\$ 156,339	\$ 98,926	\$ 82,547	\$ 2,043
EXPENDITURES				
Instruction	-	-	-	-
Cocurricular/extracurricular activities	132,014	86,415	67,929	1,103
Plant maintenance and operations	-	-	-	-
Total expenditures	<u>132,014</u>	<u>86,415</u>	<u>67,929</u>	<u>1,103</u>
Excess of revenues over (under) expenditures	24,325	12,511	14,618	940
OTHER FINANCING SOURCES AND (USES)				
Transfers in	-	884	1,290	565
Transfers Out	-	-	-	-
Total Other Financing Sources and (Uses)	<u>-</u>	<u>884</u>	<u>1,290</u>	<u>565</u>
Net Change in Fund Balance	24,325	13,395	15,908	1,505
Fund balance - September 1 (beginning)	38	7,344	3,241	10,562
Fund balance - August 31 (ending)	<u>\$ 24,363</u>	<u>\$ 20,739</u>	<u>\$ 19,149</u>	<u>\$ 12,067</u>

464 Montgomery High School	465 Montgomery School District	466 Stewart Creek Elementary	467 Lone Star Elementary	468 Montgomery High School Building Rental	469 Montgomery Junior High Building Rental	470 Montgomery Middle School Building Rental
\$ 3,107	\$ 37,576	\$ 4,249	\$ 10,882	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
3,107	37,576	4,249	10,882	-	-	-
3,107	37,576	4,249	10,882	-	-	-
\$ 3,107	\$ 37,576	\$ 4,249	\$ 10,882	\$ -	\$ -	\$ -
\$ 3,416	\$ -	\$ 45,539	\$ 123,745	\$ -	\$ -	\$ -
-	-	605	133,642	-	-	-
6,492	-	41,559	-	-	-	-
-	-	-	-	-	-	-
6,492	-	42,164	133,642	-	-	-
(3,076)	-	3,375	(9,897)	-	-	-
5,662	-	-	200	-	-	-
-	-	-	-	(5,662)	(565)	(1,290)
5,662	-	-	200	(5,662)	(565)	(1,290)
2,586	-	3,375	(9,697)	(5,662)	(565)	(1,290)
521	37,576	874	20,579	5,662	565	1,290
\$ 3,107	\$ 37,576	\$ 4,249	\$ 10,882	\$ -	\$ -	\$ -

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
COMBINING SCHEDULE OF CAMPUS ACTIVITY FUNDS
AUGUST 31, 2011**

EXHIBIT H-3

Page 2 of 2

	472 Montgomery Elementary Building Rental	474 Lone Star Building Rental	475 Madeley Ranch Elementary	Total Campus Activity Funds
ASSETS				
Cash and temporary investments	\$ -	\$ -	\$ 22,033	\$ 154,165
LIABILITIES	-	-	-	-
FUND BALANCE				
Undesignated fund balance	-	-	22,033	154,165
Total fund equity	-	-	22,033	154,165
Total liabilities and fund equity	\$ -	\$ -	\$ 22,033	\$ 154,165
REVENUES				
Local and intermediate sources	\$ -	\$ -	\$ 89,243	\$ 601,798
EXPENDITURES				
Instruction	-	-	-	134,247
Cocurricular/extracurricular activities	-	-	94,543	430,055
Plant maintenance and operations	-	-	-	-
Total expenditures	-	-	94,543	564,302
Excess of revenues over (under) expenditures	-	-	(5,300)	37,496
OTHER FINANCING SOURCES AND (USES)				
Transfers in	-	-	-	8,601
Transfers Out	(884)	(200)	-	(8,601)
Total Other Financing Sources and (Uses)	(884)	(200)	-	-
Net Change in Fund Balance	(884)	(200)	(5,300)	37,496
Fund balance - September 1 (beginning)	884	200	27,333	116,669
Fund balance - August 31 (ending)	\$ -	\$ -	\$ 22,033	\$ 154,165

REQUIRED TEA SCHEDULES

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2011**

Year Ended August 31	Tax Rates		Assessed Value	Beginning Balance 9/1/2010	Current Year Levy
	Maintenance	Debt Service			
2002 and prior	various	various	various	\$ 215,384	\$ -
2003	1.428	0.232	1,695,542,694	60,029	-
2004	1.428	0.232	1,866,500,709	71,834	-
2005	1.477	0.183	2,023,772,883	78,341	-
2006	1.457	0.203	2,334,140,904	108,266	-
2007	1.3319	0.21	2,456,653,939	168,761	-
2008	1.04	0.31	2,852,823,344	192,052	-
2009	1.04	0.31	3,358,962,564	356,177	-
2010	1.04	0.30	3,637,881,857	924,079	-
2011	1.04	0.30	3,726,671,981	-	47,616,924
				<u>\$ 2,174,923</u>	<u>\$ 47,616,924</u>

EXHIBIT J-1

Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 8/31/2011
\$ 8,425	\$ 1,400	\$ (6,938)	\$ 198,621
3,150	512	(75)	56,292
7,195	1,169	(291)	63,179
9,191	1,139	(449)	67,562
11,889	1,656	(1,288)	93,433
18,221	2,873	(6,715)	140,952
31,944	9,522	(7,581)	143,005
77,076	22,975	(25,023)	231,103
311,495	89,854	(127,190)	395,540
36,299,035	10,470,875	-	847,014
<u>\$ 36,777,621</u>	<u>\$ 10,601,975</u>	<u>\$ (175,550)</u>	<u>\$ 2,236,701</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT
COSTS FOR 2011-2012 – GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011**

EXHIBIT J-2

Account Number		(1) 702 School Board	(2) 703 Tax Collection	(3) 701 Supt's Office	(4) 750 Indirect Cost	(5) 720 Direct Cost	(6) (other) Misc.	(7) Total
6100	Payroll costs	\$ -	\$ -	\$ 272,667	\$ 828,413	\$ -	\$ -	\$ 1,101,080
6211	Legal services	-	4,701	-	-	48,474	-	53,175
6212	Audit services	-	-	-	47,611	-	-	47,611
6213	Tax appraisal / collection	-	318,525	-	-	-	-	318,525
621X	Other professional services	-	-	-	43,858	-	-	43,858
6230	Education service centers	-	-	-	750	-	-	750
6240	Maintenance and repairs	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	14,409	-	-	14,409
6290	Miscellaneous Contracts	4,083	-	-	11,183	-	-	15,266
63XX	Other supplies	339	-	7,756	59,849	-	-	67,944
6410	Travel, subsistence and stipends	5,800	-	3,928	13,578	-	-	23,306
6420	Insurance and bonding	-	-	-	13,318	-	-	13,318
6430	Election expense	19,918	-	-	-	-	-	19,918
6490	Miscellaneous operating	17,512	-	3,709	28,096	-	-	49,317
6600	Capital outlay	-	-	-	-	-	-	-
Total		\$ 47,652	\$ 323,226	\$ 288,060	\$ 1,061,065	\$ 48,474	\$ -	\$ 1,768,477

Other Information:

Total expenditures for general and special revenue funds (Exhibit C-3)	(9)	\$ 54,195,729
Less: Deductions of unallowable costs:		
Fiscal year		
Total capital outlay (6600)	(10)	\$ 514,128
Total debt & lease (6500)	(11)	
Plant maintenance (Function 51, 6100-6400)	(12)	6,124,823
Food (Function 35, 6341 and 6499)	(13)	
Stipends (6413)	(14)	
Column 4 above - total indirect cost		<u>1,061,065</u>
Subtotal		<u>7,700,016</u>
Net Allowable Direct Cost		<u>\$ 46,495,713</u>

Cumulative

Total cost of buildings before depreciation (1520)	(15)	\$ 155,233,027
Historical cost of buildings over 50 years old	(16)	\$ 1,957
Amount of federal money in building cost (Net of #16)	(17)	\$ -
Total cost of furniture & equipment before depreciation (1530&1540)	(18)	\$ 7,670,161
Historical cost of furniture & equipment over 16 years old	(19)	\$ 1,078,214
Amount of federal money in furniture & equipment (Net of #19)	(20)	\$ -
Amount in Function 53 expenditures included in this report on administrative costs	(8a)	\$ 115,024
Amount in Function 99 expenditures for appraisal district costs included in this report on administrative costs	(8b)	\$ 318,525

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE – CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2011**

EXHIBIT J-3

Data Control Codes	Original Budget	Final Amended Budget	Actual Amounts (GAAP Basis)	Variance Positive (Negative)
Revenues				
5700 Local and intermediate sources	\$ 2,082,800	\$ 2,365,215	\$ 2,376,044	\$ 10,829
5800 State program revenues	19,500	91,297	91,218	(79)
5900 Federal program revenues	1,097,700	1,289,910	1,300,931	11,021
Total revenues	3,200,000	3,746,422	3,768,193	21,771
Expenses				
6100 Payroll costs	1,518,751	1,600,000	1,567,586	32,414
6200 Professional and contracted services	141,700	156,500	157,537	(1,037)
6300 Supplies and materials	1,448,000	1,864,500	1,807,298	57,202
6400 Other operating costs	22,300	22,300	28,267	(5,967)
6600 Capital outlay	69,249	22,000	-	22,000
6030 Total expenses	3,200,000	3,665,300	3,560,688	104,612
1300 Change in net assets	-	81,122	207,505	126,383
0100 Net assets - September 1	<u>1,218,185</u>	<u>1,218,185</u>	<u>1,218,185</u>	-
3300 Net assets - August 31	<u>\$ 1,218,185</u>	<u>\$ 1,299,307</u>	<u>\$ 1,425,690</u>	<u>\$ 126,383</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE – DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2011**

EXHIBIT J-4

Data Control Codes	Original Budget	Final Amended Budget	Actual Amounts (GAAP Basis)	Variance Positive (Negative)
Revenues				
5700 Local and intermediate sources	\$ 10,655,174	\$ 10,722,987	\$ 10,754,623	\$ 31,636
Total revenues	<u>10,655,174</u>	<u>10,722,987</u>	<u>10,754,623</u>	<u>31,636</u>
Expenditures				
0070 Debt service				
0071 Principal	3,496,317	3,836,095	3,466,095	370,000
0072 Interest	7,146,857	6,395,323	6,379,273	16,050
0073 Bond issuance cost and fees	12,000	12,000	193,604	(181,604)
6030 Total debt service	<u>10,655,174</u>	<u>10,243,418</u>	<u>10,038,972</u>	<u>204,446</u>
Other financing sources and (uses)				
7901 Refunding bonds issued	-	-	14,495,000	14,495,000
7916 Premium on the issuance of bonds	-	-	939,907	939,907
8940 Payment to bond refunding escrow agent	-	-	<u>(15,617,710)</u>	<u>(15,617,710)</u>
1100 Excess of revenues over (under) expenditures	<u>-</u>	<u>479,569</u>	<u>532,848</u>	<u>53,279</u>
1200 Net change in fund balance	<u>-</u>	<u>479,569</u>	<u>532,848</u>	<u>53,279</u>
0100 Fund balance - September 1	1,534,852	1,534,852	1,534,852	-
3000 Fund balance - August 31	<u>\$ 1,534,852</u>	<u>\$ 2,014,421</u>	<u>\$ 2,067,700</u>	<u>\$ 53,279</u>

STATISTICAL SECTION

FINANCIAL TRENDS INFORMATION

These schedules contain trend information to help the reader understand how the District's financial performance and position have changed over time.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

Fiscal Year	<u>2011</u>	<u>2010</u>	<u>2009</u>
Governmental Activities			
Invested in Capital Assets, Net of Related Debt	\$ (4,061,718)	\$ (9,376,083)	\$ (2,034,515)
Restricted	2,152,210	1,553,536	1,464,084
Unrestricted	419,773	5,642,261	(259,773)
Total Governmental Activities Net Assets	<u>\$ (1,489,735)</u>	<u>\$ (2,180,286)</u>	<u>\$ (830,204)</u>
Business-Type Activities			
Invested in Capital Assets, Net of Related Debt	\$ 192,098	\$ 184,978	\$ 168,211
Restricted	1,233,592	1,021,783	646,618
Unrestricted	(4,070)	7,354	-
Total Business-Type Activities Net Assets	<u>\$ 1,421,620</u>	<u>\$ 1,214,115</u>	<u>\$ 814,829</u>
Primary Government			
Invested in Capital Assets, Net of Related Debt	\$ (3,869,620)	\$ (9,191,105)	\$ (1,866,304)
Restricted	3,385,802	2,575,319	2,110,702
Unrestricted	415,703	5,649,615	(259,773)
Total Primary Government Net Assets	<u>\$ (68,115)</u>	<u>\$ (966,171)</u>	<u>\$ (15,375)</u>

Source: Montgomery Independent School District's audited financial statements

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ 598,621	\$ 948,835	\$ 4,800,600	\$ 3,692,488	\$ 3,983,465	\$ 4,825,708	\$ 5,429,476
1,252,407	1,980,260	300,880	278,934	2,479,140	2,199,918	432,882
4,166,027	3,432,620	2,214,774	4,858,432	2,090,208	2,018,294	3,051,393
<u>\$ 6,017,055</u>	<u>\$ 6,361,715</u>	<u>\$ 7,316,254</u>	<u>\$ 8,829,854</u>	<u>\$ 8,552,813</u>	<u>\$ 9,043,920</u>	<u>\$ 8,913,751</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,105	-	-	-	-	-	-
801,300	528,475	(78,276)	(80,240)	(82,812)	(88,870)	(74,370)
<u>\$ 803,405</u>	<u>\$ 528,475</u>	<u>\$ (78,276)</u>	<u>\$ (80,240)</u>	<u>\$ (82,812)</u>	<u>\$ (88,870)</u>	<u>\$ (74,370)</u>
\$ 598,621	\$ 948,835	\$ 4,800,600	\$ 3,692,488	\$ 3,983,465	\$ 4,825,708	\$ 5,429,476
1,254,512	1,980,260	300,880	278,934	2,479,140	2,199,918	432,882
4,967,327	3,961,095	2,136,498	4,778,192	2,007,396	1,929,424	2,977,023
<u>\$ 6,820,460</u>	<u>\$ 6,890,190</u>	<u>\$ 7,237,978</u>	<u>\$ 8,749,614</u>	<u>\$ 8,470,001</u>	<u>\$ 8,955,050</u>	<u>\$ 8,839,381</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

Fiscal Year	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Expenses				
Governmental Activities:				
Instruction	\$ 35,059,525	\$ 35,286,346	\$ 32,304,902	\$ 31,218,917
Instructional Resources and Media Services	998,001	992,038	852,694	734,238
Curriculum and Staff Development	463,540	426,568	406,045	533,512
Instructional Leadership	381,276	369,045	412,190	318,956
School Leadership	3,119,416	3,173,805	2,941,035	2,726,581
Guidance and Counseling	1,593,307	1,696,625	1,599,457	1,364,268
Health Services	645,993	630,223	557,536	505,817
Student (Pupil) Transportation	3,637,980	3,508,720	3,370,292	3,992,080
Food Services	285,512	282,693	248,926	213,662
Cocurricular/Extracurricular Activities	2,141,328	2,259,316	2,128,490	2,109,899
General Administration	1,447,166	1,518,395	1,720,697	1,073,106
Plant Maintenance and Operations	7,013,443	7,510,144	6,365,413	5,563,934
Security and Monitoring Services	448,555	465,661	503,805	444,016
Data Processing Services	718,164	776,747	807,434	701,226
Community Services	501,644	218,131	-	-
Debt Service - Interest and Fees	6,442,419	6,943,614	7,462,803	3,345,829
Facilities Acquisition and Construction	578,747	-	6,702,579	4,517,374
Contracted Instructional Services	101,187	87,505	2,004,550	65,277
Payments to Juvenile Justice Alternative Ed. Programs	8,000	-	-	23,360
Other Intergovernmental Charges	318,525	359,301	352,598	247,576
Total Governmental Activities Expenses	<u>\$ 65,903,728</u>	<u>\$ 66,504,877</u>	<u>\$ 70,741,446</u>	<u>\$ 59,699,628</u>
Business-Type Activities:				
Food Service	\$ 3,560,688	\$ 3,191,389	\$ 3,217,778	\$ 2,729,965
Day Care	332,316	335,511	364,102	329,773
Total Business-type Activities Expenses	<u>3,893,004</u>	<u>3,526,900</u>	<u>3,581,880</u>	<u>3,059,738</u>
Total Primary Government Expenses	<u>\$ 69,796,732</u>	<u>\$ 70,031,777</u>	<u>\$ 74,323,326</u>	<u>\$ 62,759,366</u>
Program Revenues:				
Governmental Activities:				
Charges for Services				
Instruction	\$ 81,889	\$ 83,107	\$ 78,893	\$ 30,098
Student Transportation	-	-	-	-
Food Service	-	-	-	-
Curricular/Extracurricular Activities	181,127	150,575	84,723	740,252
General Administration	-	-	-	-
Plant Maintenance and Operations	-	-	-	-
Operating Grants and Contributions	7,954,918	7,565,958	5,437,303	4,292,789
Total Governmental Activities Program Revenues	<u>\$ 8,217,934</u>	<u>\$ 7,799,640</u>	<u>\$ 5,600,919</u>	<u>\$ 5,063,139</u>
Business-Type Activities:				
Charges for Services				
Food Service	\$ 2,358,910	\$ 2,339,524	\$ 2,155,584	\$ 1,955,867
Day Care	223,194	200,387	196,409	-
Operating Grants and Contributions	1,406,415	1,255,912	1,063,093	977,584
Total Business-type Activities Program Revenues	<u>3,988,519</u>	<u>3,795,823</u>	<u>3,415,086</u>	<u>2,933,451</u>
Total Primary Government Program Revenues	<u>\$ 12,206,453</u>	<u>\$ 3,795,823</u>	<u>\$ 9,016,005</u>	<u>\$ 7,996,590</u>
Net (Expense)/Revenues				
Governmental Activities:	\$ (57,685,794)	\$ (58,705,237)	\$ (65,140,527)	\$ (54,636,489)
Business-Type Activities:	95,515	268,923	(166,794)	(126,287)
Total Primary Government Net (Expense)/Revenues	<u>\$ (57,590,279)</u>	<u>\$ (58,436,314)</u>	<u>\$ (65,307,321)</u>	<u>\$ (54,762,776)</u>

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ 26,979,584	\$ 23,431,875	\$ 21,718,457	\$ 20,149,555	\$ 19,869,433	\$ 17,980,757
758,692	625,140	574,048	557,899	496,211	500,887
517,975	433,308	532,418	560,923	726,901	610,701
309,847	232,024	226,246	216,838	-	-
2,437,146	2,033,300	1,880,400	1,784,901	1,711,664	1,409,522
1,028,151	783,072	739,356	902,404	881,079	855,436
465,235	375,507	371,662	349,751	286,576	208,283
3,073,351	2,897,119	2,422,415	2,277,146	1,961,181	1,713,991
210,462	2,332,930	2,091,138	1,847,270	1,770,396	1,598,018
1,814,021	1,621,428	1,465,244	1,436,616	1,258,577	1,098,069
1,134,067	1,109,889	1,014,966	975,467	937,947	948,478
5,117,100	4,261,735	3,844,488	3,750,884	3,419,470	2,982,294
266,608	191,723	179,243	142,722	139,645	112,093
121,823	96,447	92,935	76,265	62,151	54,372
-	-	-	-	-	-
4,463,546	5,402,722	2,943,797	2,056,966	3,002,476	3,197,571
-	-	773,842	1,118,622	-	716,468
1,900,509	2,703,668	1,735,896	830,360	-	-
42,420	14,630	10,920	-	-	-
-	-	-	-	-	-
<u>\$ 50,640,537</u>	<u>\$ 48,546,517</u>	<u>\$ 42,617,471</u>	<u>\$ 39,034,589</u>	<u>\$ 36,523,707</u>	<u>\$ 33,986,940</u>
\$ 2,361,942	\$ -	\$ -	\$ -	\$ -	\$ -
319,287	285,834	237,609	235,396	283,712	267,935
2,681,229	285,834	237,609	235,396	283,712	267,935
<u>\$ 53,321,766</u>	<u>\$ 48,832,351</u>	<u>\$ 42,855,080</u>	<u>\$ 39,269,985</u>	<u>\$ 36,807,419</u>	<u>\$ 34,254,875</u>
\$ 152,093	\$ 65,524	\$ 63,105	\$ 42,040	\$ 56,605	\$ 913
552	471	3,905	3,552	-	360
-	1,514,377	1,370,941	1,216,806	1,022,748	1,081,159
443,160	442,050	439,356	441,463	407,518	292,349
1,203	6,389	7,725	-	-	-
-	235	1,450	111	2,093	64
3,511,078	3,862,019	3,817,890	3,362,965	2,484,494	1,593,696
<u>\$ 4,108,086</u>	<u>\$ 5,891,065</u>	<u>\$ 5,704,372</u>	<u>\$ 5,066,937</u>	<u>\$ 3,973,458</u>	<u>\$ 2,968,541</u>
\$ 1,718,618	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
803,295	-	-	-	-	-
2,521,913	-	-	-	-	-
<u>\$ 6,629,999</u>	<u>\$ 5,891,065</u>	<u>\$ 5,704,372</u>	<u>\$ 5,066,937</u>	<u>\$ 3,973,458</u>	<u>\$ 2,968,541</u>
\$ (46,532,451)	\$ (42,655,452)	\$ (36,913,099)	\$ (33,967,652)	\$ (32,550,249)	\$ (31,018,399)
(159,316)	(285,834)	(237,609)	(235,396)	(283,712)	(267,935)
<u>\$ (46,691,767)</u>	<u>\$ (42,941,286)</u>	<u>\$ (37,150,708)</u>	<u>\$ (34,203,048)</u>	<u>\$ (32,833,961)</u>	<u>\$ (31,286,334)</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 CHANGES IN NET ASSETS
 LAST TEN FISCAL YEARS
 (ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)
 (CONTINUED)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Revenues:				
Governmental Activities:				
Property Taxes - General	\$ 37,328,421	\$ 36,480,296	\$ 34,151,768	\$ 29,940,131
Property Taxes - Debt Service	10,773,931	10,484,492	10,133,099	9,014,998
State Aid - Grants and Contributions not Restricted	9,762,699	9,761,575	12,268,989	-
Investment Earnings	23,804	64,310	768,625	2,131,128
SHARS/MAC	156,906	84,478	22,036	12,777,092
Miscellaneous	425,440	609,303	1,116,444	428,479
Transfers (net)	(94,856)	(129,299)	(167,693)	-
Total Governmental Activities General Revenues	<u>\$ 58,376,345</u>	<u>\$ 57,355,155</u>	<u>\$ 58,293,268</u>	<u>\$ 54,291,828</u>
Business-Type Activities:				
State Aid - Grants and Contributions not Restricted	\$ -	\$ -	\$ -	\$ -
Investment Earnings	1,573	1,064	10,525	-
Miscellaneous	15,561	-	-	401,218
Transfers (net)	94,856	129,299	167,693	-
Total Business-type Activities General Revenues	<u>111,990</u>	<u>130,363</u>	<u>178,218</u>	<u>401,218</u>
Total Primary Government General Revenues	<u>\$ 58,488,335</u>	<u>\$ 57,485,518</u>	<u>\$ 58,471,486</u>	<u>\$ 54,693,046</u>
Changes in Net Assets				
Governmental Activities:	\$ 690,551	\$ (1,350,082)	\$ (6,847,259)	\$ (344,661)
Business-Type Activities:	207,505	399,286	11,424	274,931
Total Primary Government	<u>\$ 898,056</u>	<u>\$ (950,796)</u>	<u>\$ (6,835,835)</u>	<u>\$ (69,730)</u>

Source: Montgomery Independent School District's audited financial statements

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ 33,379,040	\$ 33,046,826	\$ 30,334,256	\$ 27,063,763	\$ 23,835,309	\$ 21,039,777
5,347,848	4,663,830	3,848,278	4,432,645	4,176,883	3,111,762
-	-	-	-	4,323,728	4,555,205
833,567	1,205,384	559,359	169,511	284,021	949,776
6,292,086	2,165,368	2,315,053	1,703,863	-	-
163,214	60,445	133,194	106,763	60,477	192,282
(437,843)	-	-	-	-	-
<u>\$ 45,577,912</u>	<u>\$ 41,141,853</u>	<u>\$ 37,190,140</u>	<u>\$ 33,476,545</u>	<u>\$ 32,680,418</u>	<u>\$ 29,848,802</u>
\$ -	\$ -	\$ -	\$ -	\$ 12,517	\$ -
	15,000	-	-	-	-
328,224	272,797	240,181	241,454	256,695	271,395
437,843	-	-	-	-	-
<u>766,067</u>	<u>287,797</u>	<u>240,181</u>	<u>241,454</u>	<u>269,212</u>	<u>271,395</u>
<u>\$ 46,343,979</u>	<u>\$ 41,429,650</u>	<u>\$ 37,430,321</u>	<u>\$ 33,717,999</u>	<u>\$ 32,949,630</u>	<u>\$ 30,120,197</u>
\$ (954,539)	\$ (1,513,599)	\$ 277,041	\$ (491,107)	\$ 130,169	\$ (1,169,597)
606,751	1,963	2,572	6,058	(14,500)	3,460
<u>\$ (347,788)</u>	<u>\$ (1,511,636)</u>	<u>\$ 279,613</u>	<u>\$ (485,049)</u>	<u>\$ 115,669</u>	<u>\$ (1,166,137)</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	<u>2011 (1)</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
General fund				
Nonspendable	\$ 8,800	\$ -	\$ -	\$ -
Designated	-	2,733,642	-	-
Unassigned	5,786,969	-	-	-
Unreserved	-	4,303,546	5,239,298	3,982,038
Total general fund	<u>\$ 5,795,769</u>	<u>\$ 7,037,188</u>	<u>\$ 5,239,298</u>	<u>\$ 3,982,038</u>
All other governmental funds				
Restricted for				
Grant funds	\$ 130,901	\$ -	\$ -	\$ -
Capital acquisitions	798,221			
Retirement of long-term debt	2,067,700			
Reserved for				
Debt service	-	1,534,852	1,512,565	1,135,231
Capital acquisitions	-	3,306,903	5,888,805	32,366,636
Food service	-	-	-	-
Investments in inventory	-	-	-	-
Other reserves of fund balance	-	-	-	238,184
Unreserved, reported in				
Special revenue funds	-	157,136	353,807	-
Total all other governmental funds	<u>\$ 3,150,987</u>	<u>\$ 4,998,891</u>	<u>\$ 7,755,177</u>	<u>\$ 33,740,051</u>

(1) The District implemented GASB 54 which changed the fund balance classifications.
See Note 1 to the Financial Statements

Source: Montgomery Independent School District's audited financial statements

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
4,864,387	4,255,349	3,958,339	3,777,136	3,465,036	2,609,723
<u>\$ 4,864,387</u>	<u>\$ 4,255,349</u>	<u>\$ 3,958,339</u>	<u>\$ 3,777,136</u>	<u>\$ 3,465,036</u>	<u>\$ 2,609,723</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
324,273	191,909	200,708	161,832	59,689	41,053
-	-	-	-	-	-
-	421,932	309,524	188,166	157,220	199,851
-	15,911	15,912	15,912	15,912	15,912
1,702,624	15,994,775	11,816,873	725,174	2,328,661	12,867,339
-	-	-	-	-	-
<u>\$ 2,026,897</u>	<u>\$ 16,624,527</u>	<u>\$ 12,343,017</u>	<u>\$ 1,091,084</u>	<u>\$ 2,561,482</u>	<u>\$ 13,124,155</u>

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
REVENUES				
Local and Intermediate Sources	\$ 49,369,429	\$ 48,187,617	\$ 47,130,398	\$ 41,870,015
State Program Revenues	13,231,328	12,942,377	15,814,209	15,327,798
Federal Program Revenues	4,050,232	4,005,277	1,451,923	1,742,083
Total Revenues	<u>\$ 66,650,989</u>	<u>\$ 65,135,271</u>	<u>\$ 64,396,530</u>	<u>\$ 58,939,896</u>
EXPENDITURES				
Instruction	\$ 32,725,947	\$ 31,042,699	\$ 29,394,403	\$ 29,342,347
Instructional Resources & Media Services	834,772	817,921	707,348	650,822
Curriculum & Instructional Staff Development	427,024	389,266	369,093	510,743
Instructional Leadership	381,260	367,647	402,602	318,956
School Leadership	3,027,887	3,034,075	2,763,832	2,654,082
Guidance and Counseling	1,557,245	1,656,230	1,545,649	1,355,089
Health Services	608,283	594,905	520,506	495,006
Student (Pupil) Transportation	3,553,346	3,386,734	2,789,766	4,781,394
Food Services	-	-	-	-
Cocurricular/Extracurricular Activities	1,571,902	1,566,903	1,568,109	1,615,056
General Administration	1,447,101	1,511,592	1,689,353	1,073,106
Plant Maintenance and Operations	6,146,812	6,636,253	6,113,868	5,564,559
Security and Monitoring Services	466,443	493,523	498,796	441,264
Data Processing Services	718,127	762,397	787,891	701,226
Community Services	301,868	216,156	-	-
Debt Service:				
Principal	3,466,095	3,431,193	3,642,577	3,015,482
Interest	6,379,273	7,000,931	6,274,741	5,442,740
Bond Issuance Cost and Fees	193,604	9,322	253,357	4,821
Capital Outlay	2,510,672	2,599,815	51,345,026	20,035,185
Contracted Instructional Services Between Public Schools	101,187	87,505	2,004,550	65,277
Payments to Juvenile Justice Alternative Ed. Programs	8,000	-	-	23,360
Other Intergovernmental Charges	318,525	359,301	352,598	247,576
Total Expenditures	<u>66,745,373</u>	<u>65,964,368</u>	<u>113,024,065</u>	<u>78,338,091</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (94,384)</u>	<u>\$ (829,097)</u>	<u>\$ (48,627,535)</u>	<u>\$ (19,398,195)</u>
OTHER FINANCING SOURCES AND (USES)				
Refunding Bonds Issued	\$ 14,495,000	\$ -	\$ -	\$ -
Capital-Related Debt Issuance	-	-	23,700,000	50,000,000
Sale of Real or Personal Property	7,685	-	-	-
Premium or Discount on Issuance of Bonds	939,907	-	367,614	-
Prepaid Interest	-	-	-	-
Other resources/(uses)	-	-	-	229,000
Transfers in	-	151,305	-	-
Transfers Out	(2,819,821)	(280,604)	(167,693)	-
Payment to Bond Refunding Escrow Agent	(15,617,710)	-	-	-
Total Other Financing Sources and (Uses)	<u>(2,994,939)</u>	<u>(129,299)</u>	<u>23,899,921</u>	<u>50,229,000</u>
Net Change in Fund Balances	<u>\$ (3,089,323)</u>	<u>\$ (958,396)</u>	<u>\$ (24,727,614)</u>	<u>\$ 30,830,805</u>
Debt Service as a percentage of noncapital expenditures*	15.63%	16.48%	16.49%	14.52%

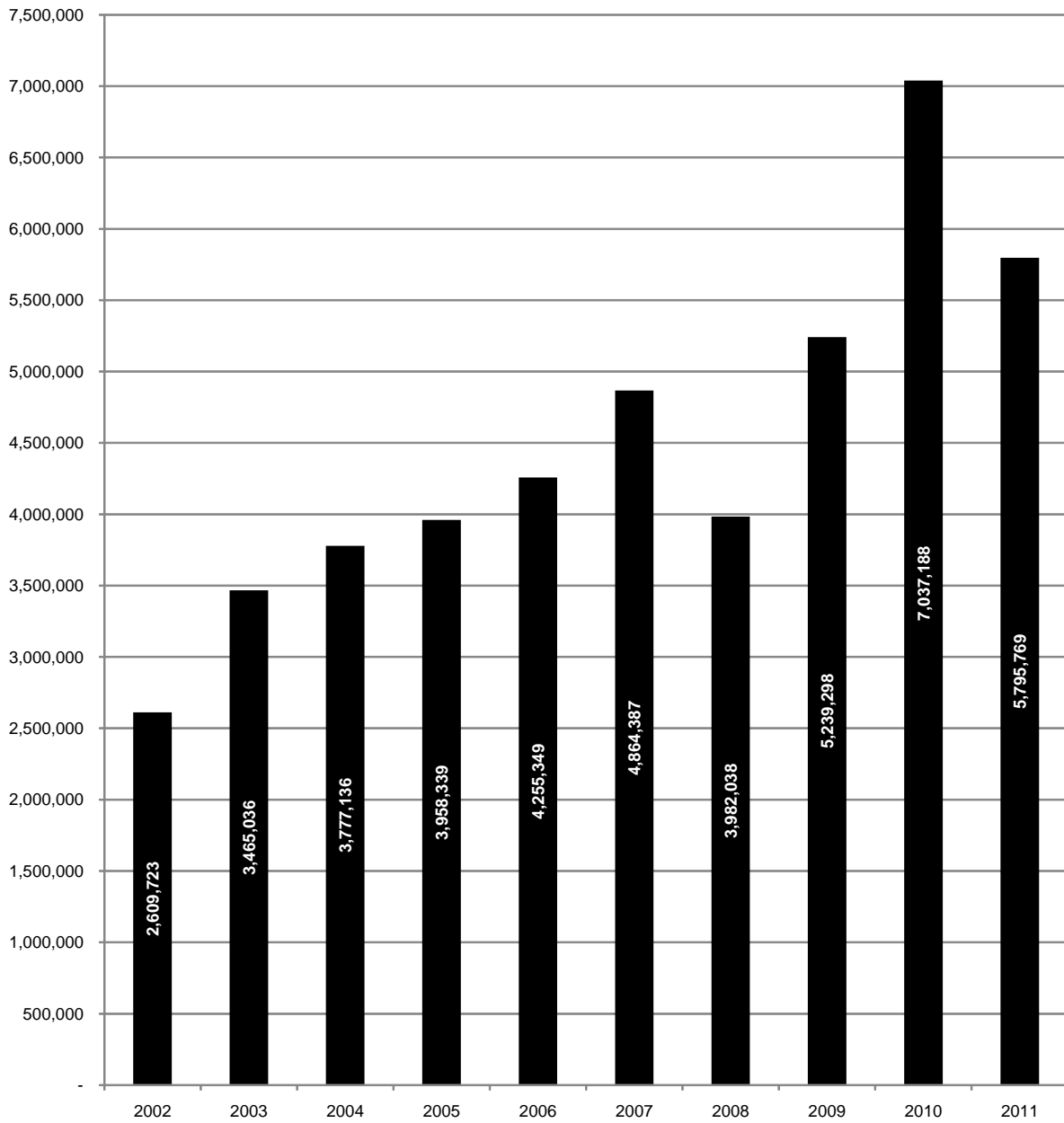
Source: Montgomery Independent School District's audited financial statements

* The ratio of debt service expenditures to noncapital expenditures is calculated using total expenditures from the schedule above less capital outlay from the reconciliation between the government-wide statement of activities and the statement of revenues, expenditures, and changes in fund balance.

2007	2006	2005	2004	2003	2002
\$ 40,390,028	\$ 40,938,635	\$ 36,523,484	\$ 33,679,096	\$ 29,862,628	\$ 25,886,477
8,294,361	3,663,285	3,949,423	3,196,390	5,188,301	4,769,573
1,508,803	2,364,102	2,183,520	1,870,093	1,619,921	1,379,328
<u>\$ 50,193,192</u>	<u>\$ 46,966,022</u>	<u>\$ 42,656,427</u>	<u>\$ 38,745,579</u>	<u>\$ 36,670,850</u>	<u>\$ 32,035,378</u>
\$ 25,400,657	\$ 22,137,967	\$ 20,570,635	\$ 18,827,325	\$ 18,063,046	\$ 16,047,409
672,152	553,105	510,775	494,626	486,078	449,823
494,932	414,768	518,381	546,886	715,860	603,681
309,847	232,024	226,246	216,838	-	-
2,364,866	1,977,159	1,836,033	1,736,534	1,672,246	1,377,748
1,019,211	776,015	733,776	896,824	876,481	851,851
454,974	367,246	364,723	342,812	280,516	203,176
3,159,006	2,943,374	2,733,985	2,449,294	2,108,781	1,749,686
-	2,154,231	1,941,274	1,682,992	1,653,551	1,460,479
1,348,837	1,198,376	1,077,150	1,011,306	1,033,873	988,417
1,133,124	1,108,003	1,013,080	973,581	936,061	824,261
5,147,699	4,203,497	3,838,395	3,707,077	3,532,814	3,208,533
262,934	188,049	175,569	139,048	155,375	118,995
121,823	96,447	92,935	76,265	62,151	54,372
-	-	-	-	-	-
2,077,587	1,018,939	1,920,000	2,036,260	1,573,140	219,046
3,178,784	3,763,977	1,884,861	2,336,319	2,453,524	3,195,276
4,821	7,821	143,836	12,824	2,330	2,295
14,649,758	17,922,797	4,291,579	1,535,624	10,772,383	10,953,504
1,900,509	2,703,668	1,735,896	830,360	-	-
42,420	14,630	10,920	-	-	-
-	-	-	-	-	-
<u>63,743,941</u>	<u>63,782,093</u>	<u>45,620,049</u>	<u>39,852,795</u>	<u>46,378,210</u>	<u>42,308,552</u>
<u>\$ (13,550,749)</u>	<u>\$ (16,816,071)</u>	<u>\$ (2,963,622)</u>	<u>\$ (1,107,216)</u>	<u>\$ (9,707,360)</u>	<u>\$ (10,273,174)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	41,822,045	20,199,966	-	-	-
-	-	-	-	-	-
-	-	317,371	-	-	-
-	79,096	75,967	-	-	-
-	(20,506,550)	(6,196,546)	(51,082)	-	(122,328)
75	222,194	800,000	114,849	102,815	65,070
(437,918)	(222,194)	(800,000)	(114,849)	(102,815)	(65,070)
-	-	-	-	-	-
<u>(437,843)</u>	<u>21,394,591</u>	<u>14,396,758</u>	<u>(51,082)</u>	<u>-</u>	<u>(122,328)</u>
<u>\$ (13,988,592)</u>	<u>\$ 4,578,520</u>	<u>\$ 11,433,136</u>	<u>\$ (1,158,298)</u>	<u>\$ (9,707,360)</u>	<u>\$ (10,395,502)</u>
10.72%	10.45%	9.55%	11.45%	11.32%	10.90%

General Fund Balances

Last Ten Fiscal Years



Unaudited

Source: Montgomery Independent School District's audited financial statements

REVENUE CAPACITY INFORMATION

These schedules contain information to help assess the factors affecting the District's most significant local revenue source, the property tax.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
PROPERTY TAX RATES – DIRECT AND ALL OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
(UNAUDITED)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>School District</u>				
Montgomery I.S.D.	1.340	1.340	1.350	1.350
<u>County</u>				
Montgomery Cnty.	0.484	0.484	0.489	0.491
<u>City</u>				
City of Montgomery	0.419	0.445	0.452	0.542
<u>Water Districts</u>				
Montgomery Cnty. MUD#9	0.600	0.600	0.600	0.600
Montgomery Cnty. MUD#18	1.190	0.440	0.450	0.490
Montgomery Cnty. MUD#113	1.190	1.100	1.100	-
Montgomery Cnty. MUD #3	0.451	0.441	0.451	0.451
Montgomery Cnty. MUD #4	0.489	0.495	0.500	0.520
Stanley Lake MUD	0.520	0.520	0.490	0.500

Rates are per \$100 of Assessed Valuation
Source: Montgomery Central Appraisal District

2007	2006	2005	2004	2003	2002
1.541	1.660	1.660	1.660	1.660	1.660
0.469	0.469	0.483	0.483	0.471	0.471
0.561	0.561	0.386	0.386	0.386	0.362
0.600	0.600	0.600	0.700	0.860	0.970
0.500	0.510	0.510	0.560	0.586	0.640
-	-	-	-	-	-
0.451	0.451	0.451	0.576	0.576	0.576
0.420	0.380	0.330	0.380	0.380	0.380
0.580	0.580	0.580	0.600	0.634	0.634

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Year Ended August 31	Real Property Assessed Actual Value	Personal Property Assessed Actual Value	Total Assessed Actual Value	Total Direct Rate*
2002	\$1,743,334,048	\$39,574,643	\$ 1,782,908,691	1.660
2003	\$1,919,418,951	\$49,975,337	\$ 1,969,394,288	1.660
2004	\$2,192,773,496	\$46,914,008	\$ 2,239,687,504	1.660
2005	\$2,354,633,152	\$61,654,923	\$ 2,416,288,075	1.660
2006	\$2,561,020,438	\$69,594,628	\$ 2,630,615,066	1.660
2007	\$2,815,897,263	\$72,221,262	\$ 2,888,118,525	1.542
2008	\$3,150,108,048	\$75,877,835	\$ 3,225,985,883	1.350
2009	\$3,854,360,452	\$96,925,156	\$ 3,951,285,608	1.350
2010	\$4,036,032,604	\$113,144,598	\$ 4,149,177,202	1.340
2011	\$4,164,027,011	\$111,530,332	\$ 4,275,557,343	1.340

* Per \$100 of assessed value

Source: Montgomery County Central Appraisal District

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 PRINCIPAL PROPERTY TAX PAYERS
 CURRENT YEAR AND NINE YEARS AGO
 (UNAUDITED)**

Taxpayer	2011			2002		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Value
2011						
French Qtr VIII LLP	\$26,158,360	1	0.71%			
Consolidated Communications	\$19,283,000	2	0.52%			
Bentwater on North Shore Ltd.	\$14,128,530	3	0.38%			
Wal Mart Real Estate Bus Trust	\$13,830,007	4	0.37%			
BN & SF Railroad	\$12,786,160	5	0.35%	\$7,808,980	6	0.45%
Entergy Texas	\$10,880,350	6	0.29%			
Cross Development	\$9,108,350	7	0.25%			
La Torretta Del Lago Resort	\$8,104,985	8	0.22%			
KOA Campgrounds	\$7,077,789	9	0.19%			
MRI Playa Vista LP	\$6,834,790	10	0.18%			
2002						
Del Lago Conf. & Resort				\$18,290,153	1	1.05%
TXU Communications				\$17,144,960	2	0.99%
Bentwater Joint Venture				\$14,466,187	3	0.83%
Mitchell Resorts Inc.				\$12,286,520	4	0.71%
Gulf States Utilities				\$8,314,510	5	0.48%
Joe D. & Margaret L. Havens				\$4,425,852	7	0.25%
WLP Properties				\$4,187,380	8	0.24%
Triple L Sales				\$3,660,000	9	0.21%
New Millennium Homes Inc.				\$3,476,290	10	0.20%
	<u>\$128,192,321</u>		<u>3.46%</u>	<u>\$94,060,832</u>		<u>5.41%</u>

Source: Texas Municipal Reports

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2002	\$ 23,523,326	\$ 22,725,405	96.61%	\$ 743,579	\$ 23,468,984	99.77%
2003	28,146,007	27,080,363	96.21%	1,008,989	28,089,352	99.80%
2004	30,983,912	30,020,235	96.89%	899,887	30,920,122	99.79%
2005	33,594,630	32,641,844	97.16%	884,478	33,526,322	99.80%
2006	37,086,739	36,104,359	97.35%	887,190	36,991,549	99.74%
2007	37,879,147	36,965,744	97.59%	763,513	37,729,257	99.60%
2008	38,148,615	37,148,586	97.38%	837,060	37,985,646	99.57%
2009	43,373,881	42,477,413	97.93%	531,929	43,009,342	99.16%
2010	46,612,500	45,688,421	98.02%	401,349	46,089,770	98.88%
2011	47,616,924	46,769,910	98.22%	-	46,769,910	98.22%

Source: Montgomery County Tax Assessor/Collector

DEBT CAPACITY INFORMATION

These schedules present information to help assess the affordability of the District's current debt burden and its ability to issue additional debt in the future.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
RATIOS OF NET GENERAL OBLIGATION BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(UNAUDITED)**

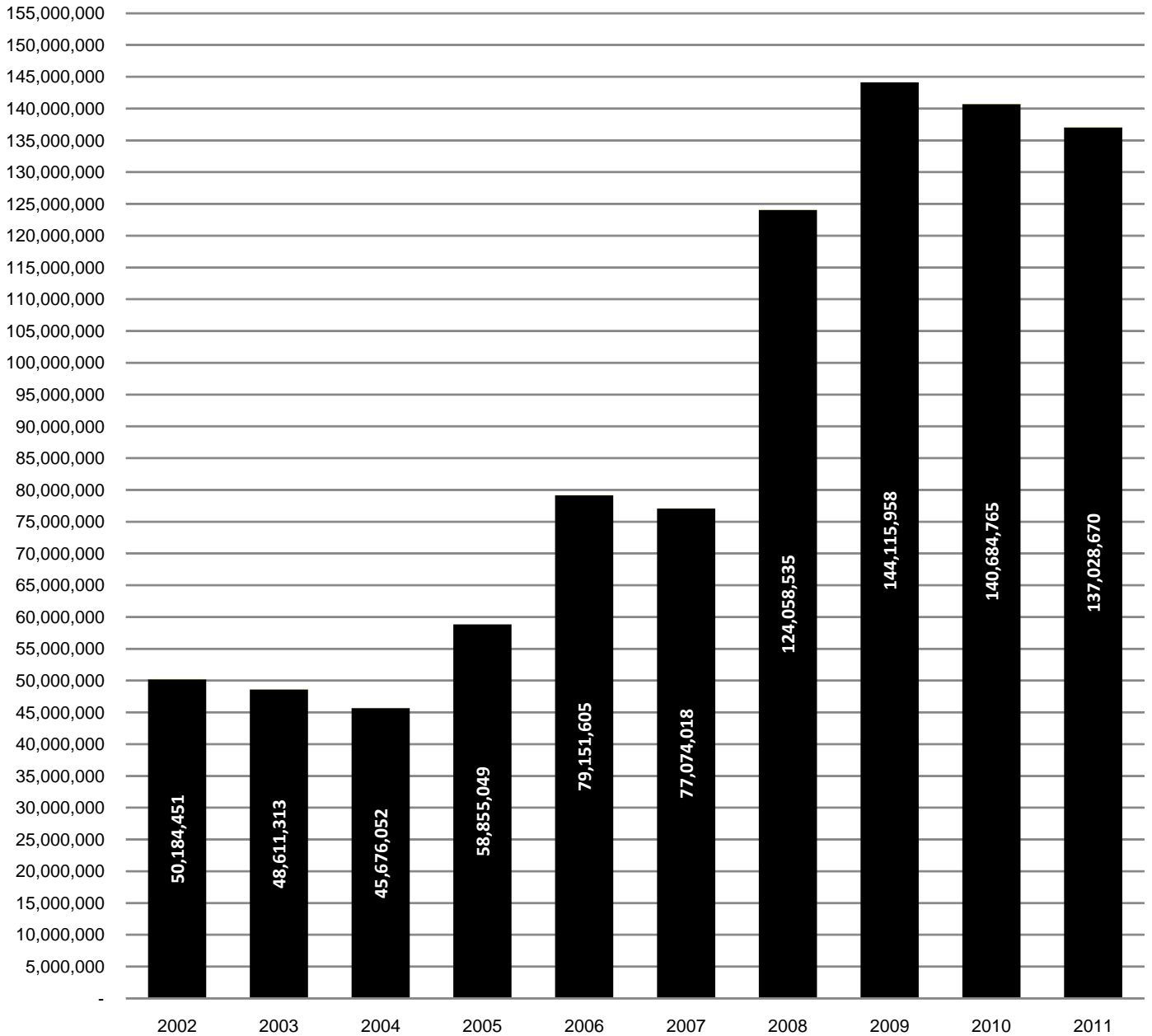
Year Ended August 31	Assessed Value	Gross Bonded Debt	Less Debt Service Funds	Net Bonded Debt	Ratio of Net Bonded Debt to Personal Income*	Ratio of Net Bonded Debt Per ADA	Ratio of Net Bonded Debt Per Capita
2002	\$ 1,782,908,691	\$ 50,184,451	\$ 41,053	\$ 50,143,398	21.32%	\$ 13,745	\$ 1,534
2003	1,969,394,288	48,611,313	59,689	48,551,624	22.93%	12,446	1,420
2004	2,239,687,504	45,676,052	161,832	45,514,220	26.46%	10,602	1,270
2005	2,416,288,075	58,855,049	200,708	58,654,341	22.60%	12,504	1,571
2006	2,630,615,066	79,151,605	191,909	78,959,696	19.53%	15,645	2,006
2007	2,888,118,525	77,074,018	324,273	76,749,745	22.88%	14,242	1,860
2008	3,225,985,883	124,058,535	1,135,231	122,923,304	14.29%	21,274	2,851
2009	3,951,285,608	144,115,958	1,512,565	142,603,393	12.32%	24,007	3,185
2010	4,149,177,202	140,684,765	1,534,852	139,149,913	12.62%	21,993	2,997
2011	4,275,557,343	137,028,670	2,067,700	134,960,970	13.01%	20,174	2,807

* Personal income information was only available through 2007. Therefore the same personal income amount was used in calculating the 2008 - 2011 ratios.

Source: Montgomery Independent School District's audited financial statements

Outstanding Bonds

Last Ten Fiscal Years



Unaudited

Source: Montgomery Independent School District's audited financial statements

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(UNAUDITED)**

Legal Debt Margin Calculation for Fiscal Year 2011

Assessed Value	\$ 4,275,557,343
Debt Limit (Percent of 2010 - 2011 School Year Assessed Value)*	10.00%
Maximum Legal Debt	<u>427,555,734</u>
Amount of Debt Applicable to Debt Limit**	<u>134,960,970</u>
Legal Debt Margin	<u>\$ 292,594,764</u>

*This debt limit is established by law as stated in Vernon's Statues, Article 835p.

**Does not include capital lease obligations and is net of reserve for retirement of bonded debt

	<u>Debt Limit</u>	<u>Amount of Debt Applicable to Debt Limit</u>	<u>Legal Debt Margin</u>	<u>Total Net Debt Applicable to the Limit as a Percentage of Debt Limit</u>
2002	\$ 178,290,869	\$ 50,143,398	\$ 128,147,471	28.12%
2003	196,939,429	48,551,624	148,387,805	24.65%
2004	223,968,750	45,514,220	178,454,530	20.32%
2005	241,628,808	58,654,341	182,974,467	24.27%
2006	263,061,507	78,959,696	184,101,811	30.02%
2007	288,811,853	76,749,745	212,062,108	26.57%
2008	322,598,588	122,923,304	199,675,284	38.10%
2009	395,128,561	142,603,393	252,525,168	36.09%
2010	414,917,720	139,149,913	275,767,807	33.54%
2011	427,555,734	134,960,970	292,594,764	31.57%

Source: Montgomery Independent School District's audited financial statements

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 COMPUTATION OF DIRECT AND OVERLAPPING DEBT
 AS OF AUGUST 31, 2011
 (UNAUDITED)**

	<u>Net Debt</u>	<u>Overlapping</u>	
		<u>Percent</u>	<u>Amount</u>
<u>Taxing Entity</u>			
Montgomery County	\$447,868,592	11.23%	\$50,295,643
Montgomery County MUD #9	\$5,823,582	100.00%	\$5,823,582
Montgomery County MUD #18	\$24,122,381	100.00%	\$24,122,381
Montgomery County MUD #113	\$7,278,820	60.63%	\$4,413,149
Montgomery County MUD #3	\$560,000	100.00%	\$560,000
Montgomery County MUD #4	\$6,445,953	100.00%	\$6,445,953
<u>Cities</u>			
Montgomery	\$598,607	100.00%	\$598,607
<u>Water Districts</u>			
Stanley Lake MUD	\$9,991,794	100.00%	\$9,991,794
Total Estimated Overlapping Debt			\$102,251,109
District Direct Debt			\$137,028,670
Total Overlapping and Direct Debt			\$239,279,779

Source: Texas Municipal Reports

DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules provide demographic and economic indicators to help in understanding the environment in which the District operates and to facilitate in comparisons over time.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 DEMOGRAPHIC STATISTICS
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Population Information:

<u>Year</u>	<u>Estimated Population</u>	<u>Land Area (sq. mi.)</u>	<u>Density Per Square Mile</u>	<u>Population Change</u>
2002	32,687	231.1	141.44	1,518
2003	34,192	231.1	147.95	1,505
2004	35,833	231.1	155.05	1,641
2005	37,344	231.1	161.59	1,511
2006	39,360	231.1	170.32	2,016
2007	41,263	231.1	178.55	1,903
2008	43,123	231.1	186.60	1,860
2009	44,771	231.1	193.73	1,648
2010	46,427	231.1	200.90	1,656
2011	48,080	231.1	208.05	1,653

Source: United States Census Bureau
 Estimate based upon taking a portion of county's population

	<u>Montgomery County 2000</u>	<u>Texas 2000</u>	<u>U.S. 2000</u>
<u>Population:</u>			
Median Age	34.4	32.3	35.3
Persons under 18 years old	29.5%	28.2%	25.7%
Persons 65 and over	8.7%	9.9%	12.4%
Average household size	2.83	2.74	2.59

<u>Income:</u>			
Median household income	\$ 50,864.00	\$ 39,927.00	\$ 41,994.00
Per capita income	\$ 24,544.00	\$ 19,617.00	\$ 21,587.00
Persons below poverty level	9.4%	15.4%	12.4%

<u>Housing:</u>			
Total housing units	112,770	8,157,575	115,904,641
Homeownership rate	78.1%	63.8%	66.2%
Owner occupied median value	\$ 114,800.00	\$ 82,500.00	\$ 119,600.00

Source: United States Census Bureau

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 DEMOGRAPHIC STATISTICS
 LAST TEN FISCAL YEARS
 (CONTINUED)
 (UNAUDITED)**

Year Ended August 31	Montgomery County				Percent Unemployed County	Percent Unemployed State
	Civilian Labor Force	Total Unemployment	Personal Income* (in Thousands)	Per Capita Personal* Income		
2002	151,942	144,870	\$ 10,690,287	\$ 32,702	4.7%	5.8%
2003	161,846	152,987	\$ 11,131,879	\$ 32,552	5.5%	6.8%
2004	163,099	155,280	\$ 12,041,423	\$ 33,695	4.8%	5.8%
2005	180,707	172,846	\$ 13,257,593	\$ 37,335	4.4%	5.2%
2006	192,534	184,491	\$ 15,417,279	\$ 40,811	4.2%	5.1%
2007	198,773	191,405	\$ 17,562,064	\$ 42,704	3.7%	4.1%
2008	205,721	196,369	\$ 17,562,064	\$ 42,704	4.5%	5.1%
2009	210,934	194,632	\$ 17,562,064	\$ 42,704	7.7%	8.1%
2010	223,875	16,998	\$ 17,562,064	\$ 42,704	7.6%	8.2%
2011	226,592	17,179	\$ 17,562,064	\$ 42,704	7.5%	8.3%

* Personal & per capital information is only available though 2007. Therefore the same information was used through 2010

Source: Texas Workforce Commission (TRACER System)

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 PRINCIPAL EMPLOYERS
 CURRENT YEAR AND NINE YEARS AGO
 (UNAUDITED)**

Employer	2011		2002	
	Employees	Percentage of Total Employment	Approximate Number of Employees	Percentage of Total Employment
Montgomery I.S.D.	833	3.65%	512	3.19%
Wal Mart	408	1.79%	-	0.00%
La Torreita Lake Resort & Spa	350	1.53%	-	0.00%
Bentwater Country Club	225	0.98%	75	0.47%
Crane Valve Svc.	110	0.48%	100	0.62%
April Sound Country Club	80	0.35%	75	0.47%
Walden Golf Administration	80	0.35%	80	0.50%
Pizza Shack	80	0.35%	-	0.00%
Brookshire Brothers	75	0.33%	-	0.00%
Elite Precision Fabricators	70	0.31%	-	0.00%
Alpha Omega Health Services	54	0.24%	76	0.47%
Randy Roan Construction Inc.	48	0.21%	55	0.34%
Spirit Industries	40	0.18%	-	0.00%
Jade Designer Fragrances	35	0.15%	35	0.22%
Del Lago Resort	-	0.00%	250	1.56%
Highland Ranch	-	0.00%	5	0.03%
	<u>2,488</u>	<u>10.89%</u>	<u>1,263</u>	<u>7.88%</u>

Source:
 Texas Workforce Commission
 Estimate based upon taking a portion
 of county's employment

OPERATING INFORMATION

These schedules provide information about the District's operations and resources to assist in using the financial statement information to better understand and assess the District's economic condition.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 FULL TIME EQUIVALENT DISTRICT EMPLOYEES BY FUNCTION
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Teaching Staff	445	431	406	388
Support Staff	59	56	47	43
Administrative Staff	30	32	29	28
Paraprofessional Staff	42	44	48	47
Auxiliary Staff	<u>257</u>	<u>278</u>	<u>230</u>	<u>220</u>
Total Employees	<u><u>833</u></u>	<u><u>841</u></u>	<u><u>760</u></u>	<u><u>726</u></u>

Source: Texas Education Agency

2007	2006	2005	2004	2003	2002
358	333	309	290	277	263
31	29	30	30	28	28
25	23	21	20	20	20
43	41	37	36	35	34
207	191	179	171	178	167
664	617	576	547	538	512

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
 OPERATING STATISTICS
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Fiscal Year	Enrollment	Operating Expenditures*	Cost Per Student	Percentage Change	Government Wide Expenses**
2002	3,875	\$ 27,938,431	\$ 7,210	7.21%	\$ 34,254,875
2003	4,155	31,576,833	7,600	5.41%	36,807,419
2004	4,616	33,931,765	7,351	-3.27%	39,269,985
2005	4,962	37,379,771	7,533	2.48%	42,855,080
2006	5,313	41,068,560	7,730	2.61%	48,832,352
2007	5,728	43,979,797	7,678	-0.67%	53,468,572
2008	6,075	49,094,489	8,081	5.25%	61,539,604
2009	6,291	51,508,364	8,188	1.31%	74,323,326
2010	6,901	52,923,107	7,669	-6.34%	70,031,777
2011	6,958	54,195,729	7,789	1.57%	69,430,933

N/A = Not Available

* Operating expenditures are total expenditures less debt service and facilities acquisition & construction from the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds

** Government Wide Expenses are total expenses from the Statement of Activities

Source: Nonfinancial information from district records

	Cost Per Student	Percentage Change	Teaching Staff	Student Teacher Ratio	Percentage of Students in Free/Reduced Lunch Program
\$	8,840	N/A	249	16	23%
	8,859	0.21%	277	15	24%
	8,507	-3.96%	290	16	23%
	8,637	1.52%	309	16	23%
	9,191	6.42%	333	16	24%
	9,335	1.56%	358	16	24%
	10,130	8.52%	388	16	22%
	11,814	16.63%	406	15	24%
	10,148	-14.10%	431	16	26%
	9,979	-1.67%	445	16	27%

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
TEACHER BASE SALARIES
LAST TEN FISCAL YEARS
(UNAUDITED)**

<u>Fiscal Year</u>	<u>Minimum Salary*</u>	<u>Maximum Salary*</u>	<u>County Average Salary</u>	<u>Statewide Average Salary</u>
2002	\$ 31,412	\$ 50,230	\$ 38,811	\$ 39,230
2003	33,702	52,172	38,795	39,972
2004	32,933	52,993	39,855	40,476
2005	32,577	54,008	40,550	41,009
2006	33,660	54,747	41,787	41,743
2007	37,363	58,126	45,065	44,897
2008	39,546	60,787	46,680	46,178
2009	41,204	61,863	47,595	47,158
2010	43,800	62,440	49,292	48,639
2011	43,000	62,440	N/A	N/A

Sources:

District Records

Texas Education Agency Website

N/A : not available at time of publication

* Amounts do not include additional salary steps based on experience or academic credentials, nor fringe benefits such as pension, health insurance, disability, etc.

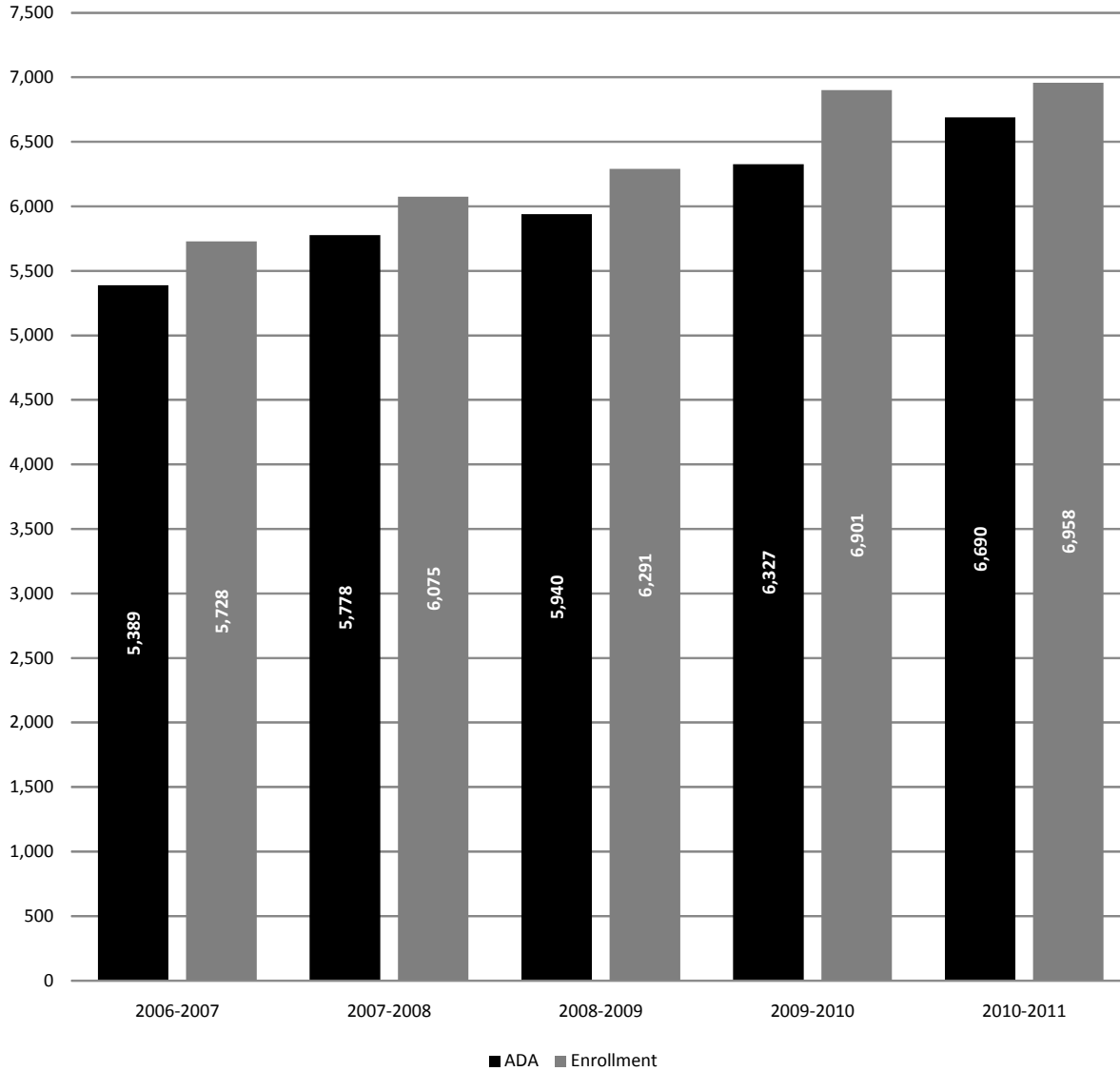
**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
ATTENDANCE DATA
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal Year	Total Enrollment	Average Daily Attendance		
		Amount	Percent Increase (Decrease)	Percent of Membership
2002	3,875	3,648	3.14%	94.14%
2003	4,155	3,901	6.94%	93.89%
2004	4,616	4,293	10.05%	93.00%
2005	4,962	4,691	9.27%	94.54%
2006	5,313	5,047	7.59%	94.99%
2007	5,728	5,389	6.78%	94.08%
2008	6,075	5,778	7.22%	95.11%
2009	6,291	5,940	2.80%	94.42%
2010	6,901	6,327	6.52%	91.68%
2011	6,958	6,690	5.74%	96.15%

Source: Montgomery Independent School District's PEIMS Data

Average Daily Attendance & Enrollment

Last Five Fiscal Years



Unaudited
Source: District PEIMS Data

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
SCHOOL BUILDING INFORMATION
LAST TEN FISCAL YEARS
(UNAUDITED)**

Building	2011	2010	2009	2008
Elementary Schools				
Loan Star Elementary (2006)				
Square Footage	94,732	94,732	94,732	94,732
Capacity	833	833	833	833
Enrollment	657	648	868	829
Madeley Ranch Elementary (2010)				
Square Footage	96,000	96,000	-	-
Capacity	833	833	-	-
Enrollment	616	559	-	-
Montgomery Elementary (1974)				
Square Footage	91,944	91,944	91,944	91,944
Capacity	840	840	840	840
Enrollment	672	715	558	575
Stewart Creek Elementary (2003)				
Square Footage	95,732	95,732	95,732	95,732
Capacity	833	833	833	833
Enrollment	748	732	790	763
Intermediate Schools				
Montgomery Intermediate (1994)				
Square Footage	88,532	88,532 (2)	103,032	103,032
Capacity	810	810	810	810
Enrollment	559	625	845	804
Montgomery Middle School (1988)				
Square Footage	104,969	104,969	104,969 (3)	61,849
Capacity	900	900	900	810
Enrollment	641	527	467	451
Junior High Schools				
Montgomery Junior High School (2007)*				
Square Footage	203,640	203,640	203,640	203,640
Capacity	1,260	1,260	1,260	1,260
Enrollment	1,143	1,098	998	980
High Schools				
Montgomery High (1999)				
Square Footage	467,188	467,188	467,188 (4)	319,493
Capacity	2,800	2,800	2,800	2,520
Enrollment	2,074	1,997	1,765	1,673
Total Square Footage	1,242,737	1,242,737	1,161,237	970,422
Total Capacity	9,109	9,109	8,276	7,906
Total Enrollment	7,110	6,901	6,291	6,075

Source: District Records

* Current building was new in 2007.

- (1) Portable Bldgs. Added during renovation
- (2) Annex removed from available teaching area
- (3) Renovation completed
- (4) Ninth grade campus completed

2007	2006	2005	2004	2003	2002
94,732	-	-	-	-	-
833	-	-	-	-	-
756	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
91,944	87,624	87,624	87,624	87,624	87,624
840	756	756	756	756	756
589	842	776	766	865	635
95,732	95,732	95,732	95,732	-	-
833	833	833	833	-	-
716	940	875	797	-	-
103,032	103,032	103,032	103,032	103,032	103,032
810	810	810	810	810	810
725	783	764	706	816	881
61,849	108,689	108,689	108,689	108,689	108,689
810	810	810	810	810	810
432	420	394	353	619	598
203,640	-	-	-	-	-
1,260	-	-	-	-	-
910	836	765	725	687	635
319,493	319,433	319,433	319,433	319,433	319,433
2,520	2,520	2,520	2,520	2,520	2,520
1,600	1,492	1,388	1,269	1,168	1,126
970,422	714,510	714,510	714,510	618,778	618,778
7,906	5,729	5,729	5,729	4,896	4,896
5,728	5,313	4,962	4,616	4,155	3,875

FEDERAL AWARDS SECTION



INDEPENDENT AUDITOR'S 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*

To the Board of Trustees
Montgomery Independent School District
Montgomery, Texas

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery Independent School District (the District), as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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

Board of Trustees
Montgomery Independent School District

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*.

We noted certain other matters that we reported to management of the District in a separate letter dated December 13, 2011.

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
December 13, 2011



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees
Montgomery Independent School District
Montgomery, Texas

Compliance

We have audited the compliance of Montgomery Independent School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the 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 of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2011.

Board of Trustees
Montgomery Independent School District

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion 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 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 management, Board of Trustees, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
December 13, 2011

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2011**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

An unqualified opinion was issued on the financial statements.

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weakness(es)? Yes No
- 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 weakness(es)? Yes None reported

An unqualified opinion was issued on compliance for major programs.

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) or Circular A-133? Yes No

Identification of major programs:

10.553	School Breakfast Program
10.555	National School Lunch Program
84.010A	Title I, Part A
84.389A	Title I, Part A – Recovery Act
84.027A	IDEA – Part B, Formula
84.391A	IDEA – Part B, Formula – Recovery Act
84.173A	IDEA – Part B, Preschool
84.392A	IDEA – Part B, Preschool – Recovery Act
84.394A	SFSF – Education State Grants, Recovery Act

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2011**

SECTION I – SUMMARY OF AUDITORS’ RESULTS – CONTINUED

Federal Awards - continued

- Dollar threshold used to distinguish between type A and type B programs? \$300,000

Auditee qualified as low-risk auditee? X Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

NONE

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SECTION IV – SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

N/A

SECTION V – CORRECTIVE ACTION PLAN

N/A

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2011**

EXHIBIT K-1

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Expenditures and Indirect Costs
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Texas Department of Agriculture:			
Commodity Supplemental Food Program (701.00.5923)	10.565	170-903	\$ 200,500
Passed Through Texas Department of Education:			
Child Nutrition:			
School Breakfast Program (701.00.5921)	10.553	71401101	241,544
National School Lunch Program (701.00.5922)	10.555	71301101	858,887
Total Child Nutrition			<u>1,100,431</u>
Total U.S. Department of Agriculture			<u><u>\$ 1,300,931</u></u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through Texas Department of Education:			
Title I, Part A:			
Title I Grants to Local Educational Agencies (211)	84.010A	11610101170903	\$ 479,260
ARRA- Title I Grants to Local Educational Agencies (285)	84.389A	10551001170903	162,059
Total Title I, Part A			<u>641,319</u>
Special Education:			
IDEA - Part B, Formula (224)	84.027A	116600011709036600	513,643
ARRA- IDEA - Part B, Formula (283)	84.391A	10554001170903	708,600
IDEA - Part B, Preschool (225)	84.173A	116610011709036610	91
ARRA- IDEA - Part B, Preschool (284)	84.392A	10555001170903	16,149
Total Special Education			<u>1,238,483</u>
Career and Technology Education - Carl D. Perkins (244)	84.048A	11420006170903	45,606
Title VI, Part A - Summer School LEP (289)	84.369A	69551002	2,149
English Language Acquisition Grants (263)	84.365A	09671001236950	8,305
Improving Teacher Quality State Grants (255)	84.367A	11694501170903	158,857
ARRA- Title XIV State Fiscal Stabilization Fund (266)	84.394A	11557001170903	1,798,607
Total U.S. Department of Education			<u><u>\$ 3,893,326</u></u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 5,194,257</u></u>

See Notes to the Schedule of Expenditures of Federal Awards.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

NOTE 1. BASIS OF PRESENTATION

Montgomery Independent School District (the District) utilizes the fund types specified in the Texas Education Agency's Financial Accounting System Resource Guide.

Special Revenue Funds – Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a special revenue fund. Generally, unused balances must be returned to the grantor at the close of specified project periods.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for governmental funds. This basis of accounting recognizes revenue in the accounting period in which it becomes measurable and available. Expenditures are recorded in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due, and certain compensated absences and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly when such funds are received, they are recorded as deferred revenues until earned.

NOTE 2. PERIOD OF AVAILABILITY

The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project extended 30 days beyond the federal project period ending date, in accordance with the provisions of *OMB Circular A-133 Compliance Supplement*.

**MONTGOMERY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

NOTE 3. BASIS OF FUNDING

Federal funding for food services under child nutrition programs is primarily based upon the number and type of meals served and on user charges as reported to the U.S. Department of Agriculture. Federal funding received related to various grant programs is based upon periodic reports detailing reimbursable expenditures made in compliance with the program guidelines to the grantor agencies. The programs are governed by various rules and regulations of the grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, that the District has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of funding monies may be required. In the opinion of the District's management, there are no significant contingent liabilities relating to matters of compliance and, accordingly, no provision has been made in the basic financial statements for such contingences.

NOTE 4. RECONCILIATION TO BASIC FINANCIAL STATEMENTS

The following is a reconciliation of expenditures of federal awards program per Exhibit K-1 and expenditures reported on Exhibits C-3 and D-2:

Total Expenditures of Federal Awards per Exhibit K-1	\$ 5,194,257
SHARS Reimbursements	<u>156,906</u>
Reconciled Balance	<u>\$ 5,351,163</u>
Related Expenditures on Exhibit C-3 and D-2	
General Fund	\$ 156,906
Special Revenue Fund	3,893,326
Enterprise Fund	<u>1,300,931</u>
	<u>\$ 5,351,163</u>