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

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FINANCIAL SECTION

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

Independent Auditor's Report

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

Members of the Board:

We have audited the accompanying financial statem ents of the governmental activities, each major fund, and the aggregate remaining fund information of McKinney Independent School District, McKinney Texas (the District) as of and for th e year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express an opinion on them based on our audit.

We conducted our audit in accordance with auditi ng standards generally accepted in the United States of America, and the standards appl icable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards

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NOTE 1 SUMMARY OF SIGNIF ICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

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

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

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

NOTE 1 SUMMARY OF SIGNIF ICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accountin g, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting . With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues an d 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 availa ble, 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 reso urces. 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 re cognized under the “susceptible to accrual” concept, that is, when they are both measurable and available. The District considers them “available” if they will be collected with in sixty days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually receiv ed. Investment earnings are recorded as earned, since they are both measurable and available.

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

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

NOTE 1 SUMMARY OF SIGNIF ICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

2. Due From (To) Other Funds

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities co lumns 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 ai6(heTC ai Tc -0.0(t)1( )Tj0)6(sopay)-ptr( )1(ac4 Tw T]TJ

NOTE 1 SUMMARY OF SIGNIF

NOTE 1 SUMMARY OF SIGNIF ICANT ACCOUNTING POLICIES (continued)

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

7. Fund Equity (continued)

‡ Nonspendable

NOTE 1 SUMMARY OF SIGNIF ICANT ACCOUNTING POLICIES (continued)

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

7. Fund Equity (continued)

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

8. Data Control Codes

The Data Control Codes refer to the accoun t code structure prescribed by T.E.A. in the Financial Accountability System Resources Guide . Texas Education Agency requires school districts to display these codes in the financial statements ficodtemi(in)i 0.amo*w T* -1.8dicodte(w th) nes Guin

NOTE 2 RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

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

Deferred revenue:	
To remove the current year uncollected tax levy from deferred revenue	$ 1,541,542
To remove prior year collectible delinquent tax levy receivable from from deferred revenue	2,232,053
	3,773,595
Long-term debt:	
Premium and issuance costs on bonds	(14,495,248)
Deferred gain on refunding bonds	1,832,846
Issuance of Bonds Payable	(46,545,000)
	(59,207,402)
Capital assets:	
Disposal of capital assets	(21,393)
Net adjustment to decrease fund balance - total governmental funds to arrive at net assets - governmental activities	$ (55,455,200)

NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

B. Encumbrance Accounting

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

NOTE 4 DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The funds of the District must be deposited and invested un der the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the

NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)

A. Deposits and Investments (continued)

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rate

NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)

A. Deposits and Investments (continued)

b. Custodial Credit Risk - Investments: (continued)
of TexStar is performed by a Board of Dire ctors, which is an administrative agency

NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)

B. Property Taxes

NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)

D. Capital Assets

NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)

E. Construction Commitments

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

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

F. Bonds Payable

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

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

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

NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)

F. Bonds Payable (continued)

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

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

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

G. Defeasance of Debt

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

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

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

NOTE 5 OTHER INFORMATION (continued)

D. Deferred Revenue (continued)

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

E. Health Care Coverage

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

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

F. Pension Plan Obligations

1. Teacher Retirement System of Texas

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

NOTE 5 OTHER INFORMATION (continued)

F. Pension Plan Obligations

1. Teacher Retirement System of Texas (continued)

Plan Description (continued)
calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy - Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the

NOTE 5 OTHER INFORMATION (continued)

G. Retiree Health Plan

Plan Description - The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and

REQUIRED SUPPLEMENTAL INFORMATION

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)81' %$/$1&(6 1210$-25 *29(510(17$/)81'6
)25 7+(<($5 (1'(' -81(

'DWD
&RQWURO
&RGHV

+HDG (6($ (6($, $
6WDUV 7LWOH ; ,PSURYLQJ
+RPHOH %DVLF 3URJUDP

5(9(18(6
7RWDO /RFDO DQG ,QWHUPHGLDWH 6RXUFHV

0&.,11(< ,1'(3(1'(17 6&+22/ ',675,&7
&20%,1,1* 67$7(0(17 2) 5(9(18(6 (;3(1',785(6 $1' &+$1*(6 ,1
)81' %$/$1&(6 1210$-25 *29(510(17$/)81'6
)25 7+(<($5 (1'(' -81(

'DWD &RQWURO &RGHV	(6($; & ,'($ 3W 55 +RPHOH	,'($ 3W 55)RUPXO	(6($, $ 55 3UHVFK	,PSURYLQJ %DVLF 3URJUDP

5(9(18(6
7RWDO /RFDO DQG ,QWHUPHGL DWH 6RX FHV
6WDWH 3URJUDP 5HYHQXHV
)HGHUDO 3URJUDP 5HYHQXHV
7RWDO 5HYHQXHV

(;3(1',785(6
&XUUHQW
,QVWUXFWLRQ
,QVWUXFWLRQDO 5HVRXUFHV DQG 0HGLD 6HUYLFHV
&XUULFXOXP DQG ,QVWUXFWLRQDO 6WDII 'HYHORSPHQW
,QVWUXFWLRQDO /HDGHUVKLS
6FKRRO /HDGHUVKLS
*XLGDQFH &RXQVHOLQJ DQG (YDOXDWLRQ 6HUYLFHV
+HDOWK 6HUYLFHV
6WXGHQW 3XSLO 7UDQVSRUWDWLRQ
)RRG 6HUYLFHV
([WUDFXUULFXODU $FWLYLWLHV
*HQHUDO $GPLQLVWUDWLRQ
)DFLOLWLHV 0DLQWHQDQFH DQG 2SHUDWLRQV
6HFXULW\ DQG 0RQLWRULQJ 6HUYLFHV
'DWD 3URFHVVLQJ 6HUYLFHV
&RPPXQLW\ 6HUYLFHV
7RWDO ([SHQGLWXUHV

(XFDWLR	2WKHU)I	9LVXDO	1RQ (G	/LIH	$GYDQFHG6	WXGHQW 6	WDWH
)XQG	6SHFLD	,PSDLU	&RPPXQ	6NLOOV	3ODFHPHQW6	WXFFHVV 7	H[WERRN
	5HYHQXH	669,	%DVHG 6	3URJUDP	,QFHQWLY,HQV	LWLDWLY)X	QG

REQUIRED T.E.A. STATEMENTS

0&.,11(< ,1'(3(1'(17 6&+22/ ',675,&7
6&+('8/(2) '(/,148(17 7$;(6 5(&(,9$%/(
),6&$/ <($5 (1'(' -81(

/DVW <HDUV	7D[5DWHV		$VVHVVHG $SSUDLVHG 9DOXH IRU 6FKRRO 7D[3XUSRVHV
	0DLQWHQDQFH HW 6HUYLFH		
DQG SULRU \HDUV	9DULRXV	9DULRXV	

(10) Beginning Balance 7/1/2011	(20) Current Year's Total Levy	(31) Maintenance Collections	(40) Entire Year's Adjustments	(50) Ending Balance 6/30/2012

(;+,%,7 *

0&.,11(< ,1'(3(1'(17 6&+22/ ',675,&7
%8'*(7$5< &203$5,621 6&+('8/(
&+,/' 1875,7,21 352*5$0
)25 7+(<($5 (1'(' -81(

'DWD &RQWURO &RGHV	%XGJHWHG $PRXQWV		$FWXDO $PRXQWV *$$3 %$6,	9DULDQFH :LWK)LQDO %XGJHW 3RVLWLYH RU 1HJDWLYH
	2ULJLQDO	)LQDO		
5(9(18(6				
7RWDO /RFDO DQG ,QWHUPH ;LDWH 6F XUFHV				
6WDWH 3URJUDP 5HYHQXHV				
)HGHUDO 3URJUDP 5HYHQXHV				
7RWDO 5HYHQXHV				
(;3(1',785(6				
)RRG 6HUYLFHV				
)DFLOLWLHV 0DLQWHQDQFH DQG 2SHUDWLRQV				
7RWDO ([SHQGLWXUHV				
1HW &KDQJH LQ)XQG %DODC				
)XQG %DODQFH -XO\ %HJ				
)XQG %DODQFH -XQH (C (				

(;+,%,7 *

0&.,11(< ,1'(3(1'(17 6&+22/ ',675,&7 %8'*(7$5< &203$5,621 6&+('8/('(%7 6(59,&( )81')25 7+(<($5 (1'(' -81(

'DWD &RQWURO &RGHV	%XGJHWHG $PRXQWV		$FWXDO $PRXQWV *$$3 %$6,	9DULDQFH :LWK)LQDO %XGJHW 3RVLWLYH RU 1HJDWLYH
	2ULJLQDO	)LQDO		

5(9(18(6

FEDERAL AWARDS SECTION

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EVANS, PINGLETON and HOWARD, PLLC