



Llano

LLANO INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
AUGUST 31, 2011**

LLANO INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2011

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CERTIFICATE OF BOARD

Llano Independent School District
Name of School District

Llano
County

150-901
Co. - Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2011, at a meeting of the Board of Trustees of such school district on the 16th day of January 2012.


Signature of Board Secretary


Signature of Board President

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

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Llano Independent School District
Llano, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Llano 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 Llano Independent School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Llano Independent School District as of August 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in the notes to the financial statements, the District adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Type Definitions*, as of August 31, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2011, on our consideration of Llano Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 12 and 41 and 42, be presented to supplement the basic financial statements. Such information although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Pattillo, Brown & Hill, L.L.P.

December 14, 2011

LLANO INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2011

Our discussion and analysis of Llano Independent School District's financial performance provides an overview of the District's financial activities for the year ended August 31, 2011. Please read it in conjunction with the District's financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- In May 2007, the voters of Llano County approved a bond issue for the District. During the 2010-2011 fiscal year, the District used bond funds primarily for the architecture design fees related to a proposed renovation of an old vacant school building to become the new administrative offices, ABC classrooms, and board room/community center.

The District expects to expend the remaining bond funds during the 2011-2012 fiscal year on the renovation.

- In August 2010, the Board of Trustees approved six goals that were developed by the Trustees and the District's management. These goals address instructional improvements, teacher recruitment and retention, long-range planning, the gap between the Hispanic sub-group and English language learners, discipline management on campuses, and a plan for a community education program. The District worked toward five of the six goals during 2010-2011, continuing the implementation of aligned curricula for core subjects district-wide, increasing early intervening services, increasing teacher salaries, offering dual credit courses, completing the long-range facilities plan, developing a plan to close the gap between the Hispanic sub-group and English language learners, and increasing the focus on student discipline. The goal related to developing a plan for a community education program was put on hold due to the proposed decrease in school funding by the legislature during the year. The goals were reviewed and updated in August 2011 for the 2011-2012 fiscal year.
- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$28,381,010 (*net assets*). Of this amount, \$8,790,278 (*unrestricted net assets*) may be used to meet the District's ongoing obligations.
- The District's total net assets increased by \$3,183,877.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$10,299,049, an increase of \$985,836 in comparison with the prior year. This increase was attributable to increases in the General, Debt Service, and Child Nutrition Program fund balances, offset by the expenditure of 2007 bond proceeds.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,757,489, or 17% of total General Fund expenditures. During the year, the fund balance of the General Fund increased by \$859,084.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 13 and 14). These provide information about the activities of the District as a whole and present a long-term view of the District's property and obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 15) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about resources held for benefits of parties outside the District.

The notes to the financial statements (starting on page 23) provide narrative explanations or additional data needed for full disclosure in the government-wide statements of the fund financial statements.

The combining statements for nonmajor funds are presented immediately following the required supplementary information and contain even more information about the District's individual funds. 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 sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 13. Its primary objective is to show the results of operations and whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the District's assets and liabilities while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These apply the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The District's revenue is divided into those provided by outside parties who share the costs of some programs, such as grants provided by the U. S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenue), and general revenue provided by the taxpayers or by TEA in equalization funding processes (general revenue). All of the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net assets and changes in them. The District's net assets (the difference between assets and liabilities) provide one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, nonfinancial factors should be considered as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Assets and the Statement of Activities, the District has one kind of activity:

Governmental Activities – Most of the District's basic services are reported here, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The Fund financial statements begin on page 15 and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under ESEA Title I from the U. S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District has only governmental type funds.

Governmental Funds – The District reports most of its basic services in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and they report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. The differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules are described following each of the governmental fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Statement of Changes in Fund Net Assets on pages 21 and 22. These resources are excluded from the District's other financial statements because the District cannot use them to support its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets of the District’s governmental activities increased from \$25,197,133 to \$28,381,010. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$8,790,278.

LLANO INDEPENDENT SCHOOL DISTRICT

NET ASSETS

| | <u>Governmental Activities</u> | |
|--|--------------------------------|----------------------|
| | <u>2011</u> | <u>2010</u> |
| Current and other assets | \$ 13,691,614 | \$ 13,031,296 |
| Capital assets | <u>36,694,797</u> | <u>38,323,547</u> |
| Total assets | <u>50,386,411</u> | <u>51,354,843</u> |
| Current liabilities | 2,965,433 | 3,196,840 |
| Long-term liabilities | <u>19,039,968</u> | <u>22,960,870</u> |
| Total liabilities | <u>22,005,401</u> | <u>26,157,710</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 18,694,284 | 16,549,827 |
| Restricted | 896,448 | 611,059 |
| Unrestricted | <u>8,790,278</u> | <u>8,036,247</u> |
| Total net assets | <u>\$ 28,381,010</u> | <u>\$ 25,197,133</u> |

LLANO INDEPENDENT SCHOOL DISTRICT

CHANGES IN NET ASSETS

| | Governmental Activities | |
|--|-------------------------|---------------|
| | 2011 | 2010 |
| REVENUES | | |
| Program revenues: | | |
| Charges for services | \$ 511,941 | \$ 506,232 |
| Operating grants and contributions | 3,310,008 | 3,387,126 |
| General revenues: | | |
| Property taxes | 34,907,464 | 34,640,272 |
| Grants and contributions - not restricted | 3,033,080 | 1,703,109 |
| Investment earnings | 44,381 | 43,914 |
| Other | 335,024 | 328,156 |
| Total revenues | 42,141,898 | 40,608,809 |
| Chapter 41 (Robin Hood) payments | 16,674,778 | 14,977,333 |
| Revenues available to the District | 25,467,120 | 25,631,476 |
| EXPENSES | | |
| Instruction and instructional related | 12,062,479 | 12,333,105 |
| Instructional leadership/school administration | 1,289,318 | 1,282,773 |
| Guidance, social work, health and transportation | 1,887,391 | 1,779,004 |
| Food services | 1,087,802 | 1,088,221 |
| Co-curricular/extracurricular activities | 1,240,817 | 1,253,003 |
| General administration and other intergovernmental charges | 1,134,314 | 1,035,415 |
| Plant maintenance and security | 2,132,311 | 2,099,444 |
| Data processing services | 537,843 | 523,412 |
| Debt service | 910,968 | 1,038,739 |
| Total expenses | 22,283,243 | 22,433,116 |
| INCREASE IN NET ASSETS | 3,183,877 | 3,198,360 |
| NET ASSETS, BEGINNING | 25,197,133 | 21,998,773 |
| NET ASSETS, ENDING | \$ 28,381,010 | \$ 25,197,133 |

The District's net assets increased by \$3,183,877 during the fiscal year. Key elements of this increase are as follows:

- Unrestricted net assets increased by \$754,031 because General Fund revenues exceeded General Fund expenditures by approximately that amount. Please see "Financial Analysis of the District's Funds," below, for an explanation of this increase.
- Net assets invested in capital assets, net of related debt, increased by \$2 million because capital asset purchases and principal payments on debt exceeded depreciation and bond issuance costs by this amount. During 2010-11, the District paid \$3.9M in principal payments on debt. The largest capital asset expenditure was to replace the football field stadium lights.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The fund balance of the General Fund increased by \$859,084. The major elements of this increase are discussed below.

- The District originally budgeted an increase in fund balance of \$112,049. This amount was decreased by \$181,343 through budget amendments to a decrease in fund balance of \$69,294, as explained in the next section (General Fund Budgetary Highlights), below.
- General Fund revenues were \$398,608 more than the final budget:
 - Local M&O tax revenue exceeded budget by approximately \$156,000 due to higher-than-expected collections at year-end.
 - TRS On Behalf revenue fell short of budget by approximately \$12,000. This revenue is directly offset by an expenditure line item, so the net effect is \$0.
 - State revenue exceeded budget by approximately \$221,000 due to an early agreement efficiency credit not received for recapture in 10-11 causing recapture costs to be higher than expected, and concurrently increasing state revenue received. The increase was partially offset by the increase in local tax revenue. Current school finance formulas absorb any increase in local tax revenue collections by increasing recapture expenses and decreasing state revenue.
- Salary expenditures were approximately \$137,000 less than budgeted:
 - Vacancies in certain positions throughout the year resulted in salary expenditures that were approximately \$81,000 less than budgeted.
 - Vacancies in certain positions, and a lack of participation by some employees in the health insurance plan offered by the District, resulted in payroll benefit and tax expenditures that were approximately \$56,000 less than budgeted.
- Non-salary expenditures were approximately \$393,000 less than budgeted:
 - Recapture (“Robin Hood”) costs were \$318,000 more than the final budget because an early agreement efficiency credit was not granted to the District in 2010-11. This is a variance of less than 2%.
 - Instructional and instruction-related non-salary expenditures were approximately \$233,000 less than budgeted as campuses stayed within their budgets for classroom supplies, and expenditures for certain contracted special education services were lower than expected.
 - Student transportation non-salary expenditures were approximately \$46,000 less than budgeted primarily because fuel costs did not remain at the budgeted levels.
 - Co-curricular and extracurricular non-salary expenditures were approximately \$124,000 less than budgeted primarily because the athletic department stayed within its budget for supplies, entry fees and travel.
 - General administration non-salary expenditures were approximately \$48,000 less than budgeted because legal fees, supply costs, election costs, and employee travel were lower than expected.
 - Plant maintenance and operation expenditures were approximately \$171,000 less than budgeted primarily because utility costs were lower than expected.
 - Technology expenditures were approximately \$21,000 less than budgeted because this department stayed within its budget for supplies and professional services.

The fund balance for 2007 Bond Construction decreased by \$156,680. Bond funds expended in 2010-11 totaled \$158,149, and the proceeds earned \$1,469 in interest during the fiscal year.

The fund balance for Other Funds increased by \$283,432. This increase was mainly due to an increase in the fund balance of the Debt Service Fund of \$234,915 as tax collections were higher than expected. The increase was also attributable to an increase of \$20,485 in the fund balance of the Child Nutrition Program. This program is allowed to maintain a fund balance not greater than three months' operating expenditures. The year-end fund balance of \$300,719 represents approximately three months of Child Nutrition Program expenditures.

Expenditures Per Student

Expenditures per student for fiscal year 2011 and 2010 were \$7,494 and \$7,370, respectively. The increase of \$124 per student was mainly due to District-wide increases in salaries and wages, and additional fuel costs for transportation.

Expenditures per student were calculated by dividing total expenditures related to governmental funds less debt service, capital outlay, TRS On-Behalf, and intergovernmental charges by weighted average daily attendance (WADA). Total expenditures less debt service, capital outlay, TRS On-Behalf, and intergovernmental charges for fiscal year 2011 and 2010 were \$18,218,324 and \$18,277,033, respectively. WADA for fiscal year 2011 and 2010 were 2,431 and 2,480, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The fund balance of the District's General Fund, \$8,443,811, differs from the General Fund's budgetary fund balance of \$7,515,433 (see Exhibit G-1). The fund balance increased more than the amount expected, primarily because the District did not expend all of the budgeted funds, as discussed in the preceding section.

During the year, the District amended the budget as it was deemed necessary. Significant changes to budgeted revenues included an increase in expected property tax collections in the amount of \$1,054,500, increases in expected collections of other local revenue in the amount of \$72,418, and an increase in insurance recovery of \$31,076. These increases were slightly offset by a decrease in budgeted revenues related to state aid of \$25,763. Significant changes to the budgeted expenditures included increasing facilities acquisition and construction by \$141,000 for costs associated with the installation of a new lighting system at the football field, increasing furniture and equipment budget by \$30,954 for a new playscape for Llano Elementary School, increasing worker's compensation budget by \$37,500, and increasing recapture ("Robin Hood") costs by \$972,991 due to enrollment that was lower than expected and tax collections that were higher than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the District had approximately \$37 million invested in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment. This amount represents a net decrease of \$1 million as compared to the prior year. This year's major additions to capital assets include:

Bond-related additions:

- Architect, project management and testing fees associated with a proposed renovation of the old junior high (currently a vacant building) in the amount of \$158,149.

Additions funded through the General Fund:

- Partial purchase of a plasma cutting system in the amount of \$10,066 (see federal funds additions for remainder of purchase);
- Recondition of the pole vault pit in the amount of \$7,325;
- Carpet in the high school auditorium in the amount of \$20,764;
- Playscape for Llano Elementary School in the amount of \$30,954;
- Purchase of IPVoice Phone Software Upgrade for the District in the amount of \$6,730;
- Purchase of an HP backup storage server for the Technology department in the amount of \$16,055;
- Sewer Pump for Llano Junior High in the amount of \$8,527;
- Construction of a metal storage building for athletics in the amount of \$11,775; and
- Purchase of a new lighting system for the football field in the amount of \$141,000.

Additions funded through the Federal Funds:

- Partial purchase of a plasma cutting system in the amount of \$15,000 (see general fund additions for remainder of purchase);
- Purchase of a steamer for the Child Nutrition department in the amount of \$11,880;
- Purchase of a communication device for the Special Education department in the amount of \$8,362; and
- Construction/renovation of a portable building for the CASTLE Transition house in the amount of \$47,700.

More information on the District's capital assets can be found in the notes to the financial statements.

School Land

As authorized by the Texas Constitution, Article VII, Section 6, Llano County administers approximately 17,000 acres in Tom Green County solely for the benefit of school children in Llano County. Revenue from the land is shared 90% to the Llano Independent School District and 10% to the Burnet Consolidated School District. Pursuant to the agreement between Llano County and Llano Independent School District, the County and the District have agreed upon the expenses that each entity will pay. Since the Llano Independent School District does not hold title to the lands pursuant to the Constitution, the lands are not recorded on its books. The lands are estimated to have a value of approximately \$13 million. Operational proceeds from the land become "Available Funds" and may be used at the District's discretion. The sale of land or the depletion of natural resources become "Permanent Funds" and can only be used for capital expenditures or the reduction of debt.

Long-term Debt

At year-end, the District had \$19 million in long-term debt outstanding versus \$23 million last year – a decrease of \$4 million. During the year, principal payments on outstanding long-term debt totaled \$3,930,000, \$750,000 of which was the early retirement of the final portion of the 1998 bonds that mature in 2017. This early retirement will allow the District to avoid \$202,500 in interest costs. More detailed information on the District's long-term liabilities can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's Board of Trustees and management considered many factors when setting the fiscal year 2010-2011 budget and tax rates. The District used a conservative approach to budgeting again for fiscal year 2011-2012.

In March 2009, the Trustees approved the refinancing of \$8.3 million of its Series 1998 bonds to reduce interest costs to taxpayers. In recent years, the Trustees have redeemed portions of these bonds to reduce interest costs. Low interest rates and an improved bond rating gave the District additional savings by refinancing these bonds. The last payment on the refinanced bonds will mature in 2013 instead of the original date of 2018 for the 1998 bonds.

In August 2011, the Trustees approved four goals for the District. The Trustees and the District's management spent considerable time and effort on a collaborative effort to set forth the goals for the District for the next fiscal year and beyond. These goals are the basis for actions taken by the District. Each year, the goals are reviewed and modified as needed. The goals are summarized below for the 2011-12 school year:

- Increase students' proficiency in English/language arts;
- Significantly increase students' academic proficiency by recruiting and retaining high quality teachers;
- Planning for administration building and retirement of I&S Bonds; and
- Implement the plan developed to close the gap between the Hispanic sub-group and English language learners and the rest of the student body in regards to test scores, parent participation, extra-curricular participation, etc.

The District continues to see slight growth in the tax base. This growth is anticipated to continue, although modestly in comparison to recent years. Because of the District's high property wealth relative to its student population, Llano Independent School District's wealth equalization payments exceed 50% of its tax collections.

The current school finance system does not provide for revenue increases to match inflation. During a special session of the 82nd Texas legislature, SB 1 was passed that effectively cut state funding for school districts by \$4 billion over the next biennium. The District is expected to have a reduction of approximately \$2 million due to these state wide cuts. The District plans to continue budgeting conservatively to assure that it maintains fund balance and continues to improve the financial stability of the District.

In 2011, the federal government granted funds to schools in Texas in an effort to stimulate the economy. These funds represent new money to Llano ISD, and must be utilized to save or create education jobs. These funds will only be available through the 2011-12 school year. All other funds previously granted by the federal government in 2009 and 2010 have been expended and no longer available to use for future years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administration office, 200 East Lampasas, Llano, Texas.

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BASIC FINANCIAL STATEMENTS

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LLANO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2011

| Data Control Codes | | Primary Government Governmental Activities |
|--------------------------|---|--|
| ASSETS | | |
| 1110 | Cash and cash equivalents | \$ 461,348 |
| 1120 | Current investments | 12,284,446 |
| 1220 | Delinquent property taxes receivables | 1,004,963 |
| 1230 | Allowance for uncollectible taxes (credit) | (710,559) |
| 1240 | Due from other governments | 138,085 |
| 1290 | Other receivables (net) | 2,566 |
| 1410 | Deferred expenses | 181,322 |
| 1420 | Capital bond and other debt issuance costs | 329,443 |
| | Capital assets: | |
| 1510 | Land | 816,461 |
| 1520 | Buildings and improvements, net | 32,047,379 |
| 1530 | Furniture and equipment, net | 3,673,233 |
| 1580 | Construction in progress | <u>157,724</u> |
| 1000 | Total assets | <u>50,386,411</u> |
| LIABILITIES | | |
| 2110 | Accounts payable | 232,717 |
| 2140 | Interest payable | 34,359 |
| 2160 | Accrued wages | 669,553 |
| 2180 | Due to other governments | 2,008,041 |
| 2200 | Accrued expenses | 20,000 |
| 2300 | Unearned revenue | 763 |
| | Noncurrent liabilities: | |
| 2501 | Due within one year | 2,999,887 |
| 2502 | Due in more than one year | <u>16,040,081</u> |
| 2000 | Total liabilities | <u>22,005,401</u> |
| NET ASSETS | | |
| 3200 | Invested in capital assets, net of related debt | 18,694,284 |
| | Restricted for: | |
| 3820 | Federal and state programs | 331,557 |
| 3850 | Debt service | 564,891 |
| 3900 | Unrestricted | <u>8,790,278</u> |
| 3000 | Total net assets | <u>\$ 28,381,010</u> |

The accompanying notes are an integral part of this financial statement.

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

| Data Control Codes | Functions/Programs | 1 Expenses | Program Revenues | | Net (Expenses) Revenue and Changes in Net Assets |
|----------------------------|--|---------------|------------------------------|---|--|
| | | | 3 Charges for Services | 4 Operating Grants and Contributions | 6 Primary Government Business-type Activities |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| 11 | Instruction | \$ 11,559,539 | \$ 13,523 | \$ 1,957,465 | \$(9,588,551) |
| 12 | Instructional resources and media services | 382,084 | - | 247,386 | (134,698) |
| 13 | Curriculum and staff development | 120,856 | - | 81,360 | (39,496) |
| 21 | Instructional leadership | 154,961 | - | 8,350 | (146,611) |
| 23 | School leadership | 1,134,357 | - | 84,751 | (1,049,606) |
| 31 | Guidance, counseling, and evaluation services | 645,982 | - | 69,491 | (576,491) |
| 32 | Social work services | 30,681 | - | 1,774 | (28,907) |
| 33 | Health services | 156,500 | - | 8,215 | (148,285) |
| 34 | Student transportation | 1,053,873 | - | 32,292 | (1,021,581) |
| 35 | Food service | 1,087,802 | 417,653 | 691,714 | 21,565 |
| 36 | Extracurricular activities | 1,240,817 | 80,765 | 29,962 | (1,130,090) |
| 41 | General administration | 843,024 | - | 33,465 | (809,559) |
| 51 | Facilities maintenance and operations | 2,041,932 | - | 44,676 | (1,997,256) |
| 52 | Security and monitoring services | 90,379 | - | 1,825 | (88,554) |
| 53 | Data processing services | 537,843 | - | 17,282 | (520,561) |
| 61 | Community services | 355 | - | - | (355) |
| 72 | Interest on long-term debt | 855,683 | - | - | (855,683) |
| 73 | Bond issuance costs and fees | 55,285 | - | - | (55,285) |
| 91 | Contracted instructional services between schools | 16,674,778 | - | - | (16,674,778) |
| 93 | Payments related to shared services arrangements | 15,073 | - | - | (15,073) |
| 99 | Other governmental changes | 276,217 | - | - | (276,217) |
| TG | Total governmental activities | \$ 38,958,021 | \$ 511,941 | \$ 3,310,008 | (35,136,072) |
| Data Control Codes | | | | | |
| General revenues: | | | | | |
| Taxes: | | | | | |
| MT | Property taxes, levied for general purposes | | | | 29,881,557 |
| DT | Property taxes, levied for debt service | | | | 5,025,907 |
| GC | Grants and contributions not restricted to specific programs | | | | 3,033,080 |
| IE | Investment earnings | | | | 44,381 |
| MI | Miscellaneous | | | | 335,024 |
| TR | Total general revenues | | | | 38,319,949 |
| CN | Change in net assets | | | | 3,183,877 |
| NB | Net assets, beginning | | | | 25,197,133 |
| NE | Net assets, ending | | | | \$ 28,381,010 |

The accompanying notes are an integral part of this financial statement.

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

| Data Control Codes | | 10 General | 50 Debt Service |
|--------------------------------------|--------------------------------------|-----------------------------|-----------------------------|
| | | <u> </u> | <u> </u> |
| ASSETS | | | |
| 1110 | Cash and cash equivalents | \$ 43,606 | \$ 25,339 |
| 1120 | Current investments | 10,818,671 | 540,694 |
| 1220 | Delinquent property taxes receivable | 869,678 | 135,285 |
| 1230 | Allowance for uncollectible taxes | (608,463) | (102,096) |
| 1240 | Due from other governments | 2,004 | 328 |
| 1260 | Due from other funds | 52,672 | - |
| 1290 | Other receivables | 1,000 | - |
| 1410 | Deferred expenditures | <u>181,322</u> | <u>-</u> |
| 1000 | Total assets | <u>\$ 11,360,490</u> | <u>\$ 599,550</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| 2110 | Accounts payable | \$ 194,963 | \$ 300 |
| 2160 | Accrued wages | 591,696 | - |
| 2170 | Due to other funds | - | - |
| 2180 | Due to other governments | 2,008,041 | - |
| 2200 | Accrued expenditures | - | - |
| 2300 | Deferred revenue | <u>121,979</u> | <u>10,069</u> |
| 2000 | Total liabilities | <u>2,916,679</u> | <u>10,369</u> |
| Fund balances: | | | |
| Nonspendable: | | | |
| 3430 | Prepaid items | 181,322 | - |
| Restricted for: | | | |
| 3450 | Federal and state programs | - | - |
| 3470 | Capital acquisitions | - | - |
| 3480 | Debt service | - | 589,181 |
| Committed for: | | | |
| 3510 | Construction | 2,000,000 | - |
| Assigned for: | | | |
| 3545 | Budget deficit | 505,000 | - |
| 3600 | Unassigned | <u>5,757,489</u> | <u>-</u> |
| 3000 | Total fund balances | <u>8,443,811</u> | <u>589,181</u> |
| 4000 | Total liabilities and fund balances | <u>\$ 11,360,490</u> | <u>\$ 599,550</u> |

The accompanying notes are an integral part of this financial statement.

| Other Governmental | 98 Total Governmental Funds |
|-----------------------|--------------------------------------|
| \$ 392,403 | \$ 461,348 |
| 925,081 | 12,284,446 |
| - | 1,004,963 |
| - | (710,559) |
| 135,753 | 138,085 |
| - | 52,672 |
| 1,566 | 2,566 |
| <u>-</u> | <u>181,322</u> |
| <u>\$ 1,454,803</u> | <u>\$ 13,414,843</u> |
| | |
| \$ 37,454 | \$ 232,717 |
| 77,857 | 669,553 |
| 52,672 | 52,672 |
| - | 2,008,041 |
| 20,000 | 20,000 |
| <u>763</u> | <u>132,811</u> |
| <u>188,746</u> | <u>3,115,794</u> |
| | |
| - | 181,322 |
| 331,557 | 331,557 |
| 934,500 | 934,500 |
| - | 589,181 |
| - | 2,000,000 |
| - | 505,000 |
| <u>-</u> | <u>5,757,489</u> |
| <u>1,266,057</u> | <u>10,299,049</u> |
| | |
| <u>\$ 1,454,803</u> | <u>\$ 13,414,843</u> |

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

| | |
|---|-----------------------------|
| Total Fund Balances - Governmental Funds | \$ 10,299,049 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 36,694,797 |
| Uncollected property taxes are reported as deferred revenue in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities. | 132,048 |
| Long-term liabilities, including bonds and loans payable, are not due and payable in the current period and therefore are not reported in the funds. Losses on refunding of bonds and the premium on issuance of bonds payable are netted against the long-term liabilities in the statement of net assets. | (19,039,968) |
| Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. | (34,359) |
| Bond issuance costs are reported in the governmental funds as an expenditure and the costs net of amortization are reported as an asset in the statement of net assets. | <u>329,443</u> |
| Total net assets of governmental activities | <u>\$ 28,381,010</u> |

The accompanying notes are an integral part of this financial statement.

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

| Data Control Codes | | General | Debt Service |
|--------------------------|--|---------------|-----------------|
| | REVENUES | | |
| 5700 | Local and intermediate sources | \$ 30,444,976 | \$ 5,040,302 |
| 5800 | State programs | 3,750,863 | - |
| 5900 | Federal programs | - | - |
| 5020 | Total revenues | 34,195,839 | 5,040,302 |
| | EXPENDITURES | | |
| | Current: | | |
| 0011 | Instruction | 8,765,276 | - |
| 0012 | Instructional resources and media services | 127,667 | - |
| 0013 | Curriculum and staff development | 39,496 | - |
| 0021 | Instructional leadership | 148,175 | - |
| 0023 | School leadership | 1,070,996 | - |
| 0031 | Guidance, counseling, and evaluation services | 606,181 | - |
| 0032 | Social work services | 30,681 | - |
| 0033 | Health services | 156,266 | - |
| 0034 | Student transportation | 773,258 | - |
| 0035 | Food service | 1,800 | - |
| 0036 | Extracurricular activities | 1,040,645 | - |
| 0041 | General administration | 830,141 | - |
| 0051 | Facilities maintenance and operations | 2,058,780 | - |
| 0052 | Security and monitoring services | 76,717 | - |
| 0053 | Data processing services | 466,258 | - |
| 0061 | Community services | 355 | - |
| | Debt service: | | |
| 0071 | Principal on long-term debt | - | 3,930,000 |
| 0072 | Interest on long-term debt | - | 861,790 |
| 0073 | Bond issuance costs and fees | - | 6,050 |
| 0081 | Capital outlay | 141,000 | - |
| | Intergovernmental: | | |
| 0091 | Contracted instructional services between schools | 16,674,778 | - |
| 0093 | Payments related to shared services arrangements | 7,205 | - |
| 0099 | Other intergovernmental charges | 276,217 | - |
| 6030 | Total expenditures | 33,291,892 | 4,797,840 |
| 1100 | EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 903,947 | 242,462 |
| | OTHER FINANCING SOURCES (USES) | | |
| 7912 | Sale of real or personal property | - | - |
| 8949 | Other uses - refunded to taxpayers | (44,863) | (7,547) |
| 7080 | Total other financing sources (uses) | (44,863) | (7,547) |
| | NET CHANGE IN FUND BALANCES | 859,084 | 234,915 |
| 0100 | FUND BALANCES, BEGINNING | 7,584,727 | 354,266 |
| 3000 | FUND BALANCES, ENDING | \$ 8,443,811 | \$ 589,181 |

The accompanying notes are an integral part of this financial statement.

EXHIBIT C-3

| Other Governmental | Total Governmental Funds |
|-----------------------|--------------------------------|
| \$ 419,860 | \$ 35,905,138 |
| 101,492 | 3,852,355 |
| <u>2,490,733</u> | <u>2,490,733</u> |
| <u>3,012,085</u> | <u>42,248,226</u> |
| 1,441,897 | 10,207,173 |
| 234,834 | 362,501 |
| 81,360 | 120,856 |
| - | 148,175 |
| 30,572 | 1,101,568 |
| 38,932 | 645,113 |
| - | 30,681 |
| - | 156,266 |
| - | 773,258 |
| 1,068,393 | 1,070,193 |
| 4,444 | 1,045,089 |
| - | 830,141 |
| 13,447 | 2,072,227 |
| - | 76,717 |
| - | 466,258 |
| - | 355 |
| - | 3,930,000 |
| - | 861,790 |
| - | 6,050 |
| 205,851 | 346,851 |
| - | 16,674,778 |
| 7,868 | 15,073 |
| <u>-</u> | <u>276,217</u> |
| <u>3,127,598</u> | <u>41,217,330</u> |
| <u>(115,513)</u> | <u>1,030,896</u> |
| 7,350 | 7,350 |
| <u>-</u> | <u>(52,410)</u> |
| <u>7,350</u> | <u>(45,060)</u> |
| (108,163) | 985,836 |
| <u>1,374,220</u> | <u>9,313,213</u> |
| <u>\$ 1,266,057</u> | <u>\$ 10,299,049</u> |

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

| | | |
|--|-------------|---------------------|
| Net change in fund balances - total governmental funds | | \$ 985,836 |
| 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 by which capital outlays exceeded depreciation in the current period. | | (1,625,928) |
| In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the capital asset sold. | | (2,822) |
| Some property taxes are not considered available revenues and are deferred in the governmental funds. | | (51,096) |
| Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments in the current year. | | 3,930,000 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | |
| Amortization of bond issuance cost | \$(49,235) | |
| Amortization of loss on refunding | (32,666) | |
| Amortization of premium on issuance of bonds | 32,553 | |
| Interest payable | 6,220 | |
| Compensated absences | (8,985) | |
| | | (52,113) |
| Change in net assets of governmental activities | | \$ <u>3,183,877</u> |

The accompanying notes are an integral part of this financial statement.

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LLANO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2011

| | Private Purpose Trusts | Agency Funds |
|-----------------------------|------------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| ASSETS | | |
| Cash and cash equivalents | \$ 6 | \$ 168,653 |
| Investments - current | <u>203,086</u> | <u>-</u> |
| Total assets | <u>203,092</u> | <u>\$ 168,653</u> |
| LIABILITIES | | |
| Due to student groups | <u>-</u> | <u>168,653</u> |
| Total liabilities | <u>-</u> | <u>\$ 168,653</u> |
| NET ASSETS | | |
| Restricted for scholarships | <u>203,092</u> | |
| Total net assets | <u>\$ 203,092</u> | |

The accompanying notes are an integral part of this financial statement.

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

| | <u>Private Purpose Trusts</u> |
|--------------------------------|---------------------------------------|
| ADDITIONS | |
| Contributions: | |
| Local and intermediate sources | \$ 54,592 |
| Total contributions | <u>54,592</u> |
| Total additions | <u>54,592</u> |
| DEDUCTIONS | |
| Other operating costs | <u>999</u> |
| Total deductions | <u>999</u> |
| CHANGE IN NET ASSETS | 53,593 |
| NET ASSETS, BEGINNING | <u>149,499</u> |
| NET ASSETS, ENDING | <u><u>\$ 203,092</u></u> |

The accompanying notes are an integral part of this financial statement.

LLANO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Llano 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 generally accepted accounting principles 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 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 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 changes in net assets) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes, state foundation funds, grants and other intergovernmental revenue, 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 revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental 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 District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is 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 revenue 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.

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. This District's private purpose trust fund's activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. The District uses an agency fund to account for assets held for student groups. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net assets and does not present a statement of changes in fiduciary net assets. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. Fiduciary funds are presented on an economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements.

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 net current assets (i.e., revenue and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenue in the accounting period in which it becomes 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 compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenue available if it is collectible within 60 days after year-end.

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

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Grant funds are considered earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenue 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.

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

The District reports the following major governmental funds:

General Fund – The General Fund is the District’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Debt Service Fund – The Debt Service Fund accounts for resources accumulated and payments made for principal and interest in long-term general obligation debt of governmental funds.

Additionally, the District reports the following fund types:

Fiduciary Funds:

Private Purpose Trust Funds – The District accounts for donations for which the donor has stipulated that both principal and the income be used for purposes that benefit parties outside the District.

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.

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

D. Assets, Liabilities, and Net Assets or Equity

1. *Deposits and Investments*

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

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

2. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Property taxes are levied as of October 1 on property values assessed as of the prior 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 following year in which imposed. On January 31 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

Tax collections are prorated between the General Fund and Debt Service Fund based on the tax rate approved by the Board. For the year ended August 31, 2011, the rates were \$1.04 and \$0.175, respectively, per \$100 of assessed value.

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

3. *Deferred Expenses/Expenditures*

Certain payments to vendors reflect costs applicable to future accounting periods and are reflected as deferred expenses/expenditures.

4. *School Land*

As authorized by the Texas Constitution, Article VII, Section 6, Llano County administers approximately 17,000 acres in Tom Green County solely for the benefit of school children in Llano County. Revenue from the land is shared 90% to the Llano Independent School District and 10% to the Burnet Consolidated School District. Pursuant to the agreement between Llano County and Llano Independent School District, the County and the District have agreed upon the expenses that each entity will pay. Since the Llano Independent School District does not hold title to the lands pursuant to the Constitution, the lands are not recorded on its books. Operational proceeds from the land become “Available Funds” and may be used at the District’s discretion. The sale of land or the depletion of natural resources become “Permanent Funds” and can only be used for capital expenditures or the reduction of debt.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

5. *Capital Assets*

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

Buildings, furniture and equipment 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 | 15-60 |
| Vehicles | 7-10 |
| Furniture and equipment | 5-10 |

6. *Long-term Obligations*

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. The difference between this method and the interest method is immaterial. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

7. *Compensated Absences*

It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

8. *Fund Balance Classification*

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

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by board resolution of the School Board, the District's highest level of decision making authority. These amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. The School Board delegated the responsibility to assign fund balance not to exceed \$50,000 individually or 10% of unassigned fund balance in total to the Superintendent or his designee. The School Board has the authority to assign any amount of fund balance.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

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

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

9. *Net Assets*

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

10. *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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

11. *Data Control Codes*

The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (Days)</u> |
|------------------------|-------------------|---|
| Logic | \$ 3,454,720 | 59 |
| Lone Star - Corporate | 7,943,498 | 89 |
| TexSTAR | 925,081 | 69 |
| Domestic equity | 164,231 | 0 |

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U. S. Treasury, certain U. S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The District's policies do not permit some of these investments. 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.

The District's investment pools are 2a7-like pools. 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.

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2011, the District's \$677,181 deposit balance was entirely covered by FDIC insurance and securities held in the name of the District by the pledging financial institution.

Domestic equity is reported in the Reynolds Scholarship Private Purpose Trust Fund and is in the name of Llano High School Class of 2012 – Packsaddle First Graders.

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

Credit Risk

It is the District’s policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The District’s investment pools are rated as follows by Moody’s or Standard & Poor’s Investors Service.

| | |
|-----------|----------|
| Logic | AAAm |
| Lone Star | AAAf/S1+ |
| TexSTAR | AAAm |

B. 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 penalty and interest payments in relation to property taxes. Amounts due from federal, state and local governments as of August 31, 2011, are summarized below.

| <u>Fund</u> | <u>Property Tax Penalty and Interest</u> | <u>Federal Programs</u> | <u>State Programs</u> |
|-----------------------------|--|-----------------------------|---------------------------|
| General | \$ 2,004 | \$ - | \$ - |
| Debt service | 328 | - | - |
| Nonmajor governmental funds | <u>-</u> | <u>135,278</u> | <u>475</u> |
| | <u>\$ 2,332</u> | <u>\$ 135,278</u> | <u>\$ 475</u> |

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets

Capital assets activity for the year ended August 31, 2011, was as follows:

| | Beginning Balance 08/31/10 | Increases | Decreases/ Reclassifications | Ending Balance 08/31/11 |
|---|----------------------------------|-----------------------|---------------------------------|-------------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 816,461 | \$ - | \$ - | \$ 816,461 |
| Construction in progress | <u>-</u> | <u>157,724</u> | <u>-</u> | <u>157,724</u> |
| Total capital assets, not being depreciated | <u>816,461</u> | <u>157,724</u> | <u>-</u> | <u>974,185</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 44,302,327 | 200,900 | - | 44,503,227 |
| Furniture and equipment | <u>7,471,024</u> | <u>135,664</u> | <u>(123,070)</u> | <u>7,483,618</u> |
| Total capital assets, being depreciated | <u>51,773,351</u> | <u>336,564</u> | <u>(123,070)</u> | <u>51,986,845</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (11,064,604) | (1,391,244) | - | (12,455,848) |
| Furniture and equipment | <u>(3,201,661)</u> | <u>(728,972)</u> | <u>120,248</u> | <u>(3,810,385)</u> |
| Total accumulated depreciation | <u>(14,266,265)</u> | <u>(2,120,216)</u> | <u>120,248</u> | <u>(16,266,233)</u> |
| Total capital assets, being depreciated, net | <u>37,507,086</u> | <u>(1,783,652)</u> | <u>(2,822)</u> | <u>35,720,612</u> |
| Governmental activities capital assets, net | <u>\$ 38,323,547</u> | <u>\$(1,625,928)</u> | <u>\$(2,822)</u> | <u>\$ 36,694,797</u> |

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

| | |
|--|---------------------|
| Governmental activities: | |
| Instruction | \$ 1,383,762 |
| Instructional resources and media services | 19,420 |
| Instructional leadership | 6,250 |
| School leadership | 31,913 |
| Student (pupil) transportation | 280,615 |
| Food services | 35,909 |
| Extracurricular activities | 203,053 |
| General administration | 9,538 |
| Facilities maintenance and operations | 41,725 |
| Security and monitoring services | 13,662 |
| Data processing services | <u>94,369</u> |
| Total depreciation expense - governmental activities | <u>\$ 2,120,216</u> |

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

D. Interfund Receivables and Payables

The composition of interfund balances as of August 31, 2011, is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|-----------------------|-------------------------|
| General | Nonmajor governmental | \$ <u>52,672</u> |
| | | \$ <u><u>52,672</u></u> |

Balances resulted from the time lag between the dates that payments for expenditures are made and the date a granting agency reimbursed the District.

E. Deferred Revenue

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

| | <u>Unavailable</u> | <u>Unearned</u> |
|---|--------------------|-----------------|
| Delinquent property taxes receivable (General fund) | \$ 121,979 | \$ - |
| Delinquent property taxes receivable (Debt service fund) | 10,069 | - |
| Grants drawn down prior to meeting all eligibility requirements | <u>-</u> | <u>763</u> |
| Total deferred/unearned revenue for governmental funds | <u>\$ 132,048</u> | <u>\$ 763</u> |

F. Long-term Debt

The following is a summary of changes in long-term debt:

| | <u>Balance 08/31/10</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 08/31/11</u> | <u>Amounts Due in One Year</u> |
|----------------------------|-----------------------------|------------------|---------------------|-----------------------------|------------------------------------|
| Bonds | \$ 22,690,000 | \$ - | \$ 3,930,000 | \$ 18,760,000 | \$ 3,000,000 |
| Deferred loss on refunding | (131,450) | - | (32,666) | (98,784) | (32,666) |
| Premium on bonds | 306,350 | - | 32,553 | 273,797 | 32,553 |
| Compenasted absences | <u>95,970</u> | <u>23,745</u> | <u>14,760</u> | <u>104,955</u> | <u>-</u> |
| Totals | <u>\$ 22,960,870</u> | <u>\$ 23,745</u> | <u>\$ 3,944,647</u> | <u>\$ 19,039,968</u> | <u>\$ 2,999,887</u> |

Compensated absences are generally liquidated by the General Fund.

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Bonds Payable

The District issues unlimited tax school building bonds to provide funds for the acquisition and construction of major capital facilities. Unlimited tax school building bonds have been issued for governmental activities. Unlimited tax school building bonds are direct obligations and pledge the full faith and credit of the District.

A summary of changes in unlimited tax bonds payable for the year ended August 31, 2011, is as follows:

| Description | Interest Rate Payable | Amount Original Issue | Interest Paid in Current Year | Amount Payable 08/31/10 | Issued | Retired | Amount Outstanding 08/31/11 |
|---|-----------------------|-----------------------|-------------------------------|-------------------------|--------|--------------|-----------------------------|
| Unlimited Tax School Building Bonds Series 1998 | 4.5% to 5.25% | \$ 19,050,000 | \$ 16,875 | \$ 750,000 | \$ - | \$ 750,000 | \$ - |
| Unlimited Tax Refunding Bond Series 2005 | 3.25% to 4.5% | 4,860,000 | 137,640 | 3,540,000 | - | 295,000 | 3,245,000 |
| Unlimited Tax Bond Series 2007 | 4.25% to 5% | 14,310,000 | 558,400 | 12,360,000 | - | 730,000 | 11,630,000 |
| Unlimited Tax Refunding Bonds Series 2009 | 0.0% to 3% | 8,299,978 | 148,875 | 6,040,000 | - | 2,155,000 | 3,885,000 |
| Totals | | | \$ 861,790 | \$ 22,690,000 | \$ - | \$ 3,930,000 | \$ 18,760,000 |

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

Bonds Payable (Continued)

Debt service requirements for bonds are as follows:

| Year Ended August 31, | Governmental Activities | | Total Requirements |
|--------------------------|-------------------------|--------------|-----------------------|
| | Principal | Interest | |
| 2012 | \$ 3,000,000 | \$ 738,040 | \$ 3,738,040 |
| 2013 | 2,940,000 | 635,090 | 3,575,090 |
| 2014 | 1,030,000 | 562,510 | 1,592,510 |
| 2015 | 1,075,000 | 517,675 | 1,592,675 |
| 2016 | 1,120,000 | 470,560 | 1,590,560 |
| 2017-2021 | 4,870,000 | 1,671,070 | 6,541,070 |
| 2022-2026 | 3,835,000 | 721,125 | 4,556,125 |
| 2027-2028 | 890,000 | 22,250 | 912,250 |
| Totals | \$ 18,760,000 | \$ 5,338,320 | \$ 24,098,320 |

There are a number of limitations and restrictions contained in the bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2011.

Prior Year Defeasance of Bonds

In prior years, the District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. On August 31, 2011, \$1,910,000 of bonds considered defeased is still outstanding.

G. Operating Leases

The District is committed under various non-cancellable leases for copier machines. These leases are considered for accounting purposes to be operating leases. None of the leases contain renewal or purchase options. Operating lease expenditures for fiscal year 2011 were \$107,785.

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

G. Operating Leases (Continued)

The following is a summary of minimum future payments on non-cancellable operating leases in effect as of August 31, 2011.

| <u>Year Ending</u> | |
|------------------------|-------------------|
| 2012 | \$ 69,828 |
| 2013 | 41,194 |
| 2014 | 40,042 |
| 2015 | <u>35,473</u> |
| Total | <u>\$ 186,537</u> |

III. OTHER INFORMATION

A. Defined Benefit Pension Plan

Plan Description. Llano Independent School 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.

(continued)

III. OTHER INFORMATION (Continued)

A. Defined Benefit Pension Plan (Continued)

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2011, 2010, and 2009, and a state contribution rate of 6.644% for fiscal years 2011 and 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 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 Llano Independent School District's employees for the years ended August 31, 2011, 2010 and 2009 were \$595,748, \$579,849, and \$561,922, respectively. Llano Independent School District paid additional state contributions for the years ended August 31, 2011, 2010, and 2009 in the amount of \$120,461, \$111,541, and \$108,649, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

B. Health Insurance

During the year ended August 31, 2011, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$240 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the insurer is renewable September 1, 2011, and terms of coverage and premium costs are included in the contractual provisions.

(continued)

III. OTHER INFORMATION

C. Retiree Health Plan

Plan Description. The Llano Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The 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 website at 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 Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

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 \$118,769, \$117,289, and \$113,566, respectively, the active member contributions were \$77,200, \$76,238, and \$73,818, respectively, and the school district's contributions were \$65,323, \$64,509, and \$62,461, respectively, which equaled the required contributions each year.

Medicare Part D – On-behalf Payments. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments of \$27,862, \$29,919, and \$25,389 were recognized for the years ended August 31, 2011, 2010, and 2009, respectively, as equal revenues and expenditures.

(continued)

III. OTHER INFORMATION (Continued)

D. Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries insurance through the TASB Risk Management Fund (the Fund). During the year ended August 31, 2011, the District participated in the following programs with coverage in the following areas:

| <u>Program</u> | <u>Coverage Areas</u> |
|---------------------------|--|
| Property Casualty program | Auto physical damage Crime Equipment breakdown Property |
| Liability program | Auto liability General liability Sexual misconduct endorsement SP legal liability |

The fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the property and liability programs. The terms and limits of the stop-loss program vary by line of coverage. The fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2011, the fund anticipates Llano ISD has no additional liability for either the property or liability program beyond the contractual obligations for payment of contributions.

During the year ended August 31, 2011, Llano ISD met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund. The fund's Workers' Compensation program is authorized by Chapter 504, Texas Labor Code. The fund provides statutory workers' compensation benefits to its members and their injured employees. The fund and its members are protected against higher than expected claims costs through the purchase of stop-loss coverage for any claim in excess of the fund's self-insured retention of \$1.5 million. The fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2011, the fund carries a discounted reserve of \$73,157,884 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2011, the fund anticipated no additional liability to members beyond their contractual obligations for payment of contributions.

During the year ended August 31, 2011, the District also provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund. The fund's Unemployment Compensation program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code.

(continued)

III. OTHER INFORMATION (Continued)

D. Risk Management (Continued)

The fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the Unemployment Compensation pool.

The TASB Risk Management Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the fund execute interlocal agreements that define the responsibilities of the parties.

The fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the fund's Board of Trustees in February of the following year. The fund's audited financial statements as of August 31, 2010, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

No settlements have exceeded coverage since the District joined the fund. In fiscal years 2011 and 2010, the District paid \$231,397 and \$230,228, respectively, to the fund for property, liability, workers' compensation, and unemployment protection. The District did not receive any dividends due to favorable losses in prior years.

E. Litigation 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 collectibility 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 financial statements for such contingencies.

The Llano County Appraisal District is a party in legal proceedings as a result of certain property taxpayers contesting their property value from tax year 2006 through tax year 2010. Llano ISD will be affected by the outcome of these proceedings as the amount of taxes paid to the District are based on property values. Should the taxpayers prevail, the amount of taxes the District will have to refund will be offset by additional state aid owed to the District for those years and a refund of Chapter 41 payments made by the District as the tax collections for those years affect state aid as well as Chapter 41 payments. No accrual has been made since the amount has not yet been determined.

REQUIRED SUPPLEMENTARY INFORMATION

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LLANO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2011

| Data Control Codes | | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|---------------------------------------|--|---------------------|---------------------|---------------------|---|
| | | Original | Final | | |
| REVENUES | | | | | |
| 5700 | Local and intermediate sources | \$ 29,097,403 | \$ 30,255,397 | \$ 30,444,976 | \$ 189,579 |
| 5800 | State programs | <u>3,566,916</u> | <u>3,541,834</u> | <u>3,750,863</u> | <u>209,029</u> |
| 5020 | Total revenues | <u>32,664,319</u> | <u>33,797,231</u> | <u>34,195,839</u> | <u>398,608</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 9,100,652 | 9,021,275 | 8,765,276 | 255,999 |
| 0012 | Instructional resources and media sources | 92,891 | 121,687 | 127,667 | (5,980) |
| 0013 | Curriculum and staff development | 60,865 | 73,642 | 39,496 | 34,146 |
| 0021 | Instructional leadership | 152,398 | 155,403 | 148,175 | 7,228 |
| 0023 | School leadership | 1,089,163 | 1,091,763 | 1,070,996 | 20,767 |
| 0031 | Guidance, counseling, and evaluation services | 643,940 | 643,940 | 606,181 | 37,759 |
| 0032 | Social work services | 30,537 | 31,037 | 30,681 | 356 |
| 0033 | Health services | 178,471 | 171,303 | 156,266 | 15,037 |
| 0034 | Student transportation | 804,584 | 855,946 | 773,258 | 82,688 |
| 0035 | Food service | - | 1,800 | 1,800 | - |
| 0036 | Extracurricular activities | 1,172,370 | 1,184,198 | 1,040,645 | 143,553 |
| 0041 | General administration | 892,448 | 877,723 | 830,141 | 47,582 |
| 0051 | Facilities maintenance and operations | 2,155,743 | 2,235,698 | 2,058,780 | 176,918 |
| 0052 | Security and monitoring services | 51,278 | 80,278 | 76,717 | 3,561 |
| 0053 | Data processing services | 464,666 | 484,641 | 466,258 | 18,383 |
| 0061 | Community services | 400 | 400 | 355 | 45 |
| Debt service: | | | | | |
| 0071 | Principal on long-term debt | 2,000 | 2,000 | - | 2,000 |
| 0081 | Capital outlay | - | 141,000 | 141,000 | - |
| Intergovernmental: | | | | | |
| Contracted instructional services | | | | | |
| 0091 | between schools | 15,383,647 | 16,356,638 | 16,674,778 | (318,140) |
| 0093 | Payments related to shared services arrangements | - | 15,073 | 7,205 | 7,868 |
| 0099 | Other governmental charges | <u>276,217</u> | <u>276,217</u> | <u>276,217</u> | <u>-</u> |
| 6030 | Total expenditures | <u>32,552,270</u> | <u>33,821,662</u> | <u>33,291,892</u> | <u>529,770</u> |
| 1100 | EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>112,049</u> | <u>(24,431)</u> | <u>903,947</u> | <u>928,378</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| 8949 | Other uses - refunded to taxpayers | <u>-</u> | <u>(44,863)</u> | <u>(44,863)</u> | <u>-</u> |
| 7080 | Total other financing sources (uses) | <u>-</u> | <u>(44,863)</u> | <u>(44,863)</u> | <u>-</u> |
| 1200 | NET CHANGE IN FUND BALANCES | 112,049 | (69,294) | 859,084 | 928,378 |
| 0100 | FUND BALANCES, BEGINNING | <u>7,584,727</u> | <u>7,584,727</u> | <u>7,584,727</u> | <u>-</u> |
| 3000 | FUND BALANCES, ENDING | <u>\$ 7,696,776</u> | <u>\$ 7,515,433</u> | <u>\$ 8,443,811</u> | <u>\$ 928,378</u> |

LLANO INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
AUGUST 31, 2011

Budgetary Information

The Board of Trustees adopts an “appropriated budget” for the General Fund, Debt Service Fund, and the National School Breakfast and Lunch Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenue and expenditures for each of these funds, and compares the final amended budget to actual revenue and expenditures. The District presented the General Fund budgetary comparison schedule as required supplementary information, and the National School Breakfast and Lunch and Debt Service Funds budgetary comparison schedules are presented as required TEA schedules.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least 10 days’ public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year’s budget. The District had no outstanding end-of-year encumbrances.

Excess of Expenditures Over Appropriations

The District exceeded appropriations in the General Fund by \$5,980 in instructional resources and media sources, and \$318,140 in contracted instructional services between schools. This budget overrun was funded by unexpended budgeted funds in other functions.

COMBINING STATEMENTS

LLANO INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2011

| | Special Revenue Funds | | | |
|--------------------------------------|--|----------------------------------|----------------------------------|--------------------------------------|
| | 211 ESEA I, A Improving Basic Program | 224 IDEA- Part B Preschool | 225 IDEA- Part B Preschool | 226 IDEA- Part B Discretionary |
| ASSETS | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - | \$ - |
| Current investments | - | - | - | - |
| Due from other governments | 28,910 | 14,607 | 816 | 8,947 |
| Other receivables, net | - | - | - | - |
| | - | - | - | - |
| Total assets | \$ 28,910 | \$ 14,607 | \$ 816 | \$ 8,947 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - |
| Accrued wages | 24,259 | 11,725 | 714 | - |
| Due to other funds | 4,651 | 2,882 | 102 | 8,947 |
| Accrued expenditures | - | - | - | - |
| Deferred revenues | - | - | - | - |
| | - | - | - | - |
| Total liabilities | 28,910 | 14,607 | 816 | 8,947 |
| Fund balances: | | | | |
| Restricted for: | | | | |
| Federal or state programs | - | - | - | - |
| Capital acquisitions | - | - | - | - |
| | - | - | - | - |
| Total fund balances | - | - | - | - |
| Total liabilities and fund balances | \$ 28,910 | \$ 14,607 | \$ 816 | \$ 8,947 |

| Special Revenue Funds | | | | | | |
|---|--|---|---|---|--------------------------------------|---|
| 240 National Breakfast and Lunch Program | 244 Vocational Ed Basic Grant | 255 ESEA II, A Training and Recruiting | 266 Title XIV ARRA State Stabilization | 270 ESEA VI, Pt B Rural & Low Income | 283 IDEA, Pt B ARRA Formula | 284 IDEA B Part B Preschool ARRA |
| \$ 330,955 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | - |
| 25,038 | - | 9,156 | 312 | - | 9,400 | 110 |
| <u>1,566</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>\$ 357,559</u> | <u>\$ -</u> | <u>\$ 9,156</u> | <u>\$ 312</u> | <u>\$ -</u> | <u>\$ 9,400</u> | <u>\$ 110</u> |
| | | | | | | |
| \$ 35,098 | \$ - | \$ - | \$ - | \$ - | \$ 339 | \$ - |
| 21,742 | - | 4,591 | - | - | - | - |
| - | - | 4,565 | 312 | - | 9,061 | 110 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| <u>56,840</u> | <u>-</u> | <u>9,156</u> | <u>312</u> | <u>-</u> | <u>9,400</u> | <u>110</u> |
| | | | | | | |
| 300,719 | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| <u>300,719</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | | | | | | |
| <u>\$ 357,559</u> | <u>\$ -</u> | <u>\$ 9,156</u> | <u>\$ 312</u> | <u>\$ -</u> | <u>\$ 9,400</u> | <u>\$ 110</u> |

LLANO INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2011

| | Special Revenue Funds | | | |
|--------------------------------------|--|--------------------------|---|---|
| | 285 ESEA I, A Improving Basic Program | 287 Education Jobs | 397 Advance Placement Incentives | 404 Student Success Initiative |
| ASSETS | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - | \$ - |
| Current investments | - | - | - | - |
| Due from other governments | 8,484 | 25,305 | 475 | 4,193 |
| Other receivables, net | - | - | - | - |
| Total assets | \$ 8,484 | \$ 25,305 | \$ 475 | \$ 4,193 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 1,589 | \$ - | \$ - | \$ - |
| Accrued wages | - | 14,826 | - | - |
| Due to other funds | 6,895 | 10,479 | 475 | 4,193 |
| Accrued expenditures | - | - | - | - |
| Deferred revenues | - | - | - | - |
| Total liabilities | 8,484 | 25,305 | 475 | 4,193 |
| Fund balances: | | | | |
| Restricted for: | | | | |
| Federal or state programs | - | - | - | - |
| Capital acquisitions | - | - | - | - |
| Total fund balances | - | - | - | - |
| Total liabilities and fund balances | \$ 8,484 | \$ 25,305 | \$ 475 | \$ 4,193 |

EXHIBIT H-1
(Continued)

| Special Revenue Funds | | | | Capital Project Funds | | | Total Nonmajor Governmental Funds |
|-----------------------|-------------------------|------------------|---|---------------------------|--------------------|--|--|
| 410 | 411 | 429 | Total Nonmajor Special Revenue | 699 | 697 | Total Nonmajor Capital Projects | |
| State Textbook | Technology Allotment | Ready to Read | | 1998 Bond Construction | 2007 Bond Issue | | |
| \$ - | \$ 30,838 | \$ 763 | \$ 362,556 | \$ 20,000 | \$ 9,847 | \$ 29,847 | \$ 392,403 |
| - | - | - | - | - | 925,081 | 925,081 | 925,081 |
| - | - | - | 135,753 | - | - | - | 135,753 |
| - | - | - | 1,566 | - | - | - | 1,566 |
| <u>\$ -</u> | <u>\$ 30,838</u> | <u>\$ 763</u> | <u>\$ 499,875</u> | <u>\$ 20,000</u> | <u>\$ 934,928</u> | <u>\$ 954,928</u> | <u>\$ 1,454,803</u> |
| \$ - | \$ - | \$ - | \$ 37,026 | \$ - | \$ 428 | \$ 428 | \$ 37,454 |
| - | - | - | 77,857 | - | - | - | 77,857 |
| - | - | - | 52,672 | - | - | - | 52,672 |
| - | - | - | - | 20,000 | - | 20,000 | 20,000 |
| - | - | 763 | 763 | - | - | - | 763 |
| - | - | 763 | 168,318 | 20,000 | 428 | 20,428 | 188,746 |
| - | 30,838 | - | 331,557 | - | - | - | 331,557 |
| - | - | - | - | - | 934,500 | 934,500 | 934,500 |
| - | 30,838 | - | 331,557 | - | 934,500 | 934,500 | 1,266,057 |
| <u>\$ -</u> | <u>\$ 30,838</u> | <u>\$ 763</u> | <u>\$ 499,875</u> | <u>\$ 20,000</u> | <u>\$ 934,928</u> | <u>\$ 954,928</u> | <u>\$ 1,454,803</u> |

**LLANO INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011**

| | Special Revenue Funds | | | |
|--|--|--------------------------------|----------------------------------|--------------------------------------|
| | 211 ESEA I, A Improving Basic Program | 224 IDEA, Part B Formula | 225 IDEA- Part B Preschool | 226 IDEA- Part B Discretionary |
| REVENUES | | | | |
| Local and intermediate sources | \$ - | \$ - | \$ - | \$ - |
| State programs | - | - | - | - |
| Federal programs | <u>429,744</u> | <u>282,076</u> | <u>10,096</u> | <u>107,844</u> |
| Total revenues | <u>429,744</u> | <u>282,076</u> | <u>10,096</u> | <u>107,844</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instruction | 421,512 | 265,439 | 10,096 | 99,976 |
| Instruction resources and media services | 7,782 | - | - | - |
| Curriculum and instructional staff development | 450 | 504 | - | - |
| School leadership | - | 1,255 | - | - |
| Guidance, counseling and evaluation services | - | 14,878 | - | - |
| Food services | - | - | - | - |
| Extracurricular activities | - | - | - | - |
| Facilities maintenance and operations | - | - | - | - |
| Capital outlay | - | - | - | - |
| Intergovernmental: | | | | |
| Payments related to shared services arrangements | - | - | - | 7,868 |
| Total expenditures | <u>429,744</u> | <u>282,076</u> | <u>10,096</u> | <u>107,844</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of real and personal property | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | - | - | - | - |
| FUND BALANCES, BEGINNING | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES, ENDING | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Special Revenue Funds

| 240 National Breakfast and Lunch Program | 244 Vocational Ed Basic Grant | 255 ESEA II, A Training and Recruiting | 266 Title XIV ARRA State Stabilization | 270 ESEA VI, Pt B Rural & Low Income | 283 IDEA, Pt B ARRA Formula | 284 IDEA B Part B Preschool ARRA |
|---|--|---|---|---|--------------------------------------|---|
| \$ 418,390 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 20,562 | - | - | - | - | - | - |
| <u>656,023</u> | <u>28,545</u> | <u>99,826</u> | <u>502,869</u> | <u>39,492</u> | <u>199,326</u> | <u>2,454</u> |
| <u>1,094,975</u> | <u>28,545</u> | <u>99,826</u> | <u>502,869</u> | <u>39,492</u> | <u>199,326</u> | <u>2,454</u> |
| - | 28,045 | 66,114 | 278,667 | 9,492 | 123,404 | 585 |
| - | - | - | 224,202 | - | - | - |
| - | - | 3,241 | - | 30,000 | 7,580 | 110 |
| - | - | 29,317 | - | - | - | - |
| - | 500 | 1,154 | - | - | 20,641 | 1,759 |
| 1,068,393 | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 13,447 | - | - | - | - | - | - |
| - | - | - | - | - | 47,701 | - |
| - | - | - | - | - | - | - |
| <u>1,081,840</u> | <u>28,545</u> | <u>99,826</u> | <u>502,869</u> | <u>39,492</u> | <u>199,326</u> | <u>2,454</u> |
| <u>13,135</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>7,350</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>7,350</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 20,485 | - | - | - | - | - | - |
| <u>280,234</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>\$ 300,719</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

**LLANO INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2011**

| | Special Revenue Funds | | | |
|--|--|--------------------------|---|---|
| | 285 ESEA I, A Improving Basic Program | 287 Education Jobs | 397 Advance Placement Incentives | 404 Student Success Initiative |
| REVENUES | | | | |
| Local and intermediate sources | \$ - | \$ - | \$ - | \$ - |
| State programs | - | - | 475 | 4,347 |
| Federal programs | <u>96,654</u> | <u>35,784</u> | - | - |
| Total revenues | <u>96,654</u> | <u>35,784</u> | <u>475</u> | <u>4,347</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Instruction | 57,654 | 31,340 | - | 4,347 |
| Instruction resources and media services | - | - | - | - |
| Curriculum and instructional staff development | 39,000 | - | 475 | - |
| School leadership | - | - | - | - |
| Guidance, counseling and evaluation services | - | - | - | - |
| Food services | - | - | - | - |
| Extracurricular activities | - | 4,444 | - | - |
| Facilities maintenance and operations | - | - | - | - |
| Capital outlay | - | - | - | - |
| Intergovernmental: | | | | |
| Payments related to shared services arrangements | - | - | - | - |
| Total expenditures | <u>96,654</u> | <u>35,784</u> | <u>475</u> | <u>4,347</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of real and personal property | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | - | - | - | - |
| FUND BALANCES, BEGINNING | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES, ENDING | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

EXHIBIT H-2
(Continued)

| Special Revenue Funds | | | | Capital Project Funds | | | Total Nonmajor Governmental Funds |
|-----------------------|-------------------------|------------------|---|---------------------------|--------------------|--|--|
| 410 | 411 | 429 | Total Nonmajor Special Revenue | 699 | 697 | Total Nonmajor Capital Projects | |
| State Textbook | Technology Allotment | Ready to Read | | 1998 Bond Construction | 2007 Bond Issue | | |
| \$ - | \$ - | \$ - | \$ 418,390 | \$ - | \$ 1,470 | \$ 1,470 | \$ 419,860 |
| 23,021 | 52,976 | 111 | 101,492 | - | - | - | 101,492 |
| - | - | - | 2,490,733 | - | - | - | 2,490,733 |
| <u>23,021</u> | <u>52,976</u> | <u>111</u> | <u>3,010,615</u> | <u>-</u> | <u>1,470</u> | <u>1,470</u> | <u>3,012,085</u> |
| 23,021 | 22,116 | 89 | 1,441,897 | - | - | - | 1,441,897 |
| - | 2,828 | 22 | 234,834 | - | - | - | 234,834 |
| - | - | - | 81,360 | - | - | - | 81,360 |
| - | - | - | 30,572 | - | - | - | 30,572 |
| - | - | - | 38,932 | - | - | - | 38,932 |
| - | - | - | 1,068,393 | - | - | - | 1,068,393 |
| - | - | - | 4,444 | - | - | - | 4,444 |
| - | - | - | 13,447 | - | - | - | 13,447 |
| - | - | - | 47,701 | - | 158,150 | 158,150 | 205,851 |
| - | - | - | 7,868 | - | - | - | 7,868 |
| <u>23,021</u> | <u>24,944</u> | <u>111</u> | <u>2,969,448</u> | <u>-</u> | <u>158,150</u> | <u>158,150</u> | <u>3,127,598</u> |
| - | 28,032 | - | 41,167 | - | (156,680) | (156,680) | (115,513) |
| - | - | - | 7,350 | - | - | - | 7,350 |
| - | - | - | 7,350 | - | - | - | 7,350 |
| - | 28,032 | - | 48,517 | - | (156,680) | (156,680) | (108,163) |
| - | 2,806 | - | 283,040 | - | 1,091,180 | 1,091,180 | 1,374,220 |
| <u>\$ -</u> | <u>\$ 30,838</u> | <u>\$ -</u> | <u>\$ 331,557</u> | <u>\$ -</u> | <u>\$ 934,500</u> | <u>\$ 934,500</u> | <u>\$ 1,266,057</u> |

LLANO INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
AUGUST 31, 2011

| | 827 Reynolds Scholarship | 828 Edinger Scholarship | 829 Mahon-Dahl Scholarship | Totals |
|-----------------------------|--------------------------------|-------------------------------|----------------------------------|-------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ - | \$ 3 | \$ 3 | \$ 6 |
| Investments | <u>164,232</u> | <u>29,215</u> | <u>9,639</u> | <u>203,086</u> |
| Total current assets | <u>164,232</u> | <u>29,218</u> | <u>9,642</u> | <u>203,092</u> |
| Total assets | <u>164,232</u> | <u>29,218</u> | <u>9,642</u> | <u>203,092</u> |
| NET ASSETS | | | | |
| Restricted for scholarships | <u>164,232</u> | <u>29,218</u> | <u>9,642</u> | <u>203,092</u> |
| Total net assets | <u>\$ 164,232</u> | <u>\$ 29,218</u> | <u>\$ 9,642</u> | <u>\$ 203,092</u> |

LLANO INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PRIVATE PURPOSE TRUST FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011

| | 827 Reynolds Scholarship | 828 Edinger Scholarship | 829 Mahon-Dahl Scholarship | Totals |
|--------------------------------|--------------------------------|-------------------------------|----------------------------------|-------------------|
| ADDITIONS | | | | |
| Local and intermediate sources | \$ 54,513 | \$ 59 | \$ 20 | \$ 54,592 |
| Total additions | <u>54,513</u> | <u>59</u> | <u>20</u> | <u>54,592</u> |
| DEDUCTIONS | | | | |
| Other operating costs | - | 499 | 500 | 999 |
| Total deductions | <u>-</u> | <u>499</u> | <u>500</u> | <u>999</u> |
| CHANGE IN NET ASSETS | 54,513 | (440) | (480) | 53,593 |
| NET ASSETS, BEGINNING | <u>109,719</u> | <u>29,658</u> | <u>10,122</u> | <u>149,499</u> |
| NET ASSETS, ENDING | <u>\$ 164,232</u> | <u>\$ 29,218</u> | <u>\$ 9,642</u> | <u>\$ 203,092</u> |

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REQUIRED TEA SCHEDULES

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

| Last Ten Years Ended August 31, | 1 | | 2 | 3 | 10 | 20 |
|------------------------------------|-------------|--------------|---|---|----------------------------------|---------------------------------|
| | Tax Rates | | | Net Assessed/ Appraised Value for School Tax Purpose | Beginning Balance 09/01/10 | Current Year's Total Levy |
| | Maintenance | Debt Service | | | | |
| 2002 and prior years | Various | Various | | Various | \$ 17,363 | \$ - |
| 2003 | 1.500000 | 0.120000 | | 1,316,006,034 | 11,429 | - |
| 2004 | 1.500000 | 0.104000 | | 1,412,703,279 | 17,580 | - |
| 2005 | 1.500000 | 0.102000 | | 1,508,025,758 | 21,579 | - |
| 2006 | 1.422000 | 0.107000 | | 1,697,409,206 | 34,562 | - |
| 2007 | 1.300000 | 0.107700 | | 1,862,797,755 | 61,707 | - |
| 2008 | 1.040000 | 0.150000 | | 2,286,016,807 | 94,400 | - |
| 2009 | 1.040000 | 0.175000 | | 2,581,923,292 | 202,482 | - |
| 2010 | 1.040000 | 0.175000 | | 2,837,174,239 | 602,901 | - |
| 2011 | 1.040000 | 0.175000 | | 2,859,324,774 | - | <u>34,740,796</u> |
| 1000 Totals | | | | | <u>\$ 1,064,003</u> | <u>\$ 34,740,796</u> |

EXHIBIT J-1

| 31 | 32 | 40 | 50 |
|--|---|--|--|
| <u>Maintenance Total Collections</u> | <u>Debt Service Total Collections</u> | <u>Entire Year's Adjustments</u> | <u>Ending Balance 08/31/11</u> |
| \$ 731 | \$ 53 | \$(1,660) | \$ 14,919 |
| 1,635 | 131 | (355) | 9,308 |
| 2,009 | 139 | (701) | 14,731 |
| 3,978 | 270 | (430) | 16,901 |
| 11,271 | 848 | (222) | 22,221 |
| 19,895 | 1,648 | (1,666) | 38,498 |
| 34,145 | 4,925 | (3,251) | 52,079 |
| 79,757 | 13,421 | (518) | 108,786 |
| 320,431 | 53,919 | (34,731) | 193,820 |
| <u>29,171,772</u> | <u>4,908,711</u> | <u>(126,613)</u> | <u>533,700</u> |
| <u>\$ 29,645,624</u> | <u>\$ 4,984,065</u> | <u>\$(170,147)</u> | <u>\$ 1,004,963</u> |

LLANO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2011 - 2012
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION, 99 - APPRAISAL DISTRICT COST

| Account Number | Account Name | 1 (702) School Board | 2 (703) Tax Collections | 3 (701) Supt's Office | 4 (750) Indirect Cost | 5 (720) Direct Cost | 6 (Other) Miscellaneous | 7 Total |
|----------------|-----------------------------------|----------------------------|-------------------------------|-----------------------------|-----------------------------|---------------------------|-------------------------------|---------------------|
| 611X-6146 | PAYROLL COSTS | \$ - | \$ - | \$ 334,591 | \$ 313,638 | \$ - | \$ - | \$ 648,229 |
| 6149 | Fringe benefits | - | - | - | - | - | - | - |
| 6149 | Fringe benefits | - | - | - | - | - | - | - |
| 6211 | Legal services | - | 34,090 | 36,434 | - | - | - | 70,524 |
| 6212 | Audit services | - | - | - | 20,000 | - | - | 20,000 |
| 6213 | Tax appraisal and collection | - | 276,217 | - | - | - | - | 276,217 |
| 6214 | Lobbying | - | - | - | - | - | - | - |
| 621X | Other professional services | 2,375 | - | 3,000 | 6,680 | - | - | 12,055 |
| 6220 | Tuition and transfer payments | - | - | - | - | - | - | - |
| 6230 | Education service centers | - | - | 600 | 3,147 | - | - | 3,747 |
| 6240 | Contractor maintenance and repair | - | - | - | - | 26,252 | - | 26,252 |
| 6250 | Utilities | - | - | - | - | - | - | - |
| 6260 | Rentals | - | - | 6,375 | 2,545 | - | - | 8,920 |
| 6290 | Miscellaneous contractors | 2,291 | - | 1,190 | 5,151 | - | - | 8,632 |
| 6320 | Textbooks and reading | - | - | 390 | - | - | - | 390 |
| 6330 | Testing materials | - | - | - | - | - | - | - |
| 63XX | Other supplies materials | 389 | - | 16,429 | 3,642 | - | - | 20,460 |
| 6410 | Travel, subsistence, stipends | 1,533 | - | 3,491 | 3,672 | - | - | 8,696 |
| 6420 | Insurance and bonding costs | - | - | 6,087 | - | - | - | 6,087 |
| 6430 | Election costs | 35 | - | - | - | - | - | 35 |
| 6490 | Miscellaneous operating | 559 | - | 17,182 | 4,625 | - | - | 22,366 |
| 6500 | Debt service | - | - | - | - | - | - | - |
| 6600 | Capital outlay | - | - | - | - | - | - | - |
| 6000 | Total | <u>\$ 7,182</u> | <u>\$ 310,307</u> | <u>\$ 425,769</u> | <u>\$ 363,100</u> | <u>\$ 26,252</u> | <u>\$ -</u> | <u>\$ 1,132,610</u> |

Total expenditures/expenses for General and Special Revenue Funds

9 \$ 36,419,490

Less: Deductions of unallowable costs

FISCAL YEAR

| | | |
|--|----|------------------|
| Total capital outlay (6600) | 10 | \$ 336,139 |
| Total debt and lease (6500) | 11 | - |
| Plant maintenance (Function 51, 6100-6400) | 12 | 2,000,207 |
| Food (Function 35, 6341 and 6499) | 13 | 459,844 |
| Stipends (6413) | 14 | 1,503 |
| Column 4 (above) - Total indirect cost | | <u>363,100</u> |
| Subtotal | | <u>3,160,793</u> |
| Net allowed direct cost | | 33,258,697 |

CUMULATIVE

| | | |
|---|----|------------|
| Total cost of buildings before depreciation (1520) | 15 | 44,503,227 |
| Historical cost of buildings over 50 years old | 16 | 761,773 |
| Amount of federal money in building cost (net of #16) | 17 | - |
| Total cost of furniture and equipment before depreciation (1530 & 1540) | 18 | 7,483,618 |
| Historical cost of furniture and equipment over 16 years old | 19 | 149,077 |
| Amount of federal money in furniture and equipment (net of #19) | 20 | 228,558 |

- (8) Note A - \$ 26,252 in Function 53 expenditures are included in this report on administrative costs.
 \$ 276,217 in Function 99, expenditures for appraisal district costs are included in this report on administrative costs.

LLANO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2011

| Data Control Codes | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) | |
|---------------------------------------|---------------------------------------|------------|-------------------|---|-------------|
| | Original | Final | | | |
| REVENUES | | | | | |
| 5700 | Local and intermediate sources | \$ 430,500 | \$ 438,515 | \$ 418,390 | \$(20,125) |
| 5800 | State programs | 5,000 | 19,450 | 20,562 | 1,112 |
| 5900 | Federal programs | 597,000 | 624,280 | 656,023 | 31,743 |
| 5020 | Total revenues | 1,032,500 | 1,082,245 | 1,094,975 | 12,730 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| 0035 | Food service | 1,064,615 | 1,097,845 | 1,068,393 | 29,452 |
| 0051 | Facilities maintenance and operations | 16,900 | 16,900 | 13,447 | 3,453 |
| 6030 | Total expenditures | 1,081,515 | 1,114,745 | 1,081,840 | 32,905 |
| 1100 | EXCESS (DEFICIENCY) OF | | | | |
| | REVENUES OVER EXPENDITURES | (49,015) | (32,500) | 13,135 | 45,635 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| 7912 | Sale of real or personal property | - | 4,400 | 7,350 | 2,950 |
| 7080 | Total other financing sources (uses) | - | 4,400 | 7,350 | 2,950 |
| 1200 | NET CHANGE IN FUND BALANCES | (49,015) | (28,100) | 20,485 | 48,585 |
| 0100 | FUND BALANCES, BEGINNING | 280,234 | 280,234 | 280,234 | - |
| 3000 | FUND BALANCES, ENDING | \$ 231,219 | \$ 252,134 | \$ 300,719 | \$ 48,585 |

LLANO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2011

| Data Control Codes | | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--------------------------|--|------------------|--------------|-------------------|---|
| | | Original | Final | | |
| | REVENUES | | | | |
| 5700 | Local and intermediate sources | \$ 4,829,848 | \$ 5,025,848 | \$ 5,040,302 | \$ 14,454 |
| 5020 | Total revenues | 4,829,848 | 5,025,848 | 5,040,302 | 14,454 |
| | EXPENDITURES | | | | |
| | Debt service: | | | | |
| 0071 | Principal on long-term debt | 3,930,000 | 3,930,000 | 3,930,000 | - |
| 0072 | Interest on long-term debt | 861,790 | 861,790 | 861,790 | - |
| 0073 | Bond issuance costs and fees | 3,000 | 6,300 | 6,050 | 250 |
| 6030 | Total expenditures | 4,794,790 | 4,798,090 | 4,797,840 | 250 |
| 1100 | EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 35,058 | 227,758 | 242,462 | 14,704 |
| | OTHER FINANCING SOURCES (USES) | | | | |
| 8940 | Other uses - refunded to taxpayers | - | (7,547) | (7,547) | - |
| 7080 | Total other financing sources (uses) | - | (7,547) | (7,547) | - |
| 1200 | NET CHANGE IN FUND BALANCES | 35,058 | 220,211 | 234,915 | 14,704 |
| 0100 | FUND BALANCES, BEGINNING | 354,266 | 354,266 | 354,266 | - |
| 3000 | FUND BALANCES, ENDING | \$ 389,324 | \$ 574,477 | \$ 589,181 | \$ 14,704 |

FEDERAL AWARDS SECTION

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

Board of Trustees
Llano Independent School District
Llano, Texas

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Llano Independent School District, as of and for the year ended August 31, 2011, which collectively comprise Llano Independent School District's basic financial statements and have issued our report thereon dated December 14, 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 Llano Independent School 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 Llano Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Llano Independent School District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to the management of Llano Independent School District, in a separate letter dated December 14, 2011.

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

Pattillo, Brown & Hill, L.L.P.

December 14, 2011



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

Board of Trustees
Llano Independent School District
Llano, Texas

Compliance

We have audited Llano Independent School District's compliance (the "District"), with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2011. The District's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011.

Internal Control Over Compliance

The management of Llano Independent School District, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered 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 the audit committee, management, Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill, L.L.P.

December 14, 2011

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

| (1) Federal Grantor/ Pass-through Grantor/ Grantor/Program Title | (2) Federal CFDA Number | (2A) Pass-through Entity Identifying Number | (3) Federal Expenditures |
|---|----------------------------------|--|--------------------------------|
| U. S. DEPARTMENT OF AGRICULTURE | | | |
| <u>Passed through the Texas Education Agency</u> | | | |
| School Breakfast Program | 10.553 | 71401001 | \$ 153,365 |
| National School Lunch Program | 10.555 | 71301001 | <u>456,380</u> |
| Total Passed through the Texas Education Agency | | | <u>609,745</u> |
| <u>Passed through the Texas Department of Agriculture</u> | | | |
| Commodities - Non-cash assistance | 10.555 | 150001A | <u>46,278</u> |
| Total Passed through the Texas Department of Agriculture | | | <u>46,278</u> |
| Total Child Nutrition Cluster | | | <u>656,023</u> |
| TOTAL U. S. DEPARTMENT OF AGRICULTURE | | | <u>656,023</u> |
| U. S. DEPARTMENT OF EDUCATION | | | |
| <u>Passed through the Texas Education Agency</u> | | | |
| ESEA, Title I, Part A - Improving Basic Programs | 84.010A | 11610101150901 | 405,485 |
| ESEA, Title I, Part A - Improving Basic Programs | 84.010A | 12610101150901 | 24,259 |
| ESEA, Title I, Part A - Improving Basic Programs - ARRA | 84.389A | 10551001150901 | <u>96,654</u> |
| Total Title I, Part A Cluster | | | <u>526,398</u> |
| IDEA - Part B, Formula | 84.027A | 116600011509016600 | 270,351 |
| IDEA - Part B, Formula | 84.027A | 126600011509016600 | 11,725 |
| IDEA - Part B, Discretionary | 84.027A | 116600021509016677 | 99,976 |
| IDEA - Part B, High Cost Risk Pool | 84.027A | 11660006150901 | 7,868 |
| IDEA - Part B, Preschool | 84.173A | 116610011509016610 | 9,382 |
| IDEA - Part B, Preschool | 84.173A | 126610011509016610 | 714 |
| IDEA - Part B, Formula - ARRA | 84.391A | 10554001150901 | 199,326 |
| IDEA - Part B, Preschool - ARRA | 84.392A | 10555001150901 | <u>2,454</u> |
| Total Special Education Cluster (IDEA) | | | <u>601,796</u> |
| Carl Perkins Basic Grant Formula | 84.048A | 11420006150901 | <u>28,545</u> |

(continued)

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

| (1) Federal Grantor/ Pass-through Grantor/ Grantor/Program Title | (2) Federal CFDA Number | (2A) Pass-through Entity Identifying Number | (3) Federal Expenditures |
|---|----------------------------------|--|--------------------------------|
| U. S. DEPARTMENT OF EDUCATION (Continued) | | | |
| <u>Passed through the Texas Education Agency (Continued)</u> | | | |
| ESEA Title VI - Part B, Subpart 2, Rural & Low Income School Program | 84.358B | 11696001150901 | \$ <u>39,492</u> |
| ESEA, Title II, Part A - Teacher/Principal Training | 84.367A | 11694501150901 | 92,749 |
| ESEA, Title II, Part A - Teacher/Principal Training | 84.367A | 12694501150901 | <u>7,077</u> |
| Total ESEA, Title II, Part A - Teacher/Principal Training | | | <u>99,826</u> |
| Title XIV, State Fiscal Stabilization Fund - ARRA | 84.394A | 11557001150901 | <u>502,869</u> |
| Education Jobs Fund | 84.410A | 11550101150901 | <u>35,784</u> |
| Total Passed through the Texas Education Agency | | | <u>1,834,710</u> |
| TOTAL U. S. DEPARTMENT OF EDUCATION | | | <u>1,834,710</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ <u>2,490,733</u> |

LLANO INDEPENDENT SCHOOL DISTRICT

**NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

AUGUST 31, 2011

1. GENERAL

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal award programs of Llano Independent School District. The District's reporting entity is defined in Note I of the financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note I of the financial statements.

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

Summary of Auditors' Results

Financial Statements:

| | |
|---|---------------|
| Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | None reported |
| Noncompliance material to financial statements noted? | No |

Federal Awards:

| | |
|--|---------------|
| Internal control over major programs: Material weakness(es) identified? | No |
| Significant deficiency(ies) identified? | None reported |
| Type of auditors' report issued on compliance for major programs: | Unqualified |

| | |
|--|------|
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | None |
|--|------|

Identification of major programs:

| | |
|--------------------------------|-------------------------------------|
| CFDA Numbers: | Name of federal program or cluster: |
| 10.553, 10.555 | Child Nutrition Cluster |
| 84.010, 84.389 | Title I, Part A Cluster |
| 84.027, 84.173, 84.391, 84.392 | Speical Education Cluster (IDEA) |
| 84.394 | Title XIV |

| | |
|---|-----------|
| Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
|---|-----------|

| | |
|--|-----|
| Auditee qualified as low-risk auditee? | Yes |
|--|-----|

**Findings Relating to the Financial Statements Which are
Required to be Reported in Accordance With Generally
Accepted Auditing Standards**

None

Findings and Questioned Costs for Federal Awards

None

LLANO INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2011

None

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