

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2013

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2013

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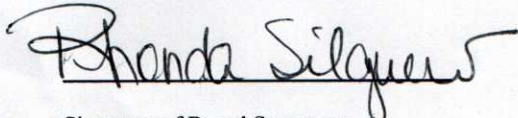
CERTIFICATE OF BOARD

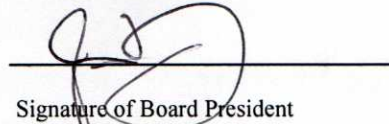
Santa Gertrudis Independent School District
Name of School District

Kleberg
County

137-904
Co.-Dist. Number

We, the undersigned, certify that the attached auditor's reports of the above named school district were reviewed and approved
- disapproved for the year ended August 31, 2013, at a meeting of the board of school trustees of such school district on the
26th day of February, 2014.


Signature of Board Secretary


Signature of Board President

If the auditor's reports were checked above as disapproved, the reason(s) therefore is/are (attach list if necessary):

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Independent Auditor's Report

UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION - STATE OR LOCAL GOVERNMENTAL ENTITY

Board of Trustees
Santa Gertrudis Independent School District
P.O. Box 592
Kingsville, Texas 78364

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for Santa Gertrudis Independent School District (the "District") as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Santa Gertrudis Independent School District as of August 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

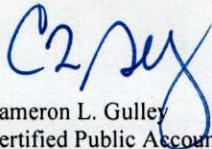
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule for the general fund as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedure 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements and the TEA required schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The combining and individual nonmajor fund financial statements and the TEA required schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

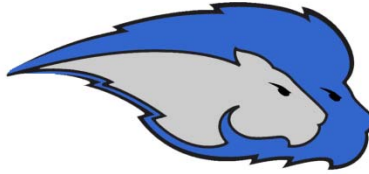
In accordance with *Government Auditing Standards*, I have also issued my report dated February 19, 2014, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Cameron L. Gulley
Certified Public Accountant

February 19, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Santa Gertrudis Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2013. Please read it in conjunction with the independent auditor's report on page 2 and the District's Basic Financial Statements which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 and 11). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt 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 12) 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. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 18) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. 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 Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 5. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are 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 revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All 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 position and changes in them. The District's net position (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 position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors 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 Position and the Statement of Activities, the District has one activity type:

Governmental activities - All of the District's basic services are reported here, including the 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 services.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 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 the No Child Left Behind Act 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).

Governmental funds - All of the District's basic services are reported in governmental funds. These use the 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 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. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the 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 Position and Changes in Fiduciary Net Position on pages 16 and 17. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance 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

The following analyses of comparative balances and changes therein is inclusive of the current year's and prior year's operations. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Total net position of the District's governmental activities increased from \$7,502,417 (after beginning net position adjustment) to \$8,216,486. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased from \$2,411,621 to \$2,635,784 at August 31, 2013. Current assets of the District increased by \$298,434 which is due to increases in federal and state receivables. Capital assets decreased by \$421,989 because of current year depreciation expense in excess of asset additions. Long-term liabilities decreased \$833,800 due to the current year principal payments on outstanding long-term debt. Other liabilities decreased by \$3,824.

Table I
Santa Gertrudis Independent School District
Net Position

| | Governmental Activities 2013 | Governmental Activities 2012 | Variance Increase/ (Decrease) |
|----------------------------------|------------------------------------|------------------------------------|-------------------------------------|
| Current and other assets | \$ 2,926,510 | \$ 2,628,076 | \$ 298,434 |
| Capital assets | 11,353,164 | 11,775,153 | (421,989) |
| Total assets | 14,279,674 | 14,403,229 | (123,555) |
| Long-term liabilities | 5,835,000 | 6,668,800 | (833,800) |
| Other liabilities | 228,188 | 232,012 | (3,824) |
| Total liabilities | 6,063,188 | 6,900,812 | (837,624) |
| Net position: | | | |
| Net investment in capital assets | 5,502,580 | 5,088,129 | 414,451 |
| Restricted for debt service | 78,122 | 2,667 | 75,455 |
| Unrestricted | 2,635,784 | 2,411,621 | 224,163 |
| Total net position | \$ 8,216,486 | \$ 7,502,417 | \$ 714,069 |

Table II
Santa Gertrudis Independent School District
Changes in Net Position

| | Governmental Activities 2013 | Governmental Activities 2012 | Variance Favorable/ (Unfavorable) |
|------------------------------------|------------------------------------|------------------------------------|---|
| Revenues: | | | |
| Program Revenues: | | | |
| Charges for services | \$ 1,691,389 | \$ 1,607,793 | \$ 83,596 |
| Operating grants and contributions | 527,225 | 820,748 | (293,523) |
| General Revenues: | | | |
| Maintenance and operations taxes | 1,748,302 | 1,493,943 | 254,359 |
| Debt service taxes | 643,265 | 596,917 | 46,348 |
| State aid - formula grants | 3,427,372 | 3,081,378 | 345,994 |
| Investment earnings | 3,260 | 3,390 | (130) |
| Miscellaneous | (27,851) | 2,340 | (30,191) |
| Total Revenues | 8,012,962 | 7,606,509 | 406,453 |

Table II - Continued
Santa Gertrudis Independent School District
Changes in Net Position

| | Governmental Activities 2013 | Governmental Activities 2012 | Variance Favorable/ (Unfavorable) |
|--|------------------------------------|------------------------------------|---|
| Expenses: | | | |
| Instruction, curriculum and media services | 3,598,290 | 3,572,224 | (26,066) |
| Instructional and school leadership | 316,997 | 291,643 | (25,354) |
| Student support services | 469,994 | 390,482 | (79,512) |
| Child nutrition | 368,021 | 305,814 | (62,207) |
| Extracurricular activities | 508,595 | 480,018 | (28,577) |
| General administration and intergovernmental charges | 597,716 | 457,643 | (140,073) |
| Plant maintenance, security & data processing | 1,225,341 | 908,270 | (317,071) |
| Community service | 10,735 | 9,851 | (884) |
| Debt service | 203,204 | 233,869 | 30,665 |
| Total Expenses | 7,298,893 | 6,649,814 | (649,079) |
| Increase in Net Position | 714,069 | 956,695 | (242,626) |
| Net Position - beginning of year | 7,502,417 | 6,545,722 | 956,695 |
| Prior year adjustment | 0 | 0 | 0 |
| Net Position - end of year | \$ 8,216,486 | \$ 7,502,417 | \$ 714,069 |

The District's total revenues increased by \$406,453. Charges for services increased by \$83,596 due to local food service sales and extracurricular athletic revenue increases. Operating grants and contributions were down by \$293,523 due to reduced federal funding for the year. Maintenance and operations property tax revenues were higher by \$254,359 due to a 17% increase in property valuations for the year. Debt service tax revenues were up by \$46,348 due to the same tax valuation increase offset by a lower debt service tax rate levied for the year. State aid formula grant revenues were \$345,994 more than last year due to an enrollment increase of approximately 15%. Miscellaneous revenues were down by \$30,191 due to a book loss on the sale of portable buildings during the year.

Overall, expenses of the District increased by \$649,079. Instructional and school leadership expenses were higher by approximately \$26,000 each due to increases in salaries by \$72,000 and \$50,000, respectively offset by decreases in instructional supplies by \$50,000 and \$24,000, respectively. Student support services were higher by \$79,512 due to increases in salaries and transportation costs. Child nutrition expenses were higher by \$62,207 due to higher food costs relative to the increase in enrollment. Extracurricular activities were \$28,577 more than last year due to increases in salaries by \$22,000 and supplies by \$6,000. General administration and intergovernmental charges were \$140,073 more than last year due to increases in payroll costs by \$111,000, miscellaneous operating costs (related to travel and elections) by \$15,000 and increased appraisal district fees of \$8,000 (due to higher property valuations). Plant maintenance expenses were up by \$317,071 due to salary increases totaling \$45,000, building rental increases of \$100,000, flow-through utility increases totaling \$115,000, increased repairs by \$21,000 and increases in insurance by \$13,000. Debt service expenses were \$30,665 less than last year due to early pay-off of outstanding long-term debt during the year.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$2,705,536, an increase of \$302,542 from last year's fund balance of \$2,402,994. The primary reasons parallel the items described in the previous section with the exception of the debt principal payments classified as expenditures in the

fund level financial statements and depreciation classified as an expense in the government-wide financial statements. See Exhibit C-2 for a reconciliation of the fund balances to net position highlighted above.

Over the course of the year, the Board of Trustees revised the District's budget only a few times. The most significant budget amendment was in the general fund debt service totaling \$253,000 for the early pay-off of existing debt. Additional significant budget amendments were in extracurricular activities for increased travel costs and supplies totaling \$50,000, increased facilities maintenance costs and capital improvements totaling \$76,000, and increased intergovernmental fees totaling \$24,644 for higher appraisal fees.

The District's General Fund balance of \$2,611,874 reported on pages 14 and 33 differs from the General Fund's budgetary fund balance of \$1,945,852 reported in the budgetary comparison schedule on page 33. This is principally due to revenues being approximately \$170,000 more than budgeted and expenditures being nearly \$500,000 less than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2013, the District had \$13,791,905 invested in a broad range of capital assets including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a decrease of \$224,765 (due to dispositions) from last fiscal year. The following additions were made during the year:

| | |
|------------------------------------|-----------|
| Elementary building improvements | \$ 20,075 |
| Elementary playground improvements | 35,202 |
| 2013 Chevrolet suburban | 34,815 |
| Total Asset Additions | \$ 90,092 |

Debt

The District had one outstanding long-term liability in the form of a bond (with a balance of \$5,725,000) obtained to finance a new elementary school. During the year, the District made bond payments totaling \$618,892 (\$430,000 in principal and \$188,892 in interest). Total annual payments vary from approximately \$521,000 to \$721,000 until final maturity in 2023. The District had one long-term liability in the form of a note payable (with a balance of \$110,000) for the purpose of financing maintenance and operations. During the year, the District made payments totaling \$374,236 (\$358,000 in principal and \$16,236 in interest). Total annual payments approximate \$115,000 through 2014 (when the loan will payoff).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District should remain financially stable during the 2013-14 fiscal year. Revenues are budgeted to be \$7.01 million with projected increases in property tax revenues and state foundation revenues due to continued tax valuation and enrollment increases. Expenditures are budgeted to be \$6.58 million with the most significant projected expenditure cuts in general fund debt service. The tax rate adopted by the board of trustees was set at \$1.3868 (a decrease of \$0.0357/\$100 from last year's rate). The fund balance is projected to approximate \$3,040,000 by August 31, 2014.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's business office at: Santa Gertrudis Independent School District, P. O. Box 592, Kingsville, Texas 78364.

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BASIC FINANCIAL STATEMENTS

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2013

EXHIBIT A-1

| Data Control Codes | Primary Government |
|---|----------------------------|
| | Governmental Activities |
| ASSETS | |
| 1110 Cash and Cash Equivalents | \$ 134,960 |
| 1120 Current Investments | 1,897,654 |
| 1220 Property Taxes Receivable (Delinquent) | 18,935 |
| 1230 Allowance for Uncollectible Taxes | (10,565) |
| 1240 Due from Other Governments | 829,062 |
| 1290 Other Receivables, net | 4,937 |
| 1490 Other Current Assets | 51,527 |
| Capital Assets: | |
| 1520 Buildings, Net | 10,904,798 |
| 1530 Furniture and Equipment, Net | 448,366 |
| 1000 Total Assets | 14,279,674 |
| LIABILITIES | |
| 2140 Interest Payable | 15,584 |
| 2150 Payroll Deductions & Withholdings | 3,342 |
| 2160 Accrued Wages Payable | 204,687 |
| 2177 Due to Fiduciary Funds | 142 |
| 2200 Accrued Expenses | 4,433 |
| Noncurrent Liabilities | |
| 2501 Due Within One Year | 560,000 |
| 2502 Due in More Than One Year | 5,275,000 |
| 2000 Total Liabilities | 6,063,188 |
| NET POSITION | |
| 3200 Net Investment in Capital Assets | 5,502,580 |
| 3850 Restricted for Debt Service | 78,122 |
| 3900 Unrestricted | 2,635,784 |
| 3000 Total Net Position | \$ 8,216,486 |

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT B-1

| Data Control Codes | 1 | Program Revenues | | 6 |
|--------------------------|----------|-------------------------|--|--|
| | | 3 | 4 | |
| | Expenses | Charges for Services | Operating Grants and Contributions | Primary Gov. Governmental Activities |

Primary Government:

GOVERNMENTAL ACTIVITIES:

| | | | | |
|---|--------------|--------------|------------|----------------|
| 11 Instruction | \$ 3,467,199 | \$ 1,374,608 | \$ 289,193 | \$ (1,803,398) |
| 12 Instructional Resources and Media Services | 102,116 | - | 2,408 | (99,708) |
| 13 Curriculum and Staff Development | 28,975 | - | 7,236 | (21,739) |
| 21 Instructional Leadership | 46,895 | - | 4,442 | (42,453) |
| 23 School Leadership | 270,102 | - | 7,671 | (262,431) |
| 31 Guidance, Counseling and Evaluation Services | 142,858 | - | 4,007 | (138,851) |
| 33 Health Services | 76,312 | - | 2,111 | (74,201) |
| 34 Student (Pupil) Transportation | 250,824 | - | 9,516 | (241,308) |
| 35 Food Services | 368,021 | 167,828 | 169,090 | (31,103) |
| 36 Extracurricular Activities | 508,595 | 120,900 | 7,838 | (379,857) |
| 41 General Administration | 539,956 | 28,053 | 12,042 | (499,861) |
| 51 Facilities Maintenance and Operations | 1,093,426 | - | 7,763 | (1,085,663) |
| 52 Security and Monitoring Services | 5,865 | - | 46 | (5,819) |
| 53 Data Processing Services | 126,050 | - | 3,862 | (122,188) |
| 61 Community Services | 10,735 | - | - | (10,735) |
| 72 Debt Service - Interest on Long Term Debt | 203,204 | - | - | (203,204) |
| 99 Other Intergovernmental Charges | 57,760 | - | - | (57,760) |
| [TP] TOTAL PRIMARY GOVERNMENT: | \$ 7,298,893 | \$ 1,691,389 | \$ 527,225 | (5,080,279) |

Data
Control
Codes

General Revenues:

Taxes:

| | | |
|----|--|--------------|
| MT | Property Taxes, Levied for General Purposes | 1,748,302 |
| DT | Property Taxes, Levied for Debt Service | 643,265 |
| SF | State Aid - Formula Grants | 3,427,372 |
| IE | Investment Earnings | 3,260 |
| MI | Miscellaneous Local and Intermediate Revenue | 17,930 |
| FR | Gain (Loss) on Sale of Assets | (45,781) |
| TR | Total General Revenues & Transfers | 5,794,348 |
| CN | Change in Net Position | 714,069 |
| NB | Net Position - Beginning | 7,575,827 |
| PA | Prior Period Adjustment | (73,410) |
| NE | Net Position--Ending | \$ 8,216,486 |

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2013

| Data Control Codes | 10 General Fund | Other Funds | Total Governmental Funds |
|--|-----------------------|-------------------|--------------------------------|
| ASSETS | | | |
| 1110 Cash and Cash Equivalents | \$ 113,087 | \$ 21,873 | \$ 134,960 |
| 1120 Investments - Current | 1,897,654 | - | 1,897,654 |
| 1220 Property Taxes - Delinquent | 17,480 | 1,455 | 18,935 |
| 1230 Allowance for Uncollectible Taxes (Credit) | (10,363) | (202) | (10,565) |
| 1240 Receivables from Other Governments | 735,118 | 93,944 | 829,062 |
| 1260 Due from Other Funds | 7,458 | - | 7,458 |
| 1290 Other Receivables | 2,637 | 2,300 | 4,937 |
| 1490 Other Current Assets | 51,527 | - | 51,527 |
| 1000 Total Assets | <u>\$ 2,814,598</u> | <u>\$ 119,370</u> | <u>\$ 2,933,968</u> |
| LIABILITIES | | | |
| 2150 Payroll Deductions and Withholdings Payable | \$ 3,342 | \$ - | \$ 3,342 |
| 2160 Accrued Wages Payable | 188,356 | 16,331 | 204,687 |
| 2170 Due to Other Funds | 142 | 7,458 | 7,600 |
| 2200 Accrued Expenditures | 3,767 | 666 | 4,433 |
| 2000 Total Liabilities | <u>195,607</u> | <u>24,455</u> | <u>220,062</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| 2601 Unavailable Revenue - Property Taxes | 7,117 | 1,253 | 8,370 |
| 2600 Total Inflows of Resources | <u>7,117</u> | <u>1,253</u> | <u>8,370</u> |
| FUND BALANCES | | | |
| Nonspendable Fund Balance: | | | |
| 3430 Prepaid Items | 51,527 | - | 51,527 |
| Restricted Fund Balance: | | | |
| 3480 Retirement of Long-Term Debt | - | 76,869 | 76,869 |
| 3600 Unassigned Fund Balance | 2,560,347 | 16,793 | 2,577,140 |
| 3000 Total Fund Balances | <u>2,611,874</u> | <u>93,662</u> | <u>2,705,536</u> |
| 4000 Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 2,814,598</u> | <u>\$ 119,370</u> | <u>\$ 2,933,968</u> |

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2013

| | | |
|--|----|-----------|
| Total Fund Balances - Governmental Funds | \$ | 2,705,536 |
| | | |
| 1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$14,016,670 and the accumulated depreciation was \$2,241,517. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position. | | 5,161,539 |
| | | |
| 2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2013 capital outlays and debt principal payments is to increase (decrease) net position. | | 923,892 |
| | | |
| 3 The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. | | (451,300) |
| | | |
| 4 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, eliminating interfund transactions and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position. | | (123,181) |
| | | |
| 19 Net Position of Governmental Activities | \$ | 8,216,486 |

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

| Data Control Codes | 10 General Fund | Other Funds | Total Governmental Funds | |
|--|---|---------------------|--------------------------------|---------------------|
| REVENUES: | | | | |
| 5700 | Total Local and Intermediate Sources | \$ 3,214,103 | \$ 897,217 | \$ 4,111,320 |
| 5800 | State Program Revenues | 3,522,358 | 97,157 | 3,619,515 |
| 5900 | Federal Program Revenues | - | 330,832 | 330,832 |
| 5020 | Total Revenues | <u>6,736,461</u> | <u>1,325,206</u> | <u>8,061,667</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| 0011 | Instruction | 3,012,439 | 188,236 | 3,200,675 |
| 0012 | Instructional Resources and Media Services | 90,128 | 6,006 | 96,134 |
| 0013 | Curriculum and Instructional Staff Development | 17,003 | 7,236 | 24,239 |
| 0021 | Instructional Leadership | 40,228 | 2,939 | 43,167 |
| 0023 | School Leadership | 226,918 | 28,494 | 255,412 |
| 0031 | Guidance, Counseling and Evaluation Services | 127,781 | - | 127,781 |
| 0033 | Health Services | 68,570 | - | 68,570 |
| 0034 | Student (Pupil) Transportation | 229,310 | 8,195 | 237,505 |
| 0035 | Food Services | - | 352,377 | 352,377 |
| 0036 | Extracurricular Activities | 443,874 | 38,396 | 482,270 |
| 0041 | General Administration | 508,360 | 2,729 | 511,089 |
| 0051 | Facilities Maintenance and Operations | 1,124,238 | - | 1,124,238 |
| 0052 | Security and Monitoring Services | 5,251 | - | 5,251 |
| 0053 | Data Processing Services | 117,933 | - | 117,933 |
| 0061 | Community Services | 6,658 | 3,347 | 10,005 |
| Debt Service: | | | | |
| 0071 | Principal on Long Term Debt | 403,800 | 430,000 | 833,800 |
| 0072 | Interest on Long Term Debt | 16,952 | 188,892 | 205,844 |
| Capital Outlay: | | | | |
| 0081 | Facilities Acquisition and Construction | 20,075 | - | 20,075 |
| Intergovernmental: | | | | |
| 0099 | Other Intergovernmental Charges | 57,760 | - | 57,760 |
| 6030 | Total Expenditures | <u>6,517,278</u> | <u>1,256,847</u> | <u>7,774,125</u> |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>219,183</u> | <u>68,359</u> | <u>287,542</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| 7912 | Sale of Real and Personal Property | 15,000 | - | 15,000 |
| 7915 | Transfers In | - | 15,459 | 15,459 |
| 8911 | Transfers Out (Use) | (15,459) | - | (15,459) |
| 7080 | Total Other Financing Sources (Uses) | <u>(459)</u> | <u>15,459</u> | <u>15,000</u> |
| 1200 | Net Change in Fund Balances | 218,724 | 83,818 | 302,542 |
| 0100 | Fund Balance - September 1 (Beginning) | <u>2,393,150</u> | <u>9,844</u> | <u>2,402,994</u> |
| 3000 | Fund Balance - August 31 (Ending) | <u>\$ 2,611,874</u> | <u>\$ 93,662</u> | <u>\$ 2,705,536</u> |

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

SANTA GERTRUDIS 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, 2013

| | | |
|---|-----------|----------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ | 302,542 |
| Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2013 capital outlays and debt principal payments is to increase (decrease) net position. | | 923,892 |
| Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position. | | (451,300) |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position. | | (61,065) |
| Change in Net Position of Governmental Activities | <u>\$</u> | <u>714,069</u> |

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2013

EXHIBIT E-1

| | Private Purpose Trust Fund | Agency Fund |
|-----------------------------|----------------------------------|----------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 3,249 | \$ 5,477 |
| Investments - Current | 26,592 | - |
| Due from Other Funds | - | 142 |
| Total Assets | 29,841 | \$ 5,619 |
| LIABILITIES | | |
| Due to Student Groups | - | \$ 5,619 |
| Total Liabilities | - | \$ 5,619 |
| NET POSITION | | |
| Restricted for Scholarships | 29,841 | |
| Total Net Position | \$ 29,841 | |

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

| | Private Purpose Trust Fund |
|--|----------------------------------|
| <hr/> | |
| ADDITIONS: | |
| Local and Intermediate Sources | \$ 2,040 |
| Total Additions | <u>2,040</u> |
| DEDUCTIONS: | |
| Other Operating Costs | <u>11,000</u> |
| Total Deductions | <u>11,000</u> |
| Change in Net Position | (8,960) |
| Total Net Position - September 1 (Beginning) | <u>38,801</u> |
| Total Net Position - August 31 (Ending) | <u><u>\$ 29,841</u></u> |

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEAR ENDED AUGUST 31, 2013

I. Summary of significant accounting policies

Santa Gertrudis 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 promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. Reporting entity

The Board of School Trustees (the "Board"), a seven member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of Santa Gertrudis Independent School District (the "District"). Because members of the Board are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters; the District is not included in any other governmental "reporting entity" as defined by Governmental Accounting Standards Board ("GASB"), 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 Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

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

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

C. Measurement focus, basis of accounting, and financial statement presentation

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

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain 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 revenues available if they are collectible within 60 days after year end.

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

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

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

D. Fund accounting

The District reports the following major governmental funds:

1. **The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Additionally, the District reports the following fund type(s):

Governmental Funds:

2. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
3. **Debt Service Fund** – The debt service fund is used to account for revenues collected to pay interest and related costs and to retire long-term debt.

Fiduciary Funds:

4. **Private Purpose Trust Funds** - The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District.
5. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the "Santa Gertrudis Student Activity Fund."

E. Other accounting policies

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expended in the period incurred.

In the fund financial statements, governmental fund types recognized 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.

4. The District's policy does not permit employees to accumulate unused vacation and sick pay benefits. Therefore, 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, proprietary, and fiduciary fund 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.
5. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Buildings, furniture and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

| <u>Asset:</u> | <u>Years</u> |
|-----------------------|--------------|
| Buildings | 25 |
| Building Improvements | 25 |
| Vehicles | 10 |
| Equipment | 7 |
| Technology Equipment | 5 |

6. Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.

7. Governmental fund balances are characterized into the following categories:

Non-spendable fund balances include amounts that are not in spendable form (i.e. inventory or prepaid items) or amounts that are required to be maintained intact legally or contractually (i.e. principal in an endowment fund)

Restricted fund balances include amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed fund balances include amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Assigned fund balances are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

District policies concerning fund balances are as follows:

The District's Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees.

Fund Balance of the District may be committed for a specific source by formal action of the Board of Trustees. Amendments or modifications of the committed fund balance must also be approved by formal action of the Board of Trustees.

When it is appropriate for fund balance to be assigned, only the Board of Trustees has the authority to assign fund balance by formal action by the board.

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

At August 31, 2013, the District's general fund balances were nonspendable, restricted, committed or assigned as follows:

| | |
|----------------------------|------------|
| Non-spendable fund balance | \$ 51,527. |
|----------------------------|------------|

8. 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 data base for policy development and funding plans.

II. Stewardship, compliance, and accountability

A. Budgetary data

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final

amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibits J4 and J5.

The following procedures are followed in establishing budgetary data reflected in the general-purpose 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 ten 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 are 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. There were no appropriated or nonappropriated budget special revenue funds at the end of the current fiscal year.
- B. Excess of expenditures over appropriations by more than \$2,500 (as reported on Exhibits G-1 and J-4):

| | |
|--|------------|
| Function 35 - Food Services | \$ 14,877. |
| Function 53 - Data Processing Services | \$ 2,820. |

C. Deficit fund equity

None.

III. Detailed notes on all funds

A. Deposits and investments

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk - The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in any foreign currency.

District Policies and Legal and Contractual Provisions Governing Investments

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. 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, (10) and common trust funds. 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.

As of August 31, 2013, the District had the following investments.

| Investment Type | Investment Maturities (in years) | | | | |
|-----------------|----------------------------------|------------------|-----|------|--------------|
| | Fair Value | Less than 1 Year | 1-5 | 6-10 | More Than 10 |
| Investment Pool | \$1,924,246 | \$1,924,246 | | | |
| Total | \$1,924,246 | \$1,924,246 | | | |

Additional policies and contractual provisions governing deposits and investments for the District are specified below:

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in certificates of deposit or publicly funded investment pools to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2013, the District's investments in certificates of deposit and investment pools were rated A1 by Standard and Poor's.

Custodial Credit Risk for Investments - To limit the risk that, in the even of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the District and hand them over to the District or its designated agent. This included securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

Concentration of Credit Risk - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risk to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis.

Foreign Currency Risk for Investments - The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by limiting all investments denominated in a foreign currency to zero.

B. Property taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. Delinquent taxes receivable

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.

D. Interfund balances and transfers

Interfund balances at August 31, 2013 consisted of the following individual fund balances:

| Fund | Due From | Due To | Purpose | Current? |
|-------------------------------|-----------------|-----------------|--------------------|----------|
| General Fund | \$ 7,458 | \$ 142 | Short-term advance | Yes |
| Agency Fund | 142 | | Short-term advance | Yes |
| Nonmajor Special Revenue Fund | | 1,003 | Short-term advance | Yes |
| Nonmajor Debt Service Fund | | 6,455 | Short-term advance | Yes |
| Total | <u>\$ 7,600</u> | <u>\$ 7,600</u> | | |

Interfund transfers for the year ended August 31, 2013 consisted of the following individual amounts:

| Fund | Transfers In | Transfers Out | Purpose |
|-------------------------------|------------------|------------------|--------------------------------|
| Nonmajor Special Revenue Fund | \$ 15,459 | | Food service operating deficit |
| General Fund | | \$ 15,459 | Food service operating deficit |
| Total | <u>\$ 15,459</u> | <u>\$ 15,459</u> | |

E. Disaggregation of receivables and payables

Receivables at August 31, 2013 were as follows:

| | Property Taxes | Other Government | Other | Total Receivables |
|-------------------------------|------------------|-------------------|-----------------|-------------------|
| Governmental Activities: | | | | |
| General Fund | \$ 17,480 | \$ 735,118 | \$ 2,637 | \$ 755,235 |
| Nonmajor Governmental Funds | 1,455 | 93,944 | 2,300 | 97,699 |
| Total Governmental Activities | <u>\$ 18,935</u> | <u>\$ 829,062</u> | <u>\$ 4,937</u> | <u>\$ 852,934</u> |

Payables at August 31, 2013 were as follows:

| | Accounts | Salaries and Benefits | Total Payables |
|-------------------------------|-------------|-----------------------|-------------------|
| Governmental Activities: | | | |
| General Fund | | \$ 195,465 | \$ 195,465 |
| Nonmajor Governmental Funds | | 16,997 | 16,997 |
| Total Governmental Activities | <u>\$ 0</u> | <u>\$ 212,462</u> | <u>\$ 212,462</u> |

F. Capital asset activity

Capital asset activity for the District for the year ended August 31, 2013, was as follows:

| | Balance 8/31/12 | Additions | Deletions | Balance 8/31/13 |
|---|----------------------|---------------------|------------------|----------------------|
| Governmental activities: | | | | |
| Buildings and leasehold improvements | \$ 12,508,425 | \$ 20,075 | \$ 84,420 | \$ 12,444,080 |
| Furniture and equipment | 1,353,872 | 224,390 | 230,437 | 1,347,825 |
| Property under capital lease | 154,373 | (154,373) | | 0 |
| Totals | 14,016,670 | 90,092 | 314,857 | 13,791,905 |
| Less accum depreciation for: | | | | |
| Buildings and leasehold improvements | 1,232,417 | 330,504 | 23,639 | 1,539,282 |
| Furniture and equipment | 942,941 | 186,955 | 230,437 | 899,459 |
| Property under capital lease | 66,159 | (66,159) | | 0 |
| Total accum depreciation | 2,241,517 | 451,300 | 254,076 | 2,438,741 |
| Governmental activities capital assets, net | <u>\$ 11,775,153</u> | <u>\$ (361,208)</u> | <u>\$ 60,781</u> | <u>\$ 11,353,164</u> |

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

Governmental activities:

| | |
|--|-------------------|
| Instruction | \$ 266,524 |
| Instructional resources and media services | 5,982 |
| Curriculum and staff development | 4,736 |
| Instructional leadership | 3,728 |
| School leadership | 14,690 |
| Guidance, counseling, and evaluation services | 15,077 |
| Health services | 7,742 |
| Student transportation | 48,134 |
| Food services | 15,644 |
| Extracurricular activities | 26,325 |
| General administration | 28,867 |
| Plant maintenance and operations | 4,390 |
| Security and monitoring service | 614 |
| Data processing services | 8,117 |
| Community services | 730 |
| Total depreciation expense - governmental activities | <u>\$ 451,300</u> |

G. Loans payable

The District accounts for long-term debts for maintenance purposes through the General Fund. Long-term debts include notes made in accordance with the provisions of the Texas Education Code Section 45.108. The proceeds from long-term loans are shown in the financial statements as non-current liabilities and principal payments as expenditures in the fund financial statements and reductions in liabilities in the government-wide financial statements. As shown in the following table, the District has the following long-term debt.

| | Interest Rate Payable | Balance 8/31/12 | Additions | Retirements | Balance 8/31/13 |
|-----------------------------------|--------------------------|--------------------|-----------|-------------|--------------------|
| Time Warrants, Series 2009 | 4.50% | \$ 215,000 | | \$ 105,000 | \$ 110,000 |
| Delinquent Tax Notes, Series 2009 | 5.25% | 253,000 | | 253,000 | 0 |
| Totals | | \$ 468,000 | | \$ 358,000 | \$ 110,000 |

H. Bonds payable

Bonded indebtedness of the District is accounted for in the Statement of Net Position and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund for the schoolhouse bond and principal and interest expenditures are accounted for in the General Fund for the capital lease obligations.

A summary of changes in general long-term debt for the year ended August 31, 2013 is as follows:

| Description | Interest Rate Payable | Amounts Original Issue | Amounts Outstanding 8/31/12 | Issued | Retired | Amounts Outstanding 8/31/13 |
|---------------------------------------|-----------------------------|------------------------------|-----------------------------------|--------|------------|-----------------------------------|
| School building bonds, series 2008 | 3.18% | \$7,500,000 | \$6,155,000 | | \$ 430,000 | \$5,725,000 |
| | | | \$6,155,000 | | \$ 430,000 | \$5,725,000 |

I. Commitments under operating leases

The District executed two operating lease agreements at the end of the fiscal year for facility rentals for the next five year as follows:

Beginning for the 2012-13 academic year, the District entered into an operating lease agreement with Texas A&M University - Kingsville for athletic facilities rental and usage. The lease term is for five (5) years due in annual payments on September 15, 2012 of \$80,000 and continuing through the end of the 2016-17 academic year. The lease can be canceled at the end of each one-year period without penalty with notice provided the other party by July 15th of the then-current year. Future operating lease obligations are as follows:

| Academic Year | Amount |
|------------------------|------------|
| 2013-14 | 80,000 |
| 2014-15 | 80,000 |
| 2015-16 | 80,000 |
| 2016-17 | 80,000 |
| Total Lease Obligation | \$ 320,000 |

Beginning August 1, 2012, the District entered into an operating lease agreement with Texas A&M University - Kingsville (the "lessor") for rental and usage of a 71,648 square foot instructional facility. The lease term is for five (5) years with an initial lease of \$113,120 escalating 4% each year thereafter. Additionally, for renovations made by the lessor, secondary rents are due for the facility payable semi-annually over a 10-year period. If the original lease is terminated before the 10-year amortization period of the secondary rents are completed, all remaining unpaid rents for the secondary lease will become due and payable. Future operating lease obligations for the lease are as follows:

| Academic Year | Primary Lease | Secondary Lease | Total Lease |
|-------------------------------|-------------------|-------------------|---------------------|
| 2013-14 | \$ 117,645 | \$ 93,077 | \$ 210,722 |
| 2014-15 | 122,351 | 95,630 | 217,981 |
| 2015-16 | 127,245 | 95,994 | 223,239 |
| 2016-17 | 132,335 | 93,264 | 225,599 |
| 2017-18 | 0 | 95,533 | 95,533 |
| 2018-19 | 0 | 95,615 | 95,615 |
| 2019-20 | 0 | 94,602 | 94,602 |
| 2020-21 | 0 | 94,496 | 94,496 |
| 2021-22 | 0 | 94,295 | 94,295 |
| Total Lease Obligation | \$ 499,576 | \$ 852,506 | \$ 1,352,082 |

J. Debt service requirements - bonds and capital leases

Future debt service requirements are as follows:

| Year Ended August 31, | General Obligations | | Loans Payable | | Total Requirements |
|--------------------------|---------------------|-------------------|-------------------|-----------------|-----------------------|
| | Principal | Interest | Principal | Interest | |
| 2014 | \$ 450,000 | \$ 174,900 | \$ 110,000 | \$ 4,950 | \$ 739,850 |
| 2015 | 475,000 | 160,193 | | | 635,193 |
| 2016 | 500,000 | 144,690 | | | 644,690 |
| 2017 | 525,000 | 128,392 | | | 653,392 |
| 2018 | 550,000 | 111,300 | | | 661,300 |
| 2019-2023 | 3,225,000 | 266,882 | | | 3,491,882 |
| Totals | \$ 5,725,000 | \$ 986,357 | \$ 110,000 | \$ 4,950 | \$ 6,826,307 |

K. Accumulated unpaid vacation and sick leave benefits

N/A.

L. Defined benefit pension plan

Plan Description. The District contributes to the Teacher Retirements System of Texas (the “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, Sect. 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. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature pursuant to the following state fund policy: (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 10.0% of the aggregate annual compensation of all members of the system during the fiscal year; (2) state statute prohibits benefit improvements or contribution reductions if, as a result of a 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. Contribution rates and contributions for fiscal years 2013-11 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the reporting district is required to make all or a portion of the state's and/or member's contribution and on the portion of the employees' salaries that exceeded the statutory minimum. On-behalf payments by the State have been recognized as equal revenues and expenditures by the District, in the amounts of \$120,378, \$165,259 and \$200,173 (net of District statutory minimum and federal grant contributions of \$117,520, \$36,340 and \$36,137 for each respective year) for the years ended August 31, 2013, 2012 and 2011, respectively.

| Contribution Rates and Contribution Amounts | | | | | |
|---|--------|------------|--------|------------|-------------------|
| Year | Member | | State | | Statutory Minimum |
| | Rate | Amount | Rate | Amount | Amount |
| 2013 | 6.4% | \$ 237,898 | 6.400% | \$ 237,898 | \$ 115,969 |
| 2012 | 6.4% | \$ 215,058 | 6.000% | \$ 201,599 | \$ 31,363 |
| 2011 | 6.4% | \$ 227,632 | 6.644% | \$ 236,310 | \$ 28,846 |

M. Health care coverage

During the year ended August 31, 2013, employees of the District were covered by a health insurance plan (the "Plan"). The District contributed premiums of \$352 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. Latest financial statements for TRS - Care are available for the year ended August 31, 2013, and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

N. Changes in long-term liabilities

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-------------------------|-------------------|-----------|------------|----------------|---------------------|
| Bonds Payable | \$ 6,155,000 | | \$ 430,000 | \$ 5,725,000 | \$ 450,000 |
| Loans Payable | 468,000 | | 358,000 | 110,000 | 110,000 |
| Capital Lease Liability | 45,800 | | 45,800 | 0 | N/A |
| Total | \$ 6,668,800 | \$ 0 | \$ 833,800 | \$ 5,835,000 | \$ 560,000 |

O. Unearned revenues

None.

P. Due from state and federal agencies

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2013, are summarized below. Except for funds directly received from the U.S. Department of Education, all federal grants are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

| Fund | State Entitlements | Federal Grants | Total |
|-----------------------------|--------------------|----------------|------------|
| General Fund | \$ 735,118 | | \$ 735,118 |
| Nonmajor Governmental Funds | 52,293 | \$ 41,651 | 93,944 |
| Net Total Receivables | \$ 787,411 | \$ 41,651 | \$ 829,062 |

Q. Revenue from local and intermediate sources

During the current year, revenues from local and intermediate sources consisted of the following:

| Description | General Fund | Nonmajor Funds | Private Purpose Trust Fund | Total |
|---|--------------|----------------|----------------------------|-------------|
| Property taxes (including penalties and interest) | \$1,751,234 | \$643,257 | | \$2,394,491 |
| Services to other districts | 1,402,661 | | | 1,402,661 |
| Food sales | | 167,828 | | 167,828 |
| Investment income | 3,199 | 61 | \$40 | 3,300 |
| Co-curricular student activities | 36,175 | 84,725 | | 120,900 |
| Other income | 20,834 | 1,346 | 2,000 | 24,180 |
| Total | \$3,214,103 | \$897,217 | \$2,040 | \$4,113,360 |

R. School district retiree health plan

Plan Description. The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care 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 TRS 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, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school employee contributions, respectively. The State of Texas and active public school employee contribution rates were 0.50% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal year 2013, and 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 2012 and 2011. Per Texas Insurance Code, Chapter 1575, the public school contributions may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2013-2011.

| Contribution Rates and Contribution Amounts | | | | | | |
|---|--------|-----------|-------|-----------|-----------------|-----------|
| Year | Member | | State | | School District | |
| | Rate | Amount | Rate | Amount | Rate | Amount |
| 2013 | 0.65% | \$ 24,162 | 0.50% | \$ 18,586 | 0.55% | \$ 20,445 |
| 2012 | 0.65% | \$ 21,842 | 1.00% | \$ 32,749 | 0.55% | \$ 18,482 |
| 2011 | 0.65% | \$ 23,119 | 1.00% | \$ 34,464 | 0.55% | \$ 19,562 |

Federal Government Retiree Drug Subsidy - Medicare Part D. 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 TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments recognized as equal revenues and expenditures by the District for the years ended August 31, 2013, 2012 and 2011 were \$11,193, \$9,681 and \$9,632, respectively.

Early Retiree Reinsurance Program. The Early Retiree Reinsurance Program (“ERRP”) is a provision of the Patient Protection and Affordable Care Act (“PPACA”) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependants regardless of age. An “early retiree” is defined as a plan participant aged 55-64 who is not eligible for Medicare and is not covered by an active employee of the plan sponsor. This temporary program was not available to TRS for the fiscal year ended August 31, 2013; therefore there was no allocation required for 2013. On-behalf payments recognized as equal revenues and expenditures by the District for the years ended August 31, 2013, 2012 and 2011 were \$0, \$9,155 and \$0 respectively.

S. Beginning net position adjustment

GASB Statement No. 65 changed the way that certain bond issue costs should be reported (previously capitalized and amortized over the life of the associated debt; presently expensed in the period incurred). The pronouncement change was effective for the current year’s audit period. Therefore, a beginning net position adjustment was necessary to remove previously capitalized bond issue costs on the Statement of Activities. Amounts previously capitalized but unamortized amounted to \$73,410.

T. Litigation

N/A.

U. Construction and other significant commitments and contingencies

N/A.

V. Joint ventured shared-service arrangements

The District participates in an interlocal agreement, authorized by the Interlocal Cooperation Act, Texas Government Code Section 791, with Driscoll Independent School District (“DISD”) for the operation of the Academy High School (“AHS”). Under the tuition transfer agreement (“TTA”), the District will be the fiscal agent and the responsible district for AHS in all matters. The TTA originally started on August 1, 2002. However, a new agreement was signed in July, 2013, and is in effect until June 30, 2014.

DISD, pursuant to the provisions of Texas Education Code 25.038, 25.039, and 19 Tex. Admin. Code 61.1012, will pay tuition to the District for its resident students to attend AHS. The annual tuition amount will be negotiated by and agreed to by the superintendents. This amount will allow for the most financially beneficial amount for both districts but will not exceed the maximum tuition limit set by TEA. Upon determination of the actual dollar amount per student for a given school year, the superintendents of the part districts shall inform the respective boards of trustees of the tuition amount per student, and the boards shall ratify the tuition amount for that school year.

The tuition amount are made in installment payments from DISD to the District. Periodic tuition payments are initially paid based upon the tuition amount determined and ratified as stated above times the number of DISD resident students enrolled in AHS. AHS enrollment as of the twelfth class day of each year of this agreement will be used to determine the applicable percentages for each year. Tuition will be adjusted at the end of each school year to reflect the actual number of DISD students enrolled.

W. Subsequent events

N/A.

X. Related organizations

The District is located on the Santa Gertrudis Division of the King Ranch. Six board members are employees or spouses of employees of the ranch. The District's leases real estate at a nominal fee on which its elementary and junior high campus is located.

Y. Maintenance of effort

N/A.

REQUIRED SUPPLEMENTARY INFORMATION

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2013

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) | |
|--|---|--------------|--------------------------------|--|------------|
| | Original | Final | | | |
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ 3,069,943 | \$ 3,069,943 | \$ 3,214,103 | \$ 144,160 |
| 5800 | State Program Revenues | 3,494,831 | 3,494,831 | 3,522,358 | 27,527 |
| 5020 | Total Revenues | 6,564,774 | 6,564,774 | 6,736,461 | 171,687 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 3,165,731 | 3,188,731 | 3,012,439 | 176,292 |
| 0012 | Instructional Resources and Media Services | 93,880 | 93,880 | 90,128 | 3,752 |
| 0013 | Curriculum and Instructional Staff Development | 15,193 | 23,793 | 17,003 | 6,790 |
| 0021 | Instructional Leadership | 46,149 | 46,399 | 40,228 | 6,171 |
| 0023 | School Leadership | 259,100 | 259,100 | 226,918 | 32,182 |
| 0031 | Guidance, Counseling and Evaluation Services | 136,150 | 136,250 | 127,781 | 8,469 |
| 0033 | Health Services | 66,170 | 67,170 | 68,570 | (1,400) |
| 0034 | Student (Pupil) Transportation | 251,600 | 266,600 | 229,310 | 37,290 |
| 0036 | Extracurricular Activities | 437,790 | 483,650 | 443,874 | 39,776 |
| 0041 | General Administration | 516,450 | 525,250 | 508,360 | 16,890 |
| 0051 | Facilities Maintenance and Operations | 1,066,250 | 1,142,250 | 1,124,238 | 18,012 |
| 0052 | Security and Monitoring Services | 5,200 | 5,200 | 5,251 | (51) |
| 0053 | Data Processing Services | 95,113 | 115,113 | 117,933 | (2,820) |
| 0061 | Community Services | 10,000 | 10,000 | 6,658 | 3,342 |
| Debt Service: | | | | | |
| 0071 | Principal on Long Term Debt | 176,800 | 429,800 | 403,800 | 26,000 |
| 0072 | Interest on Long Term Debt | 22,958 | 22,958 | 16,952 | 6,006 |
| Capital Outlay: | | | | | |
| 0081 | Facilities Acquisition and Construction | 109,854 | 109,854 | 20,075 | 89,779 |
| Intergovernmental: | | | | | |
| 0099 | Other Intergovernmental Charges | 61,430 | 86,074 | 57,760 | 28,314 |
| 6030 | Total Expenditures | 6,535,818 | 7,012,072 | 6,517,278 | 494,794 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | 28,956 | (447,298) | 219,183 | 666,481 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 7912 | Sale of Real and Personal Property | - | - | 15,000 | 15,000 |
| 8911 | Transfers Out (Use) | - | - | (15,459) | (15,459) |
| 7080 | Total Other Financing Sources (Uses) | - | - | (459) | (459) |
| 1200 | Net Change in Fund Balances | 28,956 | (447,298) | 218,724 | 666,022 |
| 0100 | Fund Balance - September 1 (Beginning) | 2,393,150 | 2,393,150 | 2,393,150 | - |
| 3000 | Fund Balance - August 31 (Ending) | \$ 2,422,106 | \$ 1,945,852 | \$ 2,611,874 | \$ 666,022 |

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COMBINING SCHEDULES

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2013

| Data Control Codes | 211 ESEA I, A Improving Basic Program | 224 IDEA - Part B Formula | 225 IDEA - Part B Preschool | 240 National Breakfast and Lunch Program | |
|--------------------------------------|--|---------------------------------|-----------------------------------|---|-----------------|
| ASSETS | | | | | |
| 1110 | Cash and Cash Equivalents | \$ - | \$ - | \$ - | \$ (19,049) |
| 1220 | Property Taxes - Delinquent | - | - | - | - |
| 1230 | Allowance for Uncollectible Taxes (Credit) | - | - | - | - |
| 1240 | Receivables from Other Governments | 2,430 | 4,107 | - | 24,270 |
| 1290 | Other Receivables | - | - | - | 2,300 |
| 1000 | Total Assets | <u>\$ 2,430</u> | <u>\$ 4,107</u> | <u>\$ -</u> | <u>\$ 7,521</u> |
| LIABILITIES | | | | | |
| 2160 | Accrued Wages Payable | \$ 2,231 | \$ 4,027 | \$ - | \$ 7,374 |
| 2170 | Due to Other Funds | - | - | - | - |
| 2200 | Accrued Expenditures | 199 | 80 | - | 147 |
| 2000 | Total Liabilities | <u>2,430</u> | <u>4,107</u> | <u>-</u> | <u>7,521</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| 2601 | Unavailable Revenue - Property Taxes | - | - | - | - |
| 2600 | Total Inflows of Resources | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES | | | | | |
| Restricted Fund Balance: | | | | | |
| 3480 | Retirement of Long-Term Debt | - | - | - | - |
| 3600 | Unassigned Fund Balance | - | - | - | - |
| 3000 | Total Fund Balances | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 4000 | Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 2,430</u> | <u>\$ 4,107</u> | <u>\$ -</u> | <u>\$ 7,521</u> |

| 255 ESEA II,A Training and Recruiting | 265 Title IV, B Community Learning | 410 State Textbook Fund | 461 Campus Activity Funds | Total Nonmajor Special Revenue Funds | 599 Debt Service Fund | Total Nonmajor Governmental Funds |
|--|---|----------------------------------|------------------------------------|---|--------------------------------|--|
| \$ - | \$ (7,905) | \$ - | \$ 17,796 | \$ (9,158) | \$ 31,031 | \$ 21,873 |
| - | - | - | - | - | 1,455 | 1,455 |
| - | - | - | - | - | (202) | (202) |
| - | 10,844 | - | - | 41,651 | 52,293 | 93,944 |
| - | - | - | - | 2,300 | - | 2,300 |
| <u>\$ -</u> | <u>\$ 2,939</u> | <u>\$ -</u> | <u>\$ 17,796</u> | <u>\$ 34,793</u> | <u>\$ 84,577</u> | <u>\$ 119,370</u> |
| \$ - | \$ 2,699 | \$ - | \$ - | \$ 16,331 | \$ - | \$ 16,331 |
| - | - | - | 1,003 | 1,003 | 6,455 | 7,458 |
| - | 240 | - | - | 666 | - | 666 |
| <u>-</u> | <u>2,939</u> | <u>-</u> | <u>1,003</u> | <u>18,000</u> | <u>6,455</u> | <u>24,455</u> |
| - | - | - | - | - | 1,253 | 1,253 |
| - | - | - | - | - | 1,253 | 1,253 |
| - | - | - | - | - | 76,869 | 76,869 |
| - | - | - | 16,793 | 16,793 | - | 16,793 |
| - | - | - | 16,793 | 16,793 | 76,869 | 93,662 |
| <u>\$ -</u> | <u>\$ 2,939</u> | <u>\$ -</u> | <u>\$ 17,796</u> | <u>\$ 34,793</u> | <u>\$ 84,577</u> | <u>\$ 119,370</u> |

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2013

| Data Control Codes | 211 ESEA I, A Improving Basic Program | 224 IDEA - Part B Formula | 225 IDEA - Part B Preschool | 240 National Breakfast and Lunch Program |
|--|--|---------------------------------|-----------------------------------|---|
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ - | \$ - | \$ - | \$ 167,828 |
| 5800 State Program Revenues | - | - | - | 4,046 |
| 5900 Federal Program Revenues | 9,871 | 68,923 | 657 | 165,044 |
| 5020 Total Revenues | <u>9,871</u> | <u>68,923</u> | <u>657</u> | <u>336,918</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| 0011 Instruction | 9,871 | 68,923 | 657 | - |
| 0012 Instructional Resources and Media Services | - | - | - | - |
| 0013 Curriculum and Instructional Staff Development | - | - | - | - |
| 0021 Instructional Leadership | - | - | - | - |
| 0023 School Leadership | - | - | - | - |
| 0034 Student (Pupil) Transportation | - | - | - | - |
| 0035 Food Services | - | - | - | 352,377 |
| 0036 Extracurricular Activities | - | - | - | - |
| 0041 General Administration | - | - | - | - |
| 0061 Community Services | - | - | - | - |
| Debt Service: | | | | |
| 0071 Principal on Long Term Debt | - | - | - | - |
| 0072 Interest on Long Term Debt | - | - | - | - |
| 6030 Total Expenditures | <u>9,871</u> | <u>68,923</u> | <u>657</u> | <u>352,377</u> |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>(15,459)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| 7915 Transfers In | - | - | - | 15,459 |
| 7080 Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>15,459</u> |
| 1200 Net Change in Fund Balance | - | - | - | - |
| 0100 Fund Balance - September 1 (Beginning) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 3000 Fund Balance - August 31 (Ending) | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

| 255 ESEA II,A Training and Recruiting | 265 Title IV, B Community Learning | 410 State Textbook Fund | 461 Campus Activity Funds | Total Nonmajor Special Revenue Funds | 599 Debt Service Fund | Total Nonmajor Governmental Funds |
|--|---|----------------------------------|------------------------------------|---|--------------------------------|--|
| \$ - | \$ - | \$ - | \$ 86,092 | \$ 253,920 | \$ 643,297 | \$ 897,217 |
| - | - | 40,818 | - | 44,864 | 52,293 | 97,157 |
| 7,208 | 79,129 | - | - | 330,832 | - | 330,832 |
| 7,208 | 79,129 | 40,818 | 86,092 | 629,616 | 695,590 | 1,325,206 |
| - | 67,967 | 40,818 | - | 188,236 | - | 188,236 |
| - | - | - | 6,006 | 6,006 | - | 6,006 |
| 7,208 | 28 | - | - | 7,236 | - | 7,236 |
| - | 2,939 | - | - | 2,939 | - | 2,939 |
| - | - | - | 28,494 | 28,494 | - | 28,494 |
| - | 8,195 | - | - | 8,195 | - | 8,195 |
| - | - | - | - | 352,377 | - | 352,377 |
| - | - | - | 38,396 | 38,396 | - | 38,396 |
| - | - | - | 2,729 | 2,729 | - | 2,729 |
| - | - | - | 3,347 | 3,347 | - | 3,347 |
| - | - | - | - | - | 430,000 | 430,000 |
| - | - | - | - | - | 188,892 | 188,892 |
| 7,208 | 79,129 | 40,818 | 78,972 | 637,955 | 618,892 | 1,256,847 |
| - | - | - | 7,120 | (8,339) | 76,698 | 68,359 |
| - | - | - | - | 15,459 | - | 15,459 |
| - | - | - | - | 15,459 | - | 15,459 |
| - | - | - | 7,120 | 7,120 | 76,698 | 83,818 |
| - | - | - | 9,673 | 9,673 | 171 | 9,844 |
| \$ - | \$ - | \$ - | \$ 16,793 | \$ 16,793 | \$ 76,869 | \$ 93,662 |

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED AUGUST 31, 2013

| | BALANCE SEPTEMBER 1 2012 | ADDITIONS | DEDUCTIONS | BALANCE AUGUST 31 2013 |
|---------------------------------|--------------------------------|------------------|-------------------|------------------------------|
| STUDENT ACTIVITY ACCOUNT | | | | |
| Assets: | | | | |
| Cash and Temporary Investments | \$ 25,949 | \$ 89,474 | \$ 109,946 | \$ 5,477 |
| Due From Other Funds | - | 142 | - | 142 |
| Total Assets | <u>\$ 25,949</u> | <u>\$ 89,616</u> | <u>\$ 109,946</u> | <u>\$ 5,619</u> |
| Liabilities: | | | | |
| Due to Student Groups | <u>\$ 25,949</u> | <u>\$ 89,616</u> | <u>\$ 109,946</u> | <u>\$ 5,619</u> |
| TOTAL AGENCY FUNDS | | | | |
| Assets: | | | | |
| Cash and Temporary Investments | \$ 25,949 | \$ 89,474 | \$ 109,946 | \$ 5,477 |
| Due From Other Funds | - | 142 | - | 142 |
| Total Assets | <u>\$ 25,949</u> | <u>\$ 89,616</u> | <u>\$ 109,946</u> | <u>\$ 5,619</u> |
| Liabilities: | | | | |
| Due to Student Groups | <u>\$ 25,949</u> | <u>\$ 89,616</u> | <u>\$ 109,946</u> | <u>\$ 5,619</u> |

REQUIRED TEA SCHEDULES

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2013

| Last 10 Years Ended August 31 | (1) | (2) | (3) |
|----------------------------------|-------------|--------------|--|
| | Tax Rates | | Assessed/Appraised Value for School Tax Purposes |
| | Maintenance | Debt Service | |
| 2004 and prior years | Various | Various | \$ Various |
| 2005 | 1.450000 | 0.000000 | 196,458,518 |
| 2006 | 1.500000 | 0.000000 | 230,758,066 |
| 2007 | 1.370000 | 0.000000 | 268,349,050 |
| 2008 | 1.040000 | 0.000000 | 204,883,748 |
| 2009 | 1.040000 | 0.290000 | 177,643,558 |
| 2010 | 1.040000 | 0.327230 | 180,898,864 |
| 2011 | 1.040000 | 0.345700 | 180,350,957 |
| 2012 | 1.040000 | 0.415700 | 149,138,322 |
| 2013 (School year under audit) | 1.040000 | 0.382500 | 166,833,377 |
| 1000 TOTALS | | | |

| (10) Beginning Balance 9/1/2012 | (20) Current Year's Total Levy | (31) Maintenance Collections | (32) Debt Service Collections | (40) Entire Year's Adjustments | (50) Ending Balance 8/31/2013 |
|--|---|------------------------------------|-------------------------------------|---|--|
| \$ 5,064 | \$ - | \$ - | \$ - | \$ (922) | \$ 4,142 |
| 501 | - | - | - | - | 501 |
| 86 | - | 2,164 | - | 5,690 | 3,612 |
| 1,833 | - | - | - | - | 1,833 |
| 32 | - | - | - | - | 32 |
| 33 | - | - | - | 115 | 148 |
| 1,481 | - | - | - | - | 1,481 |
| 3,645 | - | 3,184 | 1,058 | 2,497 | 1,900 |
| 6,880 | - | 5,375 | 2,148 | 2,623 | 1,980 |
| - | 2,373,205 | 1,735,466 | 638,276 | 3,843 | 3,306 |
| <u>\$ 19,555</u> | <u>\$ 2,373,205</u> | <u>\$ 1,746,189</u> | <u>\$ 641,482</u> | <u>\$ 13,846</u> | <u>\$ 18,935</u> |

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2014-2015
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2013

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

| Account Number | Account Name | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|----------------|---|-----------------------|--------------------------|------------------------|------------------------|----------------------|--------------------------|-------------------|
| | | (702) School Board | (703) Tax Collections | (701) Supt's Office | (750) Indirect Cost | (720) Direct Cost | (other) Miscellaneous | Total |
| 611X-6146 | PAYROLL COSTS | \$ - | \$ - | \$ 138,854 | \$ 258,891 | \$ - | \$ - | \$ 397,745 |
| 6149 | Leave for Separating Employees in Fn 41 & 53 | - | - | - | - | - | - | - |
| 6149 | Leave - Separating Employees not in 41 & 53 | - | - | - | - | - | - | - |
| 6211 | Legal Services | 27,527 | - | - | - | - | - | 27,527 |
| 6212 | Audit Services | - | - | - | 11,000 | - | - | 11,000 |
| 6213 | Tax Appraisal/Collection - Appraisal in Fn 99 | - | 57,760 | - | - | - | - | 57,760 |
| 6214 | Lobbying | - | - | - | - | - | - | - |
| 621X | Other Professional Services | - | - | 1,156 | 7,555 | - | - | 8,711 |
| 6220 | Tuition and Transfer Payments | - | - | - | - | - | - | - |
| 6230 | Education Service Centers | 4,275 | - | - | 30,715 | - | - | 34,990 |
| 6240 | Contr. Maint. and Repair | - | - | - | - | - | - | - |
| 6250 | Utilities | - | - | - | - | - | - | - |
| 6260 | Rentals | - | - | - | 922 | - | - | 922 |
| 6290 | Miscellaneous Contr. | - | - | - | - | - | - | - |
| 6320 | Textbooks and Reading | - | - | - | - | - | - | - |
| 6330 | Testing Materials | - | - | - | - | - | - | - |
| 63XX | Other Supplies Materials | 443 | - | 1,853 | 18,701 | - | - | 20,997 |
| 6410 | Travel, Subsistence, Stipends | 7,390 | - | 2,366 | 1,608 | - | - | 11,364 |
| 6420 | Ins. and Bonding Costs | - | - | 2,188 | - | - | - | 2,188 |
| 6430 | Election Costs | 4,432 | - | - | - | - | - | 4,432 |
| 6490 | Miscellaneous Operating | 6,584 | - | 9,476 | 2,924 | - | - | 18,984 |
| 6500 | Debt Service | - | - | - | - | - | - | - |
| 6600 | Capital Outlay | - | - | - | - | - | - | - |
| 6000 | TOTAL | \$ 50,651 | \$ 57,760 | \$ 155,893 | \$ 332,316 | \$ - | \$ - | \$ 596,620 |

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 7,155,233

LESS: Deductions of Unallowable Costs

FISCAL YEAR

| | | |
|--|------|-----------|
| Total Capital Outlay (6600) | (10) | \$ 90,092 |
| Total Debt & Lease(6500) | (11) | 420,752 |
| Plant Maintenance (Function 51, 6100-6400) | (12) | 1,089,035 |
| Food (Function 35, 6341 and 6499) | (13) | 188,567 |
| Stipends (6413) | (14) | - |
| Column 4 (above) - Total Indirect Cost | | 332,316 |

SubTotal: 2,120,762

Net Allowed Direct Cost \$ 5,034,471

CUMULATIVE

| | | |
|---|------|---------------|
| Total Cost of Buildings before Depreciation (1520) | (15) | \$ 12,444,079 |
| Historical Cost of Building over 50 years old | (16) | \$ - |
| Amount of Federal Money in Building Cost (Net of #16) | (17) | \$ - |
| Total Cost of Furniture & Equipment before Depreciation (1530 & 1540) | (18) | \$ 1,347,825 |
| Historical Cost of Furniture & Equipment over 16 years old | (19) | \$ - |
| Amount of Federal Money in Furniture & Equipment (Net of #19) | (20) | \$ - |

(8) NOTE A: \$27,771 in Function 53 expenditures are included in this report on administrative costs.

\$57,760 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2013

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) | |
|--|---|------------|--------------------------------|--|-------------|
| | Original | Final | | | |
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ 204,500 | \$ 204,500 | \$ 167,828 | \$ (36,672) |
| 5800 | State Program Revenues | 3,000 | 3,000 | 4,046 | 1,046 |
| 5900 | Federal Program Revenues | 130,000 | 130,000 | 165,044 | 35,044 |
| 5020 | Total Revenues | 337,500 | 337,500 | 336,918 | (582) |
| EXPENDITURES: | | | | | |
| 0035 | Food Services | 337,500 | 337,500 | 352,377 | (14,877) |
| 6030 | Total Expenditures | 337,500 | 337,500 | 352,377 | (14,877) |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | - | - | (15,459) | (15,459) |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 7915 | Transfers In | - | - | 15,459 | 15,459 |
| 7080 | Total Other Financing Sources (Uses) | - | - | 15,459 | 15,459 |
| 1200 | Net Change in Fund Balances | - | - | - | - |
| 0100 | Fund Balance - September 1 (Beginning) | - | - | - | - |
| 3000 | Fund Balance - August 31 (Ending) | \$ - | \$ - | \$ - | \$ - |

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2013

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) | |
|--------------------------|--|------------|--------------------------------|--|-----------|
| | Original | Final | | | |
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ 618,892 | \$ 618,892 | \$ 643,297 | \$ 24,405 |
| 5800 | State Program Revenues | - | - | 52,293 | 52,293 |
| 5020 | Total Revenues | 618,892 | 618,892 | 695,590 | 76,698 |
| EXPENDITURES: | | | | | |
| Debt Service: | | | | | |
| 0071 | Principal on Long Term Debt | 430,000 | 430,000 | 430,000 | - |
| 0072 | Interest on Long Term Debt | 188,892 | 188,892 | 188,892 | - |
| 6030 | Total Expenditures | 618,892 | 618,892 | 618,892 | - |
| 1200 | Net Change in Fund Balances | - | - | 76,698 | 76,698 |
| 0100 | Fund Balance - September 1 (Beginning) | 171 | 171 | 171 | - |
| 3000 | Fund Balance - August 31 (Ending) | \$ 171 | \$ 171 | \$ 76,869 | \$ 76,698 |

OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

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Cameron L. Gulley

CERTIFIED PUBLIC ACCOUNTANT

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Eastland, Texas 76448
(325)669-9795
cgulley@txol.net

Independent Auditor's Report

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

Board of Trustees
Santa Gertrudis Independent School District
P.O. Box 592
Kingsville, Texas 78364

I have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Santa Gertrudis Independent School District (the "District") as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated February 19, 2014.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

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 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

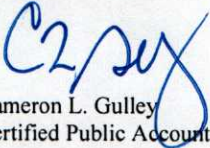
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I identified deficiencies in internal control that I consider to be material weaknesses listed as items 2013-1 thru 2013-3 on the accompanying Schedule of Findings and Questioned Costs. However, other material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Gertrudis Independent School District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* listed as item 2013-4 on the accompanying Schedule of Findings and Questioned Costs. However, it is not considered a material weakness or significant deficiency as defined above.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Cameron L. Gulley
Certified Public Accountant

February 19, 2014

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2013

| Finding | Statement of Condition | Material Weakness? | Questioned Costs |
|---------|------------------------|--------------------|------------------|
| | None reported. | | |

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2013

I. Summary of Auditor's Results

A. Financial Statements

| | |
|---|---------------------------------|
| Type of auditor's report issued: | Unmodified. |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | Yes. 2013-1, 2013-2 and 2013-3. |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported. |
| Noncompliance material to financial statements noted? | No. |

B. Federal Awards

N/A.

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

2013-1 Internal Control Structure - Bank Accounts Were Not Reconciled to General Ledger

Criteria Proper internal control standards require that bank accounts be reconciled timely and accurately to the general ledger and that adequate internal controls are in place to safeguard assets.

Statement of Condition During the year under audit, the District's cash balances related to the following accounts were not reconciled to the general ledger at any time during the year under audit. Following are the net variances found at August 31, 2013:

| Account | Audited Balance | General Ledger Balance | Audit Difference |
|--|-------------------|------------------------|---------------------|
| Checking - general operating account | \$ 81,983 | \$ 940,984 | \$ (859,001) |
| Checking - student activity club account | 23,273 | 33,291 | (10,018) |
| Checking - interest and sinking account | 31,031 | 31,200 | (169) |
| Checking - Laureles scholarship account | 7,249 | 3,249 | 4,000 |
| Total | \$ 143,536 | \$ 1,008,724 | \$ (865,188) |

Questioned Costs None.

Cause and Effect The District failed to reconcile its cash accounts for the entire year under audit. Many debit card transactions were not recorded into the general ledger (approximately \$30,000 in transactions). Numerous deposits were not recorded (approximately \$17,000), Debt service draft transactions totaling approximately \$116,000 were not recorded. Duplicate postings of property tax deposits were made totaling approximately \$421,000. The final lease payment drafted to Texas A&M Kingsville was not recorded totaling \$95,000. Numerous payroll transactions were not posted properly (including payroll tax and teacher retirement deposits). Approximately \$10,000 in student activity check transactions were not recorded. Beginning balance corrections and opening balances were not recorded into the 2012-13 general ledger.

Recommendations I recommend that the District establish a policy that all bank and investment accounts be reconciled monthly and that those reconciliation reports be presented to the board of trustees each month for review. Such a procedure should improve the efficiency and internal control structure within the District and should improve the financial reporting of cash and investments.

The District should consider outside consultation for training and supervision of the business office until such time that it can be reasonably determined that the business office staffing is competent to transact and report properly all financial activities of the District. Such training should also include cross-training of all employees within the business office so that not just one person has control or access to financial data and information.

2013-2 Internal Control Structure - Overpayment of Teacher Retirement Statutory Minimum Payments

Criteria Proper internal control standards require accurate and timely payroll and retirement reporting standards. Districts within the State of Texas participating in the Teacher Retirement System (“TRS”) are required to submit state matching retirement contributions (6.4% for the 2012-13 fiscal year) on those salaries which exceed the state statutory minimum salary structure.

Statement of Condition During the year under audit, the District’s statutory minimum contributions were unusually high as evidenced by the following comparative table for the past four years:

| Fiscal Year | State Matching Contribution Rate | Total TRS Eligible Salaries | Total Reported Above Statutory Minimum Salaries | District Statutory Minimum Contributions |
|-------------|----------------------------------|-----------------------------|---|--|
| 2012-13 | 6.400% | \$ 3,717,159 | \$ 1,812,021 | \$ 115,969 |
| 2011-12 | 6.000% | \$ 3,359,981 | \$ 522,715 | \$ 31,363 |
| 2010-11 | 6.644% | \$ 3,556,745 | \$ 434,159 | \$ 28,846 |
| 2009-10 | 6.644% | \$ 3,362,306 | \$ 392,439 | \$ 26,074 |

Questioned Costs Unknown.

Cause and Effect The District’s total payroll increased by approximately \$373,000 from last fiscal year. However, the total reported above statutory minimum salaries increased by nearly \$1.3 million from last fiscal year. A simple reasonableness test indicates that the amount paid for statutory minimum payments by the District to the State is not accurate. Even if 100% of the total salary increase from last year was eligible above-statutory minimum salary increases (which it was not), then the total increase in statutory minimum contributions would only be approximately \$24,000. However, the total increase from last year to this year in actual statutory minimum contributions was nearly \$85,000 (an increase of 269.8% from last fiscal year).

Related to item 2013-1 above, the issue is primarily due to not understanding the overall financial system of the District. Rather than reviewing the financial data for accuracy and integrity, the numbers are just accepted as they are without research, analysis and reconciliation. The cause of the inferred error is most likely due to payroll data being input incorrectly at the beginning of the year (i.e. contract type, days to be earned in contract year, etc.) which would cause the computer system to generate erroneous above-statutory-minimum calculations throughout the year.

Recommendations I recommend that the District review its internal control policies and procedures for payroll processing to ensure that all payroll data is accurately filed and reported. A simple review such as the above rudimentary analysis will indicate potential payroll problems and irregularities on a timely basis.

I also recommend that the District re-file all its 2012-13 TRS statutory-minimum reports for potential refunds of the inferred TRS deposit overpayments. It should also review the current year payroll data to verify that the same problem is not continuing to occur for the 2013-14 fiscal year.

2013-3 Internal Control Structure - Failure to Make Payroll Tax Deposits Timely (Or At All)

Criteria Internal Revenue Service Circular E provides guidance for proper payment of payroll tax deposits of its employees.

Statement of Condition The District failed to make numerous payroll tax deposits either timely or at all in accordance with guidelines established by Internal Revenue Service Circular E. Specifically, there were 29 payroll transaction “runs” processed during the year, and the payroll tax deposits on 15 of those 29 were either made late or not at all. Following are the payroll processing periods which were not processed correctly or timely:

| Payroll Processing Date | Payroll Deposit Date | Payroll Tax Deposit Due | Payroll Tax Deposit Made | Unremitted Payrol Tax Deposit |
|-------------------------|----------------------|-------------------------|--------------------------|-------------------------------|
| September 19, 2012 | September 28, 2012 | \$ 363 | \$ 363 | |
| October 11, 2012 | March 14, 2013 | 37 | 37 | |
| October 26, 2012 | March 14, 2013 | 154 | 154 | |
| December 7, 2012 | | 7 | | 7 |
| January 18, 2013 | March 13, 2013 | 42,022 | 42,022 | |
| February 22, 2013 | March 13, 2013 | 43,149 | 43,149 | |
| March 25, 2013 | April 29, 2013 | 95 | 95 | |
| March 31, 2013 | | 268 | | 268 |
| May 20, 2013 | | 1,796 | | 1,796 |
| May 23, 2013 | June 10, 2013 | 3,142 | 3,142 | |
| May 24, 2013 | June 10, 2013 | 44,127 | 44,127 | |
| June 25, 2013 | July 11, 2013 | 42,860 | 42,860 | |
| July 10, 2013 | | 926 | | 926 |
| August 22, 2013 | | 1,089 | | 1,089 |
| August 24, 2013 | | 20 | | 20 |
| Total Unpaid Liability | | | | \$ 4,106 |

Questioned Costs None.

Cause and Effect The cause and effect of either not making the payroll tax deposits timely (or at all) was partly due to payroll processing performed in a non-systematic manner. As evidenced in the above table, there were numerous payroll processing periods which did not coincide with the District’s stated payroll processing dates of the 25th of each month (or Friday before if date falls on weekend). There were additional failures in the internal control function that allowed payroll tax deposits to go unremitted. Approximately \$800 was paid in payroll tax penalties for late payment of deposits.

Recommendations The District should formally review its internal control policies and procedures to identify the systemic failures which went undetected during the year under audit. A change in the internal control policy may be necessary to require secondary review and confirmation that all payroll tax deposits were made by an individual independent of the payroll processing function.

2013-4 Failure to properly meet expenditure requirement for state mandated program revenues

Criteria State law requires that for each mandated program revenue entitlement received that at least 52% to 58% of the entitlement (each entitlement expenditure requirement varies) must be expended in areas that directly relate to the program activity.

Statement of Condition During the year under audit, the District received mandated funding from mandated programs with the represented expenditure requirements represented in the table below. However, as the table indicates, the District did not expend all of those revenues in accordance with the minimum expenditure requirements. In particular, gifted & talented, career & technology and bilingual education mandated program revenues were not expended in accordance with the minimum expenditure requirements.

| Mandated Program Revenue | Amount Received | Amount Expended | Unexpended Allotment |
|---|-----------------|-----------------|----------------------|
| Gifted & Talented (must expend 55% of allotment) | \$ 10,279 | \$ 999 | \$ 9,280 |
| Career & Technology (must expend 58% of allotment) | \$ 389,849 | \$ 126,008 | \$ 100,104 |
| Special Education (must expend 52% of allotment) | \$ 111,483 | \$ 95,092 | N/A |
| Compensatory Education (must expend 52% of allotment) | \$ 243,326 | \$ 179,383 | N/A |
| Bilingual Education (must expend 52% of allotment) | \$ 1,666 | \$ 0 | \$ 866 |

Questioned Costs None.

Cause and Effect The cause of not fully expending the mandated program allotments was due to not properly budgeting the expenditures in accordance with the amount of state funding received. In particular, the District only budgeted to expend \$3,400 in gifted and talented program areas, \$89,820 in career and technology program areas and \$200 in bilingual education program areas.

Recommendation The District should review its program areas of instruction and ensure that expenditures are properly allocated and expended for which they are funded in accordance with the district/campus improvement plans as well as from the state mandated funding formula.

III. Findings and Questioned Costs for Federal Awards

N/A.

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2013

2013-1 The District will consider establishing a policy that all bank and investment accounts be reconciled monthly and that those reconciliation reports be presented to the board of trustees each month for review. The District has also begun the process of contracting for financial training services with an outside consultant.

Contact representative: Mary Springs, superintendent
P.O. Box 592
Kingsville, Texas 78364
(361) 592-7582

2013-2 The District will research the potential TRS statutory minimum overpayments and will file amended reports, as necessary, where errors and mistakes in monthly retirement reports are discovered.

Contact representative: Mary Springs, superintendent
P.O. Box 592
Kingsville, Texas 78364
(361) 592-7582

2013-3 The District will review its payroll processing internal controls and make changes to ensure that payroll tax deposits are remitted timely. The District has also begun to cross-train employees within the business office to create a layer of redundancy to help reduce the number of errors in the payroll processing function. The outside training that has begun to be established should also help remedy the payroll tax deposit issue.

Contact representative: Mary Springs, superintendent
P.O. Box 592
Kingsville, Texas 78364
(361) 592-7582

2013-4 The District will review its areas of instruction to ensure that they are properly funded in accordance with the funding allocation to the various mandated program areas.

Contact representative: Mary Springs, superintendent
P.O. Box 592
Kingsville, Texas 78364
(361) 592-7582

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SCHOOLS FIRST QUESTIONNAIRE

Santa Gertrudis Independent School District

Fiscal Year 2013

| | | |
|------|--|-----|
| SF2 | Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations? | No |
| SF4 | Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report? | Yes |
| SF5 | Did the Annual Financial Report disclose any instances of material weaknesses in internal controls? | Yes |
| SF9 | Was there any disclosure in the Annual Financial Report of material noncompliance? | No |
| SF10 | Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end. | |