



Llano

LLANO INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
AUGUST 31, 2013**

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

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
Certificate of Board	1
Independent Auditors' Report	2
Management's Discussion and Analysis	5
 <u>Basic Financial Statements</u>	
Government-wide Statements:	
A-1 Statement of Net Position	15
B-1 Statement of Activities	16
Governmental Fund Financial Statements:	
C-1 Balance Sheet	17
C-2 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
C-3 Statement of Revenues, Expenditures, and Changes in Fund Balance	20
C-4 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	22
Fiduciary Fund Financial Statements:	
E-1 Statement of Fiduciary Net Position	23
E-2 Statement of Changes in Fiduciary Net Position	24
Notes to the Financial Statements	25
 <u>Required Supplementary Information</u>	
G-1 Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – General Fund	42
Notes to Required Supplementary Information	43
 <u>Combining Statements</u>	
Nonmajor Governmental Funds:	
H-1 Combining Balance Sheet	44
H-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	47
Private Purpose Trust Funds:	
H-3 Combining Statement of Net Position	50
H-4 Combining Statement of Revenues, Expenses, and Changes in Net Position	51
 <u>Required TEA Schedules</u>	
J-1 Schedule of Delinquent Taxes Receivable	52
J-2 Schedule of Expenditures for Computations of Indirect Cost for 2014 – 2015	54
J-4 Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – National School Breakfast and Lunch Program	55
J-5 Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – Debt Service Fund	56

(continued)

LLANO INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2013
(Continued)
TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	<u>Federal Awards Section</u>	
	Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	57
	Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	59
K-1	Schedule of Expenditures of Federal Awards	61
	Notes to Schedule of Expenditures of Federal Awards	63
	Schedule of Findings and Questioned Costs	64
	Summary Schedule of Prior Audit Findings	65

CERTIFICATE OF BOARD

Llano Independent School District
Name of School District

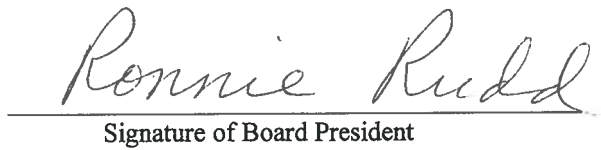
Llano
County

150-901
Co. - Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2013, at a meeting of the Board of Trustees of such school district on the 20th day of January 2014.



Signature of Board Secretary



Signature of Board President

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

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Llano Independent School District
Llano, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Llano Independent School District (the "District"), as of and for the year ended August 31, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2013, and the respective changes in financial position 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 information on pages 5–13 and 41–42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and the required TEA schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and the required TEA 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 our opinion, the combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and the required TEA schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Patillo, Brown & Hill, L.L.P.

Waco, Texas
January 13, 2014

LLANO INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2013

Our discussion and analysis of Llano Independent School District's financial performance provides an overview of the District's financial activities for the year ended August 31, 2013. Please read it in conjunction with the District's financial statements, which begin on page 15.

FINANCIAL HIGHLIGHTS

- In May 2013, the voters of Llano County approved a \$5.8 Million bond issue for the District. During the 2012-2013 fiscal year, the District expended just over \$300,000 of those funds for new band uniforms and instruments, new technology upgrades, a sprinkler system, and new weight room equipment. An architect and construction manager at risk were hired and are in the design phase for remaining projects.
- In September 2012, the Board of Trustees approved four goals that were developed by the Trustees and the District's management. These goals address instructional improvements for the district's advanced learners, teacher recruitment and retention, a plan for the retirement of I&S bonds and future bond elections, and the gap between the Hispanic sub-group and English language learners. The District worked toward the four goals during 2012-2013, appointing a committee to develop a plan to address Advanced Learners, offering dual credit classes, proposing and passing a bond election, increasing the district's health care contribution, and continued monitoring of the plan to close the gap between the Hispanic sub-group and English language learners. The goals were reviewed and updated in September 2013 for the 2013-2014 fiscal year.
- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$31,287,071 (*net position*). Of this amount, \$7,356,925 (*unrestricted net position*) may be used to meet the District's ongoing obligations.
- The District's total net position increased by \$1,148,071.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$13,563,801, an increase of \$5,278,294 in comparison with the prior year. This increase was mainly attributable to an increase in the Capital Projects fund of \$5,497,022 related to the 2013 bond proceeds, offset by decreases in the General Fund balance and Child Nutrition Program fund balances.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,196,776, or 15% of total General Fund expenditures. During the year, the fund balance of the General Fund decreased by \$319,470.

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 15 and 16). These provide information about the activities of the District as a whole and present a long-term view of the District's property and obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 17) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about resources held for benefits of parties outside the District.

The notes to the financial statements (starting on page 25) provide narrative explanations or additional data needed for full disclosure in the government-wide statements of the fund financial statements.

The combining statements for nonmajor funds are presented immediately following the required supplementary information and contain even more information about the District's individual funds. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 15. Its primary objective is to show the results of operations and whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These apply the accrual basis of accounting, which is the same method used by most private sector companies.

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

These two statements report the District's net 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, nonfinancial factors should be considered as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

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

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

Reporting the District’s Most Significant Funds

Fund Financial Statements

The Fund financial statements begin on page 17 and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under ESEA Title I from the U. S. Department of Education. The District’s administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District has only governmental type funds.

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

The District as Trustee

Reporting the District’s Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District’s fiduciary activities are reported in separate Statements of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position on pages 23 and 24. These resources are excluded from the District’s other financial statements because the District cannot use them to support its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position of the District’s governmental activities increased from \$30,139,000 to \$31,287,071. 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 was \$7,356,925.

**LLANO INDEPENDENT SCHOOL DISTRICT
NET POSITION**

	Governmental Activities	
	2013	2012
Current and other assets	\$ 17,171,582	\$ 11,234,268
Capital assets	35,621,847	37,471,285
Total assets	52,793,429	48,705,553
Current liabilities	2,517,842	2,556,277
Long-term liabilities	18,988,516	16,010,276
Total liabilities	21,506,358	18,566,553
Net position:		
Net investmnet in capital assets	22,554,598	21,431,204
Restricted	1,375,548	1,200,832
Unrestricted	7,356,925	7,506,964
Total net position	\$ 31,287,071	\$ 30,139,000

**LLANO INDEPENDENT SCHOOL DISTRICT
CHANGES IN NET POSITION**

	Governmental Activities	
	2013	2012
REVENUES		
Program revenues:		
Charges for services	\$ 457,954	\$ 500,043
Operating grants and contributions	2,662,680	2,766,990
General revenues:		
Property taxes	34,723,190	34,086,749
Grants and contributions - not restricted	2,186,458	2,928,435
Investment earnings	33,882	53,763
Other	48,191	271,760
Total revenues	<u>40,112,355</u>	<u>40,607,740</u>
Chapter 41 (Robin Hood) payments	<u>17,044,984</u>	<u>17,202,835</u>
Revenues available to the District	<u>23,067,371</u>	<u>23,404,905</u>
EXPENSES		
Instruction and instructional related	11,589,862	11,299,488
Instructional leadership/school administration	1,371,798	1,439,698
Guidance, social work, health and transportation	1,868,384	1,870,837
Food services	1,189,656	1,128,678
Co-curricular/extracurricular activities	1,259,138	1,305,411
General administration and other intergovernmental charges	1,287,131	1,191,013
Plant maintenance and security	2,137,028	2,103,727
Data processing services	536,731	524,464
Debt service	679,572	783,599
Total expenses	<u>21,919,300</u>	<u>21,646,915</u>
INCREASE IN NET POSITION	1,148,071	1,757,990
NET POSITION, BEGINNING	<u>30,139,000</u>	<u>28,381,010</u>
NET POSITION, ENDING	<u>\$ 31,287,071</u>	<u>\$ 30,139,000</u>

The District's net position increased by \$1,148,071 during the fiscal year. Key elements of this increase are as follows:

- Net investment in capital assets increased by \$1.2 million because capital asset purchases and principal payments on debt exceeded depreciation and bond issuance costs by this amount. During 2012-13, the District paid \$2.94 million in principal payments on debt. The largest capital asset expenditure was to upgrade certain technology in the district mainly in conjunction with the recently passed 2013 bond series.

- Unrestricted net position decreased by \$150,039 because General Fund expenditures exceeded General Fund revenues by approximately that amount. Please see “Financial Analysis of the District’s Funds,” below, for an explanation of this decrease.

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

The fund balance of the General Fund decreased by \$319,470. The major elements of this decrease are discussed below.

- The District originally budgeted a decrease in fund balance of \$1,940,107. This amount was increased by \$50,753 through budget amendments to a decrease in fund balance of \$1,990,860, as explained in the next section (General Fund Budgetary Highlights), below.
- General Fund revenues were \$286,348 more than the final budget:
 - Local M&O tax revenue exceeded budget by approximately \$184,000 due to higher-than-expected collections at year-end.
 - Local revenue related to the Llano County School Land exceeded budget by approximately \$157,000.
 - TRS On Behalf revenue fell short of budget by approximately \$20,000. This revenue is directly offset by an expenditure line item, so the net effect is \$0.
 - State revenue fell short of budget by approximately \$30,000 because of the increase in local revenue and recapture (“Robin Hood”) costs. Current school finance formulas absorb any increase in local tax revenue collections by increasing recapture expenses and decreasing state revenue.
- Salary expenditures were approximately \$715,000 less than budgeted:
 - Vacancies and changes in personnel in certain positions throughout the year resulted in salary expenditures that were approximately \$646,000 less than budgeted.
 - Vacancies in certain positions, and a lack of participation by some employees in the health insurance plan offered by the District, resulted in payroll benefit and tax expenditures that were approximately \$69,000 less than budgeted.
- Non-salary expenditures were approximately \$900,000 less than budgeted:
 - Recapture (“Robin Hood”) costs were \$185,000 less than the final budget due to a year end amendment that overestimated final recapture costs due to higher than originally expected tax collections.
 - Instructional and instruction-related non-salary expenditures were approximately \$245,000 less than budgeted as campuses stayed within their budgets for classroom & technology supplies, and expenditures for certain contracted special education services were lower than expected.
 - Student transportation non-salary expenditures were approximately \$129,000 less than budgeted primarily because fuel costs have been unpredictable and thus budgeted levels were higher than actual costs.
 - Co-curricular and extracurricular non-salary expenditures were approximately \$70,000 less than budgeted primarily because the athletic department stayed within its budget for supplies, entry fees and travel.
 - General administration non-salary expenditures were approximately \$51,000 less than budgeted because supply costs, election costs, and employee travel were lower than expected.
 - Plant maintenance and operation expenditures were approximately \$129,000 less than budgeted primarily because utility costs and supplies needed for summer projects were lower than expected.
 - Data processing services non-salary expenditures were approximately \$43,000 less than budgeted as the technology department anticipated needing more funds than actually required for infrastructure updates throughout the district.

The fund balance for 2013 Bond Construction increased by \$5,497,022. The bonds were sold in July 2013 and delivered in August 2013 with a face value of \$5,740,000 at a premium of \$181,262. Bond funds expended in 2012-13 totaled \$424,328, and the proceeds earned \$88 during the month of August 2013.

The fund balance for Other Funds increased by \$100,742. This increase was mainly due to an increase in the fund balance of the Debt Service Fund of \$167,086 as tax collections were higher than expected. The increase was offset by a decrease of \$66,244 in the fund balance of the Child Nutrition Program. This program is allowed to maintain a fund balance not greater than three months' operating expenditures. The year-end fund balance of \$236,194 represents approximately 2.5 months of Child Nutrition Program expenditures.

Expenditures Per Student

Expenditures per student for fiscal year 2013 and 2012 were \$7,701 and \$7,844, respectively. The decrease of \$143 per student was mainly due to a change in the calculation of the weighted average daily attendance (WADA) for fiscal year 2013. For fiscal year 2013, the regular program allotment weight was increased to 98% from 92.39% in 2012, which effectively increased WADA for all districts. If the calculation for WADA had not been changed, the District's expenditures per student would have remained fairly constant.

Expenditures per student were calculated by dividing total expenditures related to governmental funds less debt service, capital outlay, TRS On-Behalf, and intergovernmental charges by weighted average daily attendance (WADA). Total expenditures less debt service, capital outlay, TRS On-Behalf, and intergovernmental charges for fiscal year 2013 and 2012 were \$17,997,426 and \$17,813,657, respectively. WADA for fiscal year 2013 and 2012 were 2,337 and 2,271, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The fund balance of the District's General Fund, \$6,756,858, differs from the General Fund's budgetary fund balance of \$5,085,468 (see Exhibit G-1). The fund balance decreased less than the amount expected, primarily because the District did not expend all of the budgeted funds, as discussed in the preceding section.

During the year, the District amended the budget as it was deemed necessary. Significant changes to budgeted revenues included an increase in expected property tax collections in the amount of \$1,445,000, an increase in federal revenue distributed through government entities other than state or federal agencies of \$66,732, and an increase in gifts and bequests of \$8,650. These increases were offset by a decrease in budgeted revenues related to state aid of \$534,466 and decreases in expected collections of other local revenue in the amount of \$20,490. Significant changes to the budgeted expenditures included increasing facilities acquisition and construction by \$37,250 for final costs associated with the renovation of an old vacant school building to become the new administrative offices, ABC classrooms, and board room/community center. Additional expenditure changes also included increasing the general supplies E-rate budget by \$27,790 due to additional reimbursements received over what had originally been budgeted, and increasing recapture ("Robin Hood") costs by \$962,373 due to enrollment that was lower than expected and tax collections that were higher than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the District had approximately \$36 million invested in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment. This amount represents approximately a \$1 million decline as compared to the prior year due to normal depreciation. This year's major additions to capital assets include:

Bond-related additions:

- New desktop computers for classrooms and computer labs in the amount of \$143,100;
- New projectors for classrooms in the amount of \$9,720;
- New server for Packsaddle Elementary & a new Robotics server in the amount of \$7,280;
- Various percussion instruments for the High School band program in the amount of \$24,472;
- New High School band marching uniforms in the amount of \$58,812;
- Weight room improvements at the Junior High and High School in the amount of \$29,910;
- Commercial irrigation system at the administration complex in the amount of \$9,000;
- New radios to be placed in the buses being manufactured at year end in the amount of \$5,030; and
- Project management and other related fees associated with the bond projects in the amount of \$15,742.

Additions funded through the General Fund:

- Completion of the renovation of the new administrative offices, ABC classrooms and board room/community center in the amount of \$36,007;
- Junior High Enhanced Learning Center equipment—Helix 24 x 18, 50 watt laser cutter & engraver in the amount of \$21,920;
- Fuel system upgrade in Llano & at Packsaddle Elementary in then amount of \$21,223;
- New 7 man sled for football purposes in the amount of \$7,672;
- A HP Proliant Server for Active Directory purposes in the amount of \$5,341; and
- Enhanced drainage system at Packsaddle Elementary in the amount of \$13,987.

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

School Land

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

Long-term Debt

At year-end, the District had \$18.56 million in long-term debt outstanding versus \$15.76 million last year – an increase of \$2.8 million. During the year, principal payments on outstanding long-term debt totaled \$2,940,000. This was offset by an increase of \$5.74 million related to the 2013 bond issuance. More detailed information on the District’s long-term liabilities can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The District’s Board of Trustees and management considered many factors when setting the fiscal year 2012-2013 budget and tax rates. The District used a conservative approach to budgeting again for fiscal year 2013-2014.

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

In September 2013, the Trustees approved four goals for the District. The Trustees and the District’s management spent considerable time and effort on a collaborative effort to set forth the goals for the District for the next fiscal year and beyond. These goals are the basis for actions taken by the District. Each year, the goals are reviewed and modified as needed. The goals are summarized below for the 2013-14 school year:

- Significantly increase students’ academic proficiency by recruiting and retaining high quality teachers;
- Plan for retirement of I&S Bonds and future bond elections;
- Develop a plan to improve academic instruction for the district’s advanced learners; and
- Implement the plan developed to close the gap between the Hispanic sub-group and English language learners and the rest of the student body in regards to test scores, parent participation, extra-curricular participation, etc.

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

The current school finance system does not provide for revenue increases to match inflation. During a special session of the 82nd Texas legislature, SB 1 was passed that effectively cut state funding for school districts by \$4 billion over the last biennium (2011-12 & 2012-13). The District experienced a \$2 million reduction in state funding due to those cuts. During the 83rd session of the Texas legislature, a partial restoration of the reduction in funding was passed for the current biennium. However, the funding was not restored in the same manner in which it was reduced. Therefore, the District is only expected to see an approximate restoration of \$440,000 during the current biennium. The District plans to continue budgeting conservatively to assure that it maintains fund balance and continues to improve the financial stability of the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administration office, 1400 Oatman, Llano, Texas.

BASIC FINANCIAL STATEMENTS

LLANO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2013

Data Control Codes		Primary Government Governmental Activities
ASSETS		
1110	Cash and cash equivalents	\$ 399,766
1120	Current investments	15,110,357
1220	Delinquent property taxes receivables	795,873
1230	Allowance for uncollectible taxes (credit)	(150,973)
1240	Due from other governments	264,568
1290	Other receivables (net)	257,614
1410	Deferred expenses	142,147
1420	Capital bond and other debt issuance costs	352,230
	Capital assets:	
1510	Land	816,461
1520	Buildings and improvements, net	32,037,935
1530	Furniture and equipment, net	2,740,579
1580	Construction in progress	26,872
1000	Total assets	52,793,429
LIABILITIES		
2110	Accounts payable	580,229
2140	Interest payable	24,349
2150	Payroll deductions and withholdings	1,728
2160	Accrued wages	537,360
2180	Due to other governments	1,363,947
2300	Unearned revenue	10,229
	Noncurrent liabilities:	
2501	Due within one year	3,132,410
2502	Due in more than one year	15,856,106
2000	Total liabilities	21,506,358
NET POSITION		
3200	Net investment in capital assets	22,554,598
	Restricted for:	
3820	Federal and state programs	236,194
3850	Debt service	1,139,354
3900	Unrestricted	7,356,925
3000	Total net position	\$ 31,287,071

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

**LLANO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2013**

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position
			3 Charges for Services	4 Operating Grants and Contributions	6 Primary Government Business-type Activities
Primary government:					
Governmental activities					
11	Instruction	\$ 11,113,270	\$ 11,970	\$ 1,613,909	\$ (9,487,391)
12	Instructional resources and media services:	428,631	-	67,184	(361,447)
13	Curriculum and staff developmen	47,961	-	15,673	(32,288)
21	Instructional leadership	181,441	-	8,241	(173,200)
23	School leadership	1,190,357	-	56,689	(1,133,668)
31	Guidance, counseling, and evaluation services:	596,680	-	43,095	(553,585)
32	Social work services:	32,084	-	1,781	(30,303)
33	Health services:	183,934	-	9,319	(174,615)
34	Student transportation	1,055,346	-	32,427	(1,022,919)
35	Food services:	1,189,656	369,215	694,761	(125,680)
36	Extracurricular activities	1,259,138	76,769	22,512	(1,159,857)
41	General administration	973,695	-	34,765	(938,930)
51	Facilities maintenance and operation	2,058,673	-	42,473	(2,016,200)
52	Security and monitoring service	78,355	-	2,814	(75,541)
53	Data processing services:	536,731	-	17,037	(519,694)
61	Community services:	340	-	-	(340)
72	Interest on long-term debt	629,734	-	-	(629,734)
73	Bond issuance costs and fees	49,838	-	-	(49,838)
91	Contracted instructional services between schools:	17,044,984	-	-	(17,044,984)
93	Payments related to shared services arrangement	20,977	-	-	(20,977)
99	Other governmental changes	292,459	-	-	(292,459)
TG	Total governmental activities	\$ 38,964,284	\$ 457,954	\$ 2,662,680	(35,843,650)

Data
Control
Codes

General revenues:

Taxes:

MT	Property taxes, levied for general purpose	30,914,847
DT	Property taxes, levied for debt service	3,808,343
GC	Grants and contributions not restricted to specific program	2,186,458
IE	Investment earnings	33,882
MI	Miscellaneous	48,191
TR	Total general revenues	<u>36,991,721</u>
CN	Change in net position	1,148,071
NB	Net position, beginning	<u>30,139,000</u>
NE	Net position, ending	<u>\$ 31,287,071</u>

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

**LLANO INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2013**

Data Control Codes		10	50
		General	Debt Service
ASSETS			
1110	Cash and cash equivalents	\$ 57,845	\$ 19,907
1120	Current investments	8,514,360	1,070,914
1220	Delinquent property taxes receivable	702,802	93,071
1230	Allowance for uncollectible taxes	(135,037)	(15,936)
1240	Due from other governments	162,247	603
1260	Due from other funds	17,679	2,615
1290	Other receivables	228,880	28,734
1410	Deferred expenditures	142,147	-
1000	Total assets	\$ 9,690,923	\$ 1,199,908
LIABILITIES AND FUND BALANCES			
Liabilities:			
2110	Accounts payable	\$ 426,662	\$ 36,205
2150	Payroll deductions and withholdings	1,728	-
2160	Accrued wages	467,031	-
2170	Due to other funds	2,615	-
2180	Due to other governments	1,363,947	-
2300	Deferred revenue	672,082	89,976
2000	Total liabilities	2,934,065	126,181
Fund balances:			
3430	Non-spendable prepaid items	142,147	-
Restricted for:			
3450	Federal and state programs	-	-
3470	Capital acquisition	-	-
3480	Debt service	-	1,073,727
Assigned for:			
3590	Subsequent year's budget	1,417,935	-
3600	Unassigned	5,196,776	-
3000	Total fund balances	6,756,858	1,073,727
4000	Total liabilities and fund balances	\$ 9,690,923	\$ 1,199,908

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

60		98
Capital Projects	Other Governmental	Total Governmental Funds
\$ 46,572	\$ 275,442	\$ 399,766
5,525,083	-	15,110,357
-	-	795,873
-	-	(150,973)
-	101,718	264,568
-	-	20,294
-	-	257,614
-	-	142,147
<u>5,571,655</u>	<u>377,160</u>	<u>16,839,646</u>
\$ 74,633	\$ 42,729	\$ 580,229
-	-	1,728
-	70,329	537,360
-	17,679	20,294
-	-	1,363,947
-	10,229	772,287
<u>74,633</u>	<u>140,966</u>	<u>3,275,845</u>
-	-	142,147
-	236,194	236,194
5,497,022	-	5,497,022
-	-	1,073,727
-	-	1,417,935
-	-	5,196,776
<u>5,497,022</u>	<u>236,194</u>	<u>13,563,801</u>
\$ <u>5,571,655</u>	\$ <u>377,160</u>	\$ <u>16,839,646</u>

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

Total Fund Balances - Governmental Funds	\$ 13,563,801
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	35,621,847
Uncollected property taxes are reported as deferred revenue in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.	762,058
Long-term liabilities, including bonds and loans payable, are not due and payable in the current period and therefore are not reported in the funds. Losses on refunding of bonds and the premium on issuance of bonds payable are netted against the long-term liabilities in the statement of net position.	(18,988,516)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(24,349)
Bond issuance costs are reported in the governmental funds as an expenditure and the costs net of amortization are reported as an asset in the statement of net position.	<u>352,230</u>
Total net position of governmental activities	<u>\$ 31,287,071</u>

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

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

Data Control Codes	10	50
	General	Debt Service
REVENUES		
5700 Local and intermediate sources	\$ 31,095,457	\$ 3,778,980
5800 State programs	2,434,431	-
5900 Federal programs	<u>66,732</u>	<u>-</u>
5020 Total revenues	<u>33,596,620</u>	<u>3,778,980</u>
EXPENDITURES		
Current:		
0011 Instruction	8,477,454	-
0012 Instructional resources and media services	356,100	-
0013 Curriculum and staff development	32,302	-
0021 Instructional leadership	155,945	-
0023 School leadership	1,149,407	-
0031 Guidance, counseling, and evaluation services	580,831	-
0032 Social work services	32,084	-
0033 Health services	183,604	-
0034 Student transportation	815,562	-
0035 Food service	-	-
0036 Extracurricular activities	1,048,736	-
0041 General administration	913,082	-
0051 Facilities maintenance and operations	2,030,247	-
0052 Security and monitoring services	78,355	-
0053 Data processing services	429,880	-
0061 Community services	340	-
Debt service:		
0071 Principal on long-term debt	-	2,940,000
0072 Interest on long-term debt	-	635,090
0073 Bond issuance costs and fees	-	600
0081 Capital outlay	42,807	-
Intergovernmental:		
0091 Contracted instructional services between schools	17,044,984	-
0093 Payments related to shared services arrangements	20,977	-
0099 Other intergovernmental charges	<u>292,459</u>	<u>-</u>
6030 Total expenditures	<u>33,685,156</u>	<u>3,575,690</u>
1100 EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(88,536)</u>	<u>203,290</u>
OTHER FINANCING SOURCES (USES)		
7911 Issuance of bonds	-	-
7916 Premium on issuance of bonds	-	-
8949 Other uses - refund to taxpayers	<u>(230,934)</u>	<u>(36,204)</u>
7080 Total other financing sources (uses)	<u>(230,934)</u>	<u>(36,204)</u>
NET CHANGE IN FUND BALANCES	<u>(319,470)</u>	<u>167,086</u>
0100 FUND BALANCES, BEGINNING	<u>7,076,328</u>	<u>906,641</u>
3000 FUND BALANCES, ENDING	<u>\$ 6,756,858</u>	<u>\$ 1,073,727</u>

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

60	98	98
Capital Projects	Other Governmental	Total Governmental Funds
\$ 88	\$ 369,780	\$ 35,244,305
-	147,007	2,581,438
-	1,867,056	1,933,788
<u>88</u>	<u>2,383,843</u>	<u>39,759,531</u>
177,292	1,230,628	9,885,374
-	52,391	408,491
-	15,659	47,961
-	-	155,945
-	5,355	1,154,762
-	15,369	596,200
-	-	32,084
-	-	183,604
5,030	-	820,592
-	1,117,660	1,117,660
88,722	-	1,137,458
-	-	913,082
-	13,125	2,043,372
-	-	78,355
7,280	-	437,160
-	-	340
-	-	2,940,000
-	-	635,090
121,262	-	121,862
24,742	-	67,549
-	-	17,044,984
-	-	20,977
-	-	292,459
<u>424,328</u>	<u>2,450,187</u>	<u>40,135,361</u>
(424,240)	(66,344)	(375,830)
5,740,000	-	5,740,000
181,262	-	181,262
-	-	(267,138)
<u>5,921,262</u>	<u>-</u>	<u>5,654,124</u>
5,497,022	(66,344)	5,278,294
-	302,538	8,285,507
<u>\$ 5,497,022</u>	<u>\$ 236,194</u>	<u>\$ 13,563,801</u>

LLANO INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2013

Net change in fund balances - total governmental funds		\$ 5,278,294
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital outlay	\$ 409,218	
Depreciation expense	<u>(2,258,656)</u>	<u>(1,849,438)</u>
<p>Some property taxes are not considered available revenues and are deferred in the governmental funds.</p>		
		619,962
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consume these current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>		
<p>Debt issued:</p>		
General obligation bonds	\$(5,740,000)	
Plus premium	(181,262)	
Less issuance costs	121,262	
Principal repayments	<u>2,940,000</u>	<u>(2,860,000)</u>
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Amortization of bond issuance cost	\$(49,238)	
Amortization of loss on refunding	(32,666)	
Amortization of premium on issuance of bonds	32,553	
Interest payable	5,469	
Compensated absences	<u>3,135</u>	<u>(40,747)</u>
Change in net position of governmental activities		<u>\$ 1,148,071</u>

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

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

	Private Purpose Trusts	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 128,833	\$ 166,315
Investments - current	<u>37,500</u>	<u>-</u>
Total assets	<u>166,333</u>	<u>\$ 166,315</u>
LIABILITIES		
Due to student groups	<u>-</u>	<u>166,315</u>
Total liabilities	<u>-</u>	<u>\$ 166,315</u>
NET POSITION		
Restricted for scholarships	<u>166,333</u>	
Total net position	<u>\$ 166,333</u>	

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

**LLANO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013**

	<u>Private Purpose Trusts</u>
ADDITIONS	
Contributions:	
Local and intermediate sources	\$ 426
Total contributions	<u>426</u>
Total additions	<u>426</u>
DEDUCTIONS	
Other operating costs	<u>35,861</u>
Total deductions	<u>35,861</u>
CHANGE IN NET POSITION	(35,435)
NET POSITION, BEGINNING	<u>201,768</u>
NET POSITION, ENDING	<u><u>\$ 166,333</u></u>

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

LLANO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Llano Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles and it complies with the requirements of the appropriate version of Texas Education Agency’s *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

A. Reporting Entity

The Board of Trustees (the “Board”) is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board. There are no component units included within the reporting entity.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes, state foundation funds, grants and other intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

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

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

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. This District's private-purpose trust fund's activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. The District uses an agency fund to account for assets held for student groups. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The private-purpose trust fund is presented on an *economic resources measurement focus* and the *accrual basis of accounting*, similar to the government-wide financial statements. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

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 fund balances (i.e., revenue and other financing sources and expenditures and other financing uses).

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

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

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

The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

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

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

Capital Projects Fund – The Capital Projects Fund accounts for proceeds from long-term debt financing and revenue and expenditures related to authorized construction and other capital asset acquisitions.

Additionally, the District reports the following fund types:

Governmental Funds:

Special Revenue Funds – The District accounts for resources restricted to, or committed for, specific purposes by the District or a grantor in a Special Revenue Fund. Most federal and some state financial assistance is accounted for in a Special Revenue Fund.

Fiduciary Funds:

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

Agency Funds – The District accounts for resources held for others in a custodial capacity in Agency Funds. The District’s Agency Funds are Student Activity Funds.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

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

2. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Property taxes are levied as of October 1 on property values assessed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the following year in which imposed. On January 31 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

Tax collections are prorated between the General Fund and Debt Service Fund based on the tax rate approved by the Board. For the year ended August 31, 2013, the rates were \$1.04 and \$0.128, respectively, per \$100 of assessed value.

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

3. *Deferred Expenses/Expenditures*

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

4. *School Land*

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

5. *Capital Assets*

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-60
Vehicles	7-10
Furniture and equipment	5-10

6. *Long-term Obligations*

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

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

7. *Compensated Absences*

It is the District's policy to permit some employees to accumulate earned but unused leave benefits. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee retirements. The liability for compensated absences includes salary-related benefits, where applicable.

8. Fund Balance Classification

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

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

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

9. Net Position

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

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

10. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation revenue and recapture cost for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimates as of August 31, 2013, will change.

11. Data Control Codes

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

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Logic	\$ 5,071,203	57
Lone Star - Corporate Overnight Plus	4,551,570	68
TexSTAR	5,525,083	49

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

The Texas State Comptroller of Public Accounts exercises oversight responsibility for the TexPool portion of the District’s external pooled funds. TexPool is a 2a7-like pool, which is one that is not registered with the Securities and Exchange Commission (“SEC”) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. The pool reports net position value per share (which approximates fair value) even though it is calculated using the amortized cost method.

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of August 31, 2013, the District’s deposit balance was entirely covered by FDIC insurance and securities held in the name of the District by the pledging financial institution.

Credit Risk

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

Logic	AAAm
Lone Star - Corporate Overnight Plus	AAAf
TexSTAR	AAAm

B. Capital Assets

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

	Beginning Balance <u>08/31/12</u>	<u>Increases</u>	Decreases/ <u>Reclassifications</u>	Ending Balance <u>08/31/13</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 816,461	\$ -	\$ -	\$ 816,461
Construction in progress	<u>2,746,622</u>	<u>26,872</u>	<u>2,746,622</u>	<u>26,872</u>
Total capital assets, not being depreciated	<u>3,563,083</u>	<u>26,872</u>	<u>2,746,622</u>	<u>843,333</u>
Capital assets, being depreciated:				
Buildings	44,717,005	2,650,346	-	47,367,351
Furniture and equipment	<u>7,535,291</u>	<u>478,622</u>	<u>-</u>	<u>8,013,913</u>
Total capital assets, being depreciated	<u>52,252,296</u>	<u>3,128,968</u>	<u>-</u>	<u>55,381,264</u>
Less accumulated depreciation for:				
Buildings	(13,831,169)	(1,498,247)	-	(15,329,416)
Furniture and equipment	<u>(4,512,925)</u>	<u>(760,409)</u>	<u>-</u>	<u>(5,273,334)</u>
Total accumulated depreciation	<u>(18,344,094)</u>	<u>(2,258,656)</u>	<u>-</u>	<u>(20,602,750)</u>
Total capital assets, being depreciated, net	<u>33,908,202</u>	<u>870,312</u>	<u>-</u>	<u>34,778,514</u>
Governmental activities capital assets, net	<u>\$ 37,471,285</u>	<u>\$ 897,184</u>	<u>\$ 2,746,622</u>	<u>\$ 35,621,847</u>

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

Governmental activities:	
Instruction	\$ 1,427,425
Instructional resources and media services	19,420
Instructional leadership	25,796
School leadership	31,185
Student transportation	260,527
Food services	71,486
Extracurricular activities	218,074
General administration	63,263
Facilities maintenance and operations	29,288
Data processing services	<u>112,192</u>
Total depreciation expense - governmental activities	<u>\$ 2,258,656</u>

C. Interfund Receivables and Payables

The composition of interfund balances as of August 31, 2013, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 17,679
Debt service	General	<u>2,615</u>
		<u>\$ 20,294</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

D. Deferred Revenue

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

	<u>Unavailable</u>	<u>Unearned</u>
General fund		
Delinquent property taxes receivable	\$ 464,051	\$ -
Penalty and interest receivable	208,031	-
Debt service fund		
Delinquent property taxes receivable	63,930	-
Penalty and interest receivable	26,046	-
Nonmajor governmental		
Grants drawn down prior to meeting all eligibility requirements		10,229
	<u>-</u>	<u>10,229</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 762,058</u>	<u>\$ 10,229</u>

E. Long-term Debt

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

	Balance 08/31/12	Additions	Reductions	Balance 08/31/13	Amounts Due in One Year
Bonds	\$ 15,760,000	\$ 5,740,000	\$ 2,940,000	\$ 18,560,000	\$ 3,050,000
Deferred loss on refunding	(66,118)	-	(32,666)	(33,452)	(16,726)
Premium on bonds	241,244	181,262	32,553	389,953	77,474
Compensated absences	<u>75,150</u>	<u>24,045</u>	<u>27,180</u>	<u>72,015</u>	<u>21,662</u>
Totals	<u>\$ 16,010,276</u>	<u>\$ 5,945,307</u>	<u>\$ 2,967,067</u>	<u>\$ 18,988,516</u>	<u>\$ 3,132,410</u>

Compensated absences are generally liquidated by the General Fund.

Bonds Payable

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

A summary of changes in unlimited tax bonds payable for the year ended August 31, 2013, is as follows:

Description	Interest Rate Payable	Amount Original Issue	Interest Paid in Current Year	Amount Outstanding 08/31/12	Issued	Retired	Amount Outstanding 08/31/13
Unlimited Tax Refunding Bond Series 2005	3.25% to 4.5%	\$ 4,860,000	\$ 113,140	\$ 2,940,000	\$ -	\$ 320,000	\$ 2,620,000
Unlimited Tax Bond Series 2007	4.25% to 5%	14,310,000	492,700	10,870,000	-	670,000	10,200,000
Unlimited Tax Refunding Bonds Series 2009	0.0% to 3%	8,299,978	29,250	1,950,000	-	1,950,000	-
Unlimited Tax Bonds Series 2013	2% to 3%	5,740,000	<u>-</u>	<u>-</u>	<u>5,740,000</u>	<u>-</u>	<u>5,740,000</u>
Totals			<u>\$ 635,090</u>	<u>\$ 15,760,000</u>	<u>\$ 5,740,000</u>	<u>\$ 2,940,000</u>	<u>\$ 18,560,000</u>

Debt service requirements for bonds are as follows:

Year Ended August 31,	Governmental Activities		Total Requirements
	Principal	Interest	
2014	\$ 3,050,000	\$ 692,199	\$ 3,742,199
2015	3,145,000	598,225	3,743,225
2016	2,770,000	495,310	3,265,310
2017	1,170,000	422,025	1,592,025
2018	970,000	376,525	1,346,525
2019-2023	4,150,000	1,275,019	5,425,019
2024-2027	<u>3,305,000</u>	<u>340,875</u>	<u>3,645,875</u>
Totals	\$ <u>18,560,000</u>	\$ <u>4,200,178</u>	\$ <u>22,760,178</u>

There are a number of limitations and restrictions contained within bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2013.

Prior Year Defeasance of Bonds

In prior years, the District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District’s financial statements. On August 31, 2013, there are no bonds considered defeased and outstanding.

F. Operating Leases

The District is committed under various non-cancellable leases for copier machines. These leases are considered for accounting purposes to be operating leases. None of the leases contain renewal or purchase options. Operating lease expenditures for fiscal year 2013 were \$109,350.

The following is a summary of minimum future payments on non-cancellable operating leases in effect as of August 31, 2013.

Year Ending	
2014	\$ 67,807
2015	60,391
2016	27,765
2017	<u>20,069</u>
Total	\$ <u>176,032</u>

III. OTHER INFORMATION

A. Defined Benefit Pension Plan

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended pursuant to the following state funding 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% of the aggregate annual compensation of all members of the system during the fiscal year; (2) state statute prohibits benefit improvements, 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 2011-2013 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the 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.

Contribution Rates and Amounts					
Year	Member		State		Statutory
	Rate	Amount	Rate	Amount	Minimum
					Amount
2011	6.4%	\$ 760,124	6.644%	595,748	120,461
2012	6.4%	744,706	6.000%	537,500	108,460
2013	6.4%	757,130	6.400%	580,736	118,552

B. Health Care Coverage

During the period ended August 31, 2013, employees of the District were covered by a state-wide health care plan, TRS Active Care. The District’s participation in this plan is renewable annually. The District paid into the Plan \$240 per month per employee. Employees, at their option, pay premiums for any coverage above these amounts as well as for dependent coverage.

The Teachers Retirement System (TRS) manages TRS Active Care. The medical plan is administered by Blue Cross and Blue Shield of Texas, FIRSTCARE and Scott and White HMO. Medco Health administers the prescription drug plan. The latest financial information on the state-wide plan 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.

C. Retiree Health Plan

Plan Description. The Llano Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care 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 Web site at www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. 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 2011-2013.

Contribution Rates and Amounts						
Year	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2011	0.65%	\$ 77,201	1.00%	\$ 118,769	0.55%	\$ 65,323
2012	0.65%	75,635	1.00%	116,360	0.55%	63,998
2013	0.65%	76,897	0.50%	54,987	0.55%	65,066

Medicare Part D – On-behalf Payments. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments of \$30,823, \$30,579, and 27,862 were recognized for the years ended August 31, 2013, 2012, and 2011, respectively, as equal revenues and expenditures.

Early Retiree Reinsurance Program – On-behalf Payments. The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPAVA). A provision of the PPAVA allows the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive a reimbursement from the Federal government for a portion of the cost to provide health benefits to retirees between the ages of 55-64 and their covered dependents regardless of age. This program was not available to the District in fiscal year 2013; therefore, an on-behalf payment was not recorded in fiscal year 2013. The District participated in the program for the year ended August 31, 2012, and \$28,918 was recognized during the year as equal revenues and expenditures.

D. Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries insurance through the TASB Risk Management Fund (the Fund). During the year ended August 31, 2013, the District participated in the following programs with coverage in the following areas:

<u>Program</u>	<u>Coverage Areas</u>
Property Casualty program	Auto Physical Damage Crime Equipment breakdown Property
Liability program	Auto Liability General Liability Manuscript Special Sexual Misconduct Endorsement School Professional Legal Liability

The fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the property and liability programs. The terms and limits of the stop-loss program vary by line of coverage. The fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2013, the fund anticipates Llano ISD has no additional liability for either the property or liability program beyond the contractual obligations for payment of contributions.

During the year ended August 31, 2013, Llano ISD met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation program is authorized by Chapter 504, Texas Labor Code. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop-loss coverage for any claim in excess of the fund's self-insured retention of \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2013, the Fund carries a discounted reserve of \$68,883,628 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2013, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

During the year ended August 31, 2013, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code.

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

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

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Program, the Liability Program, and the Auto Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2013, the Fund anticipates that Llano ISD has no additional liability beyond the contractual obligations for payment of contributions.

The fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the fund's Board of Trustees in February of the following year. The fund's audited financial statements as of August 31, 2012, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

No settlements have exceeded coverage since the District joined the fund. In fiscal years 2013 and 2012, the District paid \$225,678 and \$233,267, respectively, to the fund for property, liability, workers' compensation, and unemployment protection. The District did not receive any dividends due to favorable losses in prior years.

E. Commitments and Contingencies

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

REQUIRED SUPPLEMENTARY INFORMATION

LLANO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)	
	Original	Final			
REVENUES					
5700	Local and intermediate source:	\$ 29,311,946	\$ 30,760,200	\$ 31,095,457	\$ 335,257
5800	State programs	3,017,806	2,483,340	2,434,431	(48,909)
5900	Federal program revenues	-	66,732	66,732	-
5020	Total revenues	<u>32,329,752</u>	<u>33,310,272</u>	<u>33,596,620</u>	<u>286,348</u>
EXPENDITURES					
Current:					
0011	Instruction	9,372,423	9,283,008	8,477,454	805,554
0012	Instructional resources and media service	372,730	364,249	356,100	8,149
0013	Curriculum and staff developmen	65,605	65,605	32,302	33,303
0021	Instructional leadership	162,693	162,693	155,945	6,748
0023	School leadership	1,166,147	1,173,147	1,149,407	23,740
0031	Guidance, counseling, and evaluation service	604,788	604,788	580,831	23,957
0032	Social work service:	31,768	33,268	32,084	1,184
0033	Health service:	192,085	192,085	183,604	8,481
0034	Student transportatior	904,737	941,737	815,562	126,175
0036	Extracurricular activities	1,134,868	1,196,039	1,048,736	147,303
0041	General administratior	937,659	942,659	913,082	29,577
0051	Facilities maintenance and operation	2,195,078	2,196,678	2,030,247	166,431
0052	Security and monitoring service	79,742	87,742	78,355	9,387
0053	Data processing service:	468,931	469,429	429,880	39,549
0061	Community service:	400	400	340	60
0081	Capital outlay	-	44,050	42,807	1,243
Intergovernmental					
Contracted instructional service					
0091	between school:	16,267,746	17,230,119	17,044,984	185,135
0093	Payments related to shared services arrangement	20,000	20,977	20,977	-
0099	Other intergovernmental charges	292,459	292,459	292,459	-
6030	Total expenditures	<u>34,269,859</u>	<u>35,301,132</u>	<u>33,685,156</u>	<u>1,615,976</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,940,107)</u>	<u>(1,990,860)</u>	<u>(88,536)</u>	<u>1,902,324</u>
8949	Other uses - refund to taxpayers	-	-	(230,934)	(230,934)
7080	Total other financing sources (uses)	-	-	(230,934)	(230,934)
1200	NET CHANGE IN FUND BALANCES	<u>(1,940,107)</u>	<u>(1,990,860)</u>	<u>(319,470)</u>	<u>1,671,390</u>
0100	FUND BALANCES, BEGINNING	<u>7,076,328</u>	<u>7,076,328</u>	<u>7,076,328</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 5,136,221</u>	<u>\$ 5,085,468</u>	<u>\$ 6,756,858</u>	<u>\$ 1,671,390</u>

LLANO INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
AUGUST 31, 2013

Budgetary Information

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

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

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

COMBINING STATEMENTS

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

	Special Revenue Funds			
	211	224	225	226
	ESEA I, A Improving Basic Program	IDEA- Part B Formula	IDEA- Part B Preschool	IDEA- Part B Discretionary
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Due from other governments	<u>31,182</u>	<u>48,546</u>	<u>704</u>	<u>-</u>
Total assets	<u>\$ 31,182</u>	<u>\$ 48,546</u>	<u>\$ 704</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 110	\$ 16,315	\$ -	\$ -
Accrued wages	25,703	21,127	604	-
Due to other funds	5,369	11,104	100	-
Deferred revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>31,182</u>	<u>48,546</u>	<u>704</u>	<u>-</u>
Fund balances:				
Restricted for federal and state programs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 31,182</u>	<u>\$ 48,546</u>	<u>\$ 704</u>	<u>\$ -</u>

Special Revenue Funds						
240 National Breakfast and Lunch Program	244 Vocational Ed Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	270 ESEA VI, B Rural & Low Income	404 Student Success Initiative	410 State Textbook
\$ 274,702	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<u>16,217</u>	<u>-</u>	<u>5,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 290,919</u>	<u>\$ -</u>	<u>\$ 5,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 26,079	\$ -	\$ 225	\$ -	\$ -	\$ -	\$ -
19,157	-	3,738	-	-	-	-
-	-	1,106	-	-	-	-
9,489	-	-	-	-	-	-
<u>54,725</u>	<u>-</u>	<u>5,069</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>236,194</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>236,194</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 290,919</u>	<u>\$ -</u>	<u>\$ 5,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	411	429	
	<u>Technology Allotment</u>	<u>Ready to Read</u>	
ASSETS			
Cash and cash equivalents	\$ -	\$ 740	\$ 275,442
Due from other governments	<u>-</u>	<u>-</u>	<u>101,718</u>
Total assets	<u>\$ -</u>	<u>\$ 740</u>	<u>\$ 377,160</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 42,729
Accrued wages	-	-	70,329
Due to other funds	-	-	17,679
Deferred revenues	<u>-</u>	<u>740</u>	<u>10,229</u>
Total liabilities	<u>-</u>	<u>740</u>	<u>140,966</u>
Fund balances:			
Restricted for federal and state programs	<u>-</u>	<u>-</u>	<u>236,194</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>236,194</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 740</u>	<u>\$ 377,160</u>

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

	Special Revenue Funds			
	211	224	225	226
	ESEA I, A Improving Basic Program	IDEA, Part B Formula	IDEA- Part B Preschool	IDEA- Part B Discretionary
REVENUES				
Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
State programs	-	-	-	-
Federal programs	<u>534,164</u>	<u>415,994</u>	<u>10,554</u>	<u>96,796</u>
Total revenues	<u>534,164</u>	<u>415,994</u>	<u>10,554</u>	<u>96,796</u>
EXPENDITURES				
Current:				
Instruction	511,448	394,915	10,554	96,796
Instruction resources and media services	17,951	-	-	-
Curriculum and instructional staff development	4,765	8,043	-	-
School leadership	-	-	-	-
Guidance, counseling and evaluation services	-	13,036	-	-
Food services	-	-	-	-
Facilities maintenance and operations	-	-	-	-
Total expenditures	<u>534,164</u>	<u>415,994</u>	<u>10,554</u>	<u>96,796</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	-	-	-
FUND BALANCES, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, ENDING	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Special Revenue Funds						
240	244	255	263	270	404	410
National Breakfast and Lunch Program	Vocational Ed Basic Grant	ESEA II, A Training and Recruiting	Title III, A English Lang. Acquisition	ESEA VI, B Rural & Low Income	Student Success Initiative	State Textbook
\$ 369,780	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
23,202	-	-	-	-	5,281	118,205
<u>671,559</u>	<u>28,050</u>	<u>73,585</u>	<u>1,914</u>	<u>34,440</u>	<u>-</u>	<u>-</u>
<u>1,064,541</u>	<u>28,050</u>	<u>73,585</u>	<u>1,914</u>	<u>34,440</u>	<u>5,281</u>	<u>118,205</u>
-	25,717	65,379	1,914	-	5,281	118,205
-	-	-	-	34,440	-	-
-	-	2,851	-	-	-	-
-	-	5,355	-	-	-	-
-	2,333	-	-	-	-	-
1,117,660	-	-	-	-	-	-
<u>13,125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>1,130,785</u>	<u>28,050</u>	<u>73,585</u>	<u>1,914</u>	<u>34,440</u>	<u>5,281</u>	<u>118,205</u>
(66,244)	-	-	-	-	-	-
(66,244)	-	-	-	-	-	-
<u>302,438</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 236,194</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	Special Revenue Funds		Total Nonmajor Governmental Funds
	411	429	
	Technology Allotment	Ready to Read	
REVENUES			
Local and intermediate sources	\$ -	\$ -	\$ 369,780
State programs	-	319	147,007
Federal programs	-	-	1,867,056
Total revenues	-	319	2,383,843
EXPENDITURES			
Current:			
Instruction	100	319	1,230,628
Instruction resources and media services	-	-	52,391
Curriculum and instructional staff development	-	-	15,659
School leadership	-	-	5,355
Guidance, counseling and evaluation services	-	-	15,369
Food services	-	-	1,117,660
Facilities maintenance and operations	-	-	13,125
Total expenditures	100	319	2,450,187
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(100)	-	(66,344)
NET CHANGE IN FUND BALANCES	(100)	-	(66,344)
FUND BALANCES, BEGINNING	100	-	302,538
FUND BALANCES, ENDING	\$ -	\$ -	\$ 236,194

LLANO INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET POSITION
PRIVATE PURPOSE TRUST FUNDS
AUGUST 31, 2013

	827 Reynolds <u>Scholarship</u>	828 Edinger <u>Scholarship</u>	829 Mahon-Dahl <u>Scholarship</u>	<u>Totals</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 128,826	\$ 4	\$ 3	\$ 128,833
Investments	<u>-</u>	<u>28,324</u>	<u>9,176</u>	<u>37,500</u>
Total assets	<u>128,826</u>	<u>28,328</u>	<u>9,179</u>	<u>166,333</u>
NET POSITION				
Restricted for scholarships	<u>128,826</u>	<u>28,328</u>	<u>9,179</u>	<u>166,333</u>
Total net position	<u>\$ 128,826</u>	<u>\$ 28,328</u>	<u>\$ 9,179</u>	<u>\$ 166,333</u>

LLANO INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PRIVATE PURPOSE TRUST FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

	827 Reynolds <u>Scholarship</u>	828 Edinger <u>Scholarship</u>	829 Mahon-Dahl <u>Scholarship</u>	<u>Totals</u>
ADDITIONS				
Local and intermediate sources	\$ <u>369</u>	\$ <u>42</u>	\$ <u>15</u>	\$ <u>426</u>
Total additions	<u>369</u>	<u>42</u>	<u>15</u>	<u>426</u>
DEDUCTIONS				
Other operating costs	<u>34,361</u>	<u>1,000</u>	<u>500</u>	<u>35,861</u>
Total deductions	<u>34,361</u>	<u>1,000</u>	<u>500</u>	<u>35,861</u>
CHANGE IN NET POSITION	(33,992)	(958)	(485)	(35,435)
NET POSITION, BEGINNING	<u>162,818</u>	<u>29,286</u>	<u>9,664</u>	<u>201,768</u>
NET POSITION, ENDING	\$ <u>128,826</u>	\$ <u>28,328</u>	\$ <u>9,179</u>	\$ <u>166,333</u>

REQUIRED TEA SCHEDULES

**LLANO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2013**

Last Ten Years Ended August 31, _____	1		2	3	10	20
	Tax Rates			Net Assessed/ Appraised Value for School Tax Purpose	Beginning Balance 09/01/12	Current Year's Total Levy
	Maintenance	Debt Service				
2004 and prior years	Various	Various		Various	\$ 36,477	\$ -
2005	1.500000	0.102000		1,508,025,758	15,048	-
2006	1.422000	0.107000		1,697,409,206	15,021	-
2007	1.300000	0.107700		1,861,875,215	26,799	-
2008	1.040000	0.150000		2,283,894,097	40,334	-
2009	1.040000	0.175000		2,576,347,042	69,036	-
2010	1.040000	0.175000		2,827,797,798	111,346	-
2011	1.040000	0.175000		2,857,532,771	207,009	-
2012	1.040000	0.140000		2,866,535,522	454,622	-
2013	1.040000	0.128000		2,902,695,890	-	<u>33,903,488</u>
1000 Totals					<u>\$ 975,692</u>	<u>\$ 33,903,488</u>

31	32	40	50
Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 08/31/13
\$ 3,030	\$ 213	\$(101)	\$ 33,133
3,768	256	(207)	10,817
3,912	294	(237)	10,578
6,284	521	(445)	19,549
13,842	1,997	(178)	24,317
21,346	3,592	1,251	45,349
35,957	6,050	(807)	68,532
97,439	16,396	(2,831)	90,343
268,705	36,172	(6,491)	143,254
<u>29,819,907</u>	<u>3,670,141</u>	<u>(63,439)</u>	<u>350,001</u>
<u>\$ 30,274,190</u>	<u>\$ 3,735,632</u>	<u>\$(73,485)</u>	<u>\$ 795,873</u>

**LLANO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2014 - 2015
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013**

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 391,754	\$ 326,395	\$ -	\$ 8,190	\$ 726,339
6149	Fringe benefits	-	-	-	-	-	-	-
6149	Fringe benefits	-	-	-	-	-	-	-
6211	Legal services	-	35,090	26,429	-	-	-	61,519
6212	Audit services	-	-	-	21,000	-	-	21,000
6213	Tax appraisal and collector	-	292,459	-	-	-	-	292,459
6214	Lobbying	-	-	-	-	-	-	-
621X	Other professional service	800	-	-	7,625	-	-	8,425
6220	Tuition and transfer payment:	-	-	-	-	-	-	-
6230	Education service center:	-	-	2,100	3,147	-	-	5,247
6240	Contractor maintenance and repair	-	-	-	-	26,104	-	26,104
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	7,942	2,561	-	-	10,503
6290	Miscellaneous contractor:	3,142	-	6,631	3,496	-	-	13,269
6320	Textbooks and reading	-	-	577	-	-	-	577
6330	Testing materials	-	-	-	-	-	-	-
63XX	Other supplies materials	1,453	-	17,818	2,835	-	-	22,106
6410	Travel, subsistence, stipend:	2,046	-	2,460	4,233	-	-	8,739
6420	Insurance and bonding cost:	-	-	5,259	-	-	-	5,259
6430	Election costs	11,258	-	-	-	-	-	11,258
6490	Miscellaneous operating	230	-	13,738	4,873	-	-	18,841
6500	Debt service	-	-	-	-	-	-	-
6600	Capital outlay	-	-	-	-	-	-	-
6000	Total	\$ 18,929	\$ 327,549	\$ 474,708	\$ 376,165	\$ 26,104	\$ 8,190	\$ 1,231,645

Total expenditures/expenses for General and Special Revenue Func

9 \$ 36,135,343

Less: Deductions of unallowable cost

FISCAL YEAR

Total capital outlay (6600)	10	\$ 106,149
Total debt and lease (6500)	11	-
Plant maintenance (Function 51, 6100-6400)	12	2,029,385
Food (Function 35, 6341 and 6499)	13	478,661
Stipends (6413)	14	1,002
Column 4 (above) - Total indirect cost		<u>376,165</u>

Subtotal

2,991,362

Net allowed direct cost:

33,143,981

CUMULATIVE

Total cost of buildings before depreciation (1520)	15	47,367,351
Historical cost of buildings over 50 years old	16	761,773
Amount of federal money in building cost (net of #16)	17	-
Total cost of furniture and equipment before depreciation (1530 & 1540)	18	8,013,913
Historical cost of furniture and equipment over 16 years old	19	428,216
Amount of federal money in furniture and equipment (net of #19)	20	228,558

- (8) Note A - \$ 26,104 in Function 53 expenditures are included in this report on administrative costs.
 \$ 292,459 in Function 99, expenditures for appraisal district costs are included in this report on administrative costs

LLANO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)	
	Original	Final			
REVENUES					
5700	Local and intermediate sources	\$ 407,700	\$ 407,700	\$ 369,780	\$ (37,920)
5800	State programs	20,000	20,000	23,202	3,202
5900	Federal programs	<u>680,678</u>	<u>685,856</u>	<u>671,559</u>	<u>(14,297)</u>
5020	Total revenues	<u>1,108,378</u>	<u>1,113,556</u>	<u>1,064,541</u>	<u>(49,015)</u>
EXPENDITURES					
Current:					
0035	Food service	1,143,535	1,163,713	1,117,660	46,053
0051	Facilities maintenance and operations	<u>16,900</u>	<u>16,900</u>	<u>13,125</u>	<u>3,775</u>
6030	Total expenditures	<u>1,160,435</u>	<u>1,180,613</u>	<u>1,130,785</u>	<u>49,828</u>
1100	EXCESS (DEFICIENCY) OF				
	REVENUES OVER EXPENDITURES	<u>(52,057)</u>	<u>(67,057)</u>	<u>(66,244)</u>	<u>813</u>
1200	NET CHANGE IN FUND BALANCES	<u>(52,057)</u>	<u>(67,057)</u>	<u>(66,244)</u>	<u>813</u>
0100	FUND BALANCES, BEGINNING	<u>302,438</u>	<u>302,438</u>	<u>302,438</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 250,381</u>	<u>\$ 235,381</u>	<u>\$ 236,194</u>	<u>\$ 813</u>

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

Data Control Codes	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)	
	Original	Final			
	REVENUES				
5700	Local and intermediate sources	\$ 3,575,377	\$ 3,575,377	\$ 3,778,980	\$ 203,603
5020	Total revenues	<u>3,575,377</u>	<u>3,575,377</u>	<u>3,778,980</u>	<u>203,603</u>
	EXPENDITURES				
	Debt service:				
0071	Principal on long-term deb	2,940,000	2,940,000	2,940,000	-
0072	Interest on long-term deb	635,090	635,090	635,090	-
0073	Bond issuance costs and fees	<u>3,000</u>	<u>3,000</u>	<u>600</u>	<u>2,400</u>
6030	Total expenditures	<u>3,578,090</u>	<u>3,578,090</u>	<u>3,575,690</u>	<u>2,400</u>
1100	EXCESS (DEFICIENCY) OF				
	REVENUES OVER EXPENDITURES	<u>(2,713)</u>	<u>(2,713)</u>	<u>203,290</u>	<u>206,003</u>
	OTHER FINANCING SOURCES (USES)				
8949	Other uses - refund to taxpayers	<u>-</u>	<u>-</u>	<u>(36,204)</u>	<u>(36,204)</u>
7080	Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(36,204)</u>	<u>(36,204)</u>
1200	NET CHANGE IN FUND BALANCES	<u>(2,713)</u>	<u>(2,713)</u>	<u>167,086</u>	<u>169,799</u>
0100	FUND BALANCES, BEGINNING	<u>906,641</u>	<u>906,641</u>	<u>906,641</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 903,928</u>	<u>\$ 903,928</u>	<u>\$ 1,073,727</u>	<u>\$ 169,799</u>

FEDERAL AWARDS SECTION



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

Board of Trustees
Llano Independent School District
Llano, Texas

We 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, each major fund, and the aggregate remaining fund information of Llano Independent School District, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise Llano Independent School District's basic financial statements, and have issued our report thereon dated January 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Llano Independent School 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Llano Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Llano Independent School 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Waco, Texas
January 13, 2014



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Board of Trustees
Llano Independent School District
Llano, Texas

Report on Compliance for Each Major Federal Program

We have audited Llano Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2013. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas
January 13, 2014

**LLANO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2013**

(1) Federal Grantor/ Pass-through Grantor/ Grantor/Program Title	(2) Federal CFDA Number	(2A) Pass-through Entity Identifying Number	(3) Federal Expenditures
U. S. DEPARTMENT OF AGRICULTURE			
<u>Passed through the Texas Education Agency</u>			
School Breakfast Program	10.553	71401201	\$ 15,681
School Breakfast Program	10.553	71401301	140,964
National School Lunch Program	10.555	71301201	50,016
National School Lunch Program	10.555	71301301	414,720
Total Passed through the Texas Education Agency			<u>621,381</u>
<u>Passed through the Texas Department of Agriculture</u>			
Commodities - Non-cash assistance	10.555	150001A	46,178
Total Passed through the Texas Department of Agriculture			<u>46,178</u>
Total Child Nutrition Cluster			<u>667,559</u>
<u>Direct Programs</u>			
Healthier US School Challenge	10.574	NA	4,000
Total Direct Programs			<u>4,000</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE			<u>671,559</u>
U. S. DEPARTMENT OF EDUCATION			
<u>Passed through the Texas Education Agency</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	12610101150901	18,617
ESEA, Title I, Part A - Improving Basic Programs	84.010A	13610101150901	489,845
ESEA, Title I, Part A - Improving Basic Programs	84.010A	14610101150901	25,702
Total Title I, Part A Cluster			<u>534,164</u>
IDEA - Part B, Formula	84.027A	126600011509016600	4,869
IDEA - Part B, Formula	84.027A	136600011509016600	389,997
IDEA - Part B, Formula	84.027A	146600011509016600	21,128
IDEA - Part B, Discretionary	84.027A	136600021509016677	96,796
IDEA - Part B, Preschool	84.173A	136610011509016610	9,949
IDEA - Part B, Preschool	84.173A	146610011509016610	605
Total Special Education Cluster (IDEA)			<u>523,344</u>
Carl Perkins Basic Grant Formula	84.048A	13420006150901	28,050

(continued)

**LLANO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2013**

(1) Federal Grantor/ Pass-through Grantor/ Grantor/Program Title	(2) Federal CFDA Number	(2A) Pass-through Entity Identifying Number	(3) Federal Expenditures
U. S. DEPARTMENT OF EDUCATION (Continued)			
<u>Passed through the Texas Education Agency (Continued)</u>			
ESEA Title VI - Part B, Subpart 2, Rural & Low Income School Program	84.358B	13696001150901	\$ <u>34,440</u>
ESEA, Title II, Part A - Teacher/Principal Training	84.367A	13694501150901	69,333
ESEA, Title II, Part A - Teacher/Principal Training	84.367A	14694501150901	<u>4,252</u>
Total ESEA, Title II, Part A - Teacher/Principal Training			<u>73,585</u>
Total Passed through the Texas Education Agency			<u>1,193,583</u>
<u>Passed through Region XIII</u>			
ESEA Title III - Part A, Subpart 1, English Language Acquisition and Language Enhancement	84.365A	11671001227950	500
English Language Acquisition and Language Enhancement	84.365A	12671001227950	716
English Language Acquisition and Language Enhancement	84.365A	13671001227950	<u>698</u>
Total Passed through Region XIII			<u>1,914</u>
TOTAL U. S. DEPARTMENT OF EDUCATION			<u>1,195,497</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u><u>1,867,056</u></u>

LLANO INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS

AUGUST 31, 2013

1. GENERAL

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

2. BASIS OF ACCOUNTING

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

3. The following is the reconciliation of federal revenues and the Schedule of Expenditures of Federal Awards for the year ended August 31, 2013:

Federal revenues per the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds (Exhibit C-3)	\$ 1,933,788
Less:	
E-rate reimbursements	<u>66,732</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	\$ <u><u>1,867,056</u></u>

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

Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

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

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

Identification of major programs:

CFDA Numbers: 84.010	Name of federal program or cluster: Title I, Part A Cluster
-------------------------	--

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

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

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

None

Findings and Questioned Costs for Federal Awards

None

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

None