

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

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FOR THE YEAR ENDED AUGUST 31, 2011**

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**CERTIFICATE OF BOARD**


Silsbee Independent School District  
Name of School District

Hardin  
County

100-904  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one)  approved  disapproved for the year ended August 31, 2011, at a meeting of the Board of Trustees of such school district on the 1<sup>st</sup> day of January, 2012.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

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

Harold C. Graves, CPA  
J. Pat O'Neill, III, CPA

Wathen,  
DeShong  
& Juncker,  
L.L.P.  
Certified Public Accountants

Michael W. Kiefer, CPA, CFE, CFF  
Troy W. Domingue, CPA  
Stanley "Chip" Majors, Jr., CPA.CITP

January 3, 2012

**INDEPENDENT AUDITOR'S REPORT**

UNQUALIFIED OPINIONS ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY  
REQUIRED SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY INFORMATION  
INCLUDING THE SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Trustees  
Silsbee Independent School District  
Silsbee, Texas 77656

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Silsbee Independent School District (the District), as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administration. Our responsibility is to express opinions on these financial statements based on our audit.

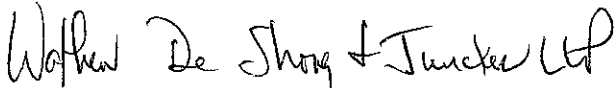
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 4 through 10 and page 37 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the TEA required schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards and the TEA required schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**WATHEN, DeSHONG & JUNCKER, L.L.P.**  
Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Silsbee Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2011. Please read it in conjunction with the District's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The District's total combined net assets were \$13,314,421 at August 31, 2011.
- During the year, the District's expenses were \$255,407 less than the \$30,421,419 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs was \$30,166,012.
- The General Fund reported a fund balance this year of \$4,874,244.
- 2010 F.I.R.S.T. Rating – Superior Achievement.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements themselves.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

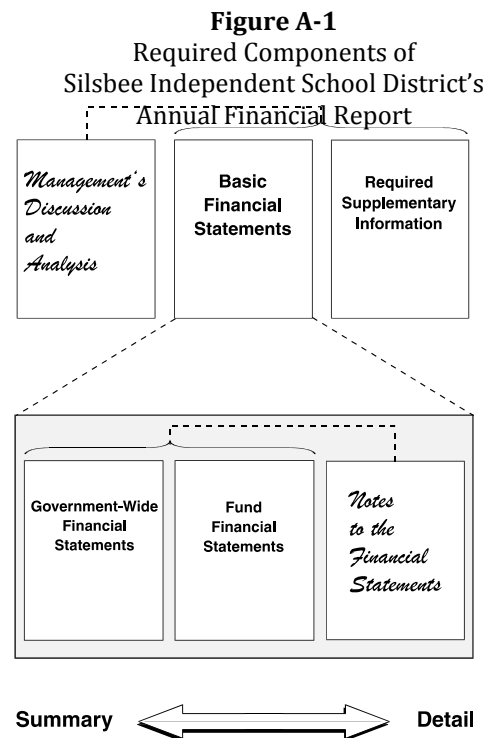


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of Management’s Discussion and Analysis explains the structure and contents of each of the statements.

**Figure A-2. Major Features of the District’s Government-wide and Fund Financial Statements**

Type of Statements	Government-wide	Fund Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District's government (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary	Instances in which the District is the trustee or agent for someone else's resources
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures & changes in fund balance	Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both short-term and long-term, the District's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

**Government-wide Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes *all* of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District’s *net assets* and how they have changed. Net assets – the difference between the District’s assets and liabilities – is one way to measure the District’s financial health or *position*.

- Over time, increases or decreases in the District’s net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District’s tax base.
- As of the 2011-12 fall PEIMS submission, the District employed 376 full-time positions, of which 247 were classroom teaching and paraprofessional positions. Total student enrollment was 2,820, with 2,809 being in membership. The District’s student population consisted of 27.9% minority students, 12.3% special education students, and 56.3% economically disadvantaged students.
- As of August 31, 2011, student enrollment was 2,735.5. With a declining student population, the District must continuously monitor its financial position, specifically in the areas of staffing and state revenue. While the District was implementing a plan to reduce staffing levels through attrition, due to an unanticipated reduction in State funding for the 2011-12 school year, the district had to take more immediate measures to reduce staffing levels. Thirteen professional positions were eliminated through a Resignation/Retirement Incentive program. Seven probationary teaching positions were eliminated through non-renewal of contracts or resignations and twenty classroom paraprofessional positions were reduced either by resignation or termination. Twenty-nine cafeteria and thirty-four custodial positions were reduced from the District payroll by outsourcing these services to a third party company.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District’s basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. Property taxes and grants finance most of these activities.

## Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net assets.** The District's *combined* net assets were \$13,314,421 at August 31, 2011. (See Table A-1).

**Table A-1**  
**The District's Net Assets**

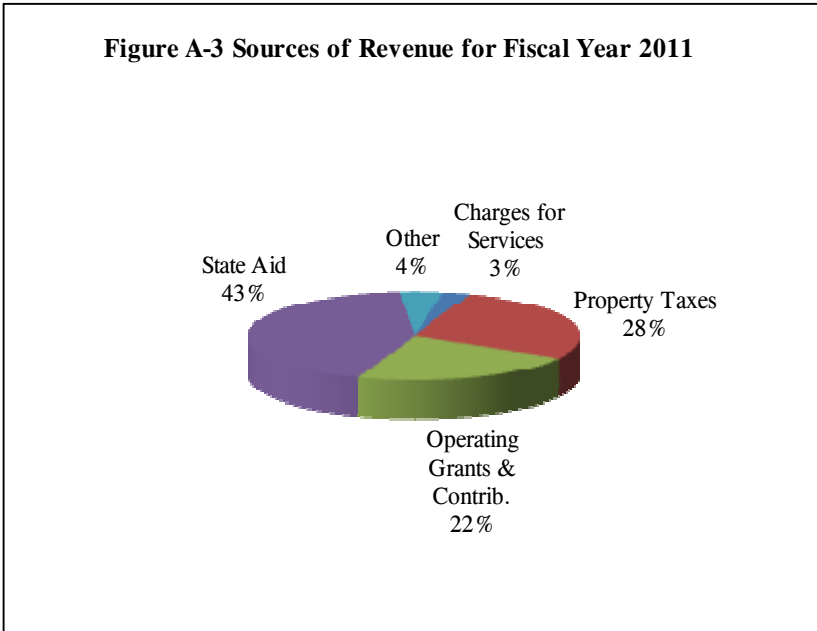
	Governmental Activities		Percentage Change
	2011	2010	
Current and Other Assets	\$ 8,242,544	\$ 8,520,279	-3.3%
Capital and Non-Current Assets	21,330,557	22,377,352	-4.7%
Total Assets	29,573,101	30,897,631	-4.3%
Current Liabilities	2,677,611	2,601,342	2.9%
Long Term Liabilities	13,581,069	15,018,286	-9.6%
Total Liabilities	16,258,680	17,619,628	-7.7%
Net Assets:			
Invested in Capital Assets	6,373,438	6,102,187	4.4%
Restricted	723,946	798,146	-9.3%
Unrestricted	6,217,037	6,377,670	-2.5%
Total Net Assets	\$ 13,314,421	\$ 13,278,003	0.3%

The District's restricted net assets consist of \$670,009 for debt service, \$27,415 for capital projects, and \$26,522 for other purposes.



**Changes in net assets.** The District's total revenues were \$30,421,419. A significant portion, 28%, of the District's revenue comes from taxes. (See Figure A-3). 43% comes from state aid – formula grants, while only 3% relates to charges for services.

The total cost of all programs and services was \$30,166,012; 69.2% of these costs are for instructional and student services.



**Governmental Activities**

Property tax rates remained at \$1.3178 per \$100 valuation. Of the \$1.3178, \$1.17 is the Maintenance and Operations Rate, with \$0.1478 being the Interest and Sinking Rate. The total taxes levied decreased by \$201,429 due to a decrease in the appraised value. By State Law, the maximum Maintenance and Operations Tax Rate allowable without a Rollback Election is \$1.04. Silsbee Independent School District held a successful Rollback Election in November, 2007, authorizing the District to levy an additional \$0.13 above the \$1.04 limit, resulting in a Maintenance and Operations Rate of \$1.17.

Average daily attendance decreased by 35 students from 2009/2010 to 2010/2011.

**Table A-2  
Changes in the District's Net Assets**

	Governmental Activities		Total % Change
	2011	2010	
<b>Revenues:</b>			
<u>Program Revenues</u>			
Charges for Services	\$ 798,915	\$ 870,170	-8.2%
Operating Grants and Contributions	6,746,134	5,896,159	14.4%
<u>General Revenues</u>			
Property Taxes	8,490,118	8,471,795	0.2%
Investment Earnings	8,856	14,258	-37.9%
State Aid - formula	13,087,825	12,669,574	3.3%
Other	1,289,571	650,299	98.3%
<b>Total Revenues</b>	<u>30,421,419</u>	<u>28,572,255</u>	6.5%
<b>Expenses:</b>			
Instruction and instructional related	15,824,329	16,596,080	-4.7%
Instructional leadership/school administration	2,139,432	2,127,564	0.6%
Guidance, social work, health, transportation	2,233,559	1,989,778	12.3%
Food services	1,374,354	1,437,268	-4.4%
Extracurricular activities	1,456,426	1,360,792	7.0%
General Administration	1,069,381	1,199,621	-10.9%
Plant maintenance and security	4,292,036	4,314,662	-0.5%
Data processing services	465,255	431,808	7.7%
Community Services	709,658	8,220	8533.3%
Debt Service	601,582	642,253	-6.3%
<b>Total Expenses</b>	<u>30,166,012</u>	<u>30,108,046</u>	0.2%
Change in Net Assets	255,407	(1,535,791)	-116.6%
Beginning Net Assets	13,278,003	14,813,794	-10.4%
Prior Period Adjustment	(218,989)	-	n/a
<b>Ending Net Assets</b>	<u>\$ 13,314,421</u>	<u>\$ 13,278,003</u>	0.3%

Table A-3 presents cost of each of the District's largest functions as well as each function's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$30,166,012.
- The amount that our taxpayers paid for these activities through property taxes was \$8,490,118.
- Some of the cost was paid by those who directly benefited from the programs \$798,915, or
- By grants and contributions \$6,746,134.

**Table A-3  
Net Cost of Selected District Functions**

	Total Cost of Services		%	Net Cost of Services		%
	2011	2010		2011	2010	
Instruction	\$ 15,000,590	\$ 15,864,296	-5.4%	\$ 12,126,746	\$ 12,594,649	-3.7%
School Leadership	1,717,295	1,625,132	5.7%	1,307,680	1,266,870	3.2%
Student Transportation	930,690	845,075	10.1%	538,245	601,342	-10.5%
Food Services	1,374,354	1,437,268	-4.4%	61,632	97,039	-36.5%
Extracurricular Activities	1,456,426	1,360,792	7.0%	1,095,701	1,032,286	6.1%
General Administration	1,069,381	1,199,621	-10.9%	1,035,111	1,169,140	-11.5%
Plant Maintenance and Operations	4,070,069	4,122,215	-1.3%	3,962,773	3,989,542	-0.7%
Interest on Long-term Debt	562,322	519,628	8.2%	562,322	519,628	8.2%

#### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$30,391,236, an increase of 6.5% from the preceding year. Local revenues increased by \$405,630 due primarily to increases in contributions, bus grant and insurance proceeds. State revenues increased by \$428,202 due primarily to an increase in Available School Fund allotment. Federal revenues increased by \$1,019,935 due primarily to an increase in Federal Revenues distributed by TEA.

#### General Fund Budgetary Highlights

- The District had multiple revisions to its budget during the fiscal year. Actual expenditures were \$1,720,059 below final budget amounts. The most significant variances were Facilities Maintenance and Operations under budget \$586,383 and Instruction under budget \$390,741. Actual revenues were \$759,602 below budgeted amounts due primarily to local and state revenue budgeted amounts.
- The District has made significant effort over the past several years to bring the General Fund budgeted expenditures in line with supporting revenues. In order to maintain this balance, the District must continuously monitor its General Fund revenues and expenditures, revenues and expenditures in specific program areas, and District staffing levels. In January, 2011, Districts were notified of a budget shortfall at the State level which would result in reduced funding for individual school districts. As a result, Silsbee ISD's General Operating budget was reduced by a total of 6.8% for the 2011-12 school year. Non-payroll budget accounts were reduced by 15% across the board.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2011, the District had invested \$41.9 million in capital assets, including land, equipment, buildings and vehicles. (See Table A-4). This amount represents a net increase (including additions and adjustments) of \$467,395 or 1.1% percent over last year.

**Table A-4  
District's Capital Assets**

	Governmental Activities		% Change
	2011	2010	
Land	\$ 643,812	\$ 643,811	0.0%
Buildings and Improvements	35,960,747	35,998,406	-0.1%
Furniture and Equipment	5,315,030	4,809,977	10.5%
Totals at Historical Cost	41,919,589	41,452,194	1.1%
Total Accumulated Depreciation	(20,602,462)	(19,088,272)	7.9%
Net Capital Assets	<u>\$ 21,317,127</u>	<u>\$ 22,363,922</u>	-4.7%

### Long-Term Debt

At the end of 2011, the District had \$14.9 million in bonds outstanding as shown in Table A-5. The District's bonds presently carry a Moody's Investors Services rating of "Aaa" on its Permanent School Fund (PSF) guaranteed obligations and "Aa3" on its insured obligations. The District's underlying rating is "A1".

**Table A-5  
Long-Term Debt**

	Governmental Activities		% Change
	2011	2010	
Bonds payable	\$ 14,634,138	\$ 15,494,134	-5.6%
Premium -			
Capital appreciation bonds	87,130	291,950	-70.2%
Accretion of discount			
Capital appreciation bonds	264,667	339,264	-22.0%
Less unamortized discount	(161,771)	(176,763)	-8.5%
Software debt	119,525	313,150	n/a
Total long-term debt	<u>\$ 14,943,689</u>	<u>\$ 16,261,735</u>	-8.1%

More detailed information about the District's debt is presented in the Notes to the Financial Statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- Certified appraised value used for the 2012 budget preparation will decrease \$13,685,217, or 2% from 2011.
- General operating fund spending per student, exclusive of a major renovation program, decreases in the 2012 budget from \$8,497 to \$8,320. This is a 2.08% decrease from the preceding year.
- The District's 2012 refined average daily attendance is expected to be 2,668, which is the same level of average daily attendance attained in 2011.

These indicators were taken into account when adopting the General Fund budget for 2012. Amounts available for appropriation in the General Fund budget, exclusive of a major renovation program, are \$22.1 million, a decrease of \$662,000 from the final 2011 actual revenue of \$22.8 million.

Operating expenditures are budgeted at \$21.9 million, a decrease of 3.52% from the final 2011 actual expenditures of \$22.7 million.

If these estimates are realized, the District's budgetary undesignated General Fund fund balance is expected to increase \$184,000 at the close of 2012.

The District has committed \$810,037 for major deferred maintenance and renovation programs for the fiscal year ended August 31, 2011. This program consists of a variety of district-wide and campus-specific projects including facility improvements and equipment replacements and technology enhancements.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, parents and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Department.

## **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 675,941
1120 Current Investments	4,112,844
1220 Property Taxes Receivable (Delinquent)	1,616,244
1230 Allowance for Uncollectible Taxes	(404,061)
1240 Due from Other Governments	1,935,864
1290 Other Receivables, net	41,470
1300 Inventories	47,888
1410 Deferred Expenses	3,395
1420 Capitalized Bond and Other Debt Issuance Costs	212,959
Capital Assets:	
1510 Land	643,812
1520 Buildings, Net	18,681,420
1530 Furniture and Equipment, Net	1,991,895
1800 Restricted Assets	13,430
1000 Total Assets	29,573,101
<b>LIABILITIES</b>	
2110 Accounts Payable	351,953
2160 Accrued Wages Payable	814,173
2180 Due to Other Governments	285
2200 Accrued Expenses	4,329
2300 Deferred Revenues	130,821
2400 Payable from Restricted Assets	13,430
Noncurrent Liabilities	
2501 Due Within One Year	1,362,620
2502 Due in More Than One Year	13,581,069
2000 Total Liabilities	16,258,680
<b>NET ASSETS</b>	
3200 Invested in Capital Assets, Net of Related Debt	6,373,438
3850 Restricted for Debt Service	670,009
3860 Restricted for Capital Projects	27,415
3890 Restricted for Other Purposes	26,522
3900 Unrestricted Net Assets	6,217,037
3000 Total Net Assets	\$ 13,314,421

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	3 Charges for Services	4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets  Primary Gov. Governmental Activities
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
11 Instruction	\$ 15,000,590	\$ -	\$ 2,873,844	\$ (12,126,746)
12 Instructional Resources and Media Services	530,664	-	275,182	(255,482)
13 Curriculum and Staff Development	293,075	-	163,672	(129,403)
21 Instructional Leadership	422,137	-	50,596	(371,541)
23 School Leadership	1,717,295	-	409,615	(1,307,680)
31 Guidance, Counseling and Evaluation Services	919,033	-	601,128	(317,905)
32 Social Work Services	3,981	-	-	(3,981)
33 Health Services	379,855	-	289,513	(90,342)
34 Student (Pupil) Transportation	930,690	-	392,445	(538,245)
35 Food Services	1,374,354	451,892	860,830	(61,632)
36 Extracurricular Activities	1,456,426	327,460	33,265	(1,095,701)
41 General Administration	1,069,381	-	34,270	(1,035,111)
51 Plant Maintenance and Operations	4,070,069	19,563	87,733	(3,962,773)
52 Security and Monitoring Services	221,967	-	77	(221,890)
53 Data Processing Services	465,255	-	17,912	(447,343)
61 Community Services	709,658	-	656,052	(53,606)
72 Debt Service - Interest on Long Term Debt	562,322	-	-	(562,322)
73 Debt Service - Bond Issuance Cost and Fees	39,260	-	-	(39,260)
<b>[TP] TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 30,166,012</b>	<b>\$ 798,915</b>	<b>\$ 6,746,134</b>	<b>(22,620,963)</b>
Data Control Codes	General Revenues:			
MT	Property Taxes, Levied for General Purposes			7,511,282
DT	Property Taxes, Levied for Debt Service			978,836
SF	State Aid - Formula Grants			13,087,825
GC	Grants and Contributions not Restricted			391,512
IE	Investment Earnings			8,856
MI	Miscellaneous Local and Intermediate Revenue			898,059
TR	<b>Total General Revenues</b>			<b>22,876,370</b>
CN	Change in Net Assets			255,407
NB	Net Assets--Beginning			13,278,003
PA	Prior Period Adjustment			(218,989)
NE	<b>Net Assets--Ending</b>			<b>\$ 13,314,421</b>

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



**GOVERNMENTAL FUND FINANCIAL STATEMENTS**

SILSBEE INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2011

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 1,527,427	\$ (851,486)	\$ 675,941
1120 Investments - Current	3,500,643	612,201	4,112,844
1220 Property Taxes - Delinquent	1,449,816	166,428	1,616,244
1230 Allowance for Uncollectible Taxes (Credit)	(362,454)	(41,607)	(404,061)
1240 Receivables from Other Governments	942,806	993,058	1,935,864
1260 Due from Other Funds	28,434	5,176	33,610
1290 Other Receivables	35,319	6,151	41,470
1300 Inventories	37,685	10,203	47,888
1410 Deferred Expenditures	3,395	-	3,395
1800 Restricted Assets	-	13,430	13,430
1000 Total Assets	<u>\$ 7,163,071</u>	<u>\$ 913,554</u>	<u>\$ 8,076,625</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
2110 Accounts Payable	\$ 276,487	\$ 75,466	\$ 351,953
2160 Accrued Wages Payable	808,870	5,303	814,173
2170 Due to Other Funds	2,657	30,953	33,610
2180 Due to Other Governments	-	285	285
2200 Accrued Expenditures	4,329	-	4,329
2300 Deferred Revenues	1,196,484	146,520	1,343,004
2400 Payable from Restricted Assets	-	13,430	13,430
2000 Total Liabilities	<u>2,288,827</u>	<u>271,957</u>	<u>2,560,784</u>
Fund Balances:			
Nonspendable Fund Balance:			
3410 Inventories	37,685	6,050	43,735
Restricted Fund Balance:			
3470 Capital Acquisition and Contractual Obligation	-	27,415	27,415
3480 Retirement of Long-Term Debt	-	545,188	545,188
3490 Other Restricted Fund Balance	26,522	-	26,522
Committed Fund Balance:			
3510 Construction	810,037	-	810,037
3545 Other Committed Fund Balance	-	102,362	102,362
3600 Unassigned Fund Balance	4,000,000	(39,418)	3,960,582
3000 Total Fund Balances	<u>4,874,244</u>	<u>641,597</u>	<u>5,515,841</u>
4000 Total Liabilities and Fund Balances	<u>\$ 7,163,071</u>	<u>\$ 913,554</u>	<u>\$ 8,076,625</u>

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

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

EXHIBIT C-2

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<b>Total Fund Balances - Governmental Funds</b>	\$ 5,515,841
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	21,317,127
2 Property taxes receivable are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,212,183
3 Bonds are not due and payable in the current period and, therefore, are not reported in the funds.	(15,105,460)
4 Deferred debt issuance costs were previously reported as reductions of other sources in the funds.	212,959
5 Discount on issuance of debt reported as reductions of other sources in the funds.	161,771
<b>19 Net Assets of Governmental Activities</b>	<u>\$ 13,314,421</u>

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

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

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds	
<b>REVENUES:</b>				
5700	Total Local and Intermediate Sources	\$ 8,450,499	\$ 1,715,266	\$ 10,165,765
5800	State Program Revenues	14,195,368	758,882	14,954,250
5900	Federal Program Revenues	143,050	5,128,171	5,271,221
5020	Total Revenues	<u>22,788,917</u>	<u>7,602,319</u>	<u>30,391,236</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011	Instruction	12,173,147	2,191,483	14,364,630
0012	Instructional Resources and Media Services	222,746	258,613	481,359
0013	Curriculum and Instructional Staff Development	101,840	162,097	263,937
0021	Instructional Leadership	382,271	34,602	416,873
0023	School Leadership	1,345,218	324,065	1,669,283
0031	Guidance, Counseling and Evaluation Services	341,552	556,382	897,934
0032	Social Work Services	3,981	-	3,981
0033	Health Services	89,232	272,854	362,086
0034	Student (Pupil) Transportation	1,150,364	108,625	1,258,989
0035	Food Services	-	1,341,905	1,341,905
0036	Extracurricular Activities	1,049,249	242,980	1,292,229
0041	General Administration	1,057,518	9,457	1,066,975
0051	Facilities Maintenance and Operations	3,849,495	-	3,849,495
0052	Security and Monitoring Services	199,043	-	199,043
0053	Data Processing Services	532,883	-	532,883
0061	Community Services	-	709,658	709,658
<b>Debt Service:</b>				
0071	Principal on Long Term Debt	135,000	724,996	859,996
0072	Interest on Long Term Debt	40,345	801,394	841,739
0073	Bond Issuance Cost and Fees	1,925	1,000	2,925
6030	Total Expenditures	<u>22,675,809</u>	<u>7,740,111</u>	<u>30,415,920</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>113,108</u>	<u>(137,792)</u>	<u>(24,684)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7915	Transfers In	-	6,969	6,969
8911	Transfers Out (Use)	(6,969)	-	(6,969)
7080	Total Other Financing Sources (Uses)	<u>(6,969)</u>	<u>6,969</u>	<u>-</u>
1200	Net Change in Fund Balances	106,139	(130,823)	(24,684)
0100	Fund Balance - September 1 (Beginning)	4,987,094	772,420	5,759,514
1300	Prior Period Adjustment	(218,989)	-	(218,989)
3000	Fund Balance - August 31 (Ending)	<u>\$ 4,874,244</u>	<u>\$ 641,597</u>	<u>\$ 5,515,841</u>

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

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

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(24,684)
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation.		(1,046,795)
Capital outlays	\$ 546,240	
Depreciation expense	(1,593,035)	
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		30,183
Prior year delinquent taxes collected in year ended August 31, 2011	(\$203,449)	
Current year uncollected levy net of allowance for uncollectible portion	233,632	
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This transaction has no effect on net assets.		1,053,621
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. This amount is the net effect of these differences in the treatment of long-term debt and related items		(54,961)
Accretion of capital appreciation bonds does not require the use of current financial resources and, therefore, is not reported as expenditure in the governmental funds.		298,043
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b>255,407</b>

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

**FIDUCIARY FUND FINANCIAL STATEMENTS**

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

EXHIBIT E-1

	Private Purpose Trust Funds	Agency Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 22,672	\$ 146,025
Restricted Assets	285,080	-
Total Assets	307,752	\$ 146,025
<b>LIABILITIES</b>		
Due to Student Groups	-	\$ 146,025
Total Liabilities	-	\$ 146,025
<b>NET ASSETS</b>		
Unrestricted Net Assets	307,752	
Total Net Assets	\$ 307,752	

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

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

EXHIBIT E-2

	Private Purpose Trust Funds
<hr/>	
ADDITIONS:	
Local and Intermediate Sources	\$ 77,705
Total Additions	<u>77,705</u>
DEDUCTIONS:	
Professional and Contracted Services	55,959
Total Deductions	<u>55,959</u>
Change in Net Assets	21,746
Total Net Assets - September 1 (Beginning)	<u>286,006</u>
Total Net Assets - August 31 (Ending)	<u><u>\$ 307,752</u></u>

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



**NOTES TO THE FINANCIAL STATEMENTS**

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of Silsbee Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FASRG). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**A. REPORTING ENTITY**

The Board of Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14 "The Financial Reporting Entity" and there are no component units included within this reporting entity.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges for services such as food service or extracurricular activities and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

**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*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

SILSBEE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT  
PRESENTATION (CONTINUED)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grant revenues and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental fund:

The **General Fund** is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board to implement its responsibilities.

Additionally, the District reports the following Fiduciary Fund types:

**Fiduciary Funds** are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

**Private-Purpose Trust Funds:** These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments not reported in other fiduciary fund types. The District's private-purpose trust funds represent scholarship funds being held in trust for students.

**Agency Funds:** These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Districts also have the *option* of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

SILSBEE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as *program revenues* include 1) charges for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed (first committed, then unassigned resources).

In accordance with the FASRG, the District has adopted and installed an accounting system, which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Accounting Code Section of the FASRG. Mandatory codes are utilized in the form provided in that section

**D. ASSETS, LIABILITIES, AND NET ASSETS**

*1. Cash and cash equivalents*

The District's cash and cash equivalents are considered to be cash on hand and demand deposits.

*2. Property taxes*

Property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 25% of the outstanding property taxes at August 31, 2011.

*3. Inventories*

The consumption method is used to account for inventories of food products, school supplies and athletic equipment. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed. General Fund reported inventories are offset by a nonspendable fund balance indicating that they are unavailable as current expendable financial resources. The Food Service Special Revenue Fund commodity inventories received through the U.S. Department of Agriculture are offset with deferred revenue.

*4. Capital Assets*

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government 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.

SILSBEE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET ASSETS (CONTINUED)

4. *Capital Assets (Continued)*

Property, plant and equipment of the District is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30
Building improvements	30
Equipment	5-18
Buses	10
Vehicles	10

5. *Compensated absences*

Vacations are to be taken within the same year they are earned. Any liability would be immaterial and none has been accrued in the accompanying financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Portions of the sick leave may accumulate but do not vest. Sick leave is paid only in the form of salary continuation while on medical leave. Silsbee Independent School District does not have a policy to pay any amounts when employees separate from service. Therefore, no liability for unused sick leave has been recorded in the accompanying financial statements.

6. *Long-term obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts and bond issuance costs which are reported as deferred charges are 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 services expenditures.

7. *Fund equity*

Through Board resolution, the District has adopted a fund balance classification policy that conforms to GASB Statement No. 54. Fund balance related to inventory in the General Fund and the Special Revenue Food Service Fund is reported as nonspendable. Fund balance related to private donations for athletic and library activities is reported as Restricted. Fund balance related to assets available for construction and improvements and for retirement of long-term debt is reported as Restricted. Fund balance related to assets that the Board has set aside for specific future use is reported as Committed. The residual fund balance available for any purpose is reported as Unassigned.

At August 31, 2011, the Silsbee Independent School District General Fund reported \$810,037 as committed to construction or improvements. At August 31, 2011, the District Special Revenue Funds reported \$102,362 as committed to campus level activities. At August 31, 2011, the District Special Revenue Funds reported a deficit of \$(35,233) as unassigned in the Special Revenue Food Service Fund and a deficit of \$(4,185) as unassigned in the Early Childhood Intervention Fund.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. ASSETS, LIABILITIES, AND NET ASSETS (CONTINUED)**

*8. Use of estimates*

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

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. BUDGETARY INFORMATION**

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's FASRG module, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, the Debt Service Fund and the Food Service Special Revenue Fund. The remaining special revenue funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The budget is amended throughout the year by the Board of Trustees. Such amendments are reflected in the official minutes of the Board.

**B. REQUIRED INDIVIDUAL FUND DISCLOSURES**

For the year ended August 31, 2011, Function 23, School Leadership, and Function 32, Social Work Services, exceeded budget by immaterial amounts in the General Fund. No Food Service Special Revenue Fund functional expenditure categories or Debt Service Fund functional expenditure categories exceeded budget. At August 31, 2011, the Food Service Special Revenue Fund had a deficit fund balance position of \$(39,418).

**C. DATA CONTROL CODES**

Data control codes refer to the account code structure prescribed by the Texas Education Agency, Financial Accountability System Resource Guide.

**D. HEALTH CARE**

The District contributes to the State sponsored healthcare program \$201 per month per employee (in addition to the \$75 per month that is provided by the State of Texas). Employees, at their option, contribute for dependent coverage through payroll withholdings.

The District does not provide any post-retirement health benefits to its employees.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011**

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)**

**E. RISK MANAGEMENT AND PARTICIPATION IN RISK POOLS**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Most of these risks are protected by insurance. There were no significant reductions in coverage in the past fiscal year, and there were no settlements or significant losses exceeding insurance coverage or state and federal reimbursement awards for each of the past three fiscal years.

The District participates in the following risk pools:

During the year ended August 31, 2011, the District met its statutory workers' compensation obligations as a self-funded member in the Workers' Compensation Solutions Program (WCS). The WCS was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The WCS program is authorized by Chapter 504 of the Texas Labor Code. All districts participating in the WCS execute Interlocal Agreements that define the responsibilities of the parties. The WCS provides statutory workers' compensation benefits to its members and their injured employees.

The estimated liability for open claims is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount. The liability is the undiscounted estimate of the actuary. Changes in the balances of claims liabilities during the most recent two years are as follow:

	2011	2010
Claims liabilities (including incurred but not reported), beginning of year	\$ 80,470	\$ 7,347
Incurred claims (net of adjustment of prior year allowances)	(28,855)	111,573
Claims paid	(47,286)	(38,450)
Claims liabilities (including incurred but not reported), end of year	\$ 4,329	\$ 80,470

The WCS engages the services of an independent auditor to conduct a financial audit after the close of each plan year. The WCS Board of Directors approves this audit in March of the following year. The WCS audited financial statements are available in the WCS offices after the approval of the Board of Directors.

During the year ended August 31, 2011, 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 employee benefits program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued each month 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 Unemployment Compensation pool members.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011**

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)**

**E. RISK MANAGEMENT AND PARTICIPATION IN RISK POOLS (CONTINUED)**

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

During the year ended August 31, 2011, the District participated in the Property Casualty Alliance of Texas's (PCAT) Property Casualty Program. The 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 Casualty 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.

Based on information currently available for the year ended August 31, 2011, the District will have 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 July of the following year. The fund's audited financial statements as of August 31, 2010, are available at the PCAT offices and have been filed with the Texas Department of Insurance in Austin.

**NOTE 3. BUDGETARY LEGAL COMPLIANCE**

The Official Budget was prepared for adoption for the General Fund, Food Service Fund and Debt Service Fund prior to August 20, 2010. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the Board unless the intent is to increase the overall budget allocations. Control of appropriations by the Board is maintained within Fund Groups at the function code level and revenue object code level.

The Budget is formally adopted by the Board at a duly advertised public meeting in accordance with law prior to the expenditure of funds. The approved budget is filed with the Texas Education Agency (TEA) through the Public Education Information Management System.

Should any change in the approved budget be required, budget amendment requests are presented to the Board for consideration. Amendments are to be requested and approved before the fact and once approved are reflected in the official minutes. The Board approved the final amendment on June 30, 2011.



**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011**

**NOTE 4. DEPOSITS AND INVESTMENTS**

Under Texas state law, a bank serving as the school depository must have a bond or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance.

1. Cash Deposits: At August 31, 2011, the carrying amount of the District's cash, savings and time deposits was \$1,022,276. The bank balance was \$945,142. During 2010-2011, the District's combined deposits were fully insured by federal depository insurance or securities pledged to the District and held by the depository's agent in the District's name.
2. Investments: The District is required by Government Code Chapter 2256, The Public Funds Investment Act, 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.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending programs, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools (9) guaranteed investment contracts and (10) commercial paper.

A private purpose trust fund, the earnings of which are restricted to scholarship awards, holds publicly traded common stock donated to the District by the initiator of the scholarship fund.

3. Deposit and Investment Risks:

*Interest rate risk.* In accordance with its investing policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to one year or less.

*Credit risk.* For fiscal year 2011, the District invested in Texpool and Lone Star Investment Pool. Texpool is duly chartered and administered by the State Comptroller's Office. As of August 31, 2011, the District's investments in Texpool were rated AAAM by Standard & Poor's Investors Service. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC formerly the Texas Association of School Boards Financial Services. The District's investments in Lone Star Investment Pool were rated AAAs/s1+ by Standard & Poor's Investors Service.

*Concentration of credit risk.* The District's investment policy does not limit an investment in any one issuer. The District monitors the need to diversify investments on a regular basis.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011**

**NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)**

3. Deposit and Investment Risks (Continued):

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of August 31, 2011, District deposits at the local depository were insured and collateralized with securities held by the depository’s agent and in the District’s name.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial risk due to the fact that investments are insured or registered, or the investments are held by the District or its agent in the District’s name.

The District’s investments at August 31, 2011 are shown below:

	Maturity	Governmental Funds Fair Value	Private Purpose Trust Funds Fair Value
Lone Star Investment Pool	N/A	\$ 561,287	\$ -
TexPool	N/A	3,551,557	-
Donated Publicly Traded Common Stock	N/A	-	120,387
		\$ 4,112,844	\$ 120,387

**Investment Accounting Policy**

The District’s general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term “short-term” refers to investments which have a remaining term of one year or less at time of purchase. The term “nonparticipating” means that the investment’s value does not vary with market interest rate changes.

**Public Funds Investment Pools**

Public funds investment pools in Texas (“Pools”) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the “Act”), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011**

**NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)**

**Public Funds Investment Pools (Continued)**

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Fair values of TexPool are based on quoted market prices of the underlying assets as provided by the Fund Sponsor, The State of Texas. Fair values of Lone Star Investment Pool Liquidity Fund are based on quoted market prices of the underlying assets as provided by the Fund Sponsor, First Public, LLC. These investments are reported by the District at cost which approximates fair value. Governmental Accounting Standards Board Statement (GASB) No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" allows the reporting of these investments at cost due to short-term maturities.

**NOTE 5. PROPERTY TAXES**

Property taxes are considered available when collected within the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll on August 1, 2010, upon which the levy for the 2010-2011 fiscal year was based, was \$641,735,392. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2011, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.17 and \$.1478 per \$100 valuation, respectively, for a total of \$1.3178 per \$ 100 valuation.

Current tax collections for the year ended August 31, 2011 were 97.34% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting 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. As of August 31, 2011, property taxes receivable, net of estimated uncollectible taxes of \$362,454 and \$41,607, totaled \$1,087,362 and \$124,821 for the General and Debt Service Funds, respectively.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 6. DUE FROM OTHER GOVERNMENTS**

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

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General	\$ 942,806	\$ -	\$ 942,806
Special Revenue	2,200	989,099	991,299
Debt Service Fund	1,759	-	1,759
<b>Total</b>	<b><u>\$ 946,765</u></b>	<b><u>\$ 989,099</u></b>	<b><u>\$ 1,935,864</u></b>

**NOTE 7. CAPITAL ASSETS**

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

	<u>Balance September 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance August 31, 2011</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 643,812	\$ -	\$ -	\$ 643,812
Capital assets, being depreciated				
Buildings and Improvements	35,998,406	-	(37,659)	35,960,747
Furniture and Equipment	4,809,977	546,240	(41,187)	5,315,030
Total capital assets being depreciated	<u>40,808,383</u>	<u>546,240</u>	<u>(78,846)</u>	<u>41,275,777</u>
Less accumulated depreciation for:				
Buildings and Improvements	(16,163,923)	(1,153,063)	37,659	(17,279,327)
Furniture and Equipment	(2,924,350)	(439,972)	41,187	(3,323,135)
Total accumulated depreciation	<u>(19,088,273)</u>	<u>(1,593,035)</u>	<u>78,846</u>	<u>(20,602,462)</u>
Total capital assets being depreciated, net	<u>21,720,110</u>	<u>(1,046,795)</u>	<u>-</u>	<u>20,673,315</u>
Governmental activities capital assets, net	<u>\$ 22,363,922</u>	<u>\$ (1,046,795)</u>	<u>\$ -</u>	<u>\$ 21,317,127</u>

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011**

**NOTE 7. CAPITAL ASSETS (CONTINUED)**

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

**Governmental activities:**

11	Instruction	\$ 649,199
12	Library & Media	49,305
13	Curriculum	29,138
21	Instructional Development	5,264
23	Campus Administration	48,012
31	Counselor	21,099
33	Health Services	17,769
34	Transportation	75,334
35	Food Services	50,368
36	Athletics & Co-Curricular	241,111
41	General Administration	2,406
51	Maintenance	255,109
52	Security and Monitoring Services	22,924
53	Data Processing	125,997
		125,997

Total depreciation expense-governmental activities	\$ 1,593,035
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**NOTE 8. RETIREMENT PLAN**

**Plan Description.** Silsbee 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 legislative has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by 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](http://www.trs.state.tx.us), under the TRS Publications heading.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
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**NOTE 8. RETIREMENT PLAN (CONTINUED)**

**Funding Policy.** Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2011 - 2009, and a state contribution rate of 6.644% for the fiscal years 2011 - 2010 and 6.58% for fiscal year 2009. In certain instances the reporting district is required to make all or a portion of the state's 6.644% contribution, limited to 6.4% for the period of September through December 2009 and increased to 6.644% for the period of January 2010 through August 2011. State contributions to TRS made on behalf of the Silsbee Independent School District's employees for the years ended August 31, 2011, 2010 and 2009 were \$1,018,509, \$900,549 and \$870,855, respectively. The Silsbee Independent School District paid additional state contributions for the years ended August 31, 2011, 2010 and 2009 in the amount of \$249,699, \$259,127 and \$248,499, respectively, on the portion of the employees' salaries that exceeded the statutory minimum and on employees funded through Federal Programs.

**NOTE 9. SCHOOL DISTRICT RETIREE HEALTH PLAN**

**Plan Description.** The Silsbee Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The 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](http://www.trs.state.tx.us), by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701 or by calling 1-800-223-8778.

**Funding Policy.** Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203 and 204 establish state, active employee and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2011 - 2009. Per Texas Insurance Code, Chapter 1575, the public school contributions may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2011, 2010 and 2009, the State's contributions to TRS-Care were \$171,647, \$176,371 and \$170,115, respectively, the active member contributions were \$111,571, \$114,641 and \$110,575, respectively and the school district's contributions were \$94,407, \$97,003 and \$93,563, respectively, which equaled the required contributions each year.

**Medicare Part D On-Behalf Payments.** The Medicare Prescription Drug Act of 2003, which became effective January 1, 2006, established prescription drug coverage of 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 for Silsbee Independent School District for the years ended August 31, 2011, 2010 and 2009 were \$40,323, \$46,980 and \$41,108, respectively.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011**

**NOTE 10. LONG-TERM LIABILITIES**

The District's long-term liabilities consist of general obligation bonds, contractual obligation notes and software debt to provide funds for the construction of major capital facilities and software improvements. General obligation bonds and contractual obligation notes are direct obligations and pledge the full faith and credit of the District. The current requirements for general obligation bonds and contractual obligation notes principal and interest expenditures are accounted for in the Debt Service Fund. Debt associated with software improvements in the form of long-term accounts payable will be satisfied in the General Fund.

**Changes in long-term liabilities**

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

Series	Interest Rate Payable	Amounts Original Issue	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2000	5.30%	\$ 1,650,000	\$ 755,000	\$ -	\$ (135,000)	\$ 620,000	\$ 140,000
2008	2.5-4.0%	8,165,000	6,950,000	-	(590,000)	6,360,000	610,000
2008	4.0%	870,000	870,000	-	-	870,000	-
2008 capital appreciation							
bonds	3.20%	244,138	244,138	-	-	244,138	-
premiums		261,391	145,217	-	(58,087)	87,130	58,087
2009	2.0-4.0%	7,090,000	6,540,000	-	-	6,540,000	450,000
2009 capital appreciation							
bonds	1.60%	134,996	134,996	-	(134,996)	-	-
premiums		293,467	146,733	-	(146,733)	-	-
Total bond and contractual obligation payable - principal			15,786,084	-	(1,064,816)	14,721,268	1,258,087
Accretion of discount							
2008 capital appreciation bonds			187,954	76,713	-	264,667	-
2009 capital appreciation bonds			151,310	153,694	(305,004)	-	-
			339,264	230,407	(305,004)	264,667	-
Less 2008 unamortized discount			(99,800)		9,072	(90,728)	(9,072)
Less 2009 unamortized discount			(76,963)		5,920	(71,043)	(5,920)
			(176,763)	-	14,992	(161,771)	(14,992)
Software debt			313,150		(193,625)	119,525	119,525
Total governmental activities long-term liabilities			\$ 16,261,735	\$ 230,407	\$ (1,548,453)	\$ 14,943,689	\$ 1,362,620

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011**

**NOTE 10. LONG-TERM LIABILITIES (CONTINUED)**

Annual debt service requirements to maturity are as follows:

<u>Year Ended August 31</u>	<u>Governmental Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,258,087	\$ 511,881
2013	888,181	868,022
2014	1,270,000	459,911
2015	1,315,000	418,046
2016	1,195,000	369,641
2017 - 2021	6,630,000	1,199,338
2022 - 2023	2,165,000	118,800
	<u>\$ 14,721,268</u>	<u>\$ 3,945,639</u>

**NOTE 11. LEASE OBLIGATIONS**

**Operating Leases**

The Silsbee Independent School District is obligated under operating (non-capitalized) leases for equipment. For the year ended August 31, 2011, lease expenditures were \$172,627 from the General Fund. The following is a schedule of minimum lease payments under non-cancelable operating leases as of August 31, 2011.

<u>Year Ended August 31</u>	<u>Amount</u>
2012	\$ 164,297
2013	122,241
2014	101,803
2015	80,713
2016	22,450
	<u>\$ 491,504</u>

**Capital Leases**

The Silsbee Independent School District was not obligated under any capital leases at August 31, 2011.



**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011**

**NOTE 12. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES**

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$ 7,521,584	\$ -	\$ 949,969	\$ -	\$ 8,471,553
Food Sales	-	451,892	-	-	451,892
Insurance Proceeds	100,000	-	-	-	100,000
Investment Income	6,145	-	2,652	59	8,856
Penalties, interest and other tax related income	142,074	-	17,895	-	159,969
Co-curricular student activities	66,038	261,422	-	-	327,460
Other	614,658	31,377	-	-	646,035
<b>Total</b>	<b>\$ 8,450,499</b>	<b>\$ 744,691</b>	<b>\$ 970,516</b>	<b>\$ 59</b>	<b>\$10,165,765</b>

**NOTE 13. DEFERRED REVENUE**

Deferred revenue at year-end consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Net Tax Revenue	\$ 1,087,362	\$ -	\$ 124,821	\$ 1,212,183
Exclusive Servicing Rights Contract	96,000	-	-	96,000
Football Season Ticket Sales	13,122	-	-	13,122
National School Lunch Program	-	4,153	-	4,153
Technology Allotment	-	12,672	-	12,672
Advanced Placement Incentives	-	4,874	-	4,874
<b>Total Deferred Revenue</b>	<b>\$ 1,196,484</b>	<b>\$ 21,699</b>	<b>\$ 124,821</b>	<b>\$ 1,343,004</b>

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011**

**NOTE 14. INTERFUND RECEIVABLES AND PAYABLES**

Interfund balances at August 31, 2011, consisted of the following individual fund receivables and payables.

Fund	Receivable	Payable
General Fund:		
Special Revenue Fund	\$ -	\$ 2,657
Debt Service Fund	10,372	-
Capital Projects Fund	18,062	-
	28,434	2,657
Special Revenue Fund:		
General Fund	2,657	-
	2,657	-
Debt Service Fund:		
General Fund	-	10,372
Capital Projects Fund	-	2,519
	-	12,891
Capital Projects Fund:		
General Fund	-	18,062
Debt Service Fund	2,519	-
	2,519	18,062
Total	\$ 33,610	\$ 33,610

Balances are the result of Special Revenue Fund expenditures, property tax collection activity, and income allocations between the Capital Projects Fund and the Debt Service Fund.

**NOTE 15. GENERAL FUND INTERFUND TRANSFERS**

During the year ended August 31, 2011, the District transferred \$6,969 from the General Fund to the Special Revenue Food Service Fund to cover a September 1, 2010 deficit.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2011**

**NOTE 16. LITIGATION AND CONTINGENCIES**

The District is a party to various actual and threatened legal actions none of which is believed by the administration to have a material effect on the financial condition of the District. Accordingly, no provision for potential losses or legal expenses has been recorded in the accompanying financial statements.

The District participates in numerous state and Federal 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, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2011 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.

**NOTE 17. PRIOR PERIOD ADJUSTMENT**

Beginning equity for the fiscal year ended August 31, 2011 has been reduced by \$218,989. Receivables from other Governments as of August 31, 2010 and State Program Revenues cumulatively for the fiscal years then ended had been overstated by this amount. Income earned and receivable for August of each year is computed by State formula and was previously based on teacher contract days in August rather than student contact days.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 8,396,023	\$ 8,881,162	\$ 8,450,499	\$ (430,663)
5800	State Program Revenues	13,812,157	14,512,357	14,195,368	(316,989)
5900	Federal Program Revenues	20,000	155,000	143,050	(11,950)
5020	<b>Total Revenues</b>	<b>22,228,180</b>	<b>23,548,519</b>	<b>22,788,917</b>	<b>(759,602)</b>
<b>EXPENDITURES:</b>					
<b>Current:</b>					
0011	Instruction	12,451,455	12,563,888	12,173,147	390,741
0012	Instructional Resources and Media Services	251,025	297,526	222,746	74,780
0013	Curriculum and Instructional Staff Development	110,248	109,367	101,840	7,527
0021	Instructional Leadership	399,236	420,226	382,271	37,955
0023	School Leadership	1,308,250	1,313,449	1,345,218	(31,769)
0031	Guidance, Counseling and Evaluation Services	455,906	468,978	341,552	127,426
0032	Social Work Services	1,425	1,500	3,981	(2,481)
0033	Health Services	87,520	127,020	89,232	37,788
0034	Student (Pupil) Transportation	927,592	1,336,590	1,150,364	186,226
0036	Extracurricular Activities	927,709	1,104,610	1,049,249	55,361
0041	General Administration	1,199,340	1,246,160	1,057,518	188,642
0051	Facilities Maintenance and Operations	4,027,599	4,435,878	3,849,495	586,383
0052	Security and Monitoring Services	187,715	225,865	199,043	26,822
0053	Data Processing Services	372,327	567,466	532,883	34,583
<b>Debt Service:</b>					
0071	Principal on Long Term Debt	135,000	135,000	135,000	-
0072	Interest on Long Term Debt	40,345	40,345	40,345	-
0073	Bond Issuance Cost and Fees	4,000	2,000	1,925	75
6030	<b>Total Expenditures</b>	<b>22,886,692</b>	<b>24,395,868</b>	<b>22,675,809</b>	<b>1,720,059</b>
1100	<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(658,512)</b>	<b>(847,349)</b>	<b>113,108</b>	<b>960,457</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
8911	Transfers Out (Use)	-	(7,000)	(6,969)	31
7080	<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>(7,000)</b>	<b>(6,969)</b>	<b>31</b>
1200	<b>Net Change in Fund Balances</b>	<b>(658,512)</b>	<b>(854,349)</b>	<b>106,139</b>	<b>960,488</b>
0100	Fund Balance - September 1 (Beginning)	4,987,094	4,987,094	4,987,094	-
1300	Prior Period Adjustment	-	-	(218,989)	(218,989)
3000	<b>Fund Balance - August 31 (Ending)</b>	<b>\$ 4,328,582</b>	<b>\$ 4,132,745</b>	<b>\$ 4,874,244</b>	<b>\$ 741,499</b>

**REQUIRED TEA SCHEDULES**

SILSBEE INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED AUGUST 31, 2011

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2002 and prior years	Various	Various	\$ Various
2003	1.500000	0.12000	426,683,960
2004	1.500000	0.16710	425,025,340
2005	1.500000	0.16710	517,118,850
2006	1.500000	0.16710	505,391,600
2007	1.480000	0.18550	516,333,410
2008	1.170000	0.16740	592,097,100
2009	1.170000	0.14780	672,678,555
2010	1.170000	0.14780	657,020,640
2011 (School year under audit)	1.170000	0.14780	641,735,392
100 TOTALS			

(10) Beginning Balance 9/1/2010	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2011
\$ 512,131	\$ -	\$ 8,861	\$ 857	\$ (33,742)	\$ 468,671
66,118	-	1,480	118	(565)	63,955
77,012	-	2,233	249	(531)	73,999
85,120	-	4,778	526	(659)	79,157
99,775	-	7,437	828	(291)	91,219
121,179	-	15,190	1,904	(634)	103,451
126,427	-	21,503	3,077	(502)	101,345
167,022	-	37,318	4,714	(425)	124,565
321,215	-	104,475	13,198	(5,169)	198,373
-	8,456,789	7,308,007	923,182	85,908	311,508
<u>\$ 1,576,000</u>	<u>\$ 8,456,789</u>	<u>\$ 7,511,282</u>	<u>\$ 948,653</u>	<u>\$ 43,390</u>	<u>\$ 1,616,244</u>



SILSBEE INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2012-2013  
 GENERAL AND SPECIAL REVENUE FUNDS  
 AUGUST 31, 2011

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 208,865	\$ 280,107	\$ 35,424	\$ -	\$ 524,396
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	56,000	-	-	-	-	-	56,000
6212	Audit Services	-	-	-	33,000	-	-	33,000
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	287,422	-	-	-	-	287,422
621X	Other Professional Services	-	-	-	13,657	-	-	13,657
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	1,500	-	-	700	-	-	2,200
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	29,824	-	-	29,824
6290	Miscellaneous Contr.	-	-	-	5,061	-	-	5,061
6320	Textbooks and Reading	-	-	1,838	3,807	86	-	5,731
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	230	-	841	38,419	1,906	-	41,396
6410	Travel, Subsistence, Stipends	20,949	-	5,712	5,633	1,929	-	34,223
6420	Ins. and Bonding Costs	-	-	-	-	-	-	-
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	-	-	880	31,316	1,869	-	34,065
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 78,679	\$ 287,422	\$ 218,136	\$ 441,524	\$ 41,214	\$ -	\$ 1,066,975

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 28,888,529

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 784,382
Total Debt & Lease(6500)	(11)	177,270
Plant Maintenance (Function 51, 6100-6400)	(12)	3,755,109
Food (Function 35, 6341 and 6499)	(13)	484,148
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		441,524

SubTotal:

5,642,434

Net Allowed Direct Cost

\$ 23,246,095

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 35,960,747
Historical Cost of Building over 50 years old	(16)	\$ 1,628,810
Amount of Federal Money in Building Cost (Net of #16)	(17)	\$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	\$ 5,315,030
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 776,250
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ -

(8) NOTE A: No Function 53 expenditures are included in this report on administrative costs.

No Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

SILSBEE INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 604,300	\$ 611,800	\$ 451,892	\$ (159,908)
5800 State Program Revenues	7,263	7,438	7,413	(25)
5900 Federal Program Revenues	685,762	840,762	853,417	12,655
5020 Total Revenues	1,297,325	1,460,000	1,312,722	(147,278)
<b>EXPENDITURES:</b>				
0035 Food Services	1,487,015	1,492,015	1,341,905	150,110
6030 Total Expenditures	1,487,015	1,492,015	1,341,905	150,110
1100 Excess (Deficiency) of Revenues Over Expenditures	(189,690)	(32,015)	(29,183)	2,832
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	7,000	6,969	(31)
7080 Total Other Financing Sources (Uses)	-	7,000	6,969	(31)
1200 Net Change in Fund Balances	(189,690)	(25,015)	(22,214)	2,801
0100 Fund Balance - September 1 (Beginning)	(6,969)	(6,969)	(6,969)	-
3000 Fund Balance - August 31 (Ending)	\$ (196,659)	\$ (31,984)	\$ (29,183)	\$ 2,801

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 951,881	\$ 992,881	\$ 970,516	\$ (22,365)
5800	State Program Revenues	401,484	452,484	451,993	(491)
5020	Total Revenues	1,353,365	1,445,365	1,422,509	(22,856)
<b>EXPENDITURES:</b>					
Debt Service:					
0071	Principal on Long Term Debt	724,996	724,996	724,996	-
0072	Interest on Long Term Debt	801,394	801,394	801,394	-
0073	Bond Issuance Cost and Fees	-	1,000	1,000	-
6030	Total Expenditures	1,526,390	1,527,390	1,527,390	-
1200	Net Change in Fund Balances	(173,025)	(82,025)	(104,881)	(22,856)
0100	Fund Balance - September 1 (Beginning)	650,069	650,069	650,069	-
3000	Fund Balance - August 31 (Ending)	\$ 477,044	\$ 568,044	\$ 545,188	\$ (22,856)

**FEDERAL AWARDS SECTION**

Harold C. Graves, CPA  
J. Pat O'Neill, III, CPA

Wathen,  
DeShong  
& Juncker,  
L.L.P.  
Certified Public Accountants

Michael W. Kiefer, CPA, CFE, CFF  
Troy W. Domingue, CPA  
Stanley "Chip" Majors, Jr., CPA.CITP

January 3, 2012

**INDEPENDENT AUDITOR'S REPORT**

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

Board of Trustees  
Silsbee Independent School District  
Silsbee, Texas 77656

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Silsbee Independent School District as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of Silsbee Independent School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Silsbee Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Silsbee Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Silsbee Independent School District's internal control over financial reporting.

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

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

**Compliance And Other Matters**

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

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



**WATHEN, DeSHONG & JUNCKER, L.L.P.**  
Certified Public Accountants

Harold C. Graves, CPA  
J. Pat O'Neill, III, CPA

Wathen,  
DeShong  
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Troy W. Domingue, CPA  
Stanley "Chip" Majors, Jr., CPA.CITP

January 3, 2012

**INDEPENDENT AUDITOR'S REPORT**

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

Board of Trustees  
Silsbee Independent School District  
Silsbee, Texas 77656

Members of the Board:

**Compliance**

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Silsbee Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Silsbee Independent School District's compliance with those requirements.

In our opinion, Silsbee Independent School District complied in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011.

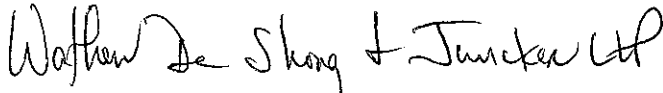
**Internal Control Over Compliance**

The management of Silsbee Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Silsbee Independent School District's internal control over compliance.

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

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

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



**WATHEN, DeSHONG & JUNCKER, L.L.P.**  
Certified Public Accountants



**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED AUGUST 31, 2011**

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued: unqualified

Internal control over financial reporting:

- Material weakness identified? \_\_\_\_\_ yes   ✓   no
- Significant deficiency identified? \_\_\_\_\_ yes   ✓   none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes   ✓   no

**Federal Awards**

Internal control over major programs:

- Material weakness identified? \_\_\_\_\_ yes   ✓   no
- Significant deficiency identified? \_\_\_\_\_ yes   ✓   none reported

Type of auditor’s report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_ yes   ✓   no

Identification of major programs:

_____ CFDA Numbers _____	_____ Name of Federal Program or Cluster _____
	Special Education Cluster
84.027A	IDEA – B, Title VI, Formula
84.173A	IDEA – B, Title VI, Preschool
84.391A	IDEA – B, Title VI, Formula, ARRA
84.010A	ESEA, Title I, Part A
84.389A	ESEA, Title I, Part A, ARRA
84.394A	State Fiscal Stabilization Fund, ARRA
	Child Nutrition Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED AUGUST 31, 2011  
(CONTINUED)**

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**Section I – Summary of Auditor’s Results (Continued)**

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<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Early Childhood Intervention
84.393	Grants for Infants and Families with Disabilities, IDEA, Part C, Title VI – ARRA
93.778	Medicaid Title XIX – Medical Assistance Program, ARRA
93.778	Medicaid Title XIX – Medical Assistance Program
84.181	Grants for Infants and Families with Disabilities, IDEA, Part C, Title VI
84.027A	Grants to States, IDEA, Part B, Title VI
93.558	Temporary Assistance for Needy Families

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

yes  no

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED AUGUST 31, 2011  
(CONTINUED)**

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**Section II – Financial Statement Findings and Responses**

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-- NONE NOTED --

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**Section III – Federal Award Findings and Responses**

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-- NONE NOTED --

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR'S FINDINGS  
YEAR ENDED AUGUST 31, 2011**

10-1 Specific Requirement - The Texas Education Agency FASRG addresses Internal Control requirements for Texas public school districts in Section 1.5. The components of internal control are listed and defined. Monitoring is one of the five listed components of internal control.

Condition - Monitoring normally includes management and supervising activities and is a by-product of managing the small to medium size government entity. Monitoring deficiencies resulted in a failure to recognize and correct multiple discrepancies between general ledger control accounts and detail subsidiary information on a timely basis.

Cause - In the Spring of 2010, the District began converting financial information from the existing information technology system to a new system. This conversion encompassed the complete financial and student accounting records of the District. The system to which the District was converting was a relatively new generation of a nationally recognized product and the service provider had not previously made such a conversion from the platform from which the District was converting.

Complications from the resultant conversion of District financial data combined with the considerable number of District personnel hours required for the conversion contributed to a lapse in the monitoring process as of and for the fiscal year ended August 31, 2010.

Management's Response - Subsequently to August 31, 2010, the District completed the financial information system conversion. Under the direction of the District's Assistant Superintendent of Finance, Ms. Kirsten Phillips, the District reinstated and expanded the monitoring process. Particular emphasis was placed on the general ledger preparation process including guidelines for timely completion of the reconciliation and posting process and the assignment of responsibility for general ledger and financial statement preparation and review functions.

In addition, subsequent to August 31, 2010, the District employed a degreed accountant to assist Ms. Phillips with the day-to-day monitoring and control of financial operations and the preparation of resultant financial reports.

## SILSBEE INDEPENDENT SCHOOL DISTRICT

EXHIBIT K-1

Page 1 of 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2011**

Federal Grantor/Pass Through Grantor/Program	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed Through State Department of Education:			
ESEA, Title I, Part A, Improving Basic Programs*	84.010A	11610101100904	\$ 823,738
ESEA, Title I, Part A, Improving Basic Programs - ARRA*	84.389A	10551101100904	128,763
IDEA - B, Title VI, Formula*	84.027A	116600011009046600	696,490
IDEA - B, Title VI, Formula - ARRA*	84.391A	10554001100904	376,918
Vocational Education - Basic Grant	84.048A	11420006100904	39,039
IDEA - B, Title VI, Preschool*	84.173A	116610011009046610	36,203
ESEA, Title II, Part A - Teacher and Principal Training	84.367A	11694501100904	188,148
ESEA, Title II, Part D - Enhancing Education Through Tech - ARRA	84.386A	10553001100904	2,690
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394A	10557001100904	97,366
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394A	11557001100904	1,260,964
Summer School Limited English Proficiency	84.369A	69551102	1,100
Total Passed Through State Department of Education			<u>3,651,419</u>
Passed Through State Department of Assistive and Rehabilitative Services:			
Special Education - Grants to States (IDEA - B, Title VI)	84.027A	53802C7052	11,520
Special Education - Grants for Infants and Families with Disabilities (IDEA - C, Title VI)	84.181	53802C7052	118,683
Special Education - Grants for Infants and Families with Disabilities (IDEA - C, Title VI) - ARRA	84.393	53802C7052	11,877
Total Passed Through State Department of Assistive and Rehabilitative Services			<u>142,080</u>
Passed Through Lamar State College - Orange			
Career and Technical - Technical Preparation	84.243	2011-012	3,646
Career and Technical - Technical Preparation	84.243	2011-023	2,619
Total Passed Through Lamar State College - Orange			<u>6,265</u>
Total U.S. Department of Education			<u>3,799,764</u>

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2011**

<u>Federal Grantor/Pass Through Grantor/Program</u>	<u>(2) Federal CFDA Number</u>	<u>(2A) Pass-Through Entity Identifying Number</u>	<u>(3) Federal Expenditures</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed Through State Department of Assistive and Rehabilitative Services:			
Medical Assistance Program (Medicaid, Title XIX)	93.778	53802C7052	\$ 108,024
Medical Assistance Program (Medicaid, Title XIX) - ARRA	93.778	53802C7052	11,506
Temporary Assistance for Needy Families (TANF)	93.558	53802C7052	<u>22,369</u>
Total Passed Through State Department of Assistive and Rehabilitative Services			<u>141,899</u>
Total U.S. Department of Health and Human Services			<u>141,899</u>
<b>U.S. DEPARTMENT OF ENERGY</b>			
Passed Through Railroad Commission of Texas			
Conservation Research and Development - ARRA	81.086	101732	<u>101,882</u>
Total U.S. Department of Energy			<u>101,882</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed Through State Department of Agriculture:			
School Breakfast Program*	10.553	71401001	171,331
National School Lunch Program*	10.555	71301001	<u>609,718</u>
Total Passed Through State Department of Agriculture			<u>781,049</u>
Passed Through State Department of Human Services:			
Commodity Supplemental Food Program	10.565	10004A	<u>72,368</u>
Total U.S. Department of Agriculture			<u>853,417</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 4,896,962</u></u>

**RECAP OF EARLY CHILDHOOD INTERVENTION**

Passed Through State Department of Assistive and Rehabilitative Services:

U.S. Department of Education	\$ 142,080
U.S. Department of Health and Human Services	141,899
State Aid	<u>131,063</u>
Total Passed Through State Department of Assistive and Rehabilitative Services	<u><u>\$ 415,042</u></u>

\* Indicates clustered program under OMB Circular A-133

The accompanying notes are an integral part of this schedule.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2011**

1. The accompanying Schedule Of Expenditures Of Federal Awards (Schedule) includes the federal grant activity of Silsbee Independent School District (the District) under programs of the Federal government for the year ended August 31, 2011. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.
2. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.
3. The District utilizes the fund types specified in the Texas Education Agency's Financial Accountability System Resource Guide.

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

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

The modified accrual basis of accounting is used for the Governmental Fund Types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

5. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date or as specified in a program regulation, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Supplement – March 2011.
6. A reconciliation of Federal Revenue reported on Exhibit C-3 to Federal Revenue reported on the Schedule of Expenditures of Federal Awards (Exhibit K-1) follows:

Federal Revenue Reported on Exhibit K-1	\$ 4,896,962
Medicaid Revenue - General Fund	143,050
Medicaid Revenue - Special Revenue Fund	<u>231,209</u>
Federal Revenue Reported on Exhibit C-3	<u><u>\$ 5,271,221</u></u>