

**SILSBEE INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

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ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2012**

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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, 2012, at a meeting of the Board of Trustees of such school district on the \_\_\_ day of December, 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

November 15, 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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's 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, 2012, 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 November 15, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 4 through 10 and page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and the TEA required schedules 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, 2012. 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 \$14,132,820 at August 31, 2012.
- During the year, the District's expenses were \$818,399 less than the \$28,035,998 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs was \$27,217,599.
- The General Fund reported a fund balance this year of \$5,712,261.
- 2011 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.

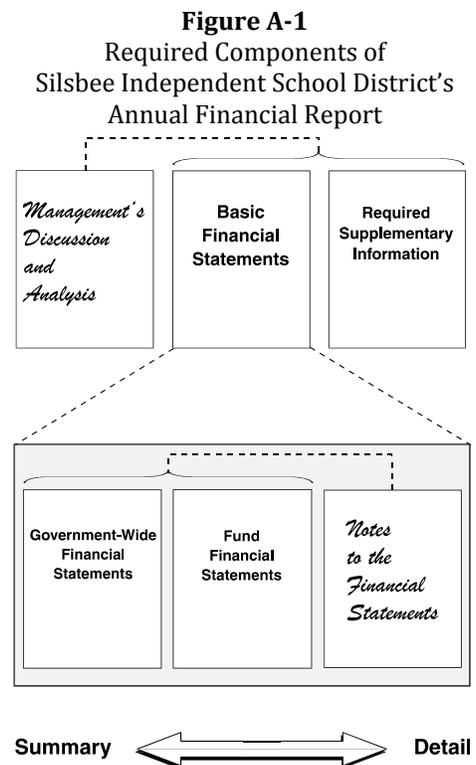


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of Management’s Discussion and Analysis explains the structure and contents of 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 2012-13 fall PEIMS submission, the District employed 378 full-time positions, of which 247 were classroom teaching and paraprofessional positions. Total student enrollment was 2,762, with 2,758 being in membership. The District’s student population consisted of 29.1% minority students, 10.3% special education students, and 56.1% economically disadvantaged students.
- As of August 31, 2012, student enrollment was 2,701.5. With a declining student population, the District must continuously monitor its financial position, specifically in the areas of staffing and state revenue.

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 \$14,132,820 at August 31, 2012. (See Table A-1).

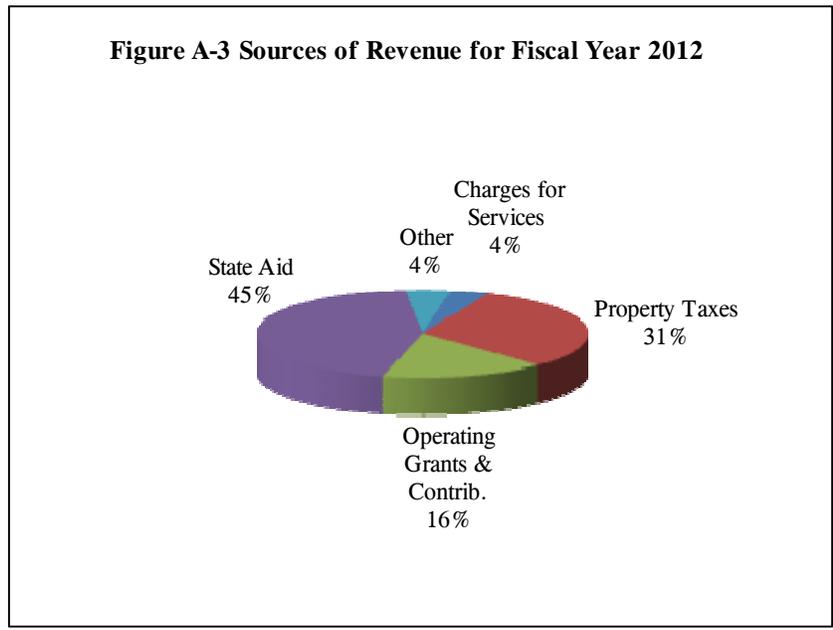
**Table A-1  
The District’s Net Assets**

	Governmental Activities		Percentage Change
	2012	2011	
Current and Other Assets	\$ 9,284,056	\$ 8,242,544	12.6%
Capital and Non-Current Assets	19,955,991	21,330,557	-6.4%
Total Assets	<u>29,240,047</u>	<u>29,573,101</u>	-1.1%
Current Liabilities	2,322,039	2,677,611	-13.3%
Long Term Liabilities	12,785,188	13,581,069	-5.9%
Total Liabilities	<u>15,107,227</u>	<u>16,258,680</u>	-7.1%
Net Assets:			
Invested in Capital Assets	6,284,185	6,373,438	-1.4%
Restricted	696,266	723,946	-3.8%
Unrestricted	<u>7,152,369</u>	<u>6,217,037</u>	15.0%
Total Net Assets	<u>\$ 14,132,820</u>	<u>\$ 13,314,421</u>	6.1%

The District’s restricted net assets consist of \$668,815 for debt service, and \$27,451 for capital projects.

**Changes in net assets.** The District's total revenues were \$28,035,998. A significant portion, 31%, of the District's revenue comes from taxes. (See Figure A-3). 45% comes from state aid – formula grants, while only 4% relates to charges for services.

The total cost of all programs and services was \$27,217,599; 71.3% 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 increased by \$324,683 due to an increase 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 48 students from 2010/2011 to 2011/2012.

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

	Governmental Activities		Total % Change
	2012	2011	
<b>Revenues:</b>			
<u>Program Revenues</u>			
Charges for Services	\$ 1,040,727	\$ 798,915	30.3%
Operating Grants and Contributions	4,464,485	6,746,134	-33.8%
<u>General Revenues</u>			
Property Taxes	8,789,216	8,490,118	3.5%
Investment Earnings	10,478	8,856	18.3%
State Aid - formula	12,493,494	13,087,825	-4.5%
Other	1,237,598	1,289,571	-4.0%
<b>Total Revenues</b>	<u>28,035,998</u>	<u>30,421,419</u>	-7.8%
<b>Expenses:</b>			
Instruction and instructional related	14,218,237	15,824,329	-10.1%
Instructional leadership/school administration	2,112,020	2,139,432	-1.3%
Guidance, social work, health, transportation	2,122,130	2,233,559	-5.0%
Food services	1,640,869	1,374,354	19.4%
Extracurricular activities	1,411,386	1,456,426	-3.1%
General Administration	915,746	1,069,381	-14.4%
Plant maintenance and security	3,707,309	4,292,036	-13.6%
Data processing services	513,727	465,255	10.4%
Community Services	7,014	709,658	-99.0%
Debt Service	569,161	601,582	-5.4%
<b>Total Expenses</b>	<u>27,217,599</u>	<u>30,166,012</u>	-9.8%
Change in Net Assets	818,399	255,407	220.4%
Beginning Net Assets	13,314,421	13,278,003	0.3%
Prior Period Adjustment	-	(218,989)	n/a
<b>Ending Net Assets</b>	<u>\$ 14,132,820</u>	<u>\$ 13,314,421</u>	6.1%

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 \$27,217,599.
- The amount that our taxpayers paid for these activities through property taxes was \$8,879,216.
- Some of the cost was paid by those who directly benefited from the programs \$1,040,727, or
- By grants and contributions \$4,464,485.

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

	Total Cost of Services		%	Net Cost of Services		%
	2012	2011		2012	2011	
Instruction	\$ 13,532,182	\$ 15,000,590	-9.8%	\$ 11,248,275	\$ 12,126,746	-7.2%
School Leadership	1,694,684	1,717,295	-1.3%	1,367,568	1,307,680	4.6%
Student Transportation	994,868	930,690	6.9%	713,127	538,245	32.5%
Food Services	1,640,869	1,374,354	19.4%	3,606	61,632	-94.1%
Extracurricular Activities	1,411,386	1,456,426	-3.1%	1,052,807	1,095,701	-3.9%
General Administration	915,746	1,069,381	-14.4%	897,327	1,035,111	-13.3%
Facilities Maintenance and Operations	3,510,374	4,070,069	-13.8%	3,454,713	3,962,773	-12.8%
Interest on Long-term Debt	531,101	562,322	-5.6%	531,101	562,322	-5.6%

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

Revenues from governmental fund types totaled \$28,008,736, a decrease of 7.9% from the preceding year. Local revenues increased by \$167,847 due primarily to increases in contributions and tax revenues. State revenues decreased by \$756,511 due primarily to a decrease in School Program Entitlements and Available School Fund Allotment. Federal revenues decreased by \$1,793,836 due primarily to a decrease 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 \$1,206,720 below final budget amounts. The most significant variances were Student Transportation under budget \$351,565, Facilities Maintenance and Operations under budget by \$238,449, and Instruction under budget \$313,765. Actual revenues were \$322,790 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.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2012, the District had invested \$42.0 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 \$94,728 or 0.2% percent over last year.

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

	Governmental Activities		% Change
	2012	2011	
Land	\$ 643,812	\$ 643,812	0.0%
Buildings and Improvements	36,069,789	35,960,747	0.3%
Furniture and Equipment	5,300,716	5,315,030	-0.3%
Totals at Historical Cost	42,014,317	41,919,589	0.2%
Total Accumulated Depreciation	(22,071,755)	(20,602,462)	7.1%
Net Capital Assets	<u>\$ 19,942,562</u>	<u>\$ 21,317,127</u>	-6.4%

**Long-Term Debt**

At the end of 2012, the District had \$13.7 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
	2012	2011	
Bonds payable	\$ 13,434,138	\$ 14,634,138	-8.2%
Premium -			
Capital appreciation bonds	29,043	87,130	-66.7%
Accretion of discount			
Capital appreciation bonds	341,975	264,667	29.2%
Less unamortized discount	(146,779)	(161,771)	-9.3%
Software debt	-	119,525	n/a
Total long-term debt	<u>\$ 13,658,377</u>	<u>\$ 14,943,689</u>	-8.6%

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 2013 budget preparation will increase \$32,992,433, or 4% from 2012.
- General operating fund spending per student, exclusive of a major renovation program, increases in the 2013 budget from \$8,143 to \$8,459. This is a 3.9% increase from the preceding year.
- The District's 2013 refined average daily attendance is expected to be 2,610, which is a slight decrease in the average daily attendance attained in 2012.

These indicators were taken into account when adopting the General Fund budget for 2013. Amounts available for appropriation in the General Fund budget, exclusive of a major renovation program, are \$22.6 million, an increase of \$398,061 from the final 2012 actual revenue of \$22.2 million.

Operating expenditures are budgeted at \$22.9 million, an increase of 7.5% from the final 2012 actual expenditures of \$21.3 million.

If these estimates are realized, the District's budgetary undesignated General Fund fund balance is expected to decrease \$333,975 at the close of 2013.

The District has committed \$1,503,261 for major deferred maintenance and renovation programs for the fiscal year ended August 31, 2012. This program consists of a variety of district-wide and campus-specific projects including facility improvements and equipment replacements, technology enhancements and the purchase of school buses.

## **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, 2012

Data Control Codes	Primary Government  Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 874,047
1120 Current Investments	5,835,039
1220 Property Taxes Receivable (Delinquent)	1,662,158
1230 Allowance for Uncollectible Taxes	(415,539)
1240 Due from Other Governments	807,530
1290 Other Receivables, net	271,215
1300 Inventories	57,990
1420 Capitalized Bond and Other Debt Issuance Costs	191,616
Capital Assets:	
1510 Land	643,812
1520 Buildings, Net	17,628,343
1530 Furniture and Equipment, Net	1,670,406
1800 Restricted Assets	13,430
1000 Total Assets	29,240,047
<b>LIABILITIES</b>	
2110 Accounts Payable	205,427
2160 Accrued Wages Payable	664,083
2300 Deferred Revenues	565,910
2400 Payable from Restricted Assets	13,430
Noncurrent Liabilities	
2501 Due Within One Year	873,189
2502 Due in More Than One Year	12,785,188
2000 Total Liabilities	15,107,227
<b>NET ASSETS</b>	
3200 Invested in Capital Assets, Net of Related Debt	6,284,185
3850 Restricted for Debt Service	668,815
3860 Restricted for Capital Projects	27,451
3900 Unrestricted Net Assets	7,152,369
3000 Total Net Assets	\$ 14,132,820

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, 2012

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
		3	4	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
11 Instruction	\$ 13,532,182	\$ -	\$ 2,283,907	\$ (11,248,275)
12 Instructional Resources and Media Services	412,190	-	13,200	(398,990)
13 Curriculum and Staff Development	273,865	-	150,255	(123,610)
21 Instructional Leadership	417,336	-	45,863	(371,473)
23 School Leadership	1,694,684	-	327,116	(1,367,568)
31 Guidance, Counseling and Evaluation Services	784,619	-	72,827	(711,792)
32 Social Work Services	43,892	-	2,578	(41,314)
33 Health Services	298,751	-	234,649	(64,102)
34 Student (Pupil) Transportation	994,868	-	281,741	(713,127)
35 Food Services	1,640,869	698,578	938,685	(3,606)
36 Extracurricular Activities	1,411,386	330,628	27,951	(1,052,807)
41 General Administration	915,746	-	18,419	(897,327)
51 Facilities Maintenance and Operations	3,510,374	11,521	44,140	(3,454,713)
52 Security and Monitoring Services	196,935	-	155	(196,780)
53 Data Processing Services	513,727	-	15,985	(497,742)
61 Community Services	7,014	-	7,014	-
72 Debt Service - Interest on Long Term Debt	531,101	-	-	(531,101)
73 Debt Service - Bond Issuance Cost and Fees	38,060	-	-	(38,060)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 27,217,599</u>	<u>\$ 1,040,727</u>	<u>\$ 4,464,485</u>	<u>(21,712,387)</u>

Data Control Codes		
	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	7,773,243
DT	Property Taxes, Levied for Debt Service	1,015,973
SF	State Aid - Formula Grants	12,493,494
GC	Grants and Contributions not Restricted	717,145
IE	Investment Earnings	10,478
MI	Miscellaneous Local and Intermediate Revenue	520,453
TR	Total General Revenues	<u>22,530,786</u>
CN	Change in Net Assets	818,399
NB	Net Assets--Beginning	13,314,421
NE	Net Assets--Ending	<u>\$ 14,132,820</u>

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, 2012

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds	
<b>ASSETS</b>				
1110	Cash and Cash Equivalents	\$ 1,189,517	\$ (315,470)	\$ 874,047
1120	Investments - Current	5,260,045	574,994	5,835,039
1220	Property Taxes - Delinquent	1,491,205	170,953	1,662,158
1230	Allowance for Uncollectible Taxes (Credit)	(372,801)	(42,738)	(415,539)
1240	Receivables from Other Governments	552,366	255,164	807,530
1290	Other Receivables	27,982	243,233	271,215
1300	Inventories	38,000	19,990	57,990
1800	Restricted Assets	-	13,430	13,430
1000	<b>Total Assets</b>	<u>\$ 8,186,314</u>	<u>\$ 919,556</u>	<u>\$ 9,105,870</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
2110	Accounts Payable	\$ 130,465	\$ 74,962	\$ 205,427
2160	Accrued Wages Payable	659,402	4,681	664,083
2300	Deferred Revenues	1,684,186	128,343	1,812,529
2400	Payable from Restricted Assets	-	13,430	13,430
2000	<b>Total Liabilities</b>	<u>2,474,053</u>	<u>221,416</u>	<u>2,695,469</u>
Fund Balances:				
Nonspendable Fund Balance:				
3410	Inventories	38,000	19,862	57,862
Restricted Fund Balance:				
3470	Capital Acquisition and Contractual Obligation	-	27,451	27,451
3480	Retirement of Long-Term Debt	-	540,600	540,600
Committed Fund Balance:				
3510	Construction	1,503,261	-	1,503,261
3530	Capital Expenditures for Equipment	171,000	-	171,000
3545	Other Committed Fund Balance	-	110,227	110,227
3600	Unassigned Fund Balance	4,000,000	-	4,000,000
3000	<b>Total Fund Balances</b>	<u>5,712,261</u>	<u>698,140</u>	<u>6,410,401</u>
4000	<b>Total Liabilities and Fund Balances</b>	<u>\$ 8,186,314</u>	<u>\$ 919,556</u>	<u>\$ 9,105,870</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, 2012

<b>Total Fund Balances - Governmental Funds</b>	\$	6,410,401
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.		19,942,561
2 Property taxes receivable are not available to pay for current period expenditures and, therefore, are deferred in the funds.		1,246,619
3 Bonds are not due and payable in the current period and, therefore, are not reported in the funds.		(13,805,156)
4 Deferred debt issuance costs were previously reported as reductions of other sources in the funds.		191,616
5 Discount on issuance of debt reported as reductions of other sources in the funds.		146,779
<b>19 Net Assets of Governmental Activities</b>	<b>\$</b>	<b>14,132,820</b>

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, 2012

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds	
REVENUES:				
5700	Total Local and Intermediate Sources	\$ 8,376,782	\$ 1,956,830	\$ 10,333,612
5800	State Program Revenues	13,396,434	801,305	14,197,739
5900	Federal Program Revenues	433,964	3,043,421	3,477,385
5020	Total Revenues	<u>22,207,180</u>	<u>5,801,556</u>	<u>28,008,736</u>
EXPENDITURES:				
Current:				
0011	Instruction	11,401,725	1,647,703	13,049,428
0012	Instructional Resources and Media Services	368,770	-	368,770
0013	Curriculum and Instructional Staff Development	95,797	148,930	244,727
0021	Instructional Leadership	382,195	29,877	412,072
0023	School Leadership	1,386,525	263,424	1,649,949
0031	Guidance, Counseling and Evaluation Services	726,361	37,159	763,520
0032	Social Work Services	43,892	-	43,892
0033	Health Services	47,838	233,144	280,982
0034	Student (Pupil) Transportation	908,681	3,367	912,048
0035	Food Services	-	1,589,221	1,589,221
0036	Extracurricular Activities	924,131	275,911	1,200,042
0041	General Administration	913,340	-	913,340
0051	Facilities Maintenance and Operations	3,282,406	-	3,282,406
0052	Security and Monitoring Services	174,012	-	174,012
0053	Data Processing Services	509,148	-	509,148
0061	Community Services	-	7,014	7,014
Debt Service:				
0071	Principal on Long Term Debt	140,000	1,060,000	1,200,000
0072	Interest on Long Term Debt	33,190	478,690	511,880
0073	Bond Issuance Cost and Fees	725	1,000	1,725
6030	Total Expenditures	<u>21,338,736</u>	<u>5,775,440</u>	<u>27,114,176</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>868,444</u>	<u>26,116</u>	<u>894,560</u>
OTHER FINANCING SOURCES (USES):				
7915	Transfers In	-	30,427	30,427
8911	Transfers Out (Use)	(30,427)	-	(30,427)
7080	Total Other Financing Sources (Uses)	<u>(30,427)</u>	<u>30,427</u>	<u>-</u>
1200	Net Change in Fund Balances	838,017	56,543	894,560
0100	Fund Balance - September 1 (Beginning)	<u>4,874,244</u>	<u>641,597</u>	<u>5,515,841</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 5,712,261</u>	<u>\$ 698,140</u>	<u>\$ 6,410,401</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, 2012

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	894,560
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.		(1,374,566)
Capital outlays	\$ 193,193	
Depreciation expense	(1,560,585)	
Loss on disposal of assets	( 7,174)	
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		34,436
Prior year delinquent taxes collected in year ended August 31, 2012	(\$194,254)	
Current year uncollected levy net of allowance for uncollectible portion	228,690	
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.		1,319,525
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		21,752
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.		(77,308)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b>818,399</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, 2012

EXHIBIT E-1

	Private Purpose Trust Funds	Agency Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 14,872	\$ 150,225
Restricted Assets	299,584	-
Total Assets	<u>314,456</u>	<u>\$ 150,225</u>
<b>LIABILITIES</b>		
Due to Student Groups	-	\$ 150,225
Total Liabilities	<u>-</u>	<u>\$ 150,225</u>
<b>NET ASSETS</b>		
Unrestricted Net Assets	<u>314,456</u>	
Total Net Assets	<u>\$ 314,456</u>	

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, 2012

	Private Purpose Trust Funds
<b>ADDITIONS:</b>	
Local and Intermediate Sources	\$ 49,832
Total Additions	<u>49,832</u>
<b>DEDUCTIONS:</b>	
Professional and Contracted Services	43,128
Total Deductions	<u>43,128</u>
Change in Net Assets	6,704
Total Net Assets - September 1 (Beginning)	<u>307,752</u>
Total Net Assets - August 31 (Ending)	<u>\$ 314,456</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, 2012**

**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, 2012

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, 2012**

**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, 2012.

*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, 2012

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 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, 2012, the Silsbee Independent School District General Fund reported \$1,503,261 as committed to construction or improvements and \$171,000 as committed to equipment. At August 31, 2012, the District Special Revenue Funds reported \$108,227 as committed to campus level activities. At August 31, 2012, the District Special Revenue Funds reported a balance of \$2,000 as committed in the Special Revenue Food Service Fund.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2012**

**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, 2012, No General Fund functional expenditure categories exceeded budget. Function 35, Food Services, exceeded budget by \$(115,897) and no Debt Service Fund functional expenditure categories exceeded budget.

**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, 2012**

**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, 2012, 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:

	2012	2011
Claims liabilities (including incurred but not reported), beginning of year	\$ 4,329	\$ 80,470
Incurred claims (net of adjustment of prior year allowances)	7,526	(28,855)
Claims paid	(11,855)	(47,286)
Claims liabilities (including incurred but not reported), end of year	\$ -	\$ 4,329

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, 2012, 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, 2012**

**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, 2011, 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, 2012, 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, 2012, 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, 2011, 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, 2011. 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 August 28, 2012.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2012**

**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, 2012, the carrying amount of the District's cash, savings and time deposits was \$1,039,144. The bank balance was \$1,487,806. During 2011-2012, 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 2012, 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, 2012, 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, 2012**

**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, 2012, 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, 2012 are shown below:

	<u>Maturity</u>	<u>Governmental Funds Fair Value</u>	<u>Private Purpose Trust Funds Fair Value</u>
Lone Star Investment Pool	N/A	\$ 550,067	\$ -
TexPool	N/A	5,284,972	-
Donated Publicly Traded Common Stock	N/A	<u>-</u>	<u>136,611</u>
		<u>\$ 5,835,039</u>	<u>\$ 136,611</u>

**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  
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**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, 2011, upon which the levy for the 2011-2012 fiscal year was based, was \$666,373,653. 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, 2012, 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, 2012 were 97.04% 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, 2012, property taxes receivable, net of estimated uncollectible taxes of \$372,801 and \$42,738, totaled \$1,118,404 and \$128,215 for the General and Debt Service Funds, respectively.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
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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, 2012, 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	\$ 515,393	\$ 36,973	\$ 552,366
Special Revenue	251,203	-	251,203
Debt Service Fund	3,961	-	3,961
<b>Total</b>	<b><u>\$ 770,557</u></b>	<b><u>\$ 36,973</u></b>	<b><u>\$ 807,530</u></b>

**NOTE 7. CAPITAL ASSETS**

Capital assets activity for the year ended August 31, 2012 was as follows:

	<u>Balance September 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance August 31, 2012</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 643,812	\$ -	\$ -	\$ 643,812
Capital assets, being depreciated				
Buildings and Improvements	36,069,789	-	-	36,069,789
Furniture and Equipment	5,205,988	193,193	(98,465)	5,300,716
Total capital assets being depreciated	<u>41,275,777</u>	<u>193,193</u>	<u>(98,465)</u>	<u>41,370,505</u>
Less accumulated depreciation for:				
Buildings and Improvements	(17,279,327)	(1,162,119)	-	(18,441,446)
Furniture and Equipment	(3,323,135)	(398,466)	91,292	(3,630,309)
Total accumulated depreciation	<u>(20,602,462)</u>	<u>(1,560,585)</u>	<u>91,292</u>	<u>(22,071,755)</u>
Total capital assets being depreciated, net	<u>20,673,315</u>	<u>(1,367,392)</u>	<u>(7,173)</u>	<u>19,298,750</u>
Governmental activities capital assets, net	<u>\$ 21,317,127</u>	<u>\$ (1,367,392)</u>	<u>\$ (7,173)</u>	<u>\$ 19,942,562</u>

SILSBEE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
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**NOTE 7. CAPITAL ASSETS (CONTINUED)**

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

**Governmental activities:**

11	Instruction	\$	640,801
12	Library & Media		43,420
13	Curriculum		29,138
21	Instructional Development		5,264
23	Campus Administration		44,735
31	Counselor		21,099
33	Health Services		17,769
34	Transportation		82,820
35	Food Services		51,648
36	Athletics & Co-Curricular		222,590
41	General Administration		2,406
51	Maintenance		251,868
52	Security and Monitoring Services		22,923
53	Data Processing		124,104

Total depreciation expense-governmental activities \$ 1,560,585

**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  
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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, 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.

Contribution rates and contributions for fiscal years 2012 – 2010 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the reporting district is required to make all or a portion of the state's and/or member's contribution and on the portion of the employees' salaries that exceeded the statutory minimum.

Contribution Rates and Contribution Amounts					
Year	Member		State		Statutory
	Rate	Amount	Rate	Amount	Minimum Amount
2012	6.400%	938,440	6.000%	834,884	161,857
2011	6.400%	1,098,540	6.644%	1,018,509	249,699
2010	6.400%	1,128,771	6.644%	900,549	259,128

**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), under the TRS Publication heading, or 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. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school.

Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for the fiscal years 2012 – 2010.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
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**NOTE 9. SCHOOL DISTRICT RETIREE HEALTH PLAN (CONTINUED)**

Contribution Rates

Year	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2012	0.65%	95,310	1.00%	146,631	0.55%	80,648
2011	0.65%	111,571	1.00%	171,647	0.55%	94,407
2010	0.65%	114,641	1.00%	176,371	0.55%	97,003

**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, 2012, 2011 and 2010 were \$32,366, \$40,323 and \$46,980, respectively.

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement for a portion of the cost of health care benefits to retirees between the ages of 55 – 64 and their covered dependents. TRS-Care participates in this program and has provided \$35,689 in on-behalf payments for Silsbee Independent School District for the year ended August 31, 2012.

During the fiscal year ended August 31, 2012 the District had no previously retired public school employees for whom the District had a TRS-Care Premium payment responsibility.

**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 are satisfied in the General Fund.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2012**

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

**Changes in long-term liabilities**

Long-term liability activity for the year ended August 31, 2012, was as follows:

<u>Series</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2000	5.30%	\$ 1,650,000	\$ 620,000	\$ -	\$ (140,000)	\$ 480,000	\$ 150,000
2008	2.5-4.0%	8,165,000	6,360,000	-	(610,000)	5,750,000	-
2008	4.0%	870,000	870,000	-	-	870,000	-
2008 capital appreciation bonds	3.20%	244,138	244,138	-	-	244,138	244,138
premiums		261,391	87,130	-	(58,087)	29,043	29,043
2009	2.0-4.0%	7,090,000	6,540,000	-	(450,000)	6,090,000	465,000
Total bond and contractual obligation payable - principal			14,721,268	-	(1,258,087)	13,463,181	888,181
Accretion of discount 2008 capital appreciation bonds			264,667	77,308	-	341,975	-
			264,667	77,308	-	341,975	-
Less 2008 unamortized discount			(90,728)	-	9,072	(81,656)	(9,072)
Less 2009 unamortized discount			(71,043)	-	5,920	(65,123)	(5,920)
			(161,771)	-	14,992	(146,779)	(14,992)
Software debt			119,525	-	(119,525)	-	-
Total governmental activities long-term liabilities			\$ 14,943,689	\$ 77,308	\$ (1,362,620)	\$ 13,658,377	\$ 873,189

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>
2013	\$ 888,181	\$ 868,022
2014	1,270,000	459,911
2015	1,315,000	418,046
2016	1,195,000	369,641
2017	1,240,000	328,691
2018 - 2022	6,870,000	957,247
2023	685,000	32,200
	<u>\$ 13,463,181</u>	<u>\$ 3,433,758</u>

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2012**

**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, 2012, lease expenditures were \$163,540 from the General Fund. The following is a schedule of minimum lease payments under non-cancelable operating leases as of August 31, 2012.

<u>Year Ended August 31</u>	<u>Amount</u>
2013	\$ 164,656
2014	159,331
2015	149,471
2016	106,930
2017	<u>23,752</u>
	<u><u>\$ 604,140</u></u>

**Capital Leases**

The Silsbee Independent School District was not obligated under any capital leases at August 31, 2012.

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

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Property Taxes	\$ 7,777,520	\$ -	\$ 982,086	\$ -	\$ 8,759,606
Food Sales	-	698,578	-	-	698,578
Investment Income	7,587	-	2,855	36	10,478
Penalties, interest and other tax related income	158,641	-	18,923	-	177,564
Co-curricular student activities	76,276	254,352	-	-	330,628
Other	<u>356,758</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>356,758</u>
Total	<u><u>\$ 8,376,782</u></u>	<u><u>\$ 952,930</u></u>	<u><u>\$ 1,003,864</u></u>	<u><u>\$ 36</u></u>	<u><u>\$10,333,612</u></u>

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
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**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	\$ 1,118,404	\$ -	\$ 128,215	\$ 1,246,619
Exclusive Servicing Rights Contract	64,000	-	-	64,000
Football Season Ticket Sales	13,122	-	-	13,122
National School Lunch Program	-	128	-	128
Overpayment of State Revenue	488,660	-	-	488,660
Total Deferred Revenue	<u>\$ 1,684,186</u>	<u>\$ 128</u>	<u>\$ 128,215</u>	<u>\$ 1,812,529</u>

**NOTE 14. GENERAL FUND INTERFUND TRANSFERS**

During the year ended August 31, 2012, the District transferred \$30,427 from the General Fund to the Special Revenue Food Service Fund to cover a September 1, 2011 deficit.

**NOTE 15. 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, 2012 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**REQUIRED SUPPLEMENTARY INFORMATION**

SILSBEE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2012

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	\$ 8,153,249	\$ 8,412,935	\$ 8,376,782	\$ (36,153)
5800	State Program Revenues	13,833,435	13,853,935	13,396,434	(457,501)
5900	Federal Program Revenues	100,000	263,100	433,964	170,864
5020	Total Revenues	22,086,684	22,529,970	22,207,180	(322,790)
<b>EXPENDITURES:</b>					
<b>Current:</b>					
0011	Instruction	11,659,805	11,715,490	11,401,725	313,765
0012	Instructional Resources and Media Services	391,906	391,364	368,770	22,594
0013	Curriculum and Instructional Staff Development	99,325	107,025	95,797	11,228
0021	Instructional Leadership	391,954	413,554	382,195	31,359
0023	School Leadership	1,317,438	1,397,820	1,386,525	11,295
0031	Guidance, Counseling and Evaluation Services	739,404	752,667	726,361	26,306
0032	Social Work Services	50,702	50,702	43,892	6,810
0033	Health Services	45,106	60,106	47,838	12,268
0034	Student (Pupil) Transportation	1,047,503	1,260,246	908,681	351,565
0036	Extracurricular Activities	928,042	989,355	924,131	65,224
0041	General Administration	990,560	985,659	913,340	72,319
0051	Facilities Maintenance and Operations	3,534,326	3,520,855	3,282,406	238,449
0052	Security and Monitoring Services	180,765	188,954	174,012	14,942
0053	Data Processing Services	352,154	536,459	509,148	27,311
<b>Debt Service:</b>					
0071	Principal on Long Term Debt	140,000	140,000	140,000	-
0072	Interest on Long Term Debt	33,200	33,200	33,190	10
0073	Bond Issuance Cost and Fees	2,000	2,000	725	1,275
6030	Total Expenditures	21,904,190	22,545,456	21,338,736	1,206,720
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	182,494	(15,486)	868,444	883,930
<b>OTHER FINANCING SOURCES (USES):</b>					
8911	Transfers Out (Use)	-	(39,100)	(30,427)	8,673
7080	Total Other Financing Sources (Uses)	-	(39,100)	(30,427)	8,673
1200	Net Change in Fund Balances	182,494	(54,586)	838,017	892,603
0100	Fund Balance - September 1 (Beginning)	4,874,244	4,874,244	4,874,244	-
3000	Fund Balance - August 31 (Ending)	\$ 5,056,738	\$ 4,819,658	\$ 5,712,261	\$ 892,603

**REQUIRED TEA SCHEDULES**

SILSBEE INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FISCAL YEAR ENDED AUGUST 31, 2012

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2003 and prior years	Various	Various	\$ Various
2004	1.500000	0.167100	425,025,340
2005	1.500000	0.167100	517,118,850
2006	1.500000	0.167100	505,391,600
2007	1.480000	0.185500	516,333,410
2008	1.170000	0.167400	592,097,100
2009	1.170000	0.147800	672,678,555
2010	1.170000	0.147800	657,020,640
2011	1.170000	0.147800	641,735,392
2012 (School year under audit)	1.170000	0.147800	666,373,653
1000 TOTALS			

(10) Beginning Balance 9/1/2011	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2012
\$ 532,626	\$ -	\$ 14,843	\$ 1,430	\$ (15,282)	\$ 501,071
73,999	-	3,035	338	(834)	69,792
79,157	-	3,117	347	(391)	75,302
91,219	-	4,784	533	(369)	85,533
103,451	-	9,082	1,138	(2,195)	91,036
101,345	-	12,045	1,723	(2,274)	85,303
124,565	-	19,902	2,514	(43)	102,106
198,373	-	41,494	5,242	(1,129)	150,508
311,508	-	98,743	12,474	(3,707)	196,584
-	8,781,472	7,566,198	955,798	45,446	304,922
<u>\$ 1,616,244</u>	<u>\$ 8,781,472</u>	<u>\$ 7,773,243</u>	<u>\$ 981,537</u>	<u>\$ 19,222</u>	<u>\$ 1,662,158</u>

SILSBEE INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2013-2014  
 GENERAL AND SPECIAL REVENUE FUNDS  
 AUGUST 31, 2012

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

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 212,283	\$ 147,961	\$ 31,766	\$ -	\$ 392,010
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	85,947	-	-	-	-	-	85,947
6212	Audit Services	-	-	-	33,500	-	-	33,500
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	296,901	-	-	-	-	296,901
6214	Lobbying	-	-	-	-	-	-	-
621X	Other Professional Services	2,410	-	-	1,242	-	-	3,652
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	1,500	-	-	400	-	-	1,900
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	5,247	-	-	22,858	-	-	28,105
6290	Miscellaneous Contr.	-	-	-	4,114	-	-	4,114
6320	Textbooks and Reading	-	-	23	4,526	-	-	4,549
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	18	-	839	20,741	748	-	22,346
6410	Travel, Subsistence, Stipends	13,651	-	6,268	3,574	1,098	-	24,591
6420	Ins. and Bonding Costs	-	-	-	-	-	-	-
6430	Election Costs	223	-	-	-	-	-	223
6490	Miscellaneous Operating	225	-	425	13,520	1,332	-	15,502
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	<b>TOTAL</b>	<b>\$ 109,221</b>	<b>\$ 296,901</b>	<b>\$ 219,838</b>	<b>\$ 252,436</b>	<b>\$ 34,944</b>	<b>\$ -</b>	<b>\$ 913,340</b>

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 25,574,485

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 396,406
Total Debt & Lease(6500)	(11)	173,915
Plant Maintenance (Function 51, 6100-6400)	(12)	3,228,539
Food (Function 35, 6341 and 6499)	(13)	(10,484)
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		252,436

SubTotal:

4,040,812

Net Allowed Direct Cost

\$ 21,533,673

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 35,960,747
Historical Cost of Building over 50 years old	(16)	\$ 1,658,972
Amount of Federal Money in Building Cost (Net of #16)	(17)	\$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	\$ 5,300,717
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 741,429
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, 2012

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	\$ 547,102	\$ 504,500	\$ 698,578	\$ 194,078
5800	State Program Revenues	7,263	15,526	8,185	(7,341)
5900	Federal Program Revenues	986,993	986,993	930,500	(56,493)
5020	Total Revenues	1,541,358	1,507,019	1,637,263	130,244
<b>EXPENDITURES:</b>					
0035	Food Services	1,393,324	1,473,324	1,589,221	(115,897)
6030	Total Expenditures	1,393,324	1,473,324	1,589,221	(115,897)
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	148,034	33,695	48,042	14,347
<b>OTHER FINANCING SOURCES (USES):</b>					
7915	Transfers In	-	39,100	30,427	(8,673)
7080	Total Other Financing Sources (Uses)	-	39,100	30,427	(8,673)
1200	Net Change in Fund Balances	148,034	72,795	78,469	5,674
0100	Fund Balance - September 1 (Beginning)	(29,183)	(29,183)	(29,183)	-
3000	Fund Balance - August 31 (Ending)	\$ 118,851	\$ 43,612	\$ 49,286	\$ 5,674

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, 2012

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 1,008,221	\$ 1,018,221	\$ 1,003,864	\$ (14,357)
5800	State Program Revenues	442,997	532,997	531,238	(1,759)
5020	Total Revenues	1,451,218	1,551,218	1,535,102	(16,116)
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	1,060,000	1,060,000	1,060,000	-
0072	Interest on Long Term Debt	478,690	478,690	478,690	-
0073	Bond Issuance Cost and Fees	500	1,000	1,000	-
6030	Total Expenditures	1,539,190	1,539,690	1,539,690	-
1200	Net Change in Fund Balances	(87,972)	11,528	(4,588)	(16,116)
0100	Fund Balance - September 1 (Beginning)	545,188	545,188	545,188	-
3000	Fund Balance - August 31 (Ending)	\$ 457,216	\$ 556,716	\$ 540,600	\$ (16,116)

**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

November 15, 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, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 15, 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

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DeShong  
& Juncker,  
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November 15, 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, 2012. 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, 2012.

**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, 2012

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Section I – Summary of Auditor’s Results

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**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
84.410A	Education Jobs Fund Program

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, 2012  
(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, 2012**

**-- NONE NOTED --**

## SILSBEE INDEPENDENT SCHOOL DISTRICT

EXHIBIT K-1

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2012**

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	12610101100904	\$ 734,541
IDEA - B, Title VI, Formula*	84.027A	126600011009046600	594,705
Vocational Education – Basic Grant	84.048A	12420006100904	35,899
IDEA - B, Title VI, Preschool*	84.173A	126610011009046610	42,885
ESEA, Title II, Part A - Teacher and Principal Training	84.367A	12694501100904	203,138
Summer School Limited English Proficiency	84.369A	69551102	1,000
Education Jobs Fund Program	84.410A	11550101100904	<u>496,568</u>
Total Passed Through State Department of Education			<u>2,108,736</u>
Total U.S. Department of Education			<u>2,108,736</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed Through State Department of Agriculture:			
School Breakfast Program*	10.553	71401201	232,199
National School Lunch Program*	10.555	71301201	<u>619,500</u>
Total Passed Through State Department of Agriculture			<u>851,699</u>
Passed Through State Department of Human Services:			
Commodity Supplemental Food Program	10.565	10004A	<u>78,801</u>
Total U.S. Department of Agriculture			<u>930,500</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 3,039,236</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, 2012**

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 – June 2012.
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	\$ 3,039,236
Medicaid Revenue - General Fund	433,964
Medicaid Revenue - Special Revenue Fund	<u>4,185</u>
Federal Revenue Reported on Exhibit C-3	<u><u>\$ 3,477,385</u></u>