

**TEXAS CITY INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

**Year Ended August 31, 2012
with Report of Independent Auditors**

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
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CERTIFICATE OF THE BOARD

Texas City Independent School District

Name of School District

Galveston

County

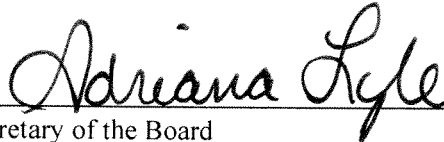
084-906

Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2012, at a meeting of the board of trustees of such school district on December 11, 2012.



President of the Board



Secretary of the Board

FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Texas City Independent School District
1700 Ninth Avenue North
Texas City, Texas 77590

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2012, and the respective changes in financial position, and cash flows, where applicable, 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 December 11, 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 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.

To the Board of Trustees
Texas City Independent School District

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 13 and 50 through 52 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 financial statements as a whole. The combining and individual nonmajor fund financial statements and required Texas Education Agency (the "TEA") schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, slightly slanted style.

Texas City, Texas
December 11, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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TEXAS CITY INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Texas City Independent School District ("District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2012.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$76,307,424 (*net assets*). Of this amount, \$43,788,668 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to students and creditors.

- The District's total net assets decreased by \$453,953.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$67,867,348, a decrease of \$8,029,570 in comparison with the prior year. The capital projects fund balance decreased \$6,758,091. The debt service fund balance increased by \$617,606. The National School Breakfast and Lunch fund balance increased by \$610,324.
- During the current fiscal year, unassigned fund balance for the general fund decreased \$1,605,421, to \$1,733,001, or 3 percent of general fund expenditures.
- The District's total bonded debt decreased by \$3,755,000 (3 percent) during the current fiscal year as the result of the issuance of new bonded debt during the fiscal year.

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 are comprised 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.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

TEXAS CITY INDEPENDENT SCHOOL DISTRICT **MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Health Services, Student Transportation, Food Services, Co-curricular/Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Bond Issuance Costs and Fees, Facilities Acquisition and Construction, and Payments to Juvenile Justice Alternative Education Programs.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains individual governmental funds for general, special revenue, debt service, and capital projects funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, National School Breakfast and Lunch fund, the debt service fund and the capital projects fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the financial statements. The District adopts an annual appropriated budget for its general fund, debt service fund, and National School Breakfast and Lunch Program special revenue fund.

Proprietary fund

The District maintains individual internal service funds for workers' compensation insurance coverage and a technology equipment replacement fund. *Internal service funds*, one type of proprietary fund, are an accounting device used to accumulate and allocate costs internally among the District's various funds and functions. Because this service benefits the governmental functions, it has been included within *governmental activities* in the government-wide financial statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The internal service fund financial statements provide separate information for the Worker's Compensation Insurance Fund and the Technology Equipment Replacement Fund.

Fiduciary fund

The fiduciary funds are used to account for resources held for the benefit of students and employees. The fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation.

Notes to financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds. The District had one major special revenue funds; therefore, the general fund and the National School Breakfast and Lunch fund is presented as required supplementary information.

Other information

The combining and individual fund statements and schedules and other supplementary information are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$76,307,424 at the close of the most recent fiscal year.

A portion of the District's net assets, \$26,908,586 reflects its investment in capital assets (e.g., capitalized bond and debt issuance costs, land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets. The District reports a deficit balance in this category due to the fact that bonds were issued in the current year; however, the assets have not been completed yet. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

As of August 31, 2012, the District's net assets included the following:

	Governmental Activities		Percentage Change
	2012	2011	
Current and other assets	\$ 84,446,721	\$ 90,636,792	-7%
Capital and non current assets	126,082,059	123,905,632	2%
Total Assets	210,528,780	214,542,424	-2%
Current liabilities	9,596,782	8,968,106	7%
Long term liabilities	124,624,574	128,812,941	-3%
Total Liabilities	134,221,356	137,781,047	-3%
Net Assets:			
Invested in capital assets net of related debt	26,908,586	29,833,928	-10%
Restricted	5,610,170	4,385,867	28%
Unrestricted	43,788,668	42,541,582	3%
Total Net Assets	\$ 76,307,424	\$ 76,761,377	-1%

Net assets are restricted for various purposes as follows:

	Governmental Activities		Percentage Change
	2012	2011	
Federal and State Grant Programs	\$	\$ 10,884	-100%
Food Service	1,515,532	905,208	67%
Debt Service	3,696,112	3,053,823	21%
Campus Activities	398,526	415,952	-4%
	\$ 5,610,170	\$ 4,385,867	28%

The remaining balance of unrestricted net assets, \$43,788,668, may be used to meet the District's ongoing obligations to students and creditors. At the end of the current fiscal year, the District reports positive balances in both restricted and unrestricted net assets, and a negative balance in invested in capital assets, net of related debt. The District's net assets decreased by \$453,953 during the current fiscal year.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Comparative Schedule of Changes in Net Assets
For the Years Ended August 31, 2012 and 2011

	Governmental Activities		Percentage Change
	2012	2011	
Revenues			
Program revenues:			
Charges for services	\$ 1,639,140	\$ 1,658,494	-1%
Operating grants	9,623,491	11,828,945	-19%
General revenues:			
Property taxes	49,417,569	47,672,655	4%
State Aid - Formula Grants	6,638,739	10,502,246	-37%
Grants and contributions not restricted		6,057	-100%
Interest earnings	99,218	118,024	-16%
Other	4,639,527	7,704,260	-40%
Total Revenues	72,057,684	79,490,681	-9%
Expenses			
Instruction	36,324,695	33,170,628	10%
Instructional resources and media services	892,216	919,734	-3%
Curriculum and staff development	667,998	626,500	7%
Instructional leadership	448,390	432,132	4%
School leadership	3,009,107	3,104,580	-3%
Guidance, counseling, and evaluation services	1,602,501	1,795,984	-11%
Social work services	133,072	143,966	-8%
Health services	466,040	523,197	-11%
Student transportation	1,111,231	1,259,704	-12%
Food service	3,064,831	3,206,958	-4%
Extracurricular activities	2,009,534	1,704,145	18%
General administration	2,242,854	2,663,810	-16%
Facilities maintenance and operations	8,427,310	8,025,255	5%
Security and monitoring services	615,585	610,221	1%
Data processing services	465,495	856,957	-46%
Community services	104,759	122,270	-14%
Interest on long-term debt	5,053,884	4,646,848	9%
Capital outlay	70,939	79,828	-11%
Contracted instructional services between schools	5,292,439	6,559,007	-19%
Payments related to shared services arrangements	106,553	119,026	-10%
Payments to Juvenile Justice Alternative Education Programs	88,680	84,800	5%
Other governmental charges	313,524	442,795	-29%
Total Expenses	72,511,637	71,098,345	2%
Excess (deficiency) before special items and transfers	(453,953)	8,392,336	-105%
Special items		(386,731)	-100%
Increase (Decrease) in Net Assets	(453,953)	8,005,605	-106%
Net assets - beginning	76,761,377	68,755,772	12%
Net assets - ending	\$ 76,307,424	\$ 76,761,377	-1%

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental activities

Governmental activities decreased the District's net assets by \$453,953. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 91 percent of total revenues. The remaining is generated from charges for services, investment earnings, and miscellaneous revenues.

	<u>Total</u> <u>Revenues</u>	<u>% of Total</u> <u>Revenues</u>
Property taxes	\$ 49,417,569	69%
State Aid - Formula Grants	6,638,739	9%
Operating grants and contributions	9,623,491	13%
Other revenue	6,377,885	9%
Total Revenues	<u><u>\$ 72,057,684</u></u>	<u><u>100%</u></u>

The primary functional expenses of the District are instruction, contracted instructional services between districts and facilities maintenance and operations, which represent 69 percent of total expenses. The remaining individual functional categories of expenses are each less than 8 percent of total expenses.

	<u>Total Expenses</u>	<u>% of Total</u> <u>Expenses</u>
Instruction	\$ 36,324,695	50%
Contracted instructional services between schools	5,292,439	7%
Facilities maintenance and operations	8,427,310	12%
Other expenses	22,467,193	31%
Total Expenses	<u><u>\$ 72,511,637</u></u>	<u><u>100%</u></u>

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$67,867,348, a decrease of \$8,029,570 in comparison with the prior year. The increase in ending governmental fund balances is primarily due to the issuance of capital project bonds, increased efficiencies in food service management, and increased revenues and decreased debt expenditures from refunded bonds in the debt service fund.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,733,001, while total fund balance reached \$34,533,658. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 3 percent of total general fund expenditures, while total fund balance represents 67 percent of that same amount. The fund balance of the District's general fund decreased by \$2,471,099 during the current fiscal year.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The National School Breakfast and Lunch fund has a total fund balance of \$1,515,532, restricted for investment in inventory and food service operations. The net increase in fund balance during the current year of \$610,324 was due to implementing more efficient processes and increases in food service revenue.

The debt service fund has a total fund balance of \$3,748,692, all of which is restricted for the payment of debt service. The net increase in the debt service fund balance during the current year of \$617,606 was attributable to higher than expected tax revenue during the year.

The capital projects fund has a fund balance of \$27,670,940, all of which is restricted for construction, repairs and renovations. The net decrease in the capital projects fund balance during the current year of \$6,758,091 was attributable to the issuance of school building bonds.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of the general fund can be briefly summarized as follows:

	<u>Budget</u>	
	<u>Original</u>	<u>Final Amended</u>
Total revenues	\$ 52,724,654	\$ 55,702,213
Total expenditures	(52,710,484)	(55,729,066)
Other financing sources (uses)	(14,170)	26,853
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>

Capital Assets and Long-term Liabilities

Capital assets

The District's investment in capital assets for its governmental type activities as of August 31, 2012, includes land, buildings and improvements, furniture and equipment, and construction in progress. The investment in capital assets for the current fiscal year was . The following table summarizes the investment in capital assets as of August 31, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Land	\$ 1,465,680	\$ 1,302,928
Buildings and improvements	142,016,099	100,234,346
Furniture and equipment	13,451,103	12,249,488
Construction in progress	2,313,658	55,762,196
Total	<u>159,246,540</u>	<u>169,548,958</u>
Accumulated depreciation	<u>(34,259,582)</u>	<u>(46,828,588)</u>
Net capital assets	<u>\$ 124,986,958</u>	<u>\$ 122,720,370</u>

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

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Long-term liabilities

At the end of the current fiscal year, the District had \$119,195,000 in bonded debt outstanding, a decrease of \$3,755,000 over the previous year. The District's bonds are rated AAA by Standard and Poor's and Aaa by Moody's Investor Service based on the guarantee of the Permanent School Fund of the State of Texas. The underlying ratings are AA- by Standard and Poor's and Aa3 by Moody's Investor Service.

Changes in long-term debt, for the year ended August 31, 2012, are as follows:

<u>Outstanding</u> <u>09/01/11</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>08/31/12</u>
\$ 122,950,000	\$	\$ (3,755,000)	\$ 119,195,000

Additional information on the District's long-term liabilities can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- Appraised value used for the 2012-2013 fiscal year was up approximately \$205 million, or 6% from the previous year. The increase is primarily due to increased values for existing petrochemical refining facilities located within the District. Property tax revenues continue to remain uncertain due to potential litigation relating to property values assigned to some of the districts largest taxpayers.
- The tax rate for the 2012-2013 fiscal year is \$1.2692 per \$100 valuation (\$1.04000 for M&O, \$.2292 for I&S). In 2007-2008, the Texas Legislature compressed M&O tax rates by 33.33 percent, but allowed an additional four cents to be assessed at local discretion. These four pennies are not subject to Chapter 41 recapture provisions, otherwise known as "Robin Hood"; therefore these four cents have been commonly referred to as "super pennies".
- Operating expenses per student in the District's general fund are \$8,694 for 2012-2013, based on current budget projections.

These indicators were taken into account when adopting the general fund budget for 2012-2013. The total Texas City Independent School District budget for 2012-2013 is \$69,868,177 for all funds.

Fiscal Year 2012-2013 expenditures are budgeted to decrease by approximately \$570,000 from 2011-2012. The decrease is mainly due to a decrease of \$285,000 in transportation expenses (did not budget for three buses) and a decrease of \$200,000 for District wireless network access (completed in 2011-2012).

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

While Texas City Independent School District is nearly built out, there are still some residential developments currently under construction in selected locations within the District. Most of the sites under construction are single family residences. There are also commercial improvements in planning stages or under construction within Texas City Independent School District.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to 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 Office at Texas City Independent School District, 1700 Ninth Avenue North, Texas City, Texas 77590.

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BASIC FINANCIAL STATEMENTS

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET ASSETS

August 31, 2012

Data Control Codes		Governmental Activities
	Assets	
1110	Cash and cash equivalents	\$ 80,273,444
1225	Property taxes receivables, net	1,727,728
1240	Due from other governments	620,532
1300	Inventories	259,319
1410	Deferred expenses	1,565,698
1420	Capital bond and other debt issuance costs	1,095,101
	Capital assets not subject to depreciation:	
1510	Land	1,465,680
1580	Construction in progress	2,313,658
	Capital assets net of depreciation:	
1520	Buildings and improvements, net	114,422,530
1530	Furniture and equipment, net	6,785,090
1000	Total Assets	210,528,780
	Liabilities	
2110	Accounts payable	3,291,404
2140	Interest payable	222,222
2150	Payroll deductions and withholdings	108,883
2160	Accrued wages payable	20,673
2180	Due to other governments	3,168,105
2200	Accrued expenses	2,770,139
2300	Unearned revenue	15,356
	Noncurrent Liabilities:	
2501	Due within one year	4,705,040
2502	Due in more than one year	119,919,534
2000	Total Liabilities	134,221,356
	Net Assets	
3200	Invested in capital assets, net of related debt	26,908,586
	Restricted for:	
3840	Food service	1,515,532
3850	Debt service	3,696,112
3870	Campus activity	398,526
3900	Unrestricted	43,788,668
3000	Total net assets	\$ 76,307,424

See Notes to the Financial Statements

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2012

Exhibit B-1

Data Control Codes	Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Operating Grants and Contributions	Primary Governmental Activities
	Governmental activities:				
11	Instruction	\$ 36,324,695	\$ 373,655	\$ 5,265,491	\$ (30,685,549)
12	Instructional resources and media services	892,216	64,384	28,002	(799,830)
13	Curriculum and staff development	667,998	46,825	188,414	(432,759)
21	Instructional leadership	448,390		19,299	(429,091)
23	School leadership	3,009,107	23,412	221,212	(2,764,483)
31	Guidance, counseling, and evaluation services	1,602,501		282,253	(1,320,248)
32	Social work services	133,072		75,657	(57,415)
33	Health services	466,040		366,096	(99,944)
34	Student transportation	1,111,231		202,700	(908,531)
35	Food service	3,064,831	870,256	2,581,049	386,474
36	Extracurricular activities	2,009,534	206,067	37,533	(1,765,934)
41	General administration	2,242,854	11,706	73,672	(2,157,476)
51	Facilities maintenance and operations	8,427,310	42,835	160,744	(8,223,731)
52	Security and monitoring services	615,585		11,353	(604,232)
53	Data processing services	465,495		28,725	(436,770)
61	Community services	104,759		56,909	(47,850)
72	Interest on long-term debt	5,053,884			(5,053,884)
81	Capital outlay	70,939		4,382	(66,557)
91	Contracted instructional services between schools	5,292,439			(5,292,439)
93	Payments related to shared services arrangements	106,553		20,000	(86,553)
95	Payments to Juvenile Justice Alternative Education Programs	88,680			(88,680)
99	Other governmental charges	313,524			(313,524)
TG	Total governmental activities	\$ 72,511,637	\$ 1,639,140	\$ 9,623,491	(61,249,006)

Data Control Codes		
	General revenues:	
	Taxes:	
MT	Property taxes, levied for general purposes	39,677,606
DT	Property taxes, levied for debt service	9,739,963
SF	State-aid formula grants	6,638,739
IE	Investment earnings	99,218
MI	Miscellaneous	4,639,527
TR	Total general revenues, special items, and transfers	60,795,053
CN	Change in net assets	(453,953)
NB	Net assets - beginning	76,761,377
NE	Net assets - ending	\$ 76,307,424

See Notes to the Financial Statements

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2012

Data Control Codes		General Fund	Child Nutrition Fund	Debt Service Fund
Assets				
1110	Cash and cash equivalents	\$ 36,506,236	\$ 1,517,293	\$ 3,748,691
	Receivables:			
1220	Delinquent property taxes receivables	3,370,562		366,983
1230	Allowance for uncollectible taxes (credit)	(1,812,477)		(197,340)
1240	Receivables from other governments		70,434	
1260	Due from other funds	550,214		
1300	Inventories, at cost	217,269	42,050	
1410	Prepaid expenditures	1,527,895		
1000	Total Assets	\$ 40,359,699	\$ 1,629,777	\$ 3,918,334
 Liabilities and Fund Balance				
Liabilities:				
2110	Accounts payable	\$ 990,260	\$ 94,909	\$
2150	Payroll deduction and withholdings payable	108,883		
2160	Accrued wages payable	708	19,336	
2170	Due to other funds			
2180	Payable to other governments	3,168,105		
2200	Accrued expenses			
2300	Deferred revenues	1,558,085		169,642
2000	Total Liabilities	5,826,041	114,245	169,642
 Fund Balances:				
Nonspendable :				
3410	Inventories	217,269	42,050	
3430	Prepaid items	1,527,895		
Restricted:				
3450	Federal/State grant restrictions		1,473,482	
3480	Debt service			3,748,692
Committed :				
3510	Construction repairs, renovations			
3545	Other purposes			
Assigned:				
3590	Other assigned	31,055,493		
3600	Unassigned	1,733,001		
3000	Total fund balances	34,533,658	1,515,532	3,748,692
4000	Total Liabilities and Fund Balances	\$ 40,359,699	\$ 1,629,777	\$ 3,918,334

Exhibit C-1

<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 32,532,965	\$ 449,243	\$ 74,754,428
		3,737,545
		(2,009,817)
	550,098	620,532
		550,214
		259,319
	37,803	1,565,698
<u>\$ 32,532,965</u>	<u>\$ 1,037,144</u>	<u>\$ 79,477,919</u>
\$ 2,131,561	\$ 72,838	\$ 3,289,568
		108,883
	210	20,254
	550,214	550,214
		3,168,105
2,730,464		2,730,464
	15,356	1,743,083
<u>4,862,025</u>	<u>638,618</u>	<u>11,610,571</u>
		259,319
		1,527,895
		1,473,482
		3,748,692
27,670,940		27,670,940
	398,526	398,526
		31,055,493
	-	1,733,001
<u>27,670,940</u>	<u>398,526</u>	<u>67,867,348</u>
<u>\$ 32,532,965</u>	<u>\$ 1,037,144</u>	<u>\$ 79,477,919</u>

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TEXAS CITY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET ASSETS
August 31, 2012

Exhibit C-2

<u>Data Control Codes</u>		
	Total fund balance, governmental funds	\$ 67,867,348
	Amounts reported for <i>governmental activities</i> in the statement of net assets (A-1) are different because:	
1	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable.	124,986,958
2	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).	1,727,727
3	Bond issuance costs are not financial resources and, therefore, are not reported as assets in governmental funds. These costs are to be amortized over the life of the bonds.	1,095,101
	Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
4	General obligation bonds	(119,195,000)
5	Premiums on issuance	(5,240,558)
6	Deferred loss on refunding	91,145
7	Accrued compensated absences	(280,161)
8	Accrued interest payable	(222,222)
9	Addition of Internal Service fund net assets	<u>5,477,086</u>
10	Net assets - governmental activities	<u><u>\$ 76,307,424</u></u>

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended August 31, 2012

<u>Data Control Codes</u>		<u>General Fund</u>	<u>Child Nutrition Fund</u>	<u>Debt Service Fund</u>
Revenues				
5700	Local, intermediate, and out-of-state	\$ 44,516,920	\$ 870,470	\$ 9,721,873
5800	State program revenues	8,533,787	71,613	
5900	Federal program revenues	323,186	2,509,436	
5020	Total revenues	<u>53,373,893</u>	<u>3,451,519</u>	<u>9,721,873</u>
Expenditures				
Current:				
0011	Instruction	23,367,568		
0012	Instructional resources and media services	652,557		
0013	Curriculum and staff development	427,176		
0021	Instructional leadership	433,831		
0023	School leadership	2,722,685		
0031	Guidance, counseling and evaluation services	1,352,763		
0032	Social work services	60,706		
0033	Health services	416,606		
0034	Student transportation	1,233,620		
0035	Food services		2,841,195	
0036	Extracurricular activities	1,722,660		
0041	General administration	2,136,654		
0051	Facilities maintenance and operations	8,300,429		
0052	Security and monitoring services	602,329		
0053	Data processing services	994,314		
0061	Community services	40,575		
Debt service:				
0071	Principal on long-term debt	27,416		3,755,000
0072	Interest on long-term debt	91		5,346,767
0073	Bond issuance costs and fees			2,500
Capital outlay:				
0081	Capital outlay	1,098,669		
Intergovernmental:				
0091	Contracted instructional services	5,292,439		
0093	Payments related to shared services arrangements	86,553		
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	88,680		
0099	Other governmental charges	313,524		
6030	Total Expenditures	<u>51,371,845</u>	<u>2,841,195</u>	<u>9,104,267</u>
1100	Excess (deficiency) of revenues over expenditures	<u>2,002,048</u>	<u>610,324</u>	<u>617,606</u>
Other Financing Sources (Uses)				
7915	Transfers in			
7989	Other income	20,000		
7956	Insurance recovery	6,853		
8911	Operating transfers out	(4,500,000)		
7080	Total other financing sources and uses	<u>(4,473,147)</u>		
1200	Net change in fund balances	(2,471,099)	610,324	617,606
0100	Fund Balance - beginning	<u>37,004,757</u>	<u>905,208</u>	<u>3,131,086</u>
3000	Fund Balance - ending	<u>\$ 34,533,658</u>	<u>\$ 1,515,532</u>	<u>\$ 3,748,692</u>

Exhibit C-3

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 30,692	\$ 586,098	\$ 55,726,053
	504,881	9,110,281
	4,319,327	7,151,949
<u>30,692</u>	<u>5,410,306</u>	<u>71,988,283</u>
	4,415,076	27,782,644
	69,053	721,610
	218,757	645,933
		433,831
	111,530	2,834,215
	207,058	1,559,821
	69,376	130,082
	25,760	442,366
	149,618	1,383,238
		2,841,195
	72,567	1,795,227
	13,107	2,149,761
	13,984	8,314,413
		602,329
79,621		1,073,935
	52,730	93,305
		3,782,416
		5,346,858
		2,500
9,209,162		10,307,831
		5,292,439
	20,000	106,553
		88,680
		313,524
<u>9,288,783</u>	<u>5,438,616</u>	<u>78,044,706</u>
<u>(9,258,091)</u>	<u>(28,310)</u>	<u>(6,056,423)</u>
2,500,000		2,500,000
		20,000
		6,853
		(4,500,000)
<u>2,500,000</u>		<u>(1,973,147)</u>
(6,758,091)	(28,310)	(8,029,570)
<u>34,429,031</u>	<u>426,836</u>	<u>75,896,918</u>
<u>\$ 27,670,940</u>	<u>\$ 398,526</u>	<u>\$ 67,867,348</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE FOR GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2012

Exhibit C-4

<u>Data Control Codes</u>		
	Net change in fund balances - total governmental funds (from C-3)	\$ (8,029,570)
	Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
1	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$11,341,288) exceeded depreciation (\$4,708,355) in the current period.	6,632,933
2	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	41,851
3	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.	3,782,416
4	Premiums on bonds issued are treated as other financing sources in the governmental funds. In the government-wide financial statements, premiums are amortized over the life of the bonds.	418,843
5	Bond issuance costs paid during the current year will be amortized over the life of the bonds.	(90,161)
	Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
6	Increase in interest payable not recognized in fund statements	10,265
7	Decrease in long-term portion of accrued compensated absences	32,045
8	Amortization of deferred charges	(45,954)
9	Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental funds (see D-2).	1,159,724
10	The net effect of the disposition of capital assets is not recorded in the governmental funds. The loss on disposal of capital assets decreases net assets at the government-wide level.	(4,366,345)
11	Change in net assets of governmental activities (see B-1)	<u>\$ (453,953)</u>

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit D-1

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

August 31, 2012

<u>Data Control Codes</u>		<u>Governmental Activities - Internal Service Funds</u>
	Assets	
1110	Cash and cash equivalents	\$ 5,519,016
1000	Total Assets	<u>\$ 5,519,016</u>
	Liabilities	
	Current Liabilities:	
2110	Accounts payable	\$ 1,836
2150	Payroll deduction and withholdings payable	55
2160	Accrued wages payable	364
2200	Accrued expenses	39,675
	Total current liabilities	<u>41,930</u>
2000	Total Liabilities	<u>41,930</u>
	Net Assets	
3900	Unrestricted net assets	5,477,086
3000	Total Net Assets	<u>\$ 5,477,086</u>

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended August 31, 2012

Exhibit D-2

Data Control Codes		Governmental Activities - Internal Service Funds
	Operating Revenues	
5700	Charges for Services	\$ 511,683
5800	State Program Revenues	2,897
5020	Total Operating Revenues	<u>514,580</u>
	Operating Expenses	
6100	Payroll costs	57,393
6200	Purchased and contracted services	44,956
6300	Supplies and materials	8,323
6400	Claims expense and other operating expenses	113,902
6600	Capital outlay	1,133,460
6030	Total Operating Expenses	<u>1,358,034</u>
1200	Operating Income (Loss)	<u>(843,454)</u>
	Non-Operating Revenues (Expenses)	
7020	Investment earnings	3,178
	Total Nonoperating Revenues (Expenses)	<u>3,178</u>
	Income (Loss) before Transfers	<u>(840,276)</u>
	Transfers	
7915	Transfers in	<u>2,000,000</u>
1200	Change in Net Assets	1,159,724
0100	Net Assets - beginning	<u>4,317,362</u>
3300	Net Assets - ending	<u>\$ 5,477,086</u>

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended August 31, 2012

Exhibit D-3

	Governmental Activities - Internal Service Funds
	<u> </u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 511,683
Cash received from state	2,897
Cash payments for insurance claims	(207,940)
Cash payments to suppliers for goods and services	(1,186,238)
Cash payments to employees	(59,151)
Net Cash Provided by (Used for) Operating Activities	<u>(938,749)</u>
Cash Flows from Non-Capital Financing Activities:	
Transfers from other funds	2,000,000
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>2,000,000</u>
Cash Flows from Investing Activities:	
Interest on investments	3,178
Net Cash Provided by Investing Activities	<u>3,178</u>
Net Increase in Cash and Cash Equivalents	1,064,429
Cash and Cash Equivalents at Beginning of Year	<u>4,454,587</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,519,016</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (843,454)
Change in Assets and Liabilities:	
Increase (decrease) in Accounts Payable	501
Increase (decrease) in Accrued Wages Payable	(1,758)
Increase (decrease) in Accrued Expenses	(94,038)
Net Cash Provided by (Used for) Operating Activities	<u>\$ (938,749)</u>

See Notes to the Financial Statements

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit E-1

STATEMENT OF FIDUCIARY NET ASSETS

August 31, 2012

<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
	Assets		
1110	Cash and cash equivalents	\$ 149,210	\$ 236,842
1000	Total Assets	<u>\$ 149,210</u>	<u>\$ 236,842</u>
	Liabilities		
2110	Accounts payable	\$	\$ 5,036
2190	Due to others		231,806
2000	Total Liabilities	<u></u>	<u>\$ 236,842</u>
	Net Assets		
3800	Restricted	<u>\$ 149,210</u>	

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT*Exhibit E-2***STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS***For the Year Ended August 31, 2012*

	Private Purpose Trust Funds
Additions	
Local and intermediate sources	\$ 14,472
Total additions	<u>14,472</u>
Deductions	
Non-operating expenses	22,904
Total deductions	<u>22,904</u>
Change in net assets	(8,432)
Net assets, beginning of year	<u>157,642</u>
Net assets, end of year	<u>\$ 149,210</u>

See Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Texas City Independent School District (District) is governed by a seven-member Board of Trustees (Board), which has governance responsibilities over all activities related to public elementary and secondary education within the District. Because members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

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 or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to students or users who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary 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.

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 proprietary fund and fiduciary fund financial statements while the agency funds have no measurement of focus. 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.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Grant revenues and interest associated with the current fiscal period are all 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 funds:

- The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *National School Breakfast and Lunch fund* is used to account for food service operations including federal funds received from the U.S. Department of Agriculture.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects fund* is used to account for proceeds from sales of bonds and other revenues to be used for authorized construction projects.

Additionally, the District reports the following fund types:

- The *internal service funds* accounts for worker's compensation self-insurance funding and a technology equipment replacement fund for non capitalizable equipment.
- The *private purpose trust fund* is used to account for donations for scholarships funds that are received by the District that are to be awarded to current and former students for post-secondary education purposes.
- The *agency fund* is used to account for assets held by the District as an agent for student organizations and the tax office. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

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 to students or users for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and investment income.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service fund are charges to the funds and/or employees for self-funded health services. Operating expenses for the internal service fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, investment pools, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value based on quoted market prices at August 31, 2012. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

Receivables and Payables

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

Property tax receivables include unpaid property taxes at year-end and are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to an average of 57 percent of outstanding property taxes at August 31, 2012. Revenues from property taxes are recognized when levied to the extent they are available. The District considers property taxes as available when collected. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements. Property values are determined by the Galveston County Appraisal District as of January 1 of each year. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

Inventories and Deferred Expenses

Inventories consisting of supplies and materials are valued at weighted average cost and they include maintenance, transportation, office and instructional supplies, and food service commodities. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Food service commodity inventory is recorded at fair market value on the date received. Commodities are recognized as revenues in the period received when all the eligibility requirements are met. Commodity inventory items are recorded as expenditures when distributed to user locations. A portion of fund balance is classified as non-spendable to reflect minimum inventory quantities considered necessary for the District's continuing operations.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as deferred expenditures items in both government-wide and fund financial statements. Deferred expenditures also include payroll amounts for contract amounts paid to employees prior to the expenditures being incurred.

Note 1 - Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, furniture and equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost that equals or exceeds \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	60
Building improvements	Remaining life of building or 30 years, whichever is less
Furniture and equipment	5
Information systems (computer equipment)	5
Automobiles and trucks	10
Buses and heavy equipment	15

Compensated Absences

Compensated absences are absences for which employees will be paid, such as sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

In the governmental funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported in long-term liabilities on the statement of net assets.

Note 1 - Summary of Significant Accounting Policies (continued)

Long-term Obligations

The District's long-term obligations consist of bonded indebtedness, capital lease obligations, and compensated absences. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The current requirements for capital lease principal and interest expenditures are accounted for in the general fund. The current requirements for compensated absences are accounted for in the general fund. The requirements for health insurance and workers' compensation are accounted for in the internal service fund.

Fund Equity

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and deferred expenditures have been properly classified in the Governmental Funds Balance Sheet (Exhibit C-1).
- Restricted fund balance – amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. The fund balances for the Child Nutrition Fund and other grant funds are classified as restricted. A portion of the Child Nutrition fund balance in the amount of \$610,324 will be used for capital outlay purchases.
- Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision making authority (i.e. the Board of Trustees). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The fund balance of the campus activity fund is committed for use at the campuses per board policy.
- Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official or body to which the Board of Trustees delegates the authority. In the general fund the District has assigned fund balance of \$55,493 for encumbrances, \$14,000,000 for school renovation, \$1,000,000 for special education, \$1,000,000 for property insurance premiums and \$15,000,000 for catastrophic events.

Note 1 - Summary of Significant Accounting Policies (continued)

Fund Equity (continued)

- Unassigned fund balance – amounts that are available for any purpose. At August 31, 2012, the District reports an unassigned fund balance of \$1,733,001.

The District establishes (and modifies or rescinds) fund balance commitments by passage of resolution. A fund balance commitment is further indicated in the budget document as a commitment. Per Policy CE local, assigned fund balance amounts are established by the Superintendent or his designee.

Data Control Codes

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

Use of Estimates

The presentation 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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Cash Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities are approved by the Texas Education Agency and shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. During the year, the District's deposits were fully collateralized; therefore the District was in compliance with the Texas School Depository Act.

Investments

The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. The District further limits its investments to obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, collateralized mortgage obligations, no-load money market mutual funds, certain municipal securities, qualified commercial paper, repurchase agreements, or investment pools.

Note 2 - Deposits and Investments (continued)

Local Government Investment Pools

For fiscal year 2012, the District invested in the State of Texas TexPool, and Investors Cash Trust (“ICT”) money market mutual fund. TexPool operates in a manner consistent with the SEC’s rule 2a-7 of the Investment Company Act of 1940. As such, TexPool uses amortized cost to report net assets and share prices, since those approximate fair values. The State Street Bank is the custodial bank. The portfolio consists of U.S. T-Bills, T-Notes, collateralized repurchase and reverse repurchase agreements, and no-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally recognized rating service. The money market mutual fund listed on the following page consists of shares owned in Investors Cash Trust; an SEC registered money market fund with the stated objective of maintaining a stable net asset value of \$1.00.

At year-end, the District’s cash and investment balances and the weighted average maturity of these investments were as follows:

	Fair Market Value	Weighted Average Maturity (Days)
Governmental Activities		
Cash and deposits	\$ 246,289	
Investments		
Local Government Investment Pools:		
TexPool	74,939,369	38
	<u>74,939,369</u>	
Investment Securities:		
ICT Money Market Mutual Fund	5,087,786	42
	<u>5,087,786</u>	
Total Investments	<u>80,027,155</u>	38
Total Governmental Activities	<u>80,273,444</u>	
Fiduciary Funds		
Cash and Deposits	154,037	N/A
TexPool	232,015	38
Total Fiduciary Funds	<u>386,052</u>	
Total	<u>\$ 80,659,496</u>	

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than 360 days.

Note 2 - Deposits and Investments (continued)

Credit Risk

State law and the District's investment policy limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations. As of August 31, 2012, the District's investment in TexPool was rated AAAM by Standard and Poor's. The District's investment in the ICT money market mutual fund was rated AAAM by Standard and Poor's.

Concentration of Credit Risk

The District's investment policy, except for investments in local government investment pools, requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer. The District's investment of \$75,171,384 in TexPool (a local government investment pool) represents 93% percent of the District's total investments.

The investments are reported by the District at fair value. There was no change in the fair value of the District's investments during the year ended August 31, 2012. Investment earnings totaled \$99,218 for the year.

Note 3 - Receivables

Receivables as of year-end for the District's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Child Nutrition Fund	Debt Service Fund	Nonmajor Governmental	Total
Property Taxes	\$ 3,370,562	\$	\$ 366,983	\$	\$ 3,737,545
Due from other governments		70,434		550,098	620,532
Gross Receivables	3,370,562	70,434	366,983	550,098	4,358,077
Less allowance for doubtful accounts	(1,812,477)		(197,340)		(2,009,817)
Net Total Receivables	\$ 1,558,085	\$ 70,434	\$ 169,643	\$ 550,098	\$ 2,348,260

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

	Unavailable	Unearned
Delinquent property taxes receivable (General Fund)	\$ 1,558,085	\$
Delinquent property taxes receivable (Debt Service Fund)	169,642	
Grant funds received prior to meeting all eligibility requirements		15,356
	\$ 1,727,727	\$ 15,356

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

Exhibit F-1
(continued)

Note 4 - Capital Assets

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

	Balance August 31, 2011	Additions	(Retirements) and Transfers	Balance August 31, 2012
Capital assets, not being depreciated:				
Land	\$ 1,302,928	\$ 162,752	\$	\$ 1,465,680
Construction in progress	55,762,196	1,680,341	(55,128,879)	2,313,658
Total Capital assets, not being depreciated	57,065,124	1,843,093	(55,128,879)	3,779,338
Capital assets, being depreciated:				
Buildings and improvements	100,234,346	62,832,253	(21,050,500)	142,016,099
Furniture and equipment	12,249,488	1,794,821	(593,206)	13,451,103
Total Capital assets, being depreciated	112,483,834	64,627,074	(21,643,706)	155,467,202
Less accumulated depreciation for:				
Buildings and improvements	(41,140,768)	(3,401,601)	16,948,800	(27,593,569)
Furniture and Equipment	(5,687,820)	(1,306,754)	328,561	(6,666,013)
Total Accumulated depreciation	(46,828,588)	(4,708,355)	17,277,361	(34,259,582)
Governmental Capital Assets	\$ 122,720,370	\$ 61,761,812	\$ (59,495,224)	\$ 124,986,958

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

Function	Depreciation Expense
Instruction	\$ 3,193,016
Instructional resources and media services	172,847
Curriculum and staff development	23,241
Instructional leadership	15,944
School leadership	185,416
Guidance, counseling and evaluation services	48,457
Social work services	3,454
Health services	25,363
Student transportation	34,776
Food Services	268,339
Extracurricular activities	280,453
General administration	98,703
Plant maintenance and operations	263,023
Security and monitoring services	16,646
Data processing services	66,858
Community services	11,819
	\$ 4,708,355

Construction Commitments

Construction commitments at the end of the fiscal year were as follows:

	Approved Construction Budget	Construction in Progress	Remaining Commitment
Project One - New Blocker Middle School	\$ 31,397,542	\$ 2,234,233	\$ 29,163,309
Project Two - New Pre-K/Headstart Center	2,500,000	79,425	2,420,575
	\$ 33,897,542	\$ 2,313,658	\$ 31,583,884

Note 5 - Interfund Receivables, Payables, and Transfers

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll, warehouse ordering and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

The composition of interfund balances as of August 31, 2012, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 550,214	\$
Nonmajor Governmental Funds		550,214
	<u>\$ 550,214</u>	<u>\$ 550,214</u>

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” Interfund transfers for the year were made as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>	
General Fund	Technology Equipment Fund	\$ 2,000,000	Establish the Technology Equipment Replacement Fund
General Fund	Capital Projects Fund	2,500,000	Headstart Facilities Refurbishment
		<u>\$ 4,500,000</u>	

Note 6 - Compensated Absences and Other Retirement/Sick Leave Benefits

Upon retirement or death of certain employees, the District pays any accrued sick and vacation leave in a lump sum cash payment to such employee or the employee’s estate. Individuals employed after October 1, 1985 are not eligible to receive the lump sum payments.

The following summarizes the District’s liability and the changes for the year:

	<u>Balance September 1, 2011</u>	<u>Additions</u>	<u>Deductions - Payments to Participants</u>	<u>Balance August 31, 2012</u>
Compensated absences payable	\$ 312,206	\$ 83,543	\$ (115,588)	\$ 280,161

Note 7 - Long-term Liabilities

The District has entered into a continuing disclosure undertaking to provide annual reports and material event notices to the State Information Depository of Texas through the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of Texas City Independent School District.

The District is subject to a legal debt margin in which the net indebtedness shall not exceed 10 percent of all assessed real and personal property in the District. At August 31, 2012, the legal debt margin was \$256,004,418.

Changes in Long-term Liabilities

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

	<u>Balance September 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance August 31, 2012</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$ 122,950,000	\$	\$ (3,755,000)	\$ 119,195,000	\$ 4,635,000
Less deferred amounts:					
For Issuance Premiums/Discounts	5,659,401		(418,843)	5,240,558	
Gain or (loss) on Refunding Bonds	(137,099)		45,954	(91,145)	
Total Bonds and Notes Payable	<u>128,472,302</u>		<u>(4,127,889)</u>	<u>124,344,413</u>	<u>4,635,000</u>
Other Liabilities					
Capital leases	28,433		(28,433)		
Compensated absences payable	312,206	83,543	(115,588)	280,161	70,040
Total Other Liabilities	<u>340,639</u>	<u>83,543</u>	<u>(144,021)</u>	<u>280,161</u>	<u>70,040</u>
	<u>\$ 128,812,941</u>	<u>\$ 83,543</u>	<u>\$ (4,271,910)</u>	<u>\$ 124,624,574</u>	<u>\$ 4,705,040</u>

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the District. These are issued as current interest bonds and term bonds with various amounts of principal maturing each year.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

Exhibit F-1
(continued)

Note 7 - Long-term Liabilities (continued)

General obligation bonds currently outstanding are as follows:

Issue	Original issuance amount	Interest Rate (%)	Maturity Date	Debt Outstanding
Unlimited Tax School Building Bonds, Series 2008	\$ 54,565,000	3.5% to 5.0%	2030	\$ 54,015,000
Unlimited Tax School Building Bonds, Series 2009	28,910,000	3.5% to 5.0%	2030	28,020,000
Unlimited Tax School Building Bonds, Series 2010A	25,810,000	2.0-5.0%	2030	25,290,000
Unlimited Tax Refunding Bond Series 2010B	8,170,000	2.0-4.0%	2014	3,425,000
Unlimited Tax School Building Bonds, Series 2011	8,845,000	2.0-4.0%	2014	8,445,000
				<u>\$ 119,195,000</u>

Debt service requirements to maturity are as follows:

Year Ending August 31,	Principal	Interest	Totals
2013	\$ 4,635,000	\$ 5,111,102	\$ 9,746,102
2014	4,785,000	4,960,702	9,745,702
2015	4,975,000	4,773,652	9,748,652
2016	5,155,000	4,591,852	9,746,852
2017	5,345,000	4,401,027	9,746,027
2018	5,570,000	4,180,052	9,750,052
2019	5,785,000	3,965,202	9,750,202
2020	6,025,000	3,725,652	9,750,652
2021	6,255,000	3,494,872	9,749,872
2022	6,510,000	3,239,958	9,749,958
2023	6,800,000	2,949,808	9,749,808
2024	7,135,000	2,614,458	9,749,458
2025	7,470,000	2,280,358	9,750,358
2026	7,820,000	1,930,408	9,750,408
2027	8,165,000	1,583,258	9,748,258
2028	8,530,000	1,217,546	9,747,546
2029	8,915,000	831,550	9,746,550
2030	9,320,000	426,426	9,746,426
	<u>\$ 119,195,000</u>	<u>\$ 56,277,883</u>	<u>\$ 175,472,883</u>

Prior Years' Refunding of Long-Term Debt

In prior years, the District defeased certain general obligation debt by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. At August 31, 2012, \$5,035,000 of previously refunded debt outstanding was considered defeased.

Note 8 - Revenues from Local, Intermediate, and Out-of-State Sources

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

	<u>General Fund</u>	<u>Child Nutrition Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Property Taxes	\$ 39,509,762	\$	\$ 9,684,786	\$	\$	\$ 49,194,548
Penalties, interest and other tax related revenue	152,407		28,763			181,170
Investment Income	56,020	214	8,324	30,692	790	96,040
Co-curricular student activities	129,977				585,308	715,285
Tuition and fees	22,470					22,470
Food Sales		859,592				859,592
Other	4,646,284	10,664				4,656,948
	<u>\$ 44,516,920</u>	<u>\$ 870,470</u>	<u>\$ 9,721,873</u>	<u>\$ 30,692</u>	<u>\$ 586,098</u>	<u>\$ 55,726,053</u>

Note 9 - General Fund Federal Source Revenues

<u>Program or Source</u>	<u>CFDA #</u>	<u>Amount</u>
School Health and Related Service (SHARS)		\$ 319,857
Summer School LEP	84.369A	3,329
		<u>\$ 323,186</u>

Note 10 - Operating Leases

Commitments under operating lease (non-capitalized) agreements for facilities and equipment are subject to fiscal funding clauses. As such, the agreements are cancelable and the District is therefore not obligated for minimum future rental payments as of August 31, 2012. The imputed interest on the leases is not readily determinable.

Rental expenditures for the year ended August 31, 2012 amounted to \$210,230.

Note 11 - Pension Information

Plan Description

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

Note 11 - Pension Information (continued)

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0 percent of the member's annual compensation and a state contribution rate of not less than 6.0 percent and not more than 10.0 percent of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

State law provides for a member contribution rate of 6.4% for fiscal year 2012, 2011 and 2010. The State contributed at a rate of 6.0% for fiscal year 2012, 6.644% for fiscal year 2011 and 6.580% and 6.644% for fiscal year 2010 of all employees' eligible gross earnings, except for those staff members being paid from and participating in federally funded programs. State statutes establish these rates. For staff members funded by federal programs, the District is required to contribute 6.0% for fiscal year 2012, 6.644% for fiscal year 2011 and 6.580/6.644% for fiscal year 2010.

Contributions made by the State, District, and staff members for the years ended August 31, 2012, 2011, and 2010 are as follows:

For the Year Ended August 31	State TRS Contributions Made on Behalf of the District	District Required Contributions to TRS	Staff Members' Contributions to TRS	Total Covered Payroll
2012	\$ 1,540,096	\$ 522,545	\$ 2,100,149	\$ 34,377,357
2011	1,680,900	638,313	2,234,040	34,906,879
2010	1,739,253	575,783	2,237,449	34,975,760

For the current fiscal year and each of the past two years, the District's contributions were equal to 100% of the required contributions. The contributions made by the State on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the state.

Note 12 - Retiree Health Plan

Plan Description

The Texas City 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). TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575 grants the TRS

Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2011, 2010, and 2009. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than .25% or greater than .75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1.0%. Contributions made by the State, District, and staff members for the years ended August 31, 2012, 2011, and 2010 are as follows:

For the Year Ended August 31	State TRS Care Contributions Made on Behalf of the District	District Required Contributions to TRS Care	Staff Members' Contributions to TRS Care	Total Covered Payroll
2012	\$ 256,457	\$ 276,400	\$ 223,453	\$ 34,377,357
2011	252,921	288,141	226,894	34,906,879
2010	263,029	86,729	220,671	34,975,760

For the current fiscal year and each of the past two years, the District's contributions were equal to 100% of the required contributions. The contributions made by the State on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the state.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2012, 2011, and 2010, the subsidy payments received by the TRS-Care on-behalf of the district were \$79,683, \$72,927, and \$81,411 respectively. The payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

Note 12 - Retiree Health Plan (continued)

The Early Retirement Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependents regardless of age. An “early retiree” is defined as a plan participant aged 55-64 who is eligible for Medicare and is not covered by an active employee of the plan sponsor.

This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first served basis for qualified employers that apply and become certified for this program and has received funds from the ERRP program. These funds must be allocated to reporting agencies using the same basis as the Medicare Part D. For the fiscal year ended August 31, 2012, the contribution made on behalf of the District was \$75,354.

Note 13 - Risk Management

Property/Liability

The District is exposed to various risks of loss related to property/liability losses for which the District carries commercial insurance.

Health Insurance

The Board of Trustees approved the district’s participation in the TRS (Texas Retirement System) Active Care Health Insurance Program as sponsored by the Teacher Retirement System of Texas and administered by Blue Cross Blue Shield of Texas and Medco Health (pharmacy) effective September 1, 2007. This is a premium-based plan; payments are made on a monthly basis for all covered employees.

Workers’ Compensation

During the year ended August 31, 2012, employees of the Texas City Independent School District were provided workers’ compensation benefits which were self-funded from accumulated assets provided directly by the District, the plan sponsor. The District is solely responsible for the cost of all claims, both reported and unreported. All claims were submitted, processed, and approved by a third party administrator acting as an agent for the District. The plan was documented by contractual agreement. The District was protected against unanticipated, catastrophic individual or aggregate loss by stop-loss coverage carried through Safety National Casualty Corp. which limited annual claims paid from the Plan for the year ended August 31, 2012 to \$250,000 per occurrence with a maximum level of indemnity of \$3,000,000 and aggregate losses exceeding \$1,250,000 over a two year period.

Premiums are paid into the internal service fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. These interfund premiums are reported as revenues in the internal service fund.

Note 13 - Risk Management (continued)

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities also include an estimated amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from stop-loss or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of \$300,000 up to the statutory limits for any given claim. There were no significant reductions in insurance coverage from the prior year. Settlements have not exceeded coverage for each of the past three fiscal years. Changes in the balances of claims liabilities during the past three years are as follows:

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Current Year Estimates</u>	<u>Claims Payments</u>	<u>End of Year Accrual</u>
2010	\$ 163,387	\$ 383,728	\$ (190,906)	\$ 356,209
2011	356,209	78,750	(301,246)	133,713
2012	133,713	113,902	(207,940)	39,675

Note 14 - Shared Service Arrangements / Joint Ventures

The District participates in a shared services arrangement for Juvenile Justice Alternative Education Program with eight other school districts. Although 16.5% of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Dickinson ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Texas City Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

Presented below are the revenues and expenditures attributable to the District's participation.

Revenues	
5700 Local revenue from member districts	\$ 88,680
	<u>\$ 88,680</u>
Expenditures	
6100 Payroll costs	\$ 83,359
6200 Contracted services	1,765
6300 Supplies and materials	2,652
6400 Miscellaneous operating costs	904
	<u>\$ 88,680</u>

Note 14 - Shared Service Arrangements / Joint Ventures (continued)

The District participates in a shared services arrangement for the Galveston - Brazoria Co-op for Hearing with one other school district. Although 5.6% of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Clear Creek Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Texas City Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

Presented below are the revenues and expenditures attributable to the District's participation.

Revenues	
5700 Local revenue from member districts	\$ 66,186
	<u>\$ 66,186</u>
Expenditures	
6100 Payroll costs	\$ 52,287
6200 Contracted services	9,266
6300 Supplies and materials	3,971
6400 Miscellaneous operating costs	662
	<u>\$ 66,186</u>

The District participates in a shared services arrangement for services for visually impaired students with one other school district. Although a portion of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Galveston Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Texas City Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

Presented below are the revenues and expenditures attributable to the District's participation.

Revenues	
5700 Local revenue from member districts	\$ 20,367
	<u>\$ 20,367</u>
Expenditures	
6100 Payroll costs	\$ 16,090
6200 Contracted services	2,852
6300 Supplies and materials	1,222
6400 Miscellaneous operating costs	203
	<u>\$ 20,367</u>

Note 15 - Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of management and the District's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

Note 16 - Contracted Instructional Services between Schools

During the year ended August 31, 2012, the District was required to pay to purchase attendance credits to equalize its wealth per weighted average daily attendance ("WADA"). The purchase of WADA was made from the State of Texas. The final amount payable will be determined by the Texas Education Agency.

Note 17 - Other Postemployment Benefits

The District does not provide post employment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by the district.

Note 18 - Related Organizations

The Texas City Independent School District Foundation for the Future ("Foundation"), a non-profit entity which was organized to provide educational grants, is a "related organization" as defined by *Government Accounting Standards Board* Statement No. 14. The members of the Board of Directors of the Foundation are appointed by an outside taxpayer group.

REQUIRED SUPPLEMENTARY INFORMATION

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended August 31, 2012

Exhibit G-1

Data Control Codes	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)	
	Original	Final			
Revenues					
5700	Local revenues	\$ 41,940,496	\$ 44,399,661	\$ 44,516,920	\$ 117,259
5800	State program revenues	10,784,158	10,980,834	8,533,787	(2,447,047)
5900	Federal program revenues		321,718	323,186	1,468
5020	Total revenues	<u>52,724,654</u>	<u>55,702,213</u>	<u>53,373,893</u>	<u>(2,328,320)</u>
Expenditures					
Current:					
0011	Instruction	24,459,471	24,166,652	23,367,568	799,084
0012	Instructional resources and media services	670,509	741,706	652,557	89,149
0013	Curriculum and staff development	446,216	493,258	427,176	66,082
0021	Instructional leadership	415,600	487,724	433,831	53,893
0023	School leadership	2,612,176	2,892,020	2,722,685	169,335
0031	Guidance, counseling and evaluation services	1,135,228	1,429,446	1,352,763	76,683
0032	Social work services	63,095	107,295	60,706	46,589
0033	Health services	436,073	497,824	416,606	81,218
0034	Student transportation	1,695,981	1,355,803	1,233,620	122,183
0036	Extracurricular activities	1,308,351	1,891,356	1,722,660	168,696
0041	General administration	3,019,992	2,350,825	2,136,654	214,171
0051	Facilities maintenance and operations	7,905,545	8,545,542	8,300,429	245,113
0052	Security and monitoring services	753,839	709,119	602,329	106,790
0053	Data processing services	875,269	2,341,519	994,314	1,347,205
0061	Community services	1,000	91,731	40,575	51,156
Debt Service:					
0071	Principal on long-term debt	500,000	27,416	27,416	
0072	Interest on long-term debt	8,035	8,126	91	8,035
Capital Outlay:					
0081	Capital Outlay	1,193,001	1,394,601	1,098,669	295,932
Intergovernmental:					
0091	Contracted instructional services	5,043,012	5,475,012	5,292,439	182,573
0093	Payments related to shared services arrangements	143,091	213,091	86,553	126,538
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	25,000	109,000	88,680	20,320
0099	Payments to other governments		400,000	313,524	86,476
6030	Total Expenditures	<u>52,710,484</u>	<u>55,729,066</u>	<u>51,371,845</u>	<u>4,357,221</u>
1100	Excess (deficiency) of revenues over expenditures	<u>14,170</u>	<u>(26,853)</u>	<u>2,002,048</u>	<u>2,028,901</u>
Other Financing Sources (Uses)					
7915	Operating transfers in	832,058			
7940	Refund of prior years Chapter 41 recapture		20,000	20,000	
7956	Insurance recovery		6,853	6,853	
8911	Operating transfers out	(846,228)		(4,500,000)	(4,500,000)
7080	Total other financing sources and uses	<u>(14,170)</u>	<u>26,853</u>	<u>(4,473,147)</u>	<u>(4,500,000)</u>
1200	Net change in fund balances			(2,471,099)	(2,471,099)
0100	Fund balances - beginning	<u>37,004,757</u>	<u>37,004,757</u>	<u>37,004,757</u>	
3000	Fund balances - ending	<u>\$ 37,004,757</u>	<u>\$ 37,004,757</u>	<u>\$ 34,533,658</u>	<u>\$ (2,471,099)</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit G-2

BUDGETARY COMPARISON SCHEDULE

CHILD NUTRITION FUND

For the Year Ended August 31, 2012

Data Control Codes		Child Nutrition Fund			
		Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
		Original	Final		
Revenues					
5700	Local revenues	\$ 912,577	\$ 912,577	\$ 870,470	\$ (42,107)
5800	State program revenues	17,000	92,000	71,613	(20,387)
5900	Federal program revenues	2,487,499	2,487,499	2,509,436	21,937
5020	Total revenues	<u>3,417,076</u>	<u>3,492,076</u>	<u>3,451,519</u>	<u>(40,557)</u>
Expenditures					
Current:					
0035	Food services	<u>3,417,076</u>	<u>3,492,076</u>	<u>2,841,195</u>	<u>650,881</u>
6030	Total Expenditures	<u>3,417,076</u>	<u>3,492,076</u>	<u>2,841,195</u>	<u>650,881</u>
1200	Net change in fund balances			610,324	610,324
0100	Fund balances - beginning	<u>905,208</u>	<u>905,208</u>	<u>905,208</u>	
3000	Fund balances - ending	<u>\$ 905,208</u>	<u>\$ 905,208</u>	<u>\$ 1,515,532</u>	<u>\$ 610,324</u>

The District adopts annual appropriations type budgets for the General Fund, Child Nutrition Special Revenue Fund, and the Debt Service Fund using the same method of accounting as for financial reporting, as required by law. The remaining special revenue funds (primarily federal grant programs) utilize a managerial type budget approved at the fund level by the Board of Trustees upon acceptance of the grants. These grants are subject to federal, state, and locally imposed project length budgets and monitoring through submission of reimbursement reports.

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end. Supplemental appropriations were made during the fiscal year ended August 31, 2012. During the year ended August 31, 2012, the Board of Trustees approved budget amendments increasing expenditures as follows:

	<u>General Fund</u>	<u>Child Nutrition Fund</u>
Amendments Approved	\$ 3,018,582	\$ 75,000

The administrative level at which responsibility for control of budgeted appropriations begins is at the organizational level within each function of operations. The finance department reviews the expenditure requests submitted by the various organizational heads (principal and department heads) throughout the year to ensure proper spending compliance. No public funds of the District shall be expended in any manner other than as provided for in the budget adopted by the Board of Trustees.

The official school budget was prepared for adoption for budgeted governmental fund types by August 31, 2011. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency (TEA) through inclusion in the annual financial and compliance report.

OTHER SUPPLEMENTARY INFORMATION

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
August 31, 2012

	205	211	224
Data Control Codes	Head Start	ESEA Title I, A - Improving Basic Program	IDEA B - Formula
Assets			
1110 Cash and temporary investments	\$	\$	\$
1240 Receivables from other governments	59,630	86,841	144,932
1410 Deferred expenditures	4,899	15,425	15,029
1000 Total Assets	\$ 64,529	\$ 102,266	\$ 159,961
Liabilities and Fund Balances			
Liabilities:			
Current Liabilities:			
2110 Accounts payable	\$ 14,842	\$ 6,871	\$ 11,629
2150 Payroll deduction and withholdings payable			
2160 Accrued wages payable			
2170 Due to other funds	49,687	95,395	148,332
2300 Deferred revenues			
2000 Total Liabilities	64,529	102,266	159,961
Fund Balances:			
Committed :			
3545 Other purposes			
3000 Total fund balances			
4000 Total Liabilities and Fund Balances	\$ 64,529	\$ 102,266	\$ 159,961

225	244	255	263	277	279	283	285
IDEA B - Preschool	Vocational Ed. - Basic	ESEA Title II, A - Training and Recruiting	ESEA Title III, A - English Lang. Acquisition	Homelessness Prevention Program	Title II, Part D, ARRA- Enhancing Education through Technology	IDEA B - Formula ARRA (Stimulus)	A - Improving Basic Program ARRA (Stimulus)
\$ 1,746	\$ 6,932	\$ 35,587	\$ 6,252	\$ 152,795	\$	\$	\$
699		985	766				
<u>\$ 2,445</u>	<u>\$ 6,932</u>	<u>\$ 36,572</u>	<u>\$ 7,018</u>	<u>\$ 152,795</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
\$	\$	\$ 415	\$ 3,720	\$	\$	\$	\$
2,445	210 6,722	36,157	3,298	152,795			
<u>2,445</u>	<u>6,932</u>	<u>36,572</u>	<u>7,018</u>	<u>152,795</u>			
<u>\$ 2,445</u>	<u>\$ 6,932</u>	<u>\$ 36,572</u>	<u>\$ 7,018</u>	<u>\$ 152,795</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
August 31, 2012

	287	393	397	410
Data Control Codes	Education Jobs Fund	Texas Successful Schools Program	Advanced Placement Incentive	Instructional Materials Allotment
Assets				
1110	Cash and temporary investments	\$ 9,993	\$ 1,307	\$ 14,556
1240	Receivables from other governments	55,383		
1410	Deferred expenditures			
1000	Total Assets	\$ 55,383	\$ 9,993	\$ 1,307
Liabilities and Fund Balance				
Liabilities:				
Current Liabilities:				
2110	Accounts payable	\$	\$	\$ 10,500
2150	Payroll deduction and withholdings payable			
2160	Accrued wages payable			
2170	Due to other funds	55,383		
2300	Deferred revenues	9,993	1,307	4,056
2000	Total Liabilities	55,383	9,993	1,307
Fund Balances:				
Committed :				
3545	Other purposes			
3000	Total fund balances			
4000	Total Liabilities and Fund Balances	\$ 55,383	\$ 9,993	\$ 1,307

Exhibit H-1
Page 2 of 2

411	461				
<u>Technology Allotment</u>	<u>Campus Activity Fund</u>	<u>Total Nonmajor Governmental Funds</u>			
\$	\$ 423,387	\$ 449,243			
		550,098			
		37,803			
<u>\$</u>	<u>\$ 423,387</u>	<u>\$ 1,037,144</u>			
\$	\$ 24,861	\$ 72,838			
		210			
		550,214			
		15,356			
	<u>24,861</u>	<u>638,618</u>			
	<u>398,526</u>	<u>398,526</u>			
	<u>398,526</u>	<u>398,526</u>			
<u>\$</u>	<u>\$ 423,387</u>	<u>\$ 1,037,144</u>			

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2012

Data Control Codes		205	211	224	225
		Head Start	ESEA Title I, A - Improving Basic Program	IDEA B - Formula	IDEA B - Preschool
Revenues					
5700	Local, intermediate, and out-of-state	\$	\$	\$	\$
5800	State program revenues				
5900	Federal program revenues	712,094	975,363	1,057,337	39,650
5020	Total revenues	<u>712,094</u>	<u>975,363</u>	<u>1,057,337</u>	<u>39,650</u>
Expenditures					
Current:					
0011	Instruction	437,964	880,639	783,102	38,851
0012	Instruction resources and media services				
0013	Curriculum and instructional staff development	28,950	18,936	42,504	799
0023	School leadership	88,841			
0031	Guidance, counseling and evaluation services			171,747	
0032	Social work services		69,376		
0033	Health services	25,760			
0034	Student transportation	109,634		39,984	
0036	Extracurricular activities				
0041	General administration				
0051	Plant maintenance and operations				
0061	Community services	20,945	6,412		
Intergovernmental:					
0093	Payments related to shared services arrangement			20,000	
6030	Total Expenditures	<u>712,094</u>	<u>975,363</u>	<u>1,057,337</u>	<u>39,650</u>
1100	Excess (deficiency) of revenues over expenditures				
1200	Net change in fund balances				
0100	Fund balance - beginning				
3000	Fund balance - ending	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

244	255	263	277	279	283	285
Vocational Ed. - Basic	ESEA Title II, A - Training and Recruiting	ESEA Title III, A - English Lang. Acquisition	Homelessness Prevention Program	Title II, Part D, ARRA- Enhancing Education through Technology	IDEA B - Formula ARRA (Stimulus)	ESEA Title I, A - Improving Basic Program ARRA (Stimulus)
\$	\$	\$	\$	\$	\$	\$
82,488	233,814	52,567		4,057	61,486	133,987
<u>82,488</u>	<u>233,814</u>	<u>52,567</u>		<u>4,057</u>	<u>61,486</u>	<u>133,987</u>
17,977	175,470	50,925		4,057	60,345	119,876
3,827	58,344	1,642			1,141	14,111
35,311						
25,373						
<u>82,488</u>	<u>233,814</u>	<u>52,567</u>		<u>4,057</u>	<u>61,486</u>	<u>133,987</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2012

Data Control Codes		287	393	397	410
		Education Jobs Fund	Texas Successful Schools Program	Advanced Placement Incentive	Instructional Materials Allotment
	Revenues				
5700	Local, intermediate, and out-of-state	\$	\$	\$	\$
5800	State program revenues				504,881
5900	Federal program revenues	966,484			
5020	Total revenues	<u>966,484</u>			<u>504,881</u>
	Expenditures				
	Current:				
0011	Instruction	966,484			504,881
0012	Instruction resources and media services				
0013	Curriculum and instructional staff development				
0023	School leadership				
0031	Guidance, counseling and evaluation services				
0032	Social work services				
0033	Health services				
0034	Student transportation				
0036	Extracurricular activities				
0041	General administration				
0051	Plant maintenance and operations				
0061	Community services				
	Intergovernmental:				
0093	Payments related to shared services arrangement				
6030	Total Expenditures	<u>966,484</u>			<u>504,881</u>
1100	Excess (deficiency) of revenues over expenditures				
1200	Net change in fund balances				
0100	Fund balance - beginning				
3000	Fund balance - ending	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

Exhibit H-2
Page 2 of 2

411	461	
Technology Allotment	Campus Activity Fund	Total-Other Governmental Funds
\$	\$ 586,098	\$ 586,098
		504,881
		4,319,327
	586,098	5,410,306
10,884	363,621	4,415,076
	69,053	69,053
	48,503	218,757
	22,689	111,530
		207,058
		69,376
		25,760
		149,618
	72,567	72,567
	13,107	13,107
	13,984	13,984
		52,730
		20,000
10,884	603,524	5,438,616
(10,884)	(17,426)	(28,310)
(10,884)	(17,426)	(28,310)
10,884	415,952	426,836
\$	\$ 398,526	\$ 398,526

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
For the Year Ended August 31, 2012

Exhibit H-3

<u>Data Control Codes</u>	<u>773</u>	<u>797</u>	<u>Total</u>
	<u>Worker's Compensation</u>	<u>Technology Equipment</u>	
Assets			
Current assets:			
1110	\$ 4,652,476	\$ 866,540	\$ 5,519,016
1000	<u>\$ 4,652,476</u>	<u>\$ 866,540</u>	<u>\$ 5,519,016</u>
Liabilities			
Current Liabilities:			
2110	\$ 1,836	\$	\$ 1,836
2150	55		55
2160	364		364
2200	39,675		39,675
2000	<u>41,930</u>		<u>41,930</u>
Net Assets			
3900	4,610,546	866,540	5,477,086
3000	<u>4,610,546</u>	<u>866,540</u>	<u>5,477,086</u>
4000	<u>\$ 4,652,476</u>	<u>\$ 866,540</u>	<u>\$ 5,519,016</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
For the Year Ended August 31, 2012

Exhibit H-4

Data Control Codes		773	797	Total
		Worker's Compensation	Technology Equipment	
	Operating Revenues			
5700	Charges for Services	\$ 511,683	\$	\$ 511,683
5800	State Program Revenues	2,897		2,897
5020	Total operating revenues	<u>514,580</u>		<u>514,580</u>
	Operating Expenses			
6100	Payroll costs	57,393		57,393
6200	Purchased and contracted services	44,956		44,956
6300	Supplies and materials	8,323		8,323
6400	Claims expense and other operating expenses	113,902		113,902
6600	Capital outlay		1,133,460	1,133,460
6030	Total Operating Expenses	<u>224,574</u>	<u>1,133,460</u>	<u>1,358,034</u>
1200	Operating Income (Loss)	<u>290,006</u>	<u>(1,133,460)</u>	<u>(843,454)</u>
	Non-Operating Revenues (Expenses)			
7020	Earnings - temporary deposits and investments	3,178		3,178
	Total Nonoperating Revenues	<u>3,178</u>		<u>3,178</u>
	Income (Loss) before Transfers	293,184	(1,133,460)	(840,276)
	Transfers			
7915	Transfers in		2,000,000	2,000,000
1200	Change in Net Assets	293,184	866,540	1,159,724
	Net Assets			
0100	Net Assets - beginning	<u>4,317,362</u>		<u>4,317,362</u>
3300	Net Assets - ending	<u>\$ 4,610,546</u>	<u>\$ 866,540</u>	<u>\$ 5,477,086</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
Year Ended August 31, 2012

Exhibit H-5

	773	797	
	<u>Worker's Compensation</u>	<u>Technology Equipment</u>	<u>Total</u>
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash received from user charges	\$ 511,683	\$	\$ 511,683
Cash received from state	2,897		2,897
Cash payments for insurance claims	(207,940)		(207,940)
Cash payments to suppliers for goods and services	(52,778)	(1,133,460)	(1,186,238)
Cash payments to employees	(59,151)		(59,151)
Net Cash Provided by (Used for) Operating Activities	<u>194,711</u>	<u>(1,133,460)</u>	<u>(938,749)</u>
Cash Flows from Non-Capital Financing Activities:			
Transfers from other funds		2,000,000	2,000,000
Net Cash Provided by (Used for) Non-Capital Financing Activities		<u>2,000,000</u>	<u>2,000,000</u>
Cash Flows from Investing Activities:			
Interest on investments	3,178		3,178
Net Cash Provided by Investing Activities	<u>3,178</u>		<u>3,178</u>
Net Increase in Cash and Cash Equivalents	197,889	866,540	1,064,429
Cash and Cash Equivalents at Beginning of Year	4,454,587		4,454,587
Cash and Cash Equivalents at End of Year	<u>\$ 4,652,476</u>	<u>\$ 866,540</u>	<u>\$ 5,519,016</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ 290,006	\$ (1,133,460)	\$ (843,454)
Adjustments to Reconcile Operating Income to Net Cash			
Increase (decrease) in Accounts Payable	501		501
Increase (decrease) in Accrued Wages Payable	(1,758)		(1,758)
Increase (decrease) in Accrued Expenses	(94,038)		(94,038)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 194,711</u>	<u>\$ (1,133,460)</u>	<u>\$ (938,749)</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET ASSETS - PRIVATE PURPOSE TRUST FUNDS
 August 31, 2012

Exhibit H-6

Data Control Codes	828 Project Garden Grant	848 Employee Scholarship Fund	849 Heatherington Scholarship	Total Private Purpose Trust Funds	Agency Funds
Assets					
1110 Cash and cash equivalents	\$ 3,201	\$ 106,552	\$ 39,457	\$ 149,210	\$ 236,842
1000 Total Assets	\$ 3,201	\$ 106,552	\$ 39,457	\$ 149,210	\$ 236,842
Liabilities					
2110 Accounts payable					5,036
2190 Due to others					231,806
2000 Total Liabilities					236,842
Net Assets					
3800 Restricted	\$ 3,201	\$ 106,552	\$ 39,457	\$ 149,210	\$

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - PRIVATE PURPOSE TRUST FUNDS
For the Year Ended August 31, 2012

Exhibit H-7

	828	848	849	
	Project Garden Grant	Employee Scholarship Fund	Heatherington Scholarship	Total
Additions				
Local and Intermediate Sources	\$	\$ 14,427	\$ 45	\$ 14,472
Total additions		14,427	45	14,472
Deductions				
Other operating expenses		22,904		22,904
Total deductions		22,904		22,904
Change in net assets		(8,477)	45	(8,432)
Net assets, beginning of year	3,201	115,029	39,412	157,642
Net assets, end of year	\$ 3,201	\$ 106,552	\$ 39,457	\$ 149,210

REQUIRED TEA SCHEDULES

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2012

Last Ten Fiscal Years	1		2	3	10
	Tax Rates		Debt Service	Net Assessed/Appraised Value For School Tax Purposes	Beginning Balance 9/1/2011
	Maintenance				
2003 and prior	Various		Various	Various	\$ 676,492
2004	1.500000		0.123400	2,443,047,247	73,440
2005	1.500000		0.113000	2,820,369,267	73,924
2006	1.500000		0.087100	3,170,199,357	81,788
2007	1.370050		0.078304	3,818,528,205	104,411
2008	1.040050		0.072700	4,070,666,320	100,331
2009	1.040000		0.144930	4,368,445,589	151,247
2010	1.040000		0.176000	4,118,093,421	266,082
2011	1.040000		0.248600	3,660,903,461	377,647
2012	1.040000		0.255300	3,766,001,390	
1000 Totals					\$ 1,905,362

Exhibit J-1

20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 8/31/2012
\$	\$ 3,441	\$ 273	\$ (1,632)	\$ 671,146
	1,700	140	(106)	71,494
	2,976	224	(106)	70,618
	6,371	370	(104)	74,943
	13,551	774	(936)	89,150
	13,008	909	(437)	85,977
	21,623	3,013	(1,201)	125,410
	48,365	8,185	(45,107)	164,425
	82,512	19,724	(19,461)	255,950
<u>48,781,016</u>	<u>39,315,420</u>	<u>9,651,179</u>	<u>557,773</u>	<u>372,190</u>
<u>\$ 48,781,016</u>	<u>\$ 39,508,967</u>	<u>\$ 9,684,791</u>	<u>\$ 488,683</u>	<u>1,981,303</u>
				<u>1,756,242</u>
				<u>\$ 3,737,545</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF
INDIRECT COSTS FOR 2013-2014
GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended August 31, 2012

Exhibit J-2

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ 11,610	\$ 79,690	\$ 154,237	\$ 1,096,345	\$	\$ 74,983	\$ 1,416,865
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)				143			143
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)				8,484			8,484
6211	Legal Services	133,735						133,735
6212	Audit Services				62,000			62,000
6213	(Appraisal district costs only from function 99)		313,524					313,524
6214	Lobbying							
621X	Other Prof. Services	22,869			72,511			95,380
6220	Tuition and Transfer Payments							
6230	Education Service Centers					11,114		11,114
6240	Contr. Maint. and Repair					381,489		381,489
6250	Utilities							
6260	Rentals				27,916			27,916
6290	Miscellaneous Contr.				56,497			56,497
6320	Textbooks and Reading		21	500	420			941
6330	Testing Materials							
63XX	Other Supplies Materials		3,998	2,527	131,196			137,721
6410	Travel, Subsistence, Stipends	21,233	1,782	3,628	13,432			40,075
6420	Ins. and Bonding Costs	32,038	250		5,631			37,919
6430	Election Costs							
6490	Miscellaneous Operating	33,329	220	20,675	55,491		13,107	122,822
6500	Debt Service							
6600	Capital Outlay							
6000	TOTAL	\$ 254,814	\$ 399,485	\$ 181,567	\$ 1,530,066	\$ 392,603	\$ 88,090	\$ 2,846,625

Total expenditures/expenses for General and Special Revenue Funds
 (plus Food Service Enterprise Fund if present) 9 \$59,651,656

Less: Deductions of Unallowable Costs

Fiscal Year

Total Capital Outlay (6600)	10	\$1,446,817	
Total Debt & Lease (6500)	11	27,507	
Plant Maintenance (Function 51, 6100-6400)	12	8,241,927	
Food (Function 35, 6341 and 6499)	13	1,099,405	
Stipends (6413)	14		
Column 4 (above) - Total Indirect Cost		1,530,066	
Subtotal:			12,345,722
Net Allowed Direct Cost			\$47,305,934

Cumulative

Total Cost of Buildings before Depreciation (1520)	15	142,016,099	
Historical Cost of Buildings over 50 years old	16	4,461,695	
Amount of Federal Money in building Cost (Net of #16)	17	430,625	
Total Cost of Furniture & Equipment before Depreciation (1530&1540)	18	13,451,103	
Historical Cost of Furniture & Equipment over 16 years old	19	194,764	
Amount of Federal Money in Furniture & Equipment (Net of #19)	20	904,448	

(8) Note A - \$374,855 in Function 53 expenditures are included in this report on administrative costs as well as leave pay in the amount of \$8,484 in all other functions. \$313,524 in Function 99 expenditures for appraisal district costs are included in this report in administrative costs.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 DEBT SERVICE FUND
 For the Year Ended August 31, 2012

Exhibit J-4

Data Control Codes		Debt Service			
		Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
		Original	Final		
Revenues					
5700	Local revenues	\$ 9,104,320	\$ 9,204,267	\$ 9,721,873	\$ 517,606
5020	Total revenues	<u>9,104,320</u>	<u>9,204,267</u>	<u>9,721,873</u>	<u>517,606</u>
Expenditures					
Debt Service:					
0071	Principal on long-term debt	3,755,000	3,755,000	3,755,000	
0072	Interest on long-term debt	5,346,767	5,346,767	5,346,767	
0073	Bond issuance costs and fees	2,500	102,500	2,500	100,000
6030	Total Expenditures	<u>9,104,267</u>	<u>9,204,267</u>	<u>9,104,267</u>	<u>100,000</u>
0100	Net change in fund balances	53		617,606	617,606
1300	Fund balances - beginning	<u>3,131,086</u>	<u>3,131,086</u>	<u>3,131,086</u>	
3000	Fund balances - ending	<u>\$ 3,131,139</u>	<u>\$ 3,131,086</u>	<u>\$ 3,748,692</u>	<u>\$ 617,606</u>

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FEDERAL AWARDS SECTION

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

To the Board of Trustees
Texas City Independent School District
Texas City, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Texas City Independent School District's (the "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 December 11, 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 the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item #12-01 and #12-02.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of trustees, management, others within the organization, the Texas Education Agency and other applicable 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.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Texas City, Texas
December 11, 2012

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

To the Board of Trustees
Texas City Independent School District
Texas City, Texas

Compliance

We have audited Texas City Independent School District's (the "District") compliance 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 the District's 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 the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Texas City Independent School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012.

Internal Control over Compliance

Management of the 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 the District's internal control over compliance.

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

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

This report is intended solely for the information and use of the board of trustees, management, others within the organization, the Texas Education Agency and other applicable 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.



Texas City, Texas
December 11, 2012

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2012

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) OMB Circular A-133?	No
Identification of major programs	
Name of Federal Program or Cluster	CFDA Numbers
Title I Cluster:	
ESEA, Title I, Part A	84.010A
ESEA, Title I, Part A (ARRA)	84.389A
Education Jobs Fund	84.410A
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2012

II. Financial Statement Findings

Finding #12-01 Maintenance of Effort for Special Education

- Criteria:** Per Title 34, Section 300.203 of the Code of Federal Regulations, funds provided to a local education agency may not be used to reduce the level of expenditures for the education of children with disabilities made by the local education agency from local funds below the level of those expenditures for the preceding fiscal year.
- Condition:** Based on the information available as of the date of this report, it appears the District had a decline in fiscal effort compared to the previous year.
- Effect:** There is a potential the District is not in compliance with the maintenance of effort requirement.
- Cause:** Decrease in funding at the state level has created difficulty for school districts to continue to meet the maintenance of effort requirement.
- Recommendation:** Once the maintenance of effort calculation for fiscal year 2011-12 is determined, the District should evaluate whether or not the exceptions under 34 Code of Federal Regulations, Section 300.24, apply in order to demonstrate maintenance of effort compliance.

Finding #12-02 Excess Food Service Fund Balance

- Criteria:** Per Section 14.2 of the Texas Department of Agriculture's Administrative Reference Manual and also referenced in Section 1.3.2.4 of the Texas Education Agency's (TEA) Financial Accountability Resource Guide, the Food Service (Fund 240) fund balance cannot exceed three months of average expenditures.
- Condition:** The Food Service fund balance exceeded three months of average expenditures by \$663,174.
- Effect:** The District is not in compliance with the Texas Department of Agriculture's fund balance requirement.
- Cause:** Current year expenditures did not reduce fund balance below the three months average fund balance requirement.
- Recommendation:** The District should evaluate its future spending to ensure its Food Service fund balance is within the Texas Department of Agriculture's fund balance level.

III. Federal Awards Findings and Questioned Costs

None reported

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2012

IV. Status of Prior Year Findings

#11-01 – Resolved:

Payroll coding for federally funded employees – Human Resources provides changes to grant directors when employees are moved between funds. Finance monitors budget to actual.

V. Corrective Action

Finding # 12-01

**Maintenance of Effort for
Special Education**

Contact Person: Cynthia Peltier

Response: During 2011-2012, the district lost 3 special education employees through attrition. In accordance with 34 Code of Federal Regulations, Section 300.204, local educational agencies may reduce their level of local, or State and local expenditures below amounts expended in the prior year if such a reduction is attributable to any of the following five exceptions:

1. The voluntary departure, by retirement or otherwise, or departure for just cause, of special education or related services personnel.
2. A decrease in the enrollment of children with disabilities.
3. The termination of the obligation of the District to provide a program of special education to a particular child with a disability that is an exceptionally costly program because the child either left the jurisdiction of the District, reached the age at which the obligation to provide services has terminated, or no longer needs the program of special education.
4. The termination of costly expenditures for long-term purchases, such as the acquisition of equipment.
5. The assumption of cost by the high cost fund.

While the District has not received a preliminary letter from the Texas Education Agency regarding MOE noncompliance for fiscal year 2011-12, one or more of the above listed exceptions apply. Should the initial calculations by the TEA result in a preliminary finding that the District failed to maintain fiscal effort for the 2011-12 fiscal year, the District will be prepared to submit documentation to support the applicable exceptions to the finding.

Estimated Date of Completion: 08/31/2013

Finding #12-02

**Excess Food Service Fund
Balance**

Contact Person: William Roblyer

Response: The Food service director is currently in negotiations with the Texas Department of Agriculture on how to utilize these funds. The District is going to use a portion of this money to replace food serving lines at two of our campuses and plan on using the remaining excess fund balance on the cafeteria of the new middle school.

Estimated Date of Completion: August 31, 2015

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2012

Exhibit K-1

(2A) Pass Through Entity Identifying Number	(1) Federal Grantor/ Pass-Through Grantor/ Program Title	District Fund Number	(2) Federal CFDA Number	(3) Federal Expenditures
U.S. Department of Education				
Passed Through Texas Education Agency:				
12610101084906	<i>ESEA, Title I, Part A **</i>	211	84.010A	\$ 924,233
11610101084906	<i>ESEA, Title I, Part A **</i>	211	84.010A	51,130
126600010849066000	<i>IDEA-B Formula *</i>	224	84.027A	992,030
116600010849066000	<i>IDEA-B Formula *</i>	224	84.027A	65,307
126610010849066000	<i>IDEA-B Preschool *</i>	225	84.173A	38,185
136610010849066000	<i>IDEA-B Preschool *</i>	225	84.173A	1,465
12420006084906	<i>Carl D. Perkins Basic Grant</i>	244	84.048A	75,556
13420006084906	<i>Carl D. Perkins Basic Grant</i>	244	84.048A	6,932
12694501084906	<i>Title II, Part A, Teacher/Principal Training</i>	255	84.367A	220,731
13694501084906	<i>Title II, Part A, Teacher/Principal Training</i>	255	84.367A	13,083
12671001084906	<i>Title III , Part A, LEP</i>	263	84.365A	50,873
13671001084906	<i>Title III , Part A, LEP</i>	263	84.365A	1,694
10553001084906	<i>ARRA - Title II, Part D Technology</i>	279	84.386A	4,057
10554001084906	<i>IDEA B - Formula ARRA (Stimulus)</i>	283	84.391A	61,486
10551001084906	<i>Title I, Part A - ARRA (Stimulus)**</i>	285	84.389A	133,987
11550101084906	<i>Education Jobs Fund</i>	287	84.410A	966,484
69551102	<i>Title VI, Part A, Summer School LEP</i>	199	84.369A	3,329
Total U.S. Department of Education				<u>3,610,562</u>
U.S. Department of Health & Human Services				
Passed through Hitchcock I.S.D. :				
06CH0381	<i>Head Start</i>	205	93.600	518,064
06CH0381	<i>Head Start</i>	205	93.600	194,030
Total U.S. Department of Health & Human Services				<u>712,094</u>
U.S. Department of Agriculture				
Passed Through the Texas Department of Agriculture:				
<i>Non Cash assistance (Commodities):</i>				
084-906	<i>National School Lunch Program ***</i>	240	10.555	<u>225,628</u>
Passed Through Texas Education Agency:				
71301201	<i>National School Lunch Program ***</i>	240	10.555	1,659,104
71401201	<i>School Breakfast Program***</i>	240	10.553	624,704
Passed Through Texas Education Agency				<u>2,283,808</u>
Total U.S. Department of Agriculture				<u>2,509,436</u>
Total Expenditures of Federal Awards				<u>\$ 6,832,092</u>

* Special Education Cluster
 ** Title I, Part A Cluster
 *** Child Nutrition Cluster

Note 1 -Basis of Accounting

The District accounts for all awards under federal programs in the General and Certain Special Revenue Funds in accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*. These programs are accounted for using a current financial resources measurement focus. 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 these 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 liability is incurred, if measurable, except for 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. Generally, unused balances are returned to the grantor at the close of specified project periods

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2012. 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 Government, 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.

Note 3 - Reconciliation to Basic Financial Statements

The following is a reconciliation of expenditures of federal awards program per Exhibit K-1 and expenditures reported on Exhibit C-3:

Total shown on Schedule of Expenditures of Federal Awards	\$ 6,832,092
Federal revenue accounted for in the General Fund	
Medicaid SHARS	319,857
Total Federal Revenue - Exhibit C-3	<u>\$ 7,151,949</u>

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TEXAS CITY INDEPENDENT SCHOOL DISTRICT
Required Responses to Selected School First Indicators
8/31/2012

Exhibit L-1

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

DO NOT BIND IN REPORT