

**TEXAS CITY INDEPENDENT  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND  
COMPLIANCE REPORT**

**For The Year Ended August 31, 2011**



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Texas City, Texas 77590  
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**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, 2011, at a meeting of the board of trustees of such school district on December 13, 2011.

Hal Brigg  
President of the Board

Adriana Ryle  
Secretary of the Board



## Financial Section







## **Independent Auditors' Report**

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, 2011, 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, 2011, 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 13, 2011, 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.

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 52 through 53 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.



Texas City, Texas  
December 13, 2011

## **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, 2011.

#### **Financial Highlights**

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$76,761,377 (*net assets*). Of this amount, \$42,541,582 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to students and creditors.

- The District's total net assets increased by \$8,005,605.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$75,896,918, an increase of \$14,647,052 in comparison with the prior year. The capital projects fund balance increased \$20,569,857. The debt service fund balance increased by \$1,275,119. The National School Breakfast and Lunch fund balance increased by \$409,201.
- During the current fiscal year, unassigned fund balance for the general fund decreased \$7,256,361, to \$3,338,422, or 6 percent of general fund expenditures.
- The District's total bonded debt increased by \$31,275,000 (34 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 health insurance and workers' compensation insurance coverage. *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 predominantly benefits 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 Health Insurance Fund and the Worker's Compensation Insurance 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 \$76,761,377 at the close of the most recent fiscal year.

A portion of the District's net assets, \$29,833,928 , 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, 2011, the District's net assets included the following:

	<b>Governmental Activities</b>		<b>Percentage Change</b>
	<b>2011</b>	<b>2010</b>	
Current and other assets	\$ 90,636,792	\$ 77,975,145	16%
Capital and non current assets	123,905,632	96,445,108	28%
<b>Total Assets</b>	<b>214,542,424</b>	<b>174,420,253</b>	<b>23%</b>
Current liabilities	8,968,106	11,575,280	-23%
Long term liabilities	128,812,941	94,089,201	37%
<b>Total Liabilities</b>	<b>137,781,047</b>	<b>105,664,481</b>	<b>30%</b>
Net Assets:			
Invested in capital assets net of related debt	29,833,928	16,528,293	81%
Restricted	4,385,867	2,688,152	63%
Unrestricted	42,541,582	49,539,327	-14%
<b>Total Net Assets</b>	<b>\$ 76,761,377</b>	<b>\$ 68,755,772</b>	<b>12%</b>

Net assets are restricted for various purposes as follows:

	<b>Governmental Activities</b>		<b>Percentage Change</b>
	<b>2011</b>	<b>2010</b>	
Federal and State Grant Programs	\$ 10,884	\$ 96,033	-89%
Food Service	905,208	496,007	82%
Debt Service	3,053,823	1,671,002	83%
Campus Activities	415,952	425,110	-2%
	<b>\$ 4,385,867</b>	<b>\$ 2,688,152</b>	<b>63%</b>

The remaining balance of unrestricted net assets, \$42,541,582, 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 increased by \$8,005,605 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, 2011 and 2010**

	<b>Governmental Activities</b>		<b>Percentage</b>
	<b>2011</b>	<b>2010</b>	<b>Change</b>
<b>Revenues</b>			
<b>Program revenues:</b>			
Charges for services	\$ 1,658,494	\$ 1,722,805	-4%
Operating grants	11,828,945	10,982,870	8%
<b>General revenues:</b>			
Property taxes	47,672,655	43,036,499	11%
State Aid - Formula Grants	10,502,246	15,156,612	-31%
Grants and contributions not restricted	6,057	6,227	-3%
Interest earnings	118,024	171,140	-31%
Other	7,704,260	7,307,192	5%
<b>Total Revenues</b>	<b>79,490,681</b>	<b>78,383,345</b>	<b>1%</b>
<b>Expenses</b>			
Instruction	33,170,628	32,620,259	2%
Instructional resources and media services	919,734	968,793	-5%
Curriculum and staff development	626,500	618,385	1%
Instructional leadership	432,132	403,710	7%
School leadership	3,104,580	3,313,535	-6%
Guidance, counseling, and evaluation services	1,795,984	1,733,009	4%
Social work services	143,966	137,345	5%
Health services	523,197	491,815	6%
Student transportation	1,259,704	1,205,194	5%
Food service	3,206,958	3,017,347	6%
Extracurricular activities	1,704,145	1,846,085	-8%
General administration	2,663,810	2,467,125	8%
Facilities maintenance and operations	8,025,255	8,083,849	-1%
Security and monitoring services	610,221	577,671	6%
Data processing services	856,957	803,690	7%
Community services	122,270	117,302	4%
Interest on long-term debt	4,646,848	3,905,933	19%
Capital outlay	79,828	141,020	-43%
Contracted instructional services between schools	6,559,007	13,304,424	-51%
Payments related to shared services arrangements	119,026	90,077	32%
Payments to Juvenile Justice Alternative Education Programs	84,800	100,686	-16%
Other governmental charges	442,795	446,963	-1%
<b>Total Expenses</b>	<b>71,098,345</b>	<b>76,394,217</b>	<b>-7%</b>
Excess (deficiency) before special items and transfers	8,392,336	1,989,128	322%
Special items	(386,731)	5,344	-7337%
Increase (Decrease) in Net Assets	8,005,605	1,994,472	301%
<b>Net assets - beginning</b>	<b>68,755,772</b>	<b>66,761,300</b>	<b>3%</b>
<b>Net assets - ending</b>	<b>\$ 76,761,377</b>	<b>\$ 68,755,772</b>	<b>12%</b>

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

**Governmental activities**

Governmental activities increased the District's net assets by \$8,005,605. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 88 percent of total revenues. The remaining is generated from charges for services, investment earnings, and miscellaneous revenues.

	<b>Total Revenues</b>	<b>% of Total Revenues</b>
Property taxes	\$ 47,672,655	60%
State Aid - Formula Grants	10,502,246	13%
Operating grants and contributions	11,828,945	15%
Other revenue	9,486,835	12%
<b>Total Revenues</b>	<b>\$ 79,490,681</b>	<b>100%</b>

The primary functional expenses of the District are instruction, contracted instructional services between districts and facilities maintenance and operations, which represent 67 percent of total expenses. The remaining individual functional categories of expenses are each less than 10 percent of total expenses.

	<b>Total Expenses</b>	<b>% of Total Expenses</b>
Instruction	\$ 33,170,628	47%
Contracted instructional services between schools	6,559,007	9%
Facilities maintenance and operations	8,025,255	11%
Other expenses	23,343,455	33%
<b>Total Expenses</b>	<b>\$ 71,098,345</b>	<b>100%</b>

**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 \$75,896,918, an increase of \$14,647,052 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 \$3,338,422, while total fund balance reached \$37,004,757. 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 6 percent of total general fund expenditures, while total fund balance represents 68 percent of that same amount. The fund balance of the District's general fund decreased by \$7,512,825 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 \$905,208, restricted for investment in inventory and food service operations. The net increase in fund balance during the current year of \$409,201 was due to implementing more efficient processes and increases in food service revenue.

The debt service fund has a total fund balance of \$3,131,086, 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 \$1,275,119 was attributable to higher than expected tax revenue during the year.

The capital projects fund has a fund balance of \$34,429,031, all of which is restricted for construction, repairs and renovations. The net increase in the capital projects fund balance during the current year of \$20,569,857 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:

	<b>Budget</b>	
	<b>Original</b>	<b>Final Amended</b>
Total revenues	\$ 53,558,815	\$ 57,021,963
Total expenditures	(55,122,167)	(59,843,631)
Other financing sources (uses)	(14,000)	3,278,221
Net change in fund balance	<u>\$ (1,577,352)</u>	<u>\$ 456,553</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, 2011, includes land, buildings and improvements, furniture and equipment, and construction in progress. The investment in capital assets for the current fiscal year was \$31,377,644. The following table summarizes the investment in capital assets as of August 31, 2011 and 2010.

	<b>2011</b>	<b>2010</b>
Land	\$ 1,302,928	\$ 1,302,928
Buildings and improvements	100,234,346	94,972,760
Furniture and equipment	12,249,488	11,314,251
Construction in progress	55,762,196	31,556,456
<b>Total</b>	<u>169,548,958</u>	<u>139,146,395</u>
Accumulated depreciation	(46,828,588)	(43,515,650)
<b>Net capital assets</b>	<u>\$ 122,720,370</u>	<u>\$ 95,630,745</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 \$122,950,000 in bonded debt outstanding, an increase of \$31,275,000 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, 2011, are as follows:

<b>Outstanding</b>			<b>Outstanding</b>
<b>09/01/10</b>	<b>Issued</b>	<b>Retired</b>	<b>08/31/11</b>
<u>\$ 91,675,000</u>	<u>\$ 42,825,000</u>	<u>\$ (11,550,000)</u>	<u>\$ 122,950,000</u>

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 2011-2012 increase was up approximately \$115 million, or 40% 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 2011-2012 fiscal year is \$1.2953 per \$100 valuation (\$1.04000 for M&O; \$.2553 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 \$8,805 for 2011-2012, based on current budget projections.

These indicators were taken into account when adopting the general fund budget for 2011-2012. The total Texas City Independent School District budget for 2011-2012 is \$71,572,160 for all funds.

Fiscal year 2011-2012 expenditures are budgeted to decrease by approximately \$2.9 million from 2010-2011. The decrease is mainly due to a decrease of \$1.8 million in Chapter 41 recapture expenditures.

If these estimates are realized, the District's budgetary fund balance of the general fund is expected to remain constant. However, unexpected and unbudgeted major expenditures can and will have a negative impact on fund balance. Major maintenance projects are absorbed by the general fund and these projects will continue to expand as district facilities continue to age. There are numerous maintenance and security projects currently being considered for implementation by the Board of Trustees.

**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**  
**STATEMENT OF NET ASSETS**  
*August 31, 2011*

*Exhibit A-1*

<b>Data Control Codes</b>		<b>Governmental Activities</b>
	<b>Assets</b>	
1110	Cash and cash equivalents	\$ 76,282,945
1225	Property taxes receivables, net	1,685,876
1240	Due from other governments	11,091,966
1267	Due from fiduciary funds	651,959
1300	Inventories	244,135
1410	Deferred expenses	679,911
1420	Capital bond and other debt issuance costs	1,185,262
	Capital assets not subject to depreciation:	
1510	Land	1,302,928
1580	Construction in progress	55,762,196
	Capital assets net of depreciation:	
1520	Buildings and improvements, net	59,093,578
1530	Furniture and equipment, net	6,561,668
<b>1000</b>	<b>Total Assets</b>	<b>214,542,424</b>
	<b>Liabilities</b>	
2110	Accounts payable	3,714,452
2140	Interest payable	271,584
2150	Payroll deductions and withholdings	180,863
2160	Accrued wages payable	1,832,455
2180	Due to other governments	377,062
2200	Accrued expenses	2,580,924
2300	Unearned revenue	10,766
	Noncurrent Liabilities:	
2501	Due within one year	3,783,433
2502	Due in more than one year	125,029,508
<b>2000</b>	<b>Total Liabilities</b>	<b>137,781,047</b>
	<b>Net Assets</b>	
3200	Invested in capital assets, net of related debt	29,833,928
	Restricted for:	
3820	Federal and state programs	10,884
3840	Food service	905,208
3850	Debt service	3,053,823
3870	Campus activity	415,952
3900	Unrestricted	42,541,582
<b>3000</b>	<b>Total net assets</b>	<b>\$ 76,761,377</b>

See Notes to the Financial Statements



TEXAS CITY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
For the Year Ended August 31, 2011

Exhibit B-1

Data Control Codes	Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets Primary Government
			Charges for Services	Operating Grants and Contributions	Governmental Activities
	<b>Governmental activities:</b>				
11	Instruction	\$ 33,170,628	\$ 340,212	\$ 4,833,246	\$ (27,997,170)
12	Instructional resources and media services	919,734	61,728	29,721	(828,285)
13	Curriculum and staff development	626,500	67,340	173,177	(385,983)
21	Instructional leadership	432,132		19,212	(412,920)
23	School leadership	3,104,580	33,670	216,835	(2,854,075)
31	Guidance, counseling, and evaluation services	1,795,984		476,707	(1,319,277)
32	Social work services	143,966		70,281	(73,685)
33	Health services	523,197		413,010	(110,187)
34	Student transportation	1,259,704		358,638	(901,066)
35	Food service	3,206,958	872,434	2,583,794	249,270
36	Extracurricular activities	1,704,145	199,657	55,971	(1,448,517)
41	General administration	2,663,810	16,835	70,801	(2,576,174)
51	Facilities maintenance and operations	8,025,255	66,618	2,385,519	(5,573,118)
52	Security and monitoring services	610,221		10,902	(599,319)
53	Data processing services	856,957		29,275	(827,682)
61	Community services	122,270		97,562	(24,708)
72	Interest on long-term debt	4,646,848			(4,646,848)
81	Capital outlay	79,828		4,294	(75,534)
91	Contracted instructional services between schools	6,559,007			(6,559,007)
93	Payments related to shared services arrangements	119,026			(119,026)
95	Payments to Juvenile Justice Alternative Education Programs	84,800			(84,800)
99	Other governmental charges	442,795			(442,795)
<b>TG</b>	<b>Total governmental activities</b>	<u>\$ 71,098,345</u>	<u>\$ 1,658,494</u>	<u>\$ 11,828,945</u>	<u>(57,610,906)</u>

Data Control Codes		
	<b>General revenues:</b>	
	Taxes:	
<b>MT</b>	Property taxes, levied for general purposes	38,518,612
<b>DT</b>	Property taxes, levied for debt service	9,154,043
<b>SF</b>	State-aid formula grants	10,502,246
<b>GC</b>	Grants and contributions not restricted	6,057
<b>IE</b>	Investment earnings	118,024
<b>MI</b>	Miscellaneous	7,704,260
<b>SI</b>	Special item - loss on disposal of asset	(386,731)
<b>TR</b>	<b>Total general revenues, special items, and transfers</b>	<u>65,616,511</u>
<b>CN</b>	Change in net assets	8,005,605
<b>NB</b>	<b>Net assets - beginning</b>	<u>68,755,772</u>
<b>NE</b>	<b>Net assets - ending</b>	<u>\$ 76,761,377</u>

See Notes to the Financial Statements

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**August 31, 2011**

<b>Data Control Codes</b>		<b>General Fund</b>	<b>Child Nutrition Fund</b>	<b>Debt Service Fund</b>
<b>Assets</b>				
1110	Cash and cash equivalents	\$ 27,854,360	\$ 890,990	\$ 3,171,202
	Receivables:			
1220	Delinquent property taxes receivables	3,189,976		321,159
1230	Allowance for uncollectible taxes (credit)	(1,658,305)		(166,954)
1240	Receivables from other governments	8,706,961	118,713	
1260	Due from other funds	2,421,647		
1300	Inventories, at cost	211,476	32,659	
1410	Deferred expenditures	678,072		
<b>1000</b>	<b>Total Assets</b>	<b>\$ 41,404,187</b>	<b>\$ 1,042,362</b>	<b>\$ 3,325,407</b>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities:</b>				
2110	Accounts payable	\$ 668,784	\$ 62,465	\$
2140	Interest payable			39,116
2150	Payroll deduction and withholdings payable	141,774	19,775	
2160	Accrued wages payable	1,680,139	54,914	
2170	Due to other funds			
2180	Payable to other governments	377,062		
2200	Accrued expenses			
2300	Deferred revenues	1,531,671		155,205
<b>2000</b>	<b>Total Liabilities</b>	<b>4,399,430</b>	<b>137,154</b>	<b>194,321</b>
<b>Fund Balances:</b>				
<b>Nonspendable :</b>				
3410	Inventories	211,476	32,659	
3430	Prepaid items	678,072		
<b>Restricted:</b>				
3450	Federal/State grant restrictions			
3470	Capital acquisitions		676,557	
3480	Debt service			3,131,086
<b>Committed :</b>				
3510	Construction repairs, renovations			
3530	Capital expenditures for equipment	1,500,000		
3545	Other purposes		195,992	
<b>Assigned:</b>				
3590	Other assigned	31,276,787		
3600	<b>Unassigned</b>	<b>3,338,422</b>		
<b>3000</b>	<b>Total fund balances</b>	<b>37,004,757</b>	<b>905,208</b>	<b>3,131,086</b>
<b>4000</b>	<b>Total Liabilities and Fund Balances</b>	<b>\$ 41,404,187</b>	<b>\$ 1,042,362</b>	<b>\$ 3,325,407</b>

Exhibit C-1

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 39,377,688	\$ 534,118	\$ 71,828,358
		3,511,135
		(1,825,259)
	2,266,292	11,091,966
		2,421,647
		244,135
	1,839	679,911
<u>\$ 39,377,688</u>	<u>\$ 2,802,249</u>	<u>\$ 87,951,893</u>
\$ 2,501,446	\$ 480,420	\$ 3,713,115
		39,116
	19,032	180,581
	95,507	1,830,560
	1,769,688	1,769,688
		377,062
2,447,211		2,447,211
	10,766	1,697,642
<u>4,948,657</u>	<u>2,375,413</u>	<u>12,054,975</u>
		244,135
		678,072
	10,884	10,884
		676,557
		3,131,086
34,429,031		34,429,031
		1,500,000
	415,952	611,944
		31,276,787
		3,338,422
<u>34,429,031</u>	<u>426,836</u>	<u>75,896,918</u>
<u>\$ 39,377,688</u>	<u>\$ 2,802,249</u>	<u>\$ 87,951,893</u>

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**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO**  
**STATEMENT OF NET ASSETS**  
**August 31, 2011**

*Exhibit C-2*

<b>Data Control Codes</b>		
	<b>Total fund balance, governmental funds</b>	<b>\$ 75,896,918</b>
	Amounts reported for <i>governmental activities</i> in the statement of net assets (A-1) are different because:	
<b>1</b>	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.	122,720,370
<b>2</b>	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).	1,686,876
<b>3</b>	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.	1,185,262
	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:	
<b>4</b>	General obligation bonds	(122,950,000)
<b>5</b>	Premiums on issuance	(5,659,401)
<b>6</b>	Deferred loss on refunding	137,099
<b>7</b>	Capital leases payable	(28,433)
<b>8</b>	Accrued compensated absences	(312,206)
<b>9</b>	Accrued interest payable	(232,470)
<b>10</b>	Addition of Internal Service fund net assets	<u>4,317,362</u>
<b>19</b>	<b>Net assets - governmental activities</b>	<b><u>\$ 76,761,377</u></b>

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, 2011*

<b>Data Control Codes</b>		<b>General Fund</b>	<b>Child Nutrition Fund</b>	<b>Debt Service Fund</b>
	<b>Revenues</b>			
5700	Local, intermediate, and out-of-state	\$ 42,844,253	\$ 872,681	\$ 9,125,162
5800	State program revenues	12,377,559	76,427	
5900	Federal program revenues	357,068	2,507,367	
<b>5020</b>	<b>Total revenues</b>	<u>55,578,880</u>	<u>3,456,475</u>	<u>9,125,162</u>
	<b>Expenditures</b>			
	<b>Current:</b>			
0011	Instruction	26,897,907		
0012	Instructional resources and media services	712,361		
0013	Curriculum and staff development	385,426		
0021	Instructional leadership	423,870		
0023	School leadership	2,857,317		
0031	Guidance, counseling and evaluation services	1,356,106		
0032	Social work services	75,650		
0033	Health services	466,659		
0034	Student transportation	1,579,912		
0035	Food services		3,047,274	
0036	Extracurricular activities	1,384,876		
0041	General administration	2,592,949		
0051	Facilities maintenance and operations	5,726,186		
0052	Security and monitoring services	624,153		
0053	Data processing services	832,745		
0061	Community services	18,756		
	<b>Debt service:</b>			
0071	Principal on long-term debt	322,048		3,005,000
0072	Interest on long-term debt	8,035		4,844,043
0073	Bond issuance costs and fees			124,117
	<b>Capital outlay:</b>			
0081	Capital outlay	1,076,366		
	<b>Intergovernmental:</b>			
0091	Contracted instructional services	6,559,007		
0093	Payments related to shared services arrangements	119,026		
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	84,800		
0099	Other governmental charges	442,795		
<b>6030</b>	<b>Total Expenditures</b>	<u>54,546,950</u>	<u>3,047,274</u>	<u>7,973,160</u>
1100	Excess (deficiency) of revenues over expenditures	<u>1,031,930</u>	<u>409,201</u>	<u>1,152,002</u>
	<b>Other Financing Sources (Uses)</b>			
7901	Refunding bonds issued			8,170,000
7911	Capital-related debt issued (regular bonds)			
7915	Transfers in			
7916	Premium or discount on issuance of bonds			549,082
7940	Refund of prior years Chapter 41 recapture	3,453,409		
7956	Insurance recovery	1,836		
8911	Operating transfers out	(12,000,000)		
8949	Payment to Bond Refunding Escrow Agent			(8,595,965)
<b>7080</b>	<b>Total other financing sources and uses</b>	<u>(8,544,755)</u>		<u>123,117</u>
1200	Net change in fund balances	(7,512,825)	409,201	1,275,119
<b>0100</b>	<b>Fund Balance - beginning</b>	<u>44,517,582</u>	<u>496,007</u>	<u>1,855,967</u>
<b>3000</b>	<b>Fund Balance - ending</b>	<u>\$ 37,004,757</u>	<u>\$ 905,208</u>	<u>\$ 3,131,086</u>

Exhibit C-3

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 47,197	\$ 562,164	\$ 53,451,457
	295,896	12,749,882
	6,722,934	9,587,369
47,197	7,580,994	75,788,708
	4,000,013	30,897,920
	65,696	778,057
	225,839	611,265
		423,870
	116,177	2,973,494
	411,883	1,767,989
	66,720	142,370
	37,062	503,721
	313,105	1,893,017
		3,047,274
	76,006	1,460,882
	14,297	2,607,246
	2,247,290	7,973,476
		624,153
43,024	4,601	880,370
	96,605	115,361
		3,327,048
		4,852,078
398,433		522,550
29,346,606		30,422,972
		6,559,007
		119,026
		84,800
		442,795
29,788,063	7,675,294	103,030,741
(29,740,866)	(94,300)	(27,242,033)
		8,170,000
34,655,000		34,655,000
12,000,000		12,000,000
3,655,723		4,204,805
		3,453,409
		1,836
		(12,000,000)
		(8,595,965)
50,310,723		41,889,085
20,569,857	(94,300)	14,647,052
13,859,174	521,136	61,249,866
\$ 34,429,031	\$ 426,836	\$ 75,896,918

**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, 2011**

*Exhibit C-4*

<u>Data Control Codes</u>		
	Net change in fund balances - total governmental funds (from C-3)	\$ 14,647,052
	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 (\$31,377,644) exceeded depreciation (\$3,901,288) in the current period.	27,476,356
2	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	250,951
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.	3,327,048
4	Proceeds from issuance of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities and amounts paid to refunding agents are treated as a decrease in long-term liabilities.	(34,229,035)
5	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.	(4,204,805)
6	Bond issuance costs paid during the current year will be amortized over the life of the bonds.	514,650
	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:	
7	Increase in interest payable not recognized in fund statements	(59,000)
8	Increase in long-term portion of accrued compensated absences	(35,394)
9	Amortization of deferred charges	264,228
10	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-3).	440,285
11	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.	(386,731)
	<b>Change in net assets of governmental activities (see B-1)</b>	<u>\$ 8,005,605</u>

See Notes to the Financial Statements.



**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**August 31, 2011**

*Exhibit D-1*

<b>Data Control Codes</b>		<b>Governmental Activities - Internal Service Funds</b>
	<b>Assets</b>	
1110	Cash and cash equivalents	\$ 4,454,587
<b>1000</b>	<b>Total Assets</b>	<u><u>\$ 4,454,587</u></u>
	<b>Liabilities</b>	
	<b>Current Liabilities:</b>	
2110	Accounts payable	\$ 1,335
2150	Payroll deduction and withholdings payable	282
2160	Accrued wages payable	1,895
2200	Accrued expenses	<u>133,713</u>
	<b>Total current liabilities</b>	<u>137,225</u>
<b>2000</b>	<b>Total Liabilities</b>	<u><u>137,225</u></u>
	<b>Net Assets</b>	
3900	Unrestricted net assets	<u>4,317,362</u>
<b>3000</b>	<b>Total Net Assets</b>	<u><u>\$ 4,317,362</u></u>
<b>4000</b>	<b>Total Liabilities and Net Assets</b>	<u><u>\$ 4,454,587</u></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, 2011*

*Exhibit D-2*

<b>Data Control Codes</b>		<b>Governmental Activities - Internal Service Funds</b>
	<b>Operating Revenues</b>	
5700	Charges for Services	\$ 629,130
5800	State Program Revenues	2,878
5020	<b>Total Operating Revenues</b>	<u>632,008</u>
	<b>Operating Expenses</b>	
6100	Payroll costs	57,041
6200	Purchased and contracted services	46,063
6300	Supplies and materials	13,549
6400	Claims expense and other operating expenses	78,749
6030	<b>Total Operating Expenses</b>	<u>195,402</u>
1200	Operating Income (Loss)	<u>436,606</u>
	<b>Non-Operating Revenues (Expenses)</b>	
7020	Investment earnings	3,679
	<b>Total Nonoperating Revenues (Expenses)</b>	<u>3,679</u>
1200	Change in Net Assets	440,285
0100	<b>Net Assets - beginning</b>	<u>3,877,077</u>
3300	<b>Net Assets - ending</b>	<u><u>\$ 4,317,362</u></u>

See Notes to the Financial Statements.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
*For the Year Ended August 31, 2011*

*Exhibit D-3*

	<b>Governmental Activities - Internal Service Funds</b>
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers	\$ 629,130
Cash received from state	2,878
Cash payments for insurance claims	(301,246)
Cash payments to suppliers for goods and services	(59,066)
Cash payments to employees	(56,948)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>214,748</u>
<b>Cash Flows from Investing Activities:</b>	
Investment proceeds (net)	
Interest on investments	3,679
<b>Net Cash Provided by Investing Activities</b>	<u>3,679</u>
Net Increase in Cash and Cash Equivalents	218,427
<b>Cash and Cash Equivalents at Beginning of Year</b>	4,236,160
<b>Cash and Cash Equivalents at End of Year</b>	<u><u>\$ 4,454,587</u></u>
<b>Reconciliation to Balance Sheet</b>	
Cash and Cash Equivalents Per Cash Flow	\$ 4,454,587
Cash and Cash Equivalents per Balance Sheet	<u><u>\$ 4,454,587</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ 436,606
<b>Change in Assets and Liabilities:</b>	
Increase (decrease) in Accounts Payable	546
Increase (decrease) in Accrued Wages Payable	(230)
Increase (decrease) in Accrued Expenses	(222,174)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u><u>\$ 214,748</u></u>

See Notes to the Financial Statements

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**August 31, 2011**

*Exhibit E-1*

<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
	<b>Assets</b>		
1110	Cash and cash equivalents	\$ 157,642	\$ 903,181
1000	<b>Total Assets</b>	<u>\$ 157,642</u>	<u>\$ 903,181</u>
	<b>Liabilities</b>		
2110	Accounts payable	\$	\$ 23,899
2170	Due to other funds		651,959
2190	Due to others		227,323
2000	<b>Total Liabilities</b>	<u></u>	<u>\$ 903,181</u>
	<b>Net Assets</b>		
3800	Restricted	<u>\$ 157,642</u>	

See Notes to the Financial Statements.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
*For the Year Ended August 31, 2011*

*Exhibit E-2*

	<b>Private Purpose Trust Funds</b>
<b>Additions</b>	
Local and intermediate sources	\$ 16,686
<b>Total additions</b>	<u>16,686</u>
<b>Deductions</b>	
Non-operating expenses	<u>12,100</u>
<b>Total deductions</b>	<u>12,100</u>
Change in net assets	4,586
<b>Net assets, beginning of year</b>	<u>153,056</u>
<b>Net assets, end of year</b>	<u><u>\$ 157,642</u></u>
See Notes to the Financial Statements	

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*

**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.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**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 health services provided to other funds and/or employees of the District on a cost reimbursement basis.
- 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.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**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, 2011. 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, 2011. 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 Prepaid Items**

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 prepaid items in both government-wide and fund financial statements.



**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**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.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**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 prepaid items 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.
- 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 general fund has committed \$1,500,000 for capital equipment purchases. 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. The District has assigned fund balances for encumbrances in the general fund in the amount of \$276,787, \$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.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Fund Equity (continued)**

- Unassigned fund balance – amounts that are available for any purpose. Positive numbers can only be reported in the general fund. At August 31, 2011, the District reports an unassigned fund balance of \$3,338,422.

Beginning fund balances have been restated to reflect the above classifications.

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.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**Note 2 - Deposits and Investments (continued)**

**Local Government Investment Pools**

For fiscal year 2011, 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:

	<u>Fair Market Value</u>	<u>Weighted Average Maturity (Days)</u>
<b>Governmental Activities</b>		
<b>Investments</b>		
Local Government Investment Pools:		
TexPool	\$ 71,196,689	46
	<u>71,196,689</u>	
Investment Securities:		
ICT Money Market Mutual Fund	5,086,256	47
	<u>5,086,256</u>	
<b>Total Investments</b>	<u>76,282,945</u>	46
<b>Total Governmental Activities</b>	<u>76,282,945</u>	
<b>Fiduciary Funds</b>		
Cash and Deposits	634,747	N/A
TexPool	426,076	46
<b>Total Fiduciary Funds</b>	<u>1,060,823</u>	
<b>Total</b>	<u>\$ 77,343,768</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.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**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, 2011, 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 \$71,622,765 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, 2011. Investment earnings totaled \$118,024 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:

	<b>General Fund</b>	<b>Child Nutrition Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects</b>	<b>Nonmajor Governmental</b>	<b>Total</b>
Property Taxes	\$ 3,189,976	\$	\$ 321,159	\$	\$	\$ 3,511,135
Due from other governments	8,706,961	118,713			2,266,292	11,091,966
Other						
Gross Receivables	11,896,937	118,713	321,159		2,266,292	14,603,101
Less allowance for doubtful accounts	(1,658,305)		(166,954)			(1,825,259)
<b>Net Total Receivables</b>	<b>\$ 10,238,632</b>	<b>\$ 118,713</b>	<b>\$ 154,205</b>	<b>\$</b>	<b>\$ 2,266,292</b>	<b>\$ 12,777,842</b>

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:

	<b>Unavailable</b>	<b>Unearned</b>
Delinquent property taxes receivable (General Fund)	\$ 1,531,671	\$
Delinquent property taxes receivable (Debt Service Fund)	155,205	
Grant funds received prior to meeting all eligibility requirements		10,766
	<b>\$ 1,686,876</b>	<b>\$ 10,766</b>

**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, 2011, was as follows:

	<b>Balance August 31, 2010</b>	<b>Additions</b>	<b>(Retirements) and Transfers</b>	<b>Balance August 31, 2011</b>
Capital assets, not being depreciated:				
Land	\$ 1,302,928	\$	\$	\$ 1,302,928
Construction in progress	31,556,456	26,068,799	(1,863,059)	55,762,196
<b>Total Capital assets, not being depreciated</b>	<b>32,859,384</b>	<b>26,068,799</b>	<b>(1,863,059)</b>	<b>57,065,124</b>
Capital assets, being depreciated:				
Buildings and improvements	94,972,760	4,297,490	964,096	100,234,346
Furniture and equipment	11,314,251	1,011,355	(76,118)	12,249,488
<b>Total Capital assets, being depreciated</b>	<b>106,287,011</b>	<b>5,308,845</b>	<b>887,978</b>	<b>112,483,834</b>
Less accumulated depreciation for:				
Buildings and improvements	(38,836,766)	(2,822,128)	518,126	(41,140,768)
Furniture and Equipment	(4,678,884)	(1,079,160)	70,224	(5,687,820)
<b>Total Accumulated depreciation</b>	<b>(43,515,650)</b>	<b>(3,901,288)</b>	<b>588,350</b>	<b>(46,828,588)</b>
<b>Governmental Capital Assets</b>	<b>\$ 95,630,745</b>	<b>\$ 27,476,356</b>	<b>\$ (386,731)</b>	<b>\$ 122,720,370</b>

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

<b>Function</b>	<b>Depreciation Expense</b>
Instruction	\$ 2,631,946
Instructional resources and media services	149,786
Curriculum and staff development	16,219
Instructional leadership	10,624
School leadership	157,881
Guidance, counseling and evaluation services	43,392
Social work services	2,934
Health services	23,655
Student transportation	34,144
Food Services	237,932
Extracurricular activities	263,397
General administration	73,042
Plant maintenance and operations	210,154
Security and monitoring services	13,680
Data processing services	24,485
Community services	8,017
	<b>\$ 3,901,288</b>

**Construction Commitments**

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

	<b>Approved Construction Budget</b>	<b>Construction in Progress</b>	<b>Remaining Commitment</b>
Project One - New Texas City High School	\$ 62,000,000	\$ 55,762,196	\$ 6,237,804
	<b>\$ 62,000,000</b>	<b>\$ 55,762,196</b>	<b>\$ 6,237,804</b>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**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, 2011, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 2,421,647	\$
Nonmajor Governmental Funds		1,769,688
Fiduciary Funds		651,959
	<u>\$ 2,421,647</u>	<u>\$ 2,421,647</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	Capital Projects	\$ 12,000,000

**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, 2010</u>	<u>Additions</u>	<u>Deductions - Payments to Participants</u>	<u>Balance August 31, 2011</u>
Compensated absences payable	\$ 287,280	\$ 100,298	\$ (75,372)	\$ 312,206

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**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, 2011, the legal debt margin was \$240,749,130.

**Changes in Long-term Liabilities**

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

	<b>Balance September 1, 2010</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance August 31, 2011</b>	<b>Due Within One Year</b>
General Obligation Bonds	\$ 91,675,000	\$ 42,825,000	\$ (11,550,000)	\$ 122,950,000	\$ 3,755,000
Less deferred amounts:					
For Issuance Premiums/Discounts	1,874,660	4,204,805	(420,064)	5,659,401	
Gain or (loss) on Refunding Bonds	(98,220)	(81,279)	42,400	(137,099)	
<b>Total Bonds and Notes Payable</b>	<u>93,451,440</u>	<u>46,948,526</u>	<u>(11,927,664)</u>	<u>128,472,302</u>	<u>3,755,000</u>
Other Liabilities					
Capital leases	350,481		(322,048)	28,433	28,433
Compensated absences payable	287,280	100,298	(75,372)	312,206	
<b>Total Other Liabilities</b>	<u>637,761</u>	<u>100,298</u>	<u>(397,420)</u>	<u>340,639</u>	<u>28,433</u>
	<u>\$ 94,089,201</u>	<u>\$ 47,048,824</u>	<u>\$ (12,325,084)</u>	<u>\$ 128,812,941</u>	<u>\$ 3,783,433</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.

On October 1, 2010, the District issued Unlimited Tax School Building Bonds, Series 2010 in the amount of \$25,810,000. The interest rate ranges from 2.0%-5.0%. The bonds were issued at a premium totaling \$3,483,200. The proceeds of the bonds will provide funds for the construction, acquisition and equipment of school buildings and renovations to District facilities and pay issuance costs related to the bonds. The District also issued \$8,170,000 in Unlimited Tax Refunding Bonds. The interest rate ranges from 2.0%-4.0%. The bonds were issued at a premium totaling \$549,082. Proceeds from the sale of the bonds were used to refund a portion of the District's outstanding bonds and pay costs of issuance related to the bonds. The purpose of the bonds was to lower the District's debt service payments. Sale of the bonds resulted in an economic gain of \$500,675 and a deferred loss on refunding of \$179,498.

On April 1, 2011, the District issued Unlimited Tax School Building Bonds, Series 2011 in the amount of \$8,845,000. The interest rate ranges from 2.0%-4.0%. The bonds were issued at a premium totaling \$172,522. The proceeds of the bonds will provide funds for the construction, acquisition and equipment of school buildings and renovations to District facilities and pay issuance costs related to the bonds.



**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:

<u>Issue</u>	<u>Original issuance amount</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Debt Outstanding</u>
Unlimited Tax School Building Bonds, Series 2008	\$ 54,565,000	3.5% to 5.0%	2030	\$ 54,170,000
Unlimited Tax School Building Bonds, Series 2009	28,910,000	3.5% to 5.0%	2030	28,420,000
Unlimited Tax School Building Bonds, Series 2010A	25,810,000	2.0-5.0%	2030	25,710,000
Unlimited Tax Refunding Bond Series 2010B	8,170,000	2.0-4.0%	2014	5,805,000
Unlimited Tax School Building Bonds, Series 2011	8,845,000	2.0-4.0%	2014	8,845,000
				<u>\$ 122,950,000</u>

Debt service requirements to maturity are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 3,755,000	\$ 5,346,768	\$ 9,101,768
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
2017-2021	28,980,000	19,766,805	48,746,805
2022-2026	35,735,000	13,014,990	48,749,990
2027-2031	34,930,000	4,058,780	38,988,780
	<u>\$ 122,950,000</u>	<u>\$ 61,624,651</u>	<u>\$ 184,574,651</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, 2011, \$4,795,000 of previously refunded debt outstanding was considered defeased.

**Capital Lease Obligations**

During the year ended August 31, 2007, the District entered into a capital lease agreement in the amount of \$1,500,000 to purchase equipment. The effective interest rate for the lease is 3.96 percent. Local revenues are used to retire the lease obligations. The final payment of \$28,433 will be made in September 2011.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**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	\$ 38,113,197	\$	\$ 9,088,612	\$	\$	\$ 47,201,809
Penalties, interest and other tax related revenue	190,222		29,673			219,895
Investment Income	59,022	247	6,877	47,197	1,002	114,345
Co-curricular student activities	143,541				561,162	704,703
Tuition and fees	25,961					25,961
Food Sales		860,225				860,225
Other	4,312,310	12,209			1	4,324,520
	<u>\$ 42,844,253</u>	<u>\$ 872,681</u>	<u>\$ 9,125,162</u>	<u>\$ 47,197</u>	<u>\$ 562,165</u>	<u>\$ 53,451,458</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)	93.000	\$ 354,919
Summer School LEP	84.369A	2,149
		<u>\$ 357,068</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, 2011. The imputed interest on the leases is not readily determinable.

Rental expenditures for the year ended August 31, 2011 amounted to \$213,596 .

**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](http://www.trs.state.tx.us), under the TRS Publications heading.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**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 2011, 2010 and 2009. The State contributed at a rate of 6.644% for fiscal year 2011 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. The statutory minimum and 6.400% for fiscal years 2010 and 2009 and a state contribution rate of 6.644% for fiscal year 2011, 6.580% and 6.640% for fiscal year 2010 and 6.580% for fiscal years 2009. In certain instances, the reporting district is required to make all or a portion of the state's 6.58% contribution for fiscal years 2011 and 2009 and 6.0% for fiscal year 2009.

**Contributions**

Staff members of the District are required to pay 6.4% of their eligible gross earnings to the TRS pension plan. The State of Texas contributes 6.644% (6.58% for fiscal year 2009) of all employees' eligible gross earnings, except for those staff members subject to statutory minimum requirements and those staff members being paid from and participating in federally funded programs. State statutes establish these rates. The statutory minimum requirements are based on the State of Texas teacher schedule adjusted based on local tax rates. For staff members funded by federal programs, the federal programs are required to contribute 6.644% (6.58% for fiscal year 2009). Contributions made by the State, District, and staff members for the years ended August 31, 2011, 2010, and 2009 are as follows:

<b>For the Year Ended August 31</b>	<b>State TRS Contributions Made on Behalf of the District</b>	<b>District Required Contributions to TRS</b>	<b>Staff Members' Contributions to TRS</b>	<b>Total Covered Payroll</b>
2011	\$ 1,680,900	\$ 638,313	\$ 2,234,040	\$ 34,906,879
2010	1,739,253	575,783	2,237,449	34,975,760
2009	1,666,182	394,807	2,195,019	34,015,639

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.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**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](http://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, 2011, 2010, and 2009 are as follows:

<b>For the Year Ended August 31</b>	<b>State TRS Care Contributions Made on Behalf of the District</b>	<b>District Required Contributions to TRS Care</b>	<b>Staff Members' Contributions to TRS Care</b>	<b>Total Covered Payroll</b>
2011	\$ 252,921	\$ 288,141	\$ 226,894	\$ 34,906,879
2010	263,029	86,729	220,671	34,975,760
2009	271,239	188,633	222,939	34,015,639

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, 2011, 2010, and 2009, the subsidy payments received by the TRS-Care on-behalf of the district were \$72,927, \$81,411, and \$106,585 respectively. The payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**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, 2011, 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, 2011 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.

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:

<b>Fiscal Year</b>	<b>Beginning of Year Accrual</b>	<b>Current Year Estimates</b>	<b>Claims Payments</b>	<b>End of Year Accrual</b>
2009	\$ 204,107	\$ 8,801	\$ (49,521)	\$ 163,387
2010	163,387	383,728	(190,906)	356,209
2011	356,209	78,750	(301,246)	133,713

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**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	\$ 84,800
	<u>\$ 84,800</u>
Expenditures	
6100 Payroll costs	\$ 79,712
6200 Contracted services	1,688
6300 Supplies and materials	2,536
6400 Miscellaneous operating costs	864
	<u>\$ 84,800</u>

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	\$ 99,764
	<u>\$ 99,764</u>
Expenditures	
6100 Payroll costs	\$ 78,814
6200 Contracted services	13,967
6300 Supplies and materials	5,986
6400 Miscellaneous operating costs	997
	<u>\$ 99,764</u>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

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

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	\$ 19,262
	<u>\$ 19,262</u>
Expenditures	
6100 Payroll costs	\$ 15,217
6200 Contracted services	2,697
6300 Supplies and materials	1,156
6400 Miscellaneous operating costs	192
	<u>\$ 19,262</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, 2011, 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.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**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, 2011

Exhibit G-1

Data Control Codes		Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
		Original	Final		
	Revenues				
5700	Local revenues	\$ 40,412,927	\$ 42,765,593	\$ 42,844,253	\$ 78,660
5800	State program revenues	13,145,888	13,899,302	12,377,559	(1,521,743)
5900	Federal program revenues		357,068	357,068	
5020	Total revenues	53,558,815	57,021,963	55,578,880	(1,443,083)
	Expenditures				
	Current:				
0011	Instruction	25,545,945	28,240,474	26,897,907	1,342,567
0012	Instructional resources and media services	735,300	892,243	712,361	179,882
0013	Curriculum and staff development	434,793	731,119	385,426	345,693
0021	Instructional leadership	410,974	548,977	423,870	125,107
0023	School leadership	2,636,690	3,080,781	2,857,317	223,464
0031	Guidance, counseling and evaluation services	1,193,329	1,486,932	1,356,106	130,826
0032	Social work services	62,343	182,843	75,650	107,193
0033	Health services	432,353	590,174	466,659	123,515
0034	Student transportation	1,872,358	1,602,261	1,579,912	22,349
0036	Extracurricular activities	1,044,270	1,544,523	1,384,876	159,647
0041	General administration	3,230,326	3,237,782	2,592,949	644,833
0051	Facilities maintenance and operations	8,443,102	6,786,666	5,726,186	1,060,480
0052	Security and monitoring services	738,450	779,883	624,153	155,730
0053	Data processing services	774,603	967,603	832,745	134,858
0061	Community services	1,000	22,600	18,756	3,844
	Debt Service:				
0071	Principal on long-term debt	322,048	322,548	322,048	500
0072	Interest on long-term debt	8,035	8,035	8,035	
	Capital Outlay:				
0081	Capital Outlay	886,212	1,226,560	1,076,366	150,194
	Intergovernmental:				
0091	Contracted instructional services	6,181,945	6,738,609	6,559,007	179,602
0093	Payments related to shared services arrangements	143,091	220,707	119,026	101,681
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	25,000	175,000	84,800	90,200
0099	Payments to other governments		457,311	442,795	14,516
6030	Total Expenditures	55,122,167	59,843,631	54,546,950	5,296,681
1100	Excess (deficiency) of revenues over expenditures	(1,563,352)	(2,821,668)	1,031,930	3,853,598
	Other Financing Sources (Uses)				
7915	Operating transfers in	673,602	673,602		(673,602)
7940	Refund of prior years Chapter 41 recapture		3,290,385	3,453,409	163,024
7956	Insurance recovery		1,836	1,836	
8911	Operating transfers out	(687,602)	(687,602)	(12,000,000)	(11,312,398)
7080	Total other financing sources and uses	(14,000)	3,278,221	(8,544,755)	(11,822,976)
1200	Net change in fund balances	(1,577,352)	456,553	(7,512,825)	(7,969,378)
0100	Fund balances - beginning	44,517,582	44,517,582	44,517,582	
3000	Fund balances - ending	\$ 42,940,230	\$ 44,974,135	\$ 37,004,757	\$ (7,969,378)

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**CHILD NUTRITION FUND**  
*For the Year Ended August 31, 2011*

*Exhibit G-2*

Data Control Codes		Child Nutrition Fund			
		Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
		Original	Final		
	<b>Revenues</b>				
5700	Local revenues	\$ 946,152	\$ 958,608	\$ 872,681	\$ (85,927)
5800	State program revenues	16,950	51,950	76,427	24,477
5900	Federal program revenues	2,231,511	2,482,511	2,507,367	24,856
<b>5020</b>	<b>Total revenues</b>	<u>3,194,613</u>	<u>3,493,069</u>	<u>3,456,475</u>	<u>(36,594)</u>
	<b>Expenditures</b>				
	<b>Current:</b>				
0035	Food services	3,089,613	3,480,613	3,047,274	433,339
<b>6030</b>	<b>Total Expenditures</b>	<u>3,089,613</u>	<u>3,480,613</u>	<u>3,047,274</u>	<u>433,339</u>
	Excess (deficiency) of revenues over				
1100	expenditures	<u>105,000</u>	<u>12,456</u>	<u>409,201</u>	<u>396,745</u>
1200	Net change in fund balances	105,000	12,456	409,201	396,745
<b>0100</b>	<b>Fund balances - beginning</b>	<u>496,007</u>	<u>496,007</u>	<u>496,007</u>	
<b>3000</b>	<b>Fund balances - ending</b>	<u>\$ 601,007</u>	<u>\$ 508,463</u>	<u>\$ 905,208</u>	<u>\$ 396,745</u>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**Exhibit G-3**

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, 2011. During the year ended August 31, 2011, the Board of Trustees approved budget amendments increasing expenditures as follows:

	<u>General Fund</u>	<u>Child Nutrition Fund</u>
Amendments Approved	\$ 4,721,464	\$ 391,000

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, 2011

		204	205	211
<u>Data Control Codes</u>		<u>ESEA Title IV - Safe &amp; Drug Free Schools</u>	<u>Head Start</u>	<u>ESEA Title I, A Improving Basic Program</u>
	<b>Assets</b>			
1110	Cash and temporary investments	\$	\$	\$
1240	Receivables from other governments		97,072	154,909
1410	Prepaid expenses			
<b>1000</b>	<b>Total Assets</b>	<u>\$</u>	<u>\$ 97,072</u>	<u>\$ 154,909</u>
	<b>Liabilities and Fund Balances</b>			
	<b>Liabilities:</b>			
	<b>Current Liabilities:</b>			
2110	Accounts payable	\$	\$ 7,147	\$ 5,165
2150	Payroll deduction and withholdings payable		5,866	5,897
2160	Accrued wages payable		22,319	30,895
2170	Due to other funds		61,740	112,952
2300	Deferred revenues			
<b>2000</b>	<b>Total Liabilities</b>	<u></u>	<u>97,072</u>	<u>154,909</u>
	<b>Fund Balances:</b>			
	<b>Restricted:</b>			
3450	Federal/State grant restrictions			
	<b>Committed :</b>			
3545	Other purposes			
<b>3000</b>	<b>Total fund balances</b>	<u></u>	<u></u>	<u></u>
<b>4000</b>	<b>Total Liabilities and Fund Balances</b>	<u>\$</u>	<u>\$ 97,072</u>	<u>\$ 154,909</u>

224	225	244	255	263	266
IDEA B - Formula	IDEA B - Preschool	Vocational Ed. - Basic	ESEA Title II, A - Training and Recruiting	ESEA Title III, A - English Lang. Acquisition	State Fiscal Stabilization Funds
\$ 297,417	\$ 3,382	\$ 8,107	\$ 96,925	\$ 22,493	\$ 954,875
<u>\$ 297,417</u>	<u>\$ 3,382</u>	<u>\$ 8,107</u>	<u>\$ 96,925</u>	<u>\$ 22,493</u>	<u>\$ 954,875</u>
\$ 54,170	\$ 256	\$	\$ 814	\$ 6,504	\$ 209,202
5,860	921		785	158	
33,840	2,205	8,107	5,023	1,055	
203,547			90,303	14,776	745,673
<u>297,417</u>	<u>3,382</u>	<u>8,107</u>	<u>96,925</u>	<u>22,493</u>	<u>954,875</u>
<u>\$ 297,417</u>	<u>\$ 3,382</u>	<u>\$ 8,107</u>	<u>\$ 96,925</u>	<u>\$ 22,493</u>	<u>\$ 954,875</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
ALL NONMAJOR GOVERNMENTAL FUNDS  
August 31, 2011

Data Control Codes		277	279	283
		Homelessness Prevention Program	Title II, Part D, ARRA- Enhancing Education through Technology	IDEA B - Formula ARRA (Stimulus)
	<b>Assets</b>			
1110	Cash and temporary investments	\$	\$	\$
1240	Receivables from other governments	152,795	9,098	325,133
1410	Prepaid expenses			
1000	<b>Total Assets</b>	<u>\$ 152,795</u>	<u>\$ 9,098</u>	<u>\$ 325,133</u>
	<b>Liabilities and Fund Balance</b>			
	<b>Liabilities:</b>			
	<b>Current Liabilities:</b>			
2110	Accounts payable	\$	\$ 8,480	\$ 39,800
2150	Payroll deduction and withholdings payable			
2160	Accrued wages payable			
2170	Due to other funds	152,795	618	285,333
2300	Deferred revenues			
2000	<b>Total Liabilities</b>	<u>152,795</u>	<u>9,098</u>	<u>325,133</u>
	<b>Fund Balances:</b>			
	<b>Restricted:</b>			
3450	Federal/State grant restrictions			
	<b>Committed :</b>			
3545	Other purposes			
3000	<b>Total fund balances</b>	<u></u>	<u></u>	<u></u>
4000	<b>Total Liabilities and Fund Balances</b>	<u>\$ 152,795</u>	<u>\$ 9,098</u>	<u>\$ 325,133</u>



285	288	393	394	397
ESEA Title I, A - Improving Basic Program (ARRA)	Headstart ARRA	Texas Successful Schools Program	Pregnancy, Education and Parenting Program	Advanced Placement Incentive
\$ 91,775	\$	\$ 9,993	\$ 1,816	\$ 773
<u>\$ 91,775</u>	<u>\$</u>	<u>\$ 9,993</u>	<u>\$ 1,816</u>	<u>\$ 773</u>
\$ 34,665	\$	\$	\$ 210	\$
57,110			1,454	
		9,993	152	773
<u>91,775</u>	<u></u>	<u>9,993</u>	<u>1,816</u>	<u>773</u>
<u>\$ 91,775</u>	<u>\$</u>	<u>\$ 9,993</u>	<u>\$ 1,816</u>	<u>\$ 773</u>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**ALL NONMAJOR GOVERNMENTAL FUNDS**  
**August 31, 2011**

		404	411
<b>Data Control Codes</b>		<b>Student Success Initiative</b>	<b>Technology Allotment</b>
	<b>Assets</b>		
1110	Cash and temporary investments	\$	\$ 61,520
1240	Receivables from other governments	33,300	2,489
1410	Prepaid expenses		1,839
<b>1000</b>	<b>Total Assets</b>	<u>\$ 33,300</u>	<u>\$ 65,848</u>
	<b>Liabilities and Fund Balance</b>		
	<b>Liabilities:</b>		
	<b>Current Liabilities:</b>		
2110	Accounts payable	\$	\$ 54,964
2150	Payroll deduction and withholdings payable		
2160	Accrued wages payable		
2170	Due to other funds	33,300	
2300	Deferred revenues		
<b>2000</b>	<b>Total Liabilities</b>	<u>33,300</u>	<u>54,964</u>
	<b>Fund Balances:</b>		
	<b>Restricted:</b>		
3450	Federal/State grant restrictions		10,884
	<b>Committed :</b>		
3545	Other purposes		
<b>3000</b>	<b>Total fund balances</b>		<u>10,884</u>
<b>4000</b>	<b>Total Liabilities and Fund Balances</b>	<u>\$ 33,300</u>	<u>\$ 65,848</u>

*Exhibit H-1*  
*Page 3 of 3*

426	461	
Texas Fitness Now	Campus Activity Fund	Total Nonmajor Governmental Funds
\$	\$ 461,832	\$ 534,118
14,706		2,266,292
		1,839
<u>\$ 14,706</u>	<u>\$ 461,832</u>	<u>\$ 2,802,249</u>
\$ 13,629	\$ 45,880	\$ 480,420
		19,032
		95,507
1,077		1,769,688
		10,766
<u>14,706</u>	<u>45,880</u>	<u>2,375,413</u>
		10,884
	415,952	415,952
	415,952	426,836
<u>\$ 14,706</u>	<u>\$ 461,832</u>	<u>\$ 2,802,249</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, 2011**

		204	205	211
Data Control Codes		ESEA Title IV - Safe & Drug Free Schools	Head Start	ESEA Title I, A - Improving Basic Program
	Revenues			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			
5900	Federal program revenues	225	835,620	990,352
5020	Total revenues	225	835,620	990,352
	Expenditures			
	Current:			
0011	Instruction	225	466,585	904,608
0012	Instruction resources and media services			
0013	Curriculum and instructional staff development		36,472	8,700
0023	School leadership		84,185	
0031	Guidance, counseling and evaluation services			
0032	Social work services			64,948
0033	Health services		37,062	
0034	Student transportation		181,373	
0036	Extracurricular activities			
0041	General administration			
0051	Plant maintenance and operations			
0053	Data processing services			
0061	Community services		29,943	12,096
6030	Total Expenditures	225	835,620	990,352
1100	Excess (deficiency) of revenues over expenditures			
1200	Net change in fund balances			
0100	Fund balance - beginning			
3000	Fund balance - ending	\$	\$	\$

224	225	244	255	263	266
IDEA B - Formula	IDEA B - Preschool	Vocational Ed. - Basic	ESEA Title II, A - Training and Recruiting	ESEA Title III, A - English Lang. Acquisition	State Fiscal Stabilization Funds
\$	\$	\$	\$	\$	\$
1,429,925	30,647	57,643	253,467	46,581	2,237,887
1,429,925	30,647	57,643	253,467	46,581	2,237,887
1,159,476	30,647	9,380	225,636	44,332	
9,591		3,605	27,831	2,249	
232,240		22,423			
28,618					
					2,237,887
		22,235			
1,429,925	30,647	57,643	253,467	46,581	2,237,887
\$	\$	\$	\$	\$	\$

**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, 2011**

		277	279	283
			Title II, Part D, ARRA- Enhancing Education through Technology	IDEA B - Formula ARRA (Stimulus)
<b>Data Control Codes</b>		<b>Homelessness Prevention Program</b>		
	<b>Revenues</b>			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			
5900	Federal program revenues		9,098	656,535
5020	<b>Total revenues</b>		9,098	656,535
	<b>Expenditures</b>			
	<b>Current:</b>			
0011	Instruction		8,480	366,698
0012	Instruction resources and media services			
0013	Curriculum and instructional staff development		618	29,503
0023	School leadership			
0031	Guidance, counseling and evaluation services			157,220
0032	Social work services			
0033	Health services			
0034	Student transportation			103,114
0036	Extracurricular activities			
0041	General administration			
0051	Plant maintenance and operations			
0053	Data processing services			
0061	Community services			
6030	<b>Total Expenditures</b>		9,098	656,535
1100	Excess (deficiency) of revenues over expenditures			
1200	Net change in fund balances			
0100	<b>Fund balance - beginning</b>			
3000	<b>Fund balance - ending</b>	\$	\$	\$

285	288	393	394	397
ESEA Title I, A - Improving Basic Program (ARRA)	Headstart ARRA	Texas Successful Schools Program	Pregnancy, Education and Parenting Program	Advanced Placement Incentive
\$	\$	\$	\$	\$
			32,331	
153,581	21,373			
153,581	21,373		32,331	
112,907	20,608			
38,902	765			
1,772				
			32,331	
153,581	21,373		32,331	
\$	\$	\$	\$	\$

**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, 2011**

		404	411
<u>Data Control Codes</u>		<u>Student Success Initiative</u>	<u>Technology Allotment</u>
	<b>Revenues</b>		
5700	Local, intermediate, and out-of-state	\$	\$
5800	State program revenues	84,158	159,201
5900	Federal program revenues		
<b>5020</b>	<b>Total revenues</b>	<u>84,158</u>	<u>159,201</u>
	<b>Expenditures</b>		
	<b>Current:</b>		
0011	Instruction	83,361	239,740
0012	Instruction resources and media services		
0013	Curriculum and instructional staff development	797	
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		
0053	Data processing services		4,601
0061	Community services		
<b>6030</b>	<b>Total Expenditures</b>	<u>84,158</u>	<u>244,341</u>
1100	Excess (deficiency) of revenues over expenditures		<u>(85,140)</u>
1200	Net change in fund balances		(85,140)
<b>0100</b>	<b>Fund balance - beginning</b>		<u>96,024</u>
<b>3000</b>	<b>Fund balance - ending</b>	<u>\$</u>	<u>\$ 10,884</u>



*Exhibit H-2*  
*Page 3 of 3*

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**461**

<b>Texas Fitness Now</b>	<b>Campus Activity Fund</b>	<b>Total-Other Governmental Funds</b>
\$	\$ 562,164	\$ 562,164
20,206		295,896
		6,722,934
20,206	562,164	7,580,994
	327,330	4,000,013
	65,696	65,696
	66,806	225,839
	31,992	116,177
		411,883
		66,720
		37,062
		313,105
20,206	55,800	76,006
	14,297	14,297
	9,403	2,247,290
		4,601
		96,605
20,206	571,324	7,675,294
	(9,160)	(94,300)
	(9,160)	(94,300)
	425,112	521,136
\$	\$ 415,952	\$ 426,836

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit H-3

COMBINING STATEMENT OF NET ASSETS - PRIVATE PURPOSE TRUST FUNDS

August 31, 2011

		828	848	849		
Data Control Codes		Project Garden Grant	Employee Scholarship Fund	Heatherington Scholarship	Total Private Purpose Trust Funds	Agency Funds
	<b>Assets</b>					
1110	Cash and cash equivalents	\$ 3,201	\$ 115,029	\$ 39,412	\$ 157,642	\$ 903,181
1000	<b>Total Assets</b>	<u>\$ 3,201</u>	<u>\$ 115,029</u>	<u>\$ 39,412</u>	<u>#NAME?</u>	<u>\$ 903,181</u>
	<b>Liabilities</b>					
2110	Accounts payable					23,899
2170	Due to other funds					651,959
2190	Due to others					227,323
2000	<b>Total Liabilities</b>	<u></u>	<u></u>	<u></u>	<u></u>	<u>903,181</u>
	<b>Net Assets</b>					
3800	Restricted	<u>\$ 3,201</u>	<u>\$ 115,029</u>	<u>\$ 39,412</u>	<u>\$ 157,642</u>	<u>\$</u>

**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, 2011**

*Exhibit H-4*

	<b>828</b>	<b>848</b>	<b>849</b>	
	<b>Project Garden Grant</b>	<b>Employee Scholarship Fund</b>	<b>Heatherington Scholarship</b>	<b>Total</b>
<b>Additions</b>				
Local and Intermediate Sources	\$	\$ 16,626	\$ 60	\$ 16,686
<b>Total additions</b>		16,626	60	#NAME?
<b>Deductions</b>				
Other operating expenses		12,100		12,100
<b>Total deductions</b>		12,100		12,100
Change in net assets		4,526	60	4,586
<b>Net assets, beginning of year</b>	3,201	110,503	39,352	153,056
<b>Net assets, end of year</b>	\$ 3,201	\$ 115,029	\$ 39,412	\$ 157,642

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## **Required TEA Schedules**

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF DELINQUENT TAXES RECEIVABLE**  
*For the Year Ended August 31, 2011*

	1	2	3	10
Last Ten Fiscal Years	Tax Rates		Net Assessed/Appraised Value For School Tax Purposes	Beginning Balance 9/1/2010
	Maintenance	Debt Service		
2002 and prior	Various	Various	Various	\$ 637,742
2003	1.500000	0.104700	2,719,067,739	81,915
2004	1.500000	0.123400	2,443,047,247	82,862
2005	1.500000	0.113000	2,820,369,267	86,843
2006	1.500000	0.087100	3,170,199,357	98,218
2007	1.370050	0.078304	3,818,528,205	124,792
2008	1.040050	0.072700	4,070,666,320	129,176
2009	1.040000	0.144930	4,368,445,589	212,139
2010	1.040000	0.176000	4,118,093,421	460,927
2011	1.040000	0.248600	3,660,903,461	
<b>1000 Totals</b>				<u><u>\$ 1,914,614</u></u>

*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 8/31/2011
\$	\$ 8,968	\$ 712	\$ (27,710)	\$ 600,352
	2,478	173	(3,123)	76,141
	5,484	451	(3,487)	73,440
	8,698	655	(3,566)	73,924
	11,120	646	(4,664)	81,788
	16,711	955	(2,714)	104,412
	25,677	1,795	(1,375)	100,329
	52,137	7,266	(1,489)	151,247
	154,397	26,129	(14,319)	266,082
<u>47,174,402</u>	<u>37,887,597</u>	<u>9,056,593</u>	<u>147,435</u>	<u>377,647</u>
<u>\$ 47,174,402</u>	<u>\$ 38,173,267</u>	<u>\$ 9,095,375</u>	<u>\$ 84,988</u>	<u>1,905,362</u>
	Penalties and interest receivable on taxes			<u>1,605,773</u>
	Total taxes receivable per Exhibit C-1			<u>\$ 3,511,135</u>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES FOR COMPUTATION OF**  
**INDIRECT COSTS FOR 2012-2013**  
**GENERAL AND SPECIAL REVENUE FUNDS**  
**For the Year Ended August 31, 2011**

**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	\$ 10,503	\$ 58,326	\$ 199,544	\$ 1,115,735		\$ 160,541	\$ 1,544,649
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)							-
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)				64,901			64,901
6211	Legal Services	160,088						160,088
6212	Audit Services				68,180			68,180
6213	(Appraisal district costs only from function 99)		442,795					442,795
6214	Lobbying							-
621X	Other Prof. Services				71,409			71,409
6220	Tuition and Transfer Payments							-
6230	Education Service Centers					2,485		2,485
6240	Contr. Maint. and Repair					239,812		239,812
6250	Utilities							-
6260	Rentals				28,191			28,191
6290	Miscellaneous Contr.				35,550			35,550
6320	Textbooks and Reading			1,526	372			1,898
6330	Testing Materials							-
63XX	Other Supplies Materials		6,964	2,204	209,080			218,248
6410	Travel, Subsistence, Stipends	13,533	2,311	7,424	17,939			41,207
6420	Ins. and Bonding Costs	34,902	605		51,029			86,536
6430	Election Costs	4,214						4,214
6490	Miscellaneous Operating	29,181	409	19,836	90,497		192,528	332,451
6500	Debt Service							-
6600	Capital Outlay						6,143	6,143
6000	TOTAL	\$ 252,421	\$ 511,410	\$ 230,534	\$ 1,752,883	\$ 242,297	\$ 359,212	\$ 3,348,757

Total expenditures/expenses for General and Special Revenue Funds  
(plus Food Service Enterprise Fund if present)

9 \$65,269,518

Less: Deductions of Unallowable Costs

**Fiscal Year**

Total Capital Outlay (6600)  
Total Debt & Lease (6500)  
Plant Maintenance (Function 51, 6100-6400)  
Food (Function 35, 6341 and 6499)  
Stipends (6413)

10 \$1,977,611  
11 330,083  
12 7,866,144  
13 1,104,006  
14

Column 4 (above) - Total Indirect Cost

1,752,883

Subtotal

13,030,727

Net Allowed Direct Cost

\$52,238,791

**Cumulative**

Total Cost of Buildings before Depreciation (1520)  
Historical Cost of Buildings over 50 years old  
Amount of Federal Money in building Cost (Net of #16)  
Total Cost of Furniture & Equipment before Depreciation (1530&1540)  
Historical Cost of Furniture & Equipment over 16 years old  
Amount of Federal Money in Furniture & Equipment (Net of #19)

15 100,234,346  
16 7,835,614  
17 430,625  
18 12,249,488  
19 215,750  
20 891,598

(8) Note A - 233,815 in Function 53 expenditures are included in this report on administrative costs as well as leave pay in the amount of \$64,901 in all other functions. \$442,795 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.



**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**DEBT SERVICE FUND**  
For the Year Ended August 31, 2011

Exhibit J-4

Data Control Codes		Debt Service			
		Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
		Original	Final		
	<b>Revenues</b>				
5700	Local revenues	\$ 8,592,984	\$ 9,109,310	\$ 9,125,162	\$ 15,852
<b>5020</b>	<b>Total revenues</b>	<u>8,592,984</u>	<u>9,109,310</u>	<u>9,125,162</u>	<u>15,852</u>
	<b>Expenditures</b>				
	<b>Debt Service:</b>				
0071	Principal on long-term debt	2,920,000	3,005,000	3,005,000	
0072	Interest on long-term debt	3,989,802	6,101,810	4,844,043	1,257,767
0073	Bond issuance costs and fees	2,500	2,500	124,117	(121,617)
<b>6030</b>	<b>Total Expenditures</b>	<u>6,912,302</u>	<u>9,109,310</u>	<u>7,973,160</u>	<u>1,136,150</u>
1100	Excess (deficiency) of revenues over expenditures	<u>1,680,682</u>		<u>1,152,002</u>	<u>1,152,002</u>
	<b>Other Financing Sources (Uses)</b>				
7911	Capital-related Debt Issued (Regular Bonds)			8,170,000	8,170,000
7916	Premium or discount on issuance of bonds			549,082	549,082
8949	Payment to Bond Refunding Escrow Agent			(8,595,965)	(8,595,965)
<b>7080</b>	<b>Total other financing sources and uses</b>			<u>123,117</u>	<u>123,117</u>
0100	Net change in fund balances	1,680,682		1,275,119	1,275,119
<b>1300</b>	<b>Fund balances - beginning</b>	<u>1,855,967</u>	<u>1,855,967</u>	<u>1,855,967</u>	
<b>3000</b>	<b>Fund balances - ending</b>	<u>\$ 3,536,649</u>	<u>\$ 1,855,967</u>	<u>\$ 3,131,086</u>	<u>\$ 1,275,119</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 (the "District") as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 13, 2011. 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 opinion 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. #11-01. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

***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 direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's responses to the findings identified in our audit are 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 entity, 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 "Nell Larson, AC". The signature is written in a cursive, flowing style.

Texas City, Texas  
December 13, 2011



**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 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, 2011. The District's major federal programs are identified in the summary of auditors' 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, the 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, 2011.

**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 an 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 identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over compliance. #11-01. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

#### *Closing*

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 13, 2011



**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*For the Year Ended August 31, 2011*

**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?	#11-01
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies(s) identified that are not considered to be material weaknesses?	#11-01
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
<b>Title I Cluster</b>	
ESEA, Title I, Part A	84.010A
ESEA, Title I, Part A (ARRA)	84.389A
<b>Special Education Cluster</b>	
IDEA B Formula	84.027A
IDEA B Preschool	84.173A
IDEA B Formula ARRA	84.391A
<b>Child Nutrition Cluster</b>	
National School Lunch Program	10.555
School Breakfast Program	10.553
National School Lunch Commodities	10.555
Title XIV, SFSF (ARRA)	84.394A
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, 2011**

**II. Financial Statement Findings**

**Finding #11-01 – Payroll coding for federally funded employees**

*Condition:* At the beginning of the school year, the program directors visit the schools along with the the finance director and assistant superintendent and review employees paid out of federal funds. However, changes can be made throughout the year and employee changes to federal grants do not always go to the director.

*Criteria:* Employees paid out of federal funds should be reviewed by the grant directors.

*Cause:* The current system allows for changes to employees charged to the federal programs without it going through the program director. Not all changes are routed through the federal grant directors.

*Effect:* Employees can be charged incorrectly to programs. Journal entries are frequently required to correct payroll coding errors.

*Recommendation:* Ensure that payroll and human resources is aware that any payroll changes affecting federal funds (both moving employees into and out of) should be routed through the federal program directors office to ensure the change is correct. On a regular basis (monthly or quarterly) the directors should receive a listing off all employees with time charged to their program.

*Responsible party:* Chad Marek, Finance Director

**III. Federal Awards Findings and Questioned Costs**

See item #11-01 above.

**IV. Schedule of Prior Year Findings**

No prior year findings

**V. Corrective Action Plan**

**Finding #11-01: Payroll coding for federally funded employees**

Human Resources will continue to work with the campuses as changes are made to employee's account distribution to ensure that all changes involving federally funded employees are approved by the program director. Finance will continue to monitor budget to actual to ensure payroll costs are within budgeted amounts.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended August 31, 2011

*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
<b>U.S. Department of Education</b>				
<b>Passed Through Texas Education Agency:</b>				
10691001084906	ESEA, Title IV, Part A, Safe and Drug Free Schools	204	84.186A	\$ 225
11610101084906	ESEA, Title I, Part A	211	84.010A	955,219
12610101084906	ESEA, Title I, Part A	211	84.010A	35,133
106600010849066600	IDEA-B Formula *	224	84.027A	1,203
11660001049066600	IDEA-B Formula *	224	84.027A	1,387,192
126600010849066600	IDEA-B Formula *	224	84.027A	41,530
11661001084906610	IDEA-B Preschool *	225	84.173A	29,492
126610010849066610	IDEA-B Preschool *	225	84.173A	1,155
11420006084906	Carl D. Perkins Basic Grant	244	84.048A	57,643
11694501084906	Title II, Part A, Teacher/Principal Training	255	84.367A	238,501
12694501084906	Title II, Part A, Teacher/Principal Training	255	84.367A	14,966
11671001084906	Title III, Part A, LEP	263	84.365A	46,581
11557001084906	ARRA - Title XIV, SFSF	266	84.394A	2,237,887
10553001084906	ARRA - Title II, Part D Technology	279	84.386A	9,098
10554001084906	IDEA-B Formula - ARRA - LEA	283	84.391	656,535
10551001084906	Title I, Part A - ARRA/Stimulus	285	84.389	153,581
<b>Total Passed Through Texas Education Agency</b>				<u>5,865,941</u>
<b>Total U.S. Department of Education</b>				<u>5,865,941</u>
<b>U.S. Department of Health &amp; Human Services</b>				
<b>Passed through Hitchcock I.S.D. :</b>				
10-084-906	Head Start	205	93.600	598,881
09-084-906	Head Start	205	93.600	236,739
10-084-906 ARRA	Head Start - ARRA	288	93.708	21,373
<b>Total Passed through Hitchcock I.S.D.</b>				<u>856,993</u>
<b>Total U.S. Department of Health &amp; Human Services</b>				<u>856,993</u>
<b>U.S. Department of Agriculture</b>				
<b>Passed Through the Texas Department of Agriculture:</b>				
<i>Non Cash assistance (Commodities):</i>				
084-906	National School Lunch Program ***	240	10.555	<u>226,235</u>
<b>Passed Through Texas Education Agency:</b>				
71301101	National School Lunch Program ***	240	10.555	1,658,869
71401101	School Breakfast Program***	240	10.553	622,263
<b>Passed Through Texas Education Agency</b>				<u>2,281,132</u>
<b>Total U.S. Department of Agriculture</b>				<u>2,507,367</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 9,230,301</u>

\* Special Education Cluster

\*\* Title I, Part A Cluster

\*\*\* Child Nutrition Cluster

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

*Exhibit K-2*

**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, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local 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	\$ 9,230,301
Federal revenue accounted for in the General Fund	
Summer School LEP	2,149
Medicaid SHARS	354,919
Total federal revenue accounted for in the General Fund	<u>357,068</u>
Total Federal Revenue - Exhibit C-3	<u>\$ 9,587,369</u>