

**SANTA MARIA INDEPENDENT SCHOOL
DISTRICT**

**ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED**

AUGUST 31, 2009

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2009

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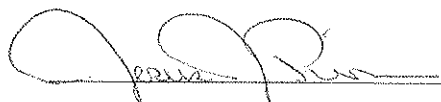
CERTIFICATE OF BOARD

Santa Maria Independent School District
Name of School District

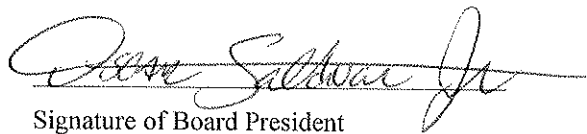
Cameron
County

031913
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved _____ disapproved for the year ended August 31, 2009 at a meeting of the Board of Trustees of such school district on the 28th day of January, 2010.



Signature of Board Secretary



Signature of Board President

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



Rul Hernandez & Company, P. C.

Certified Public Accountants

5422 Holly Rd

Holly-Staples Square

Corpus Christi, Texas 78411

(361) 980-0428 Fax (361) 980-1002

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

Independent Auditor's Report

Board of Trustees
Santa Maria Independent School District
P.O. Box 448
Santa Maria, Texas 78592

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Maria Independent School District (the District) as of and for the year ended August 31, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Maria Independent School District as of August 31, 2009, 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.

Management's discussion and analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Santa Maria Independent School District's basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Although the combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements, they have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-5. Except for Exhibit J-3 (Cash Flow and the Optimum Fund Balance Calculation Schedule) which is marked **UNAUDITED** and on which we express no opinion, these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Raul Hernandez & Company, P.C.

January 15, 2010

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion and Analysis

This section of Santa Maria Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2009. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net assets were \$4,119,538 at August 31, 2009.
- During the year, the District's expenses were \$540,653 less than the \$7,983,870 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs decreased (\$613,188) from last year. The majority of the decrease was partially due to fewer costs including instructional activities, student transportation, general administrator, plant maintenance & operations, and health services.
- The General Fund reported an unreserved fund surplus this year of \$113,085.

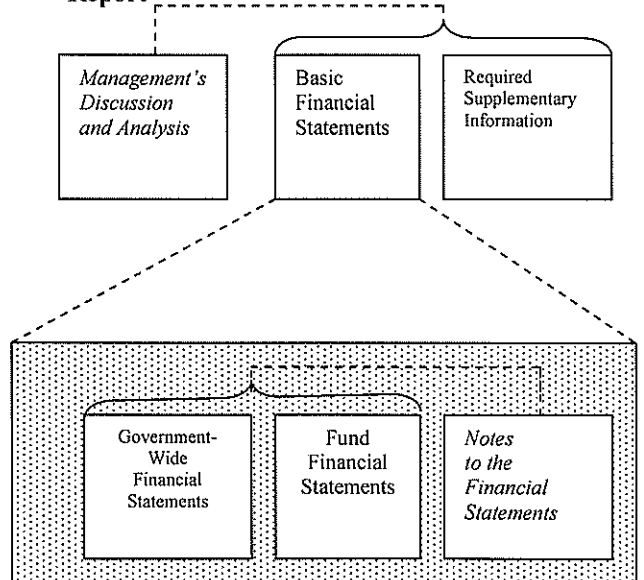
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

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

of others, to whom the resources in question belong.

Figure A-1. Required Components of the District's Annual Financial Report



Summary ↔ Detail

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

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

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets include *all* of the government’s assets and liabilities.

All of the current year’s revenues and expenses are accounted for in the statement activities regardless of when cash is received or paid.

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

- Over time, increases or decreases in the District’s net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District’s tax base.

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

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.

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

Type of Statements	Fund Statements			
	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District’s government (except fiduciary funds) and the District’s component units	The activities of the District that are not proprietary or fiduciary	Activities the District operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else’s resources
Required financial statement	*Statement of net assets	*Balance Sheet	*Statement of net assets	*Statement of Fiduciary net assets
	*Statement of activities	*Statement of revenues, expenditures & changes in fund balances	*Statement of revenues, expenses and changes in fund net assets	*Statement of changes in fiduciary net assets
			*Statement of cash flows	
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term. The District’s funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenue and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has two types of funds:

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District's *combined* net assets were \$4,119,538 at August 31, 2009.
(See Table A-1).

Table A-1
The District's Net Assets

	Governmental Activities		Increase (Decrease)
	2009	2008	
Current Assets:			
Cash and cash equivalents	\$ 852,631	\$ 729,971	\$ 122,660
Property taxes receivable (Delinquent)	182,417	170,935	11,482
Allowance for Uncollectible Taxes	(18,242)	(17,045)	(1,197)
Due from other governments	415,271	354,634	60,637
Due from Fiduciary Funds	2,285	12,942	(10,657)
Inventories	13,796		
Deferred Expenses	32,831	2,777	30,054
Total Current Assets	1,480,989	1,254,214	226,775
Noncurrent Assets:			
Land	247,824	247,824	-
Building, net	8,280,851	8,546,099	(265,248)
Furniture and equipment, net	133,506	227,062	(93,556)
Total Noncurrent Assets	8,662,181	9,020,985	(358,804)
Total Assets	10,143,170	10,275,199	(132,029)
Current Liabilities:			
Accounts payable and accrued liabilities	153,406	238,348	(84,942)
Due to Fiduciary Funds	114	461,257	(461,143)
Interest Payable	10,247	9,655	592
Accrued Expenses	-	1,700	(1,700)
Due to other governments	97,682	12,907	84,775
Accrued Wages Payable	93,244	78,349	14,895
Deferred Revenue	569,592	473,148	96,444
Total Current Liabilities	924,285	1,275,364	(351,079)
Long-Term Liabilities			
Due within one year	332,214	317,214	15,000
Due in more than one year	4,767,133	5,103,735	(336,602)
Total Liabilities	6,023,632	6,696,313	(672,681)
Net Assets:			
Invested in Capital Assets, Net of Related Debt	3,553,179	4,268,066	(714,887)
Restricted for Federal and State Programs	284,589	182,761	101,828
Restricted for Debt Service	5,244	5,527	(283)
Unrestricted Net Assets	276,526	(877,468)	1,153,994
Total Net Assets	\$ 4,119,538	\$ 3,578,886	\$ 540,652

The \$276,526 represents unrestricted net assets for the current year.

Changes in net assets. The District's total revenues were \$7,983,870. A significant portion, 68%, of the District's revenue was derived from grants & contributions not restricted. (See Figure A-2) 25% was from operating grants and contribution grants, while 5.2% was related to property taxes. The total cost of all programs and services was \$7,443,217. (See Figure A-4). Fifty one percent of these costs are for instruction, 11.7% for plant maintenance & operations, and 6.3% for general administrator. Current assets were up \$226,775. The majority of the change is a result of an increase in the district's cash position, which increased \$122,660. Current liabilities were down \$(351,079).

Governmental Activities

- Property tax rates increased from \$1.184 to \$1.2659. Furthermore, assessed property values were \$38,362,009 for 2009.
- The cost of all *governmental* activities this year was \$7,443,217.
- However, the amount that our taxpayers paid for these activities through property taxes was \$420,861, an increase from the prior year.
- Some of the costs were paid by those who directly benefited from the program of \$81,525 for charges for services and by grants and contributions (not restricted) of \$5,438,642.

Figure A-3

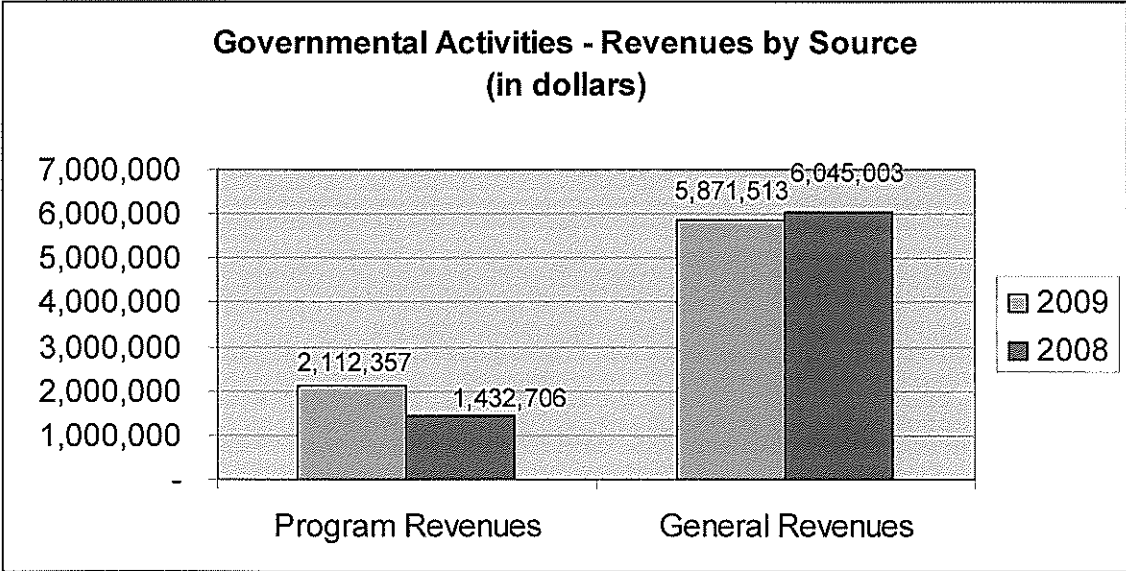
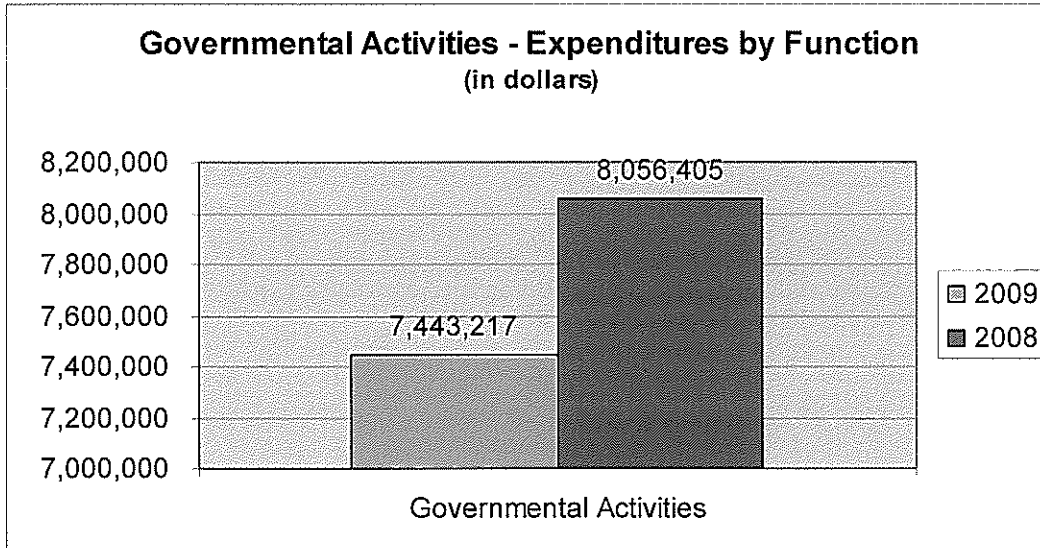


Table A-2
District Revenues and Expenses

	Governmental	
	Activities	
	2009	2008
Program Revenues:		
Charges for Services	\$ 81,525	62,997
Operating Grants & Contributions	2,030,832	1,369,709
General Revenues:		
Property Taxes	420,861	416,615
Grants and contributions not restricted	5,438,642	5,568,281
Investment Earnings	1,723	7,488
Miscellaneous Local and Intermediate Revenue	10,287	52,619
Total Revenues	7,983,870	7,477,709
Program Expenses:		
Instruction	3,812,499	4,327,921
Instructional resources media services	58,858	133,772
Curriculum dev. & instructional staff dev.	76,839	168,644
Instructional Leadership	120,603	-
School leadership	268,379	332,156
Guidance, counseling and evaluation services	215,059	196,696
Health services	60,554	79,603
Student (Pupil) Transportation	169,976	246,097
Food Services	395,693	450,173
Cocurricular/Extracurricular activities	181,819	260,525
General Administrator	468,922	530,938
Plant maintenance and operations	876,378	910,183
Security and monitoring	9,337	20,415
Data Processing services	112,392	59,184
Community services	194,231	56,656
Debt Service - Interest on Long Term Debt	270,573	276,574
Debt Service - Bond Issuance Cost and Fees	7,178	6,868
Payment to Fiscal Agent/Member Districts of SSA	136,187	-
Other Intergovernmental Charges	7,740	-
Total Expenditures	7,443,217	8,056,405
Change in net assets	540,653	(578,696)
Net Assets - beginning	3,578,885	4,157,582
Net assets - ending	\$ <u>4,119,538</u>	<u>3,578,885</u>

Figure A-4



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental activities total \$7,983,870, an increase of 6.7% compared to the preceding year. The increase in local revenues is a result of the increase in charges for services and operating grants & contributions. Some of the changes under program expenses include decreases of (\$515,422) and (\$76,121) for instruction and student transportation, respectively. Additionally, there were decreases in both instructional resources media services and food services of (\$74,914) and (\$54,480), respectively.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. Actual expenditures were \$470,345 below final budget amounts. The most significant positive variance resulted from food services in the amount of \$84,247 and instruction in the amount of \$68,711. Another significant positive variance was from extracurricular activities in the amount of \$56,743.

- Property tax collections for the general and debt service funds combined totaled \$432,889.
- The District maintained its own campus and has no plans for expansion in the near future.
- Beginning budget amounts were higher than actual state funding amounts for the current year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the District had invested \$12,088,394 in a broad range of capital assets, including land, buildings & improvements, and furniture & equipment. (See Table A-3.) The District's policy is to capitalize all individual capital items over \$5,000.

Table A-3
District's Capital Assets

	Governmental Activities		Increase (Decrease)
	2009	2008	
Land	\$ 247,824	\$ 247,824	-
Buildings & Improvements	11,078,438	11,078,438	-
Furniture & Equipment	762,132	762,132	-
Total capital assets	12,088,394	12,088,394	-
Total accumulated depreciation	3,426,213	3,067,409	358,804
Net capital assets	\$ 8,662,181	\$ 9,020,985	(358,804)

Long-Term Debt

At year-end, the District had \$5,099,346 outstanding as shown in Table A-4. More detailed information about the District's debt is presented in the Notes to the Financial Statements.

Table A-4
District's Long-Term Debt

	Governmental		Increase (Decrease)
	2009	2008	
General Obligation Bonds	\$ 4,475,000	\$ 4,680,000	(205,000)
Notes	586,918	668,030	(81,112)
Capital Leases	37,428	72,917	(35,489)
	\$ 5,099,346	\$ 5,420,947	(321,601)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Total appraised value for school tax purposes used for 2009-10 totaled \$38,133,308.
- General operating fund spending per student decreased in the 2010 budget from \$8,467 to \$7,942. This is a 6.2% decrease.

These indicators were taken into account when adopting the general fund budget for 2009-10. Amounts available for appropriation in the general fund budget are \$5,752,216. Estimated revenues for the general fund are estimated at \$6,081,256.

The 2009-10 maintenance tax rates were adopted at \$1.040000/\$100 and the debt service tax rate is set at \$0.214941/\$100.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to 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 Santa Maria INDEPENDENT SCHOOL DISTRICT, P.O. Box 448 Santa Maria, Texas 78592.

BASIC FINANCIAL STATEMENTS

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2009

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 852,631
1220 Property Taxes Receivable (Delinquent)	182,417
1230 Allowance for Uncollectible Taxes	(18,242)
1240 Due from Other Governments	415,271
1267 Due from Fiduciary Funds	2,285
1300 Inventories	13,796
1410 Deferred Expenses	32,831
Capital Assets:	
1510 Land	247,824
1520 Buildings, Net	8,280,851
1530 Furniture and Equipment, Net	133,506
1000 Total Assets	10,143,170
LIABILITIES	
2110 Accounts Payable	153,406
2140 Interest Payable	10,247
2160 Accrued Wages Payable	93,244
2177 Due to Fiduciary Funds	114
2180 Due to Other Governments	97,682
2300 Deferred Revenues	569,592
Noncurrent Liabilities	
2501 Due Within One Year	332,214
2502 Due in More Than One Year	4,767,133
2000 Total Liabilities	6,023,632
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	3,553,179
3820 Restricted for Federal and State Programs	284,589
3850 Restricted for Debt Service	5,244
3900 Unrestricted Net Assets	276,526
3000 Total Net Assets	\$ 4,119,538

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

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2009

EXHIBIT B-1

Data	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Control	1	3	4	6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 3,812,499	\$ 17,936	\$ 1,195,426	\$ (2,599,137)
12 Instructional Resources and Media Services	58,858	8,967	7,695	(42,196)
13 Curriculum and Instructional Staff Development	76,839	11,415	73,246	7,822
21 Instructional Leadership	120,603	4,891	120,603	4,891
23 School Leadership	268,379	-	19,707	(248,672)
31 Guidance, Counseling and Evaluation Services	215,059	-	174,420	(40,639)
33 Health Services	60,554	-	33,247	(27,307)
34 Student (Pupil) Transportation	169,976	8,967	5,085	(155,924)
35 Food Services	395,693	14,675	11,968	(369,050)
36 Extracurricular Activities	181,819	2,445	8,168	(171,206)
41 General Administration	468,922	6,522	14,191	(448,209)
51 Plant Maintenance and Operations	876,378	5,707	13,373	(857,298)
52 Security and Monitoring Services	9,337	-	5,905	(3,432)
53 Data Processing Services	112,392	-	17,618	(94,774)
61 Community Services	194,231	-	193,992	(239)
72 Debt Service - Interest on Long Term Debt	270,573	-	-	(270,573)
73 Debt Service - Bond Issuance Cost and Fees	7,178	-	-	(7,178)
93 Payments to Fiscal Agent/Member Districts of SSA	136,187	-	136,187	-
99 Other Intergovernmental Charges	7,740	-	-	(7,740)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 7,443,217	\$ 81,525	\$ 2,030,832	(5,330,859)

Data	General Revenues:		
Control	Taxes:		
Codes			
MT	Property Taxes, Levied for General Purposes		398,864
DT	Property Taxes, Levied for Debt Service		21,997
GC	Grants and Contributions not Restricted		5,438,642
IE	Investment Earnings		1,723
MI	Miscellaneous Local and Intermediate Revenue		10,287
TR	Total General Revenues		5,871,513
CN	Change in Net Assets		540,653
NB	Net Assets--Beginning		3,578,885
NE	Net Assets--Ending		\$ 4,119,538

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

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2009

Data Control Codes	10 General Fund	Major Special Revenue Fund	Major Special Revenue Fund
ASSETS			
1110 Cash and Cash Equivalents	\$ 337,166	\$ 97,682	\$ 411,234
1220 Property Taxes - Delinquent	159,872	-	-
1230 Allowance for Uncollectible Taxes (Credit)	(15,987)	-	-
1240 Due from Other Governments	266,848	-	-
1260 Due from Other Funds	2,285	-	-
1300 Inventories	13,796	-	-
1410 Deferred Expenditures	32,831	-	-
1000 Total Assets	<u>\$ 796,811</u>	<u>\$ 97,682</u>	<u>\$ 411,234</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2110 Accounts Payable	\$ 4,983	\$ -	\$ -
2160 Accrued Wages Payable	93,244	-	-
2170 Due to Other Funds	114	-	-
2180 Due to Other Governments	-	97,682	-
2300 Deferred Revenues	302,172	-	410,000
2000 Total Liabilities	<u>400,513</u>	<u>97,682</u>	<u>410,000</u>
Fund Balances:			
Reserved For:			
3420 Retirement of Long Term Debt	-	-	-
3450 Food Service	283,355	-	-
Unreserved and Undesignated:			
3600 Reported in the General Fund	112,943	-	-
3610 Reported in Special Revenue Funds	-	-	1,234
3000 Total Fund Balances	<u>396,298</u>	<u>-</u>	<u>1,234</u>
4000 Total Liabilities and Fund Balances	<u>\$ 796,811</u>	<u>\$ 97,682</u>	<u>\$ 411,234</u>

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

Other Funds	Total Governmental Funds
\$ 6,549	\$ 852,631
22,545	182,417
(2,255)	(18,242)
148,423	415,271
-	2,285
-	13,796
-	32,831
<u>\$ 175,262</u>	<u>\$ 1,480,989</u>
\$ 148,423	\$ 153,406
-	93,244
-	114
-	97,682
21,595	733,767
<u>170,018</u>	<u>1,078,213</u>
5,244	5,244
-	283,355
-	112,943
-	1,234
<u>5,244</u>	<u>402,776</u>
<u>\$ 175,262</u>	<u>\$ 1,480,989</u>

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
AUGUST 31, 2009

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	402,776
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase(decrease) net assets.		-
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$12,088,394 and the accumulated depreciation was \$3,067,409. In addition, 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. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		3,590,381
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2009 capital outlays and debt principal payments is to increase (decrease) net assets.		321,602
4 The 2009 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(358,804)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		163,583
19 Net Assets of Governmental Activities	\$	4,119,538

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

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SANTA MARIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	10 General Fund	Major Special Revenue Fund	Major Special Revenue Fund
REVENUES:			
5700	\$ 429,971	\$ -	\$ 571
5800	4,852,700	-	-
5900	440,043	-	-
5020	<u>5,722,714</u>	<u>-</u>	<u>571</u>
EXPENDITURES:			
Current:			
0011	2,481,953	-	-
0012	20,772	-	-
0013	3,593	-	-
0021	2,852	-	-
0023	259,539	-	-
0031	43,725	-	-
0033	27,306	-	-
0034	135,473	-	-
0035	381,050	-	-
0036	181,819	-	-
0041	462,024	-	-
0051	871,694	-	-
0052	3,432	-	-
0053	95,968	-	-
0061	3,186	-	-
Debt Service:			
0071	116,602	-	-
0072	48,935	-	-
0073	7,178	-	-
Intergovernmental:			
0093	-	-	-
0099	7,740	-	-
6030	<u>5,154,841</u>	<u>-</u>	<u>-</u>
1200	567,873	-	571
0100	<u>(171,575)</u>	<u>-</u>	<u>663</u>
3000	<u>\$ 396,298</u>	<u>\$ -</u>	<u>\$ 1,234</u>

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

Other Funds	Total Governmental Funds
\$ 74,140	\$ 504,682
766,963	5,619,663
1,409,197	1,849,240
<u>2,250,300</u>	<u>7,973,585</u>
1,055,003	3,536,956
7,694	28,466
73,246	76,839
117,751	120,603
8,840	268,379
171,334	215,059
33,248	60,554
-	135,473
5,304	386,354
-	181,819
2,555	464,579
-	871,694
5,905	9,337
16,424	112,392
191,045	194,231
205,000	321,602
221,046	269,981
-	7,178
136,187	136,187
-	7,740
<u>2,250,582</u>	<u>7,405,423</u>
(282)	568,162
5,526	(165,386)
<u>\$ 5,244</u>	<u>\$ 402,776</u>

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2009

Total Net Change in Fund Balances - Governmental Funds	\$	568,162
<p>The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets.</p>		
		-
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2009 capital outlays and debt principal payments is to increase (decrease) net assets.</p>		
		321,602
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.</p>		
		(358,804)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.</p>		
		9,693
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>540,653</u>

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

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2009

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 17,873
Due from Other Funds	114
	<hr/>
Total Assets	\$ 17,987
	<hr/> <hr/>
LIABILITIES	
Due to Other Funds	\$ 2,285
Due to Student Groups	15,702
	<hr/>
Total Liabilities	\$ 17,987
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The notes to the financial statements are an integral part of this statement.

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NOTES TO THE FINANCIAL STATEMENTS

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SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Santa Maria Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Santa Maria Independent School District non-fiduciary activities with most of the inter-fund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

Inter-fund activities between governmental funds appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All inter-fund transactions between governmental funds are eliminated on the government-wide statements. Inter-fund activities between governmental funds remain on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as inter-fund transfers. Inter-fund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities. The fund financial statements provide reports on the financial conditions and results of operations for two fund categories – governmental and fiduciary. Since the resources in the fiduciary funds cannot be used for District Operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial conditions and results of operations in a separate column.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

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

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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 use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

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

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

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

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **The Capital Projects Fund** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital assets acquisitions are accounted for in a capital project fund.

Additionally, the District reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Funds and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Permanent Funds** – The District accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs. The District has no Permanent Funds.
3. **Debt Service Funds** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Proprietary Funds:

3. **Enterprise Funds** – The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The District has no enterprise funds.
4. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund.

Fiduciary Funds:

5. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are.

- Campus Activity Funds
- Faculty Funds

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The District reports inventories of supplies at cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
3. In the government-wide financial statements in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using 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 recognized 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.

4. It is the District's policy to permit some employees to accumulate local leave but unused leave shall be non-cumulative. There is no liability for unpaid accumulated state sick leave. The District does not pay when employees retire from service with the District. Therefore, there is no liability for these amounts reported in governmental funds.
5. Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

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

Assets	Years
Buildings	50
Building Improvements	20
Infrastructure	50
Vehicles	10
Office Equipment	5
Computer Equipment	5

6. District has a central receiving warehouse where all equipment and supplies are received. All assets received are tagged and labeled before they are delivered. The equipment is posted and confirmed with the purchase order. The items are labeled for delivery to make sure they reach their destination. Transfer forms are used when the assets is moved from one location to another.
7. The District workmen's compensation, health, and dental insurance program met the minimum state requirement of per employee. The health insurance low plan is a 80/20 plan and the health insurance high plan is an 80/20 plan. The District cost per employee \$ 279.00.
8. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
9. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.
10. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide data base for policy development and funding plans.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds.

The details of capital assets and long-term debt at the beginning of the year were as follows:

Capital Assets at the Beginning of the year	Historic Cost	Accumulated Depreciation	Net Value at the Beginning of the Year	Change in Net Assets
Land	\$ 247,824		\$ 247,824	
Buildings	11,078,438	(2,532,340)	8,546,098	
Furniture & Equipment	762,132	(535,069)	227,063	
				\$ 9,020,985
Change in Net Assets				
Long-term Liabilities at the Beginning of the year				Payable at the Beginning of the Year
Bonds Payable				(4,680,000)
Notes Payable				(668,030)
Interest Payable				(9,655)
Capital Leases Payable				(72919)
Net Adjustment to Net Assets				<u>(5,430,604)</u>
				<u>\$ 3,590,381</u>

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	Amount	Adjustments to Changes in Net Assets	Adjustments to Net Assets
Current Year Capital Outlay			
Land	\$ -	-	\$ -
Buildings & Improvements	-	-	-
Furniture & Equipment	-	-	-
Construction in Progress	-	-	-
Total Capital Outlay	\$ -	-	\$ -
Debt Issued or Incurred:			
Issuance of Loans	-	-	-
Bond Principal	(205,000)	-	(205,000)
Notes Principal	(81,112)	-	(81,112)
Capital Lease	(35,489)	-	(35,489)
Total Principal Payments	(321,601)	-	(321,601)
Add Accum. Depreciation on Retired Assets	-	-	-
Total Adjustment to Net Assets	\$ (321,601)	\$ -	\$ (321,601)

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

	Amount	Adjustments to Change in Net Assets	Adjustments to Net Assets
Adjustments to Revenue and Deferred Revenue			
Taxes Collected from Prior Year Levies	\$ 9,101	\$ -	\$ 9,101
Accrued Interest Payable	592	-	592
Total	\$ 9,693	-	\$ 9,693

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund which is included in the General Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5 and the other two reports are in Exhibit J4 and J5.

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

1. Prior to August 31 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year.
4. Each budget is controlled by the Budget Coordinator at the revenue and expenditure function/object levels. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. Reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds are as follows:

August 31, 2009 Fund Balance	
Non-appropriated Budget Funds	<u>\$2,460,799</u>
All Special Revenue Funds	<u>\$ 2,460,799</u>

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. At August 31, 2009 the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$694,333 and the bank balance was \$1,025,329. The District's cash deposits at August 31, 2009 and during the year ended August 31, 2009 were entirely covered by FDIC insurance and by pledged collateral held by the District's agent bank in the District's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: First National Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$1,628,873.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$1,718,908 and occurred during the month of February, 2009.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$250,000.

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. At year end, the District was not exposed to foreign currency risk.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The district is in substantial compliance with the requirements of the Act and with local policies.

As of August 31, 2009, Santa Maria Independent School District had no investments:

Investment Type	Investment Maturities (in years)				
	Fair Value	Less than 1	1-5	6-10	More Than 10
Total	0	0	0	0	0

Additional policies and contractual provisions governing deposits and investments for Santa Maria Independent School District are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in (list investments covered by the district's credit risk policy, such as commercial paper, corporate bonds, mutual bond funds) to the top (or top 2 or 3) ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2008 the district's was not significantly exposed to credit risk.

Custodial Credit Risk for Investments To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

Concentration of Credit Risk To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments. At year end, the District was not exposed to interest rate risk.

Foreign Currency Risk for Investments The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. The District property taxes are levied on \$1.2659 per \$ 100 property tax valuation. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND RECEIVABLES AND PAYABLES

Inter-fund balances at August 31, 2009 consisted of the following individual fund balances:

	Due From Other Funds	Due To Other Funds
General Fund:		
Trust & Agency	\$ 2,285	\$ 114
Total General Fund	2,285	114
Trust & Agency Fund:		
General Fund	114	2,285
Total Trust & Agency Fund	114	2,285
TOTAL	\$ 2,171	\$ 2,171

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2009, was as follows:

	Beginning Balance	Additions	Primary Government		Ending Balance
			Retirement	Re- Classification	
Governmental Activities:					
Land	\$ 247,824	\$ -	-	-	\$ 247,824
Buildings and Improvements	11,078,438	-	-	-	11,078,438
Furniture and Equipment	762,132	-	-	-	762,132
Totals capital assets	<u>\$ 12,088,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,088,394</u>
Less Accumulated Deprec. for:					
Land Improvement Deprec.	\$ -	\$ -	-	-	\$ -
Buildings and Improvements	(2,532,340)	(265,248)	-	-	(2,797,588)
Furniture and Equipment	(535,069)	(93,556)	-	-	(628,625)
Total Accumulated Deprec.	<u>(\$3,067,409)</u>	<u>(358,804)</u>	<u>-</u>	<u>-</u>	<u>(3,426,213)</u>
Governmental Activities Capital Assets, Net	<u>\$ 9,020,985</u>	<u>\$ (358,804)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,662,181</u>

Depreciation expense was charged to governmental function codes as follows:

Instruction	275,543
Instructional Resources and Media Services	30,392
Student (Pupil) Transportation	34,503
Food Services	9,339
General Administration	4,343
Plant Maintenance and Operations	4,684
Total Depreciation Expense	<u>\$ 358,804</u>

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

F. BONDS PAYABLE AND CONTRACTUAL OBLIGATIONS

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current Requirements for principal and interest expenditures are accounted for in the Debt Service Fund and General Fund.

A summary of changes in general long-term debt for the year ended August 31, 2009 is as follows:

DESCRIPTION	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Payable			Outstanding 8/31/2009	Due Within One Year
				Amounts Outstanding 9/1/2008	Issued	Retired		
School House Bonds-Series 1998	8%	\$ 2,350,000	\$ 54,359	\$ 1,310,000	\$ -	\$ 135,000	\$ 1,175,000	\$ 145,000
School House Bonds-Series 2000	8%	1,665,000	81,445	1,475,000	-	30,000	1,445,000	30,000
School House Bonds-Series 2004	6%	2,015,000	84,473	1,895,000	-	40,000	1,855,000	45,000
Loan First National Bank	Variable	-	-	-	-	-	-	-
Loan First National Bank	Variable	290,000	4,588	157,879	-	61,848	96,031	53,583
First National Bank	Variable	-	-	-	-	-	-	-
First National Bank	Variable	510,151	29,418	510,151	-	19,264	490,887	19,154
Capital Leases		146,044	3,989	72,917	-	35,489	37,428	39,477
TOTAL		\$ 6,976,195	\$ 258,272	\$ 5,420,947	\$ -	\$ 321,601	\$ 5,099,346	\$ 332,214

Debt service requirements are as follows:

Year Ended August 31,	Loans		General Obligations		Total Requirements
	Principal	Interest	Principal	Interest	
2010	\$ 219,051	\$ 27,110	\$ 220,000	\$ 211,214	\$ 431,214
2011	158,510	17,132	225,000	201,656	426,656
2012	131,892	9,999	240,000	191,596	431,596
2013	77,465	2,832	250,000	180,956	430,956
2014-2034	-	-	3,540,000	1,816,954	5,356,954
	\$ 586,918	\$ 57,073	\$ 4,475,000	\$ 2,602,376	\$ 7,077,376

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

G. CAPITAL LEASES

The Santa Maria School District has entered into a lease agreement as lessee for financing the acquisition of two school buses with a down payment of \$39,477. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payment as of the inception date.

The asset acquired through the capital lease is as follows:

	Governmental Activities
Asset:	
Machinery and equipment	\$146,044
Less: Accumulated Depreciation	(43,813)
Total	\$102,231

The future minimum lease obligation and the net present value of these minimum lease payments as of August 31, 2009, were as follows:

		Governmental Activities
Year Ending August 31	2010	\$ 39,477
Total minimum lease payments		39,477
Less: Amount representing interest		(1,667)
Present value of minimum lease payments		\$ 37,810

H. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Vacations are taken within the same year they are earned and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying financial statements. Employees of the District are entitled to sick leave based on category / class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying financial statements.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

I. DEFINED BENEFIT PENSION PLAN

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

Funding Policy - State law provides for fiscal years 2009 a state contribution rate of 6.4% and a member contribution rate of 6.0%. In certain instances the reporting district (I.S.D., college, university, or state agency) is required to make all or a portion of the state's 6.0% contribution. 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% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a 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 contributions to TRS made on behalf of Santa Maria Independent School District's employees for the years ended August 31, 2007, 2008 and 2009 were \$ 233,084, \$ 263,068 and \$ 205,725 respectively. Santa Maria Independent School District paid additional state contributions for the years ended August 31, 2007, 2008, and 2009 in the amount of \$ 14,350, \$ 22,607 and \$13,547 respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

Types of staff members covered – All staff members who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Subtitle C, Section 822.002 are covered. A member is fully vested after 5 years of credible service and entitled to any benefits for which eligibility requirements have been met.

Medicare on Behalf Payments – The Medicare Prescription Drug, Improvement, and Mobilization Act of 2003, which is effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments must be recognized as equal revenues and expenditures/expenses by each reporting entity. The on-behalf payments for Santa Maria Independent School District for 2009, 2008 and 2007 were \$8,048, \$10,122 and \$10,391, respectively.

J. HEALTH CARE COVERAGE

The District provides health care benefits to staff members and their dependents. The District pays \$ 279/monthly per employee on Health Insurance for a total of \$ 292,076.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

K. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds	\$ 4,680,000	\$ -	\$ 205,000	\$ 4,475,000	\$ 220,000
Notes Payable	668,030	-	81,112	586,918	72,737
Capital Lease	<u>72,919</u>	<u>-</u>	<u>35,489</u>	<u>37,430</u>	<u>39,477</u>
Total Bonds and Notes Payable	\$ 5,420,949	\$ -	\$ 321,601	\$ 5,099,348	\$ 332,214
Other Liabilities:					
Total Other Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 5,420,949</u>	<u>\$ -</u>	<u>\$ 321,601</u>	<u>\$ 5,099,348</u>	<u>\$ 332,214</u>

L. DEFERRED REVENUE

Deferred revenue at year end consisted of the following:

	General Fund	Capital Projects Fund	Special Revenue Funds	Total
Net Tax Revenue	\$ 143,885	\$ -	\$ 20,291	\$ 164,176
State Entitlements	<u>144,491</u>	<u>410,000</u>	<u>15,100</u>	<u>569,591</u>
Total Deferred Revenue	<u>\$ 288,376</u>	<u>\$ 410,000</u>	<u>\$ 35,391</u>	<u>\$ 733,767</u>

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

M. DUE FROM STATE AGENCIES

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2009, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

Fund	State Entitlement	Federal Grants	Total
General	\$ 149,816	\$ -	\$ 149,816
Special Revenue	<u>17,652</u>	<u>167,834</u>	<u>185,486</u>
Total	<u>\$ 167,468</u>	<u>\$ 167,834</u>	<u>\$ 335,302</u>

N. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Sub-Total	Self-Insurance	Total
Property Taxes	\$ 328,011	\$ -	\$ 70,853	\$ -	\$ 398,864	\$ -	\$ 398,864
Penalties, Int. and Other	18,860		3,137		21,997		21,997
Tax-related Income							
Investment Income	1,573	571	150	-	2,294	-	2,294
Food Sales	-	6,047	-	-	6,047	-	6,047
Co-curricular Student Activities	6,540				6,540		6,540
Other	<u>68,940</u>	-	-	-	<u>68,940</u>	-	<u>68,940</u>
Total	<u>\$ 423,924</u>	<u>\$ 6,618</u>	<u>\$ 74,140</u>	<u>\$ -</u>	<u>\$ 504,682</u>	<u>\$ -</u>	<u>\$ 504,682</u>

O. LITIGATION

None

P. DUE TO STATE

The District had a due to state in the amount of \$97,682 for the Kindergarten and Prekindergarten grants.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

Q. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The District is committed to repair old facilities, construct new facilities, and upgrade District technology program. The District is also committed to providing a conducive learning environment for all the students.

The District participates in numerous State and Federal Grants programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies, therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collect ability of any related receivable as of August 31, 2009, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

R. MAINTENANCE OF EFFORT

The following is the amount paid by the district for its employees.

<u>Total District Employers Premium paid for health care 2008 – 2009</u>	\$ 290,578
--	------------

Subtract any non-medical expenditures	
Life Insurance	\$ 1,498
Dental Insurance	
Cobra	1,498
	1,498

c) 2008 -2009 Maintenance of Effort	<u>\$289,080</u>
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S. SHARED SERVICE ARRANGEMENTS

The District is the fiscal agent for a Shared Service Arrangement (SSA), which provides after school community learning centers for the fiscal agent and the member district. The fiscal agent provides financial services in budgeting, expenditure reports, payments to the member district and grant performance reports. According to guidance provided in the TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in a special revenue fund and used Model 1 from the SSA section of the Resource Guide. Expenditures of the SSA for the member district are summarized below:

<u>Member District</u>	<u>Title IV, Part B</u>
La Villa ISD	\$144,997
Total Expenditures	\$424,245

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

T. OTHER INFORMATION

As of August 31, 2009, the District is awaiting the final determination of a Title I audit which was performed by the Texas Education Agency. The preliminary audit findings determined that the amount of possible repayment to the Texas Education Agency is approximately \$220,275.60, however, the audit has not been finalized and the District is preparing a response to the findings. Management is unable to determine whether a potential liability or accrual, if any, should be recorded until the audit is completed.

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REQUIRED SUPPLEMENTARY INFORMATION

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 544,992	\$ 431,462	\$ 429,971	\$ (1,491)
5800	State Program Revenues	5,055,399	5,088,244	4,852,700	(235,544)
5900	Federal Program Revenues	378,534	417,592	440,043	22,451
5020	Total Revenues	5,978,925	5,937,298	5,722,714	(214,584)
EXPENDITURES:					
Current:					
0011	Instruction	2,222,019	2,550,664	2,481,953	68,711
0012	Instructional Resources and Media Services	4,555	24,437	20,772	3,665
0013	Curriculum and Instructional Staff Development	8,747	9,547	3,593	5,954
0021	Instructional Leadership	-	-	2,852	(2,852)
0023	School Leadership	181,519	269,007	259,539	9,468
0031	Guidance, Counseling and Evaluation Services	4,146	55,981	43,725	12,256
0033	Health Services	7,459	40,054	27,306	12,748
0034	Student (Pupil) Transportation	156,645	206,830	135,473	71,357
0035	Food Services	385,353	465,297	381,050	84,247
0036	Extracurricular Activities	304,068	238,562	181,819	56,743
0041	General Administration	545,357	508,702	462,024	46,678
0051	Facilities Maintenance and Operations	876,587	928,433	871,694	56,739
0052	Security and Monitoring Services	6,018	7,318	3,432	3,886
0053	Data Processing Services	8,735	101,427	95,968	5,459
0061	Community Services	8,100	6,900	3,186	3,714
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	744,074	122,399	116,602	5,797
0072	Debt Service - Interest on Long Term Debt	52,968	67,128	48,935	18,193
0073	Debt Service - Bond Issuance Cost and Fees	-	12,000	7,178	4,822
Intergovernmental:					
0099	Other Intergovernmental Charges	-	10,500	7,740	2,760
6030	Total Expenditures	5,516,350	5,625,186	5,154,841	470,345
1200	Net Change in Fund Balances	462,575	312,112	567,873	255,761
0100	Fund Balance - September 1 (Beginning)	(171,575)	(171,575)	(171,575)	-
3000	Fund Balance - August 31 (Ending)	\$ 291,000	\$ 140,537	\$ 396,298	\$ 255,761

COMBINING AND OTHER STATEMENTS

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2009

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	255 ESEA II,A Training and Recruiting
ASSETS				
1110	\$ -	\$ -	\$ -	\$ -
1220	-	-	-	-
1230	-	-	-	-
1240	252	5,893	12,515	18,382
1000	<u>\$ 252</u>	<u>\$ 5,893</u>	<u>\$ 12,515</u>	<u>\$ 18,382</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110	\$ 252	\$ 5,893	\$ 12,515	\$ 18,382
2300	-	-	-	-
2000	<u>252</u>	<u>5,893</u>	<u>12,515</u>	<u>18,382</u>
Fund Balances:				
Reserved For:				
3420	-	-	-	-
3000	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<u>\$ 252</u>	<u>\$ 5,893</u>	<u>\$ 12,515</u>	<u>\$ 18,382</u>

EXHIBIT H-1 (Cont'd)

262 Title II, D Education Technology	263 Title III, A English Lang. Acquisition	265 Title IV, B Community Learning	274 Gear-Up Program	285 ESEA I,A Improving Basic Program	309 SSA Adult Education	352 SSA - 21st Century Comm. Learning	399 Investment Capital Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,416	-	48,092	30,461	107	-	13,653	5,702
<u>\$ 1,416</u>	<u>\$ -</u>	<u>\$ 48,092</u>	<u>\$ 30,461</u>	<u>\$ 107</u>	<u>\$ -</u>	<u>\$ 13,653</u>	<u>\$ 5,702</u>
\$ 1,416	\$ -	\$ 48,092	\$ 30,461	\$ 107	\$ -	\$ 13,653	\$ 5,702
-	-	-	-	-	-	-	-
1,416	-	48,092	30,461	107	-	13,653	5,702
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 1,416</u>	<u>\$ -</u>	<u>\$ 48,092</u>	<u>\$ 30,461</u>	<u>\$ 107</u>	<u>\$ -</u>	<u>\$ 13,653</u>	<u>\$ 5,702</u>

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2009

Data Control Codes	401 Optional Extended Year Program	404 Student Success Initiative	411 Technology Allotment	423 LEP Student Success Initiative	
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ 379	\$ -
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Due from Other Governments	-	4,920	-	7,030
1000	Total Assets	<u>\$ -</u>	<u>\$ 4,920</u>	<u>\$ 379</u>	<u>\$ 7,030</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2110	Accounts Payable	\$ -	\$ 4,920	\$ -	\$ 7,030
2300	Deferred Revenues	-	-	379	-
2000	Total Liabilities	<u>-</u>	<u>4,920</u>	<u>379</u>	<u>7,030</u>
Fund Balances:					
Reserved For:					
3420	Retirement of Long Term Debt	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 4,920</u>	<u>\$ 379</u>	<u>\$ 7,030</u>

EXHIBIT H-1

428 High School Allotment	429 Other State Special Revenue Funds	499 Other Local Special Revenue Funds	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 925	\$ 1,304	\$ 5,245	\$ 6,549
-	-	-	-	22,545	22,545
-	-	-	-	(2,255)	(2,255)
-	-	-	148,423	-	148,423
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 925</u>	<u>\$ 149,727</u>	<u>\$ 25,535</u>	<u>\$ 175,262</u>
\$ -	\$ -	\$ -	\$ 148,423	\$ -	\$ 148,423
-	-	925	1,304	20,291	21,595
-	-	925	149,727	20,291	170,018
-	-	-	-	5,244	5,244
-	-	-	-	5,244	5,244
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 925</u>	<u>\$ 149,727</u>	<u>\$ 25,535</u>	<u>\$ 175,262</u>

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	255 ESEA II,A Training and Recruiting
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	105,000
5900 Federal Program Revenues	5,905	449,846	68,150	79,521
5020 Total Revenues	<u>5,905</u>	<u>449,846</u>	<u>68,150</u>	<u>184,521</u>
EXPENDITURES:				
Current:				
0011 Instruction	-	308,114	58,609	107,627
0012 Instructional Resources and Media Services	-	7,694	-	-
0013 Curriculum and Instructional Staff Development	-	(29,915)	-	46,216
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	463
0031 Guidance, Counseling and Evaluation Services	-	110,341	4,228	30,215
0033 Health Services	-	33,248	-	-
0035 Food Services	-	-	-	-
0041 General Administration	-	-	-	-
0052 Security and Monitoring Services	5,905	-	-	-
0053 Data Processing Services	-	-	-	-
0061 Community Services	-	20,364	5,313	-
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	-	-	-	-
0072 Debt Service - Interest on Long Term Debt	-	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of	-	-	-	-
6030 Total Expenditures	<u>5,905</u>	<u>449,846</u>	<u>68,150</u>	<u>184,521</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

EXHIBIT H-2 (Cont'd)

262 Title II, D Education Technology	263 Title III, A English Lang. Acquisition	265 Title IV, B Community Learning	274 Gear-Up Program	285 ESEA I,A Improving Basic Program	309 SSA Adult Education	352 SSA - 21st Century Comm. Learning	399 Investment Capital Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	19,397	-	12,450
244,361	32,493	424,245	90,916	107	-	13,653	-
<u>244,361</u>	<u>32,493</u>	<u>424,245</u>	<u>90,916</u>	<u>107</u>	<u>19,397</u>	<u>13,653</u>	<u>12,450</u>
184,422	32,493	66,038	90,916	-	-	-	12,450
-	-	-	-	-	-	-	-
47,074	-	-	-	107	-	-	-
4,458	-	68,190	-	-	-	5,276	-
-	-	-	-	-	-	8,377	-
-	-	-	-	-	-	-	-
-	-	5,304	-	-	-	-	-
-	-	2,555	-	-	-	-	-
-	-	-	-	-	-	-	-
8,407	-	-	-	-	-	-	-
-	-	145,971	-	-	19,397	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	136,187	-	-	-	-	-
<u>244,361</u>	<u>32,493</u>	<u>424,245</u>	<u>90,916</u>	<u>107</u>	<u>19,397</u>	<u>13,653</u>	<u>12,450</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	401 Optional Extended Year Program	404 Student Success Initiative	411 Technology Allotment	423 LEP Student Success Initiative
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	67,153	17,707	119,487
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>-</u>	<u>67,153</u>	<u>17,707</u>	<u>119,487</u>
EXPENDITURES:				
Current:				
0011 Instruction	-	67,153	9,690	43,346
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	-	9,764
0021 Instructional Leadership	-	-	-	39,827
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	26,550
0033 Health Services	-	-	-	-
0035 Food Services	-	-	-	-
0041 General Administration	-	-	-	-
0052 Security and Monitoring Services	-	-	-	-
0053 Data Processing Services	-	-	8,017	-
0061 Community Services	-	-	-	-
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	-	-	-	-
0072 Debt Service - Interest on Long Term Debt	-	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of	-	-	-	-
6030 Total Expenditures	<u>-</u>	<u>67,153</u>	<u>17,707</u>	<u>119,487</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

428 High School Allotment	429 Other State Special Revenue Funds	499 Other Local Special Revenue Funds	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 74,140	\$ 74,140
38,804	35,266	75	415,339	351,624	766,963
-	-	-	1,409,197	-	1,409,197
<u>38,804</u>	<u>35,266</u>	<u>75</u>	<u>1,824,536</u>	<u>425,764</u>	<u>2,250,300</u>
38,804	35,266	75	1,055,003	-	1,055,003
-	-	-	7,694	-	7,694
-	-	-	73,246	-	73,246
-	-	-	117,751	-	117,751
-	-	-	8,840	-	8,840
-	-	-	171,334	-	171,334
-	-	-	33,248	-	33,248
-	-	-	5,304	-	5,304
-	-	-	2,555	-	2,555
-	-	-	5,905	-	5,905
-	-	-	16,424	-	16,424
-	-	-	191,045	-	191,045
-	-	-	-	205,000	205,000
-	-	-	-	221,046	221,046
-	-	-	136,187	-	136,187
<u>38,804</u>	<u>35,266</u>	<u>75</u>	<u>1,824,536</u>	<u>426,046</u>	<u>2,250,582</u>
-	-	-	-	(282)	(282)
-	-	-	-	5,526	5,526
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,244</u>	<u>\$ 5,244</u>

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T.E.A. REQUIRED SCHEDULES

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2008

Last 10 Years Ended August 31	(1)	(2)	(3)	
	Tax Rates		Assessed/Appraised Value for School Tax Purposes	
	Maintenance	Debt Service		
2000 and prior years	Various	Various	\$	Various
2001	1.500000	0.140000		16,674,863
2002	1.500000	0.140000		17,240,000
2003	1.440000	0.160000		24,891,039
2004	1.440000	0.160000		29,061,592
2005	1.500000	0.196600		29,944,892
2006	1.500000	0.196600		35,190,623
2007	1.370100	0.196600		34,564,325
2008	1.040000	0.144700		38,252,279
2009 (School year under audit)	1.040000	0.225900		38,362,009
100 TOTALS				

	(10) Beginning Balance 9/1/2008	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2009
\$	17,780	\$ -	\$ 218	\$ 7	\$ (2,126)	\$ 15,429
	13,536	-	279	26	-	13,231
	6,598	-	279	22	-	6,297
	8,296	-	425	47	-	7,824
	12,313	-	428	48	-	11,837
	14,553	-	1,271	167	50	13,165
	19,814	-	3,388	444	(257)	15,725
	32,607	-	8,122	1,165	175	23,495
	45,438	-	19,125	2,661	(659)	22,993
	-	449,283	324,321	70,446	(2,095)	52,421
\$	<u>170,935</u>	\$ <u>449,283</u>	\$ <u>357,856</u>	\$ <u>75,033</u>	\$ <u>(4,912)</u>	\$ <u>182,417</u>

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2010-2011
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2009

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

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 161,102	\$ 139,670	\$ -	\$ -	\$ 300,772
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	48,500	-	-	-	48,500
6212	Audit Services	-	-	-	16,835	-	-	16,835
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	6,724	-	-	-	-	6,724
621X	Other Professional Services	-	-	-	10,671	-	-	10,671
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	28,000	-	-	28,000
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	6,508	-	-	6,508
6290	Miscellaneous Contr.	-	-	13,780	-	-	-	13,780
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	987	-	4,371	8,901	-	-	14,259
6410	Travel, Subsistence, Stipends	20,403	-	3,209	1,123	-	-	24,735
6420	Ins. and Bonding Costs	-	-	-	-	-	-	-
6430	Election Costs	7,205	-	-	-	-	-	7,205
6490	Miscellaneous Operating	81	-	3,122	7,664	-	-	10,867
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 28,676	\$ 6,724	\$ 234,084	\$ 219,372	\$ -	\$ -	\$ 488,856

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 6,979,376

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10) \$	-
Total Debt & Lease(6500)	(11)	172,714
Plant Maintenance (Function 51, 6100-6400)	(12)	871,694
Food (Function 35, 6341 and 6499)	(13)	192,878
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		219,372

SubTotal:

1,456,658

Net Allowed Direct Cost

\$ 5,522,718

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15) \$	11,078,438
Historical Cost of Building over 50 years old	(16) \$	-
Amount of Federal Money in Building Cost (Net of #16)	(17) \$	-
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18) \$	762,132
Historical Cost of Furniture & Equipment over 16 years old	(19) \$	-
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20) \$	-

(8) NOTE A: \$19,090 in Function 53 expenditures are included in this report on administrative costs.

\$7,742 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
 FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
 GENERAL FUND AS OF AUGUST 31, 2009

UNAUDITED

1	Total General Fund Balance as of 8/31/09 (Exhibit C-1 object 3000 for the General Fund Only)	\$	396,298
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$	283,355
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)		-
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)		-
5	Estimate of one month's average cash disbursements during the regular school session (9/1/09-5/31/10).		417,000
6	Estimate of delayed payments from state sources (58xx) including August payment delays		-
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount.		-
8	Estimate of delayed payments from federal sources (59xx)		-
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)		-
10	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)		<u>700,355</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)	\$	<u><u>(304,057)</u></u>

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 7,750	\$ 6,925	\$ 6,047	\$ (878)
5800 State Program Revenues	33,800	61,980	56,611	(5,369)
5900 Federal Program Revenues	420,084	412,592	412,842	250
5020 Total Revenues	461,634	481,497	475,500	(5,997)
EXPENDITURES:				
0035 Food Services	385,353	465,297	374,385	90,912
6030 Total Expenditures	385,353	465,297	374,385	90,912
1200 Net Change in Fund Balances	76,281	16,200	101,115	84,915
0100 Fund Balance - September 1 (Beginning)	182,098	182,098	182,098	-
3000 Fund Balance - August 31 (Ending)	\$ 258,379	\$ 198,298	\$ 283,213	\$ 84,915

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 80,384	\$ 75,384	\$ 74,140	\$ (1,244)
5800 State Program Revenues	383,322	383,322	351,624	(31,698)
5020 Total Revenues	463,706	458,706	425,764	(32,942)
EXPENDITURES:				
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	205,000	205,000	205,000	-
0072 Debt Service - Interest on Long Term Debt	258,706	220,278	221,046	(768)
6030 Total Expenditures	463,706	425,278	426,046	(768)
1200 Net Change in Fund Balances	-	33,428	(282)	(33,710)
0100 Fund Balance - September 1 (Beginning)	-	5,526	5,526	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ 38,954	\$ 5,244	\$ (33,710)

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**REPORTS ON
INTERNAL CONTROLS, COMPLIANCE
AND
FEDERAL AWARDS**

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Raul Hernandez & Company, P. C.

Certified Public Accountants
5422 Holly Rd
Holly-Staples Square
Corpus Christi, Texas 78411
(361) 980-0428 Fax (361) 980-1002

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

Independent Auditor's Report

Board of Trustees
Santa Maria Independent School District
P.O. Box 448
Santa Maria, Texas 78592

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Maria Independent School District (the District) as of and for the year ended August 31, 2009. These collectively comprise the District's basic financial statements. We have issued our report on them dated January 15, 2010.

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

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Maria Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the district's trustees, the audit committee, the administration, Texas Education Agency, federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

Raul Hernandez & Company, P.C.

January 15, 2010

Raul Hernandez & Company, P. C.

Certified Public Accountants
5422 Holly Rd
Holly-Staples Square
Corpus Christi, Texas 78411
(361) 980-0428 Fax (361) 980-1002

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Independent Auditor's Report

Board of Trustees
P.O. Box 448
Santa Maria, Texas 78592

Members of the Board:

Compliance

We have audited the compliance of Santa Maria Independent School District with the types of compliance requirements described in the U S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2009. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Santa Maria Independent School District's administrators. 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 Santa Maria Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Santa Maria Independent School District's compliance with those requirements.

In our opinion, Santa Maria Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2009.

Internal Control Over Compliance

The administration of Santa Maria Independent School District is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion of 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or a combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended for the information and use of the District's trustees, the audit committee, the administration, Texas Education Agency, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Raul Hernandez & Company, P.C.

January 15, 2010

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SANTA MARIA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2009

I. Summary of the Auditor's Results:

I. Summary of the Auditor's Results:

Financial statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Significant deficiencies(es) identified? _____ Yes X No

Significant deficiencies identified considered being material weaknesses? _____ Yes X No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal Control over major programs:

Significant deficiencies identified? _____ Yes X No

Significant deficiencies identified not considered to be material weaknesses? _____ Yes X No

Noncompliance material to financial statements noted? _____ Yes X No

An unqualified opinion was issued regarding compliance and internal controls.

The audit disclosed audit findings which are required to be reported in this schedule under OMB Circular A-133.

Major programs:

ESEA Title I, Part A -Improving Basic Programs CFDA 84.010.

National School Lunch Program CFDA 10.555

The threshold used to distinguish between Type A and Type B federal programs was \$300,000.

The district was classified as a low auditee in context of OMB Circular A-133. Yes

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

None

III. Findings and Questioned Costs for Federal Awards Including Audit Findings .

None

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2009

2008-01 Internal Control over Financial Reporting

Criteria: To provide reasonable assurance that available resources are available to meet current operating expenditures and satisfy all current debt owed during the current and subsequent fiscal years.

Statement of Condition:

The District's general fund experienced a very significant decline of (\$212,098) during the current fiscal year. Net assets for the District's overall financial position also experienced a decline of (\$578,696) in the government wide financial statements. The District's unreserved general fund deficit at August 31, 2008 is (\$353,673). Furthermore, the district secured a bank loan of \$500,000 during September 2008.

Effect:

Ineffective budget controls and cash management can result in further financial instability and render the District unable to satisfy current year obligations.

Recommendation:

We recommend that the District take immediate action to resolve the financial situation as well as prevent future deficits. Management should take immediate action, monitor revenues and expenditures, and present the Board of Trustees a financial plan to remedy the current financial situation.

Management's Response: Management will implement policies and procedures to ensure that strong budget controls and cash management policies are in place in order to help reduce the District's overall deficit and improve cash flows. Region One Service Center has been hired to assist with the overall operations of the District during the 2008-09 fiscal year. The District will propose staff cuts and a hiring freeze is also being proposed. A reduction in overtime will also be proposed as well as identify other program costs.

Status: The District improved the fund balance by imposing staff freezes and cutting back on unnecessary expenditures. The District has also adopted measures where all requests for purchases are reviewed by an appropriate official of the District. Region One has also assisted the District by implementing policies and procedures to ensure that strong budget controls and cash management policies are in place.

2008-02 Internal Control over Financial Reporting

Criteria: To provide reasonable assurance that management is preparing its financial statements in accordance with U.S. generally accepted accounting principles.

Statement of Condition:

SAS No. 112-Communicating Internal Control Related Matters Identified in an Audit, establishes requirements for auditors to communicate certain control deficiencies that have been identified during the audit.

Management is responsible for establishing and maintaining internal controls, including ongoing activities, for the selection and application of accounting principles and for the fair presentation in the financial statements in accordance with U.S. generally accepted accounting principles. The District's management is responsible for reliably initiating, authorizing, recording and processing all accounting data and a proper control system must provide for the reliable and accurate reporting of this financial data. The District relied on us to prepare its financial statements in accordance with U.S. generally accepted accounting principles which is considered common for entities with a small staff. Since management does not possess the ability to prepare the financial statements it does not have the skills and knowledge to prevent, detect, and correct a misstatement in the financial statements which presents a "material weakness" in the District's internal control system.

Effect:

Material misstatements in the reporting of the District's financial statements may occur and not be detected within a timely period.

Recommendation:

We recommended that the District consider strengthening its internal control over financial reporting and monitor ongoing activities. We also recommend that management and the Board of Trustees remain involved in the financial reporting process. The funding of future federal and state grants may be affected if this material weakness is not corrected. A CPA other than the auditing firm can be part of the client's internal control, and those controls can be considered.

Management's Response: Management has plans to implement policies and procedures which will ensure that internal controls are properly maintained, which will also help produce reliable and accurate reporting of financial data in accordance with U.S. generally accepted accounting principles. Region One Service Center has been hired to assist with the overall operations of the District during the 2008-09 fiscal year.

Status: The District contracted with Region One to assist with monitoring the accounting operations. The financial statements of the District have become more reliable and accurate and internal controls for financial reporting are improved.

2008-03 Internal Control over Financial Reporting

Criteria: To provide reasonable assurance that all transactions are accurately posted to the District's general ledger in a timely manner and to ensure that a timely review is being performed by a responsible official of the District.

Statement of Condition: During our examination, we discovered numerous journal entries were prepared subsequent to the year ended August 31, 2008, to correct posting errors made during the fiscal year. Considerable errors and discrepancies in the District's main bank account were brought to our attention by the consultant/CPA hired by the District to correct the general ledger. Another significant error occurred when a *\$410,000 grant revenue* receipt was inadvertently deposited into one of the capital project funds. An adjustment was made after year end to correct this entry as a related interfund receivable and payable. Other errors noted included the out of balance due to's and due from's and out of balance interfund transfers. Adjustments were made to correct taxes receivable, fund balances, loan proceeds and deferred revenue. Transactions for the repayment of loans, capital lease and bonded debt were not found in the proper accounts. All of these adjustments resulted from a lack of accounting oversight by the District's management. Upon further inquiries to management it was disclosed to us that this problem has existed throughout the entire year. Procedures are not being followed to properly safeguard the integrity (completeness and accuracy) of the District's monies. Staff never delineated any of the outstanding checks properly and this further complicated the reconciliation of the bank accounts and the proper balancing of the general ledgers. Furthermore, during our audit, the District's trial balances were provided to us by management four different times, each time resulting in an inaccurate set of financial statements to be audited by us. The Texas Education Agency requires that all audit reports be submitted by January 28, 2009, however, the District did not provide us with a "final" trial balance until February 4, 2009. Internal controls to monitor all these activities remain weak.

Effect:

Material misstatements in the reporting of the District's financial statements may occur and not be detected within a timely period. Untimely and inaccurate financial data as well as lack of proper monitoring of all transactions may also result in serious non-compliance issues with grantor agencies.

Recommendation: We strongly recommend that the District take immediate steps to implement a corrective action plan to improve its monitoring of all transactions. Management should review its policies and procedures to ensure accurate and complete recording of all transactions. Bank reconciliations should be performed on a monthly basis in order to assure accurate accounting data and eliminate extensive analysis at year end. An appropriate official should be assigned to review and approve all accounting transactions prepared by all accounting personnel. The District must

adhere to the proper reporting policies and procedures required by generally accepted accounting principles. These accounting procedures should be implemented in order to assure accurate accounting data and eliminate extensive analysis at year end. This will also ensure contract compliance and proper recording of all transactions in the correct funds.

Management's Response: Management will implement policies and procedures to ensure that accurate and reliable financial data is generated on a timely basis. Region One Service Center has been hired to assist with the overall operations of the District during the 2008-09 fiscal year. An appropriate official will be assigned to review and approve all financial transactions.

Status: The District contracted with Region One to assist with monitoring the accounting operations. The financial statements of the District have become more reliable and accurate and internal controls for financial reporting are improved.

III Findings and questioned costs for state and federal awards.

None identified

Santa Maria Independent School District
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2009

None required

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2009

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	09-6101031913	\$ 446,438
ESEA, Title I, Part A - Improving Basic Programs	84.010A	10-610101031913	3,408
Total CFDA Number 84.010A			449,846
ESEA, Title I, Part C - Migratory Children	84.011	09-615001031913	58,511
ESEA, Title I, Part C - Migratory Children	84.011	10-615001031913	9,638
Total CFDA Number 84.011			68,149
ESEA Title IV - Safe and Drug-Free Schools	84.186A	09-691001031913	5,905
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287	09-6950127110024	424,245
Title II, Part D -Enhancing Ed. Through Technology	84.318X	09-6300027110023	244,361
GEAR UP	84.334S	09-031913	90,916
Title III, Part A - English Language Acquisition	84.365A	09-671001031913	32,493
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	09-694501031913	79,521
Unidentified Fund from Trial Balance	84.389	10-551001031913	107
Unidentified Fund from Trial Balance	84.287	08-695012711026	13,653
Total Passed Through State Department of Education			\$ 1,409,196
TOTAL DEPARTMENT OF EDUCATION			\$ 1,409,196
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
School Breakfast Program*	10.553	031913	\$ 149,233
National School Lunch Program - Cash Assistance*	10.555	031913	250,275
National School Lunch Prog. - Non-Cash Assistance*	10.555	031913	13,334
Total CFDA Number 10.555			263,609
Total Passed Through the State Department of Agriculture			\$ 412,842
TOTAL DEPARTMENT OF AGRICULTURE			\$ 412,842
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,822,038

*Clustered Programs as required by Compliance Supplement March, 2009

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2009

- For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
- The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Expendable Trust Funds are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type.

With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

- The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement - Provisional 6/97.
- CFDA number 10.550 pertains to food commodities distributed by USDA under the following categorical programs (as applicable): the National School Lunch Program (CFDA 10.555), the Child and Adult Care Food Program (CFDA 10.558), the Summer Food Service Program (CFDA 10.559), the Commodity Supplemental Food Program (CFDA 10.565), and the Food Distribution Program on Indian Reservations (CFDA 10.567). USDA deleted this number from the CFDA on May 6, 2008. The audit covering Santa Maria Independent School District fiscal year beginning September 1 2008, and future audits, will therefore identify commodity assistance by the CFDA numbers of the programs under which USDA donated the commodities.