SANTA ROSA
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT
AND
COMPLIANCE REPORT

FOR THE YEAR ENDED AUGUST 31, 2010

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
Santa Rosa, Texas
Year Ended August 31, 2010

TRUSTEES

Andres Contreras - President

Danny Theys - Vice-President

Dina Escamilla - Secretary

Ruben Canales

Ramiro Ochoa

Raul Garza

Rogelio Guerra, Jr.

SUPERINTENDENT

Heriberto Villarreal

BUSINESS MANAGER

Hilda Rendon

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED AUGUST 31, 2010

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INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Santa Rosa Independent School District	Cameron	031-914
Name of School District	County	Co.-Dist. Number

We the undersigned, do hereby certify that the attached annual financial reports of the above named school district were reviewed and 6 approved -- 0 disapproved for the year ended August 31, 2010 at a meeting of the board of school trustees of such school district on the 24 day of January, 2011.

Signature of Board Secretary

Signature of Board President

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Santa Rosa Independent School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Rosa Independent School District as of and for the year ended August 31, 2010, 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 management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Rosa Independent School District as of August 31, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2011 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
LONG CHILTON, LLP
A PARTNERSHIP OF PROFESSIONAL CORPORATIONS AND INDIVIDUALS

Members - Division of Firms,
American Institute of CPAs

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Santa Rosa Independent School District

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The accompanying Management's Discussion and Analysis, and the General Fund - Budgetary Comparison Schedule on pages 15 through 21 and 56 through 57 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Santa Rosa Independent School District's basic financial statements. The accompanying financial information listed as Other Schedules in the table of contents and the schedule of expenditures of federal awards are presented in accordance with requirements of the Texas Education Agency and 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 are not a required part of the basic financial statements. Such information except for that portion marked "Unaudited" on which we express no opinion, 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.

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 18, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Santa Rosa I.S.D.'s annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2010. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net assets were $14,567,982 at August 31, 2010. Net assets increased by $660,673 from the prior year.
- The general fund reported a fund balance this year of $2,783,285.

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.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

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

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

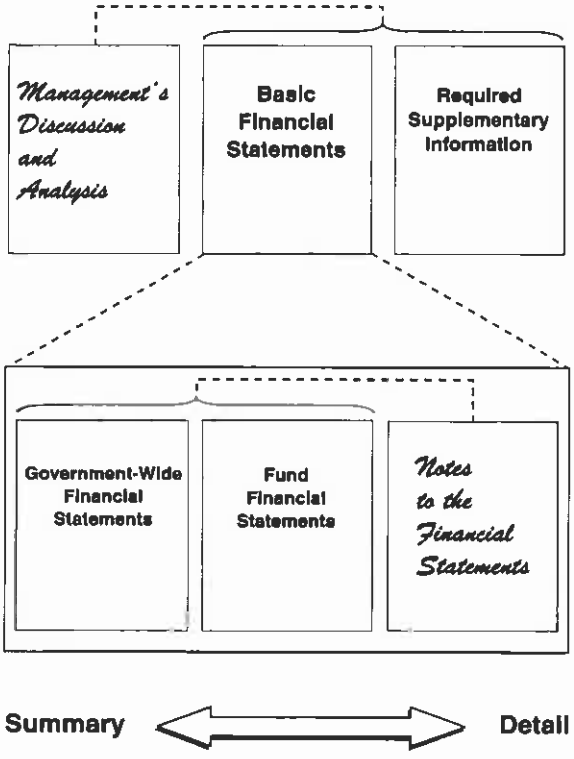


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents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

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

		Fund Statements		
Type of Statements	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency'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 statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures & changes in fund balances	• Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	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 Agency's funds do not currently contain capital assets, although they can
Type of inflow outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

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

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial 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.
- 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 the following kinds of funds:

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

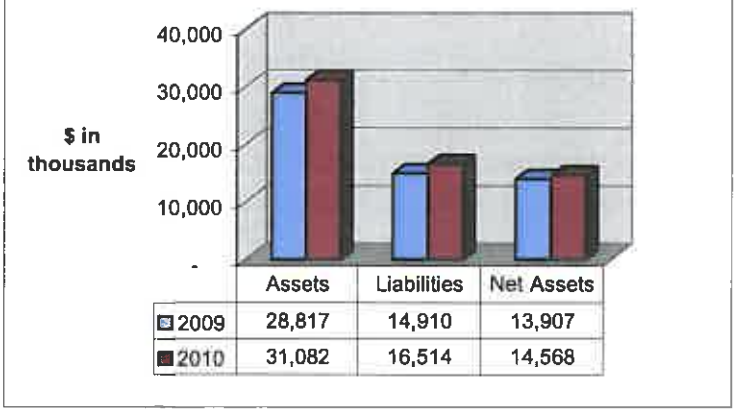
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net assets were $14,567,982 as of August 31, 2010, an increase of 4.8%. (See Table A-1).

Table A-1
Santa Rosa Independent School District's Net Assets
(In thousands of dollars)

	Governmental Activities	
	2010	2009
Current & other assets	$ 4,814	$ 7,246
Capital assets	26,268	21,571
Total assets	**$ 31,082**	**$ 28,817**
Current liabilities	682	679
Long-term liabilities	15,832	14,231
Total liabilities	**16,514**	**14,910**
Net Assets:		
Invested in capital assets-	11,716	11,506
Restricted	132	133
Unrestricted	2,720	2,268
Total Net Assets	**$ 14,568**	**$ 13,907**

Figure A-3 Santa Rosa ISD Net Assets



Net assets may serve over time as a useful indicator of a government's financial position. In the case of Santa Rosa ISD, assets exceeded liabilities by $14,567,982 at the close of August 31, 2010.

A portion of the Santa Rosa ISD's net assets (81%) reflects the investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Santa Rosa ISD uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Santa Rosa ISD's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets ($2,719,595) may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities

- Property tax rates decreased from 1.3320/$100 to 1.2930/$100 to comply with state mandates; however, property taxable values increased by 11.6 % from the prior year.
- The cost of all governmental activities this year was $14,936,693, an increase of $1,847,809.
- Some of the cost was paid by those who directly benefited from the programs $106,257 or by grants and contributions $4,956,311.

Table A-2
Changes in Santa Rosa Independent School District's Net Assets
(in thousands of dollars)

	Governmental Activities	
	2010	2009
Program Revenues:		
Charges for Services	$ 106	$ 104
Operating Grants and Contributions	4,956	3,211
Capital Grants and Contributions	-	-
General Revenues		
Property Taxes	841	806
State Aid – Formula	7,997	8,285
Grants and Contributions not Restricted	1,474	1,249
Investment Earnings	33	145
Other	190	149
Total Revenues	15,597	13,949
Instruction	7,397	6,316
Instructional Resources and Media Services	218	195
Curriculum Dev. And Instructional Staff Dev	103	105
Instructional Leadership	318	170
School Leadership	532	550
Guidance, Counseling and Evaluation Services	397	366
Health Services	150	169
Student (Pupil) Transportation	205	163
Food Services	899	737
Curricular/Extracurricular Activities	972	753
General Administration	622	733
Plant Maintenance & Operations	1,817	1,768
Security & Monitoring Services	138	139
Data Processing Services	62	51
Community Services	160	93
Debt Service – Interest on Long-Term Debt	892	724
Payments Related to Shared Services Arrangements	45	3
Payments Related to Juvenile Justice Alt. Ed. Prg.	9	0
Total Expenses	$ 14,936	$ 13,089
Increase (Decrease) in Net Assets	$ 661	$ 860

Figure A-4 Santa Rosa ISD Expenses FY 2009-2010

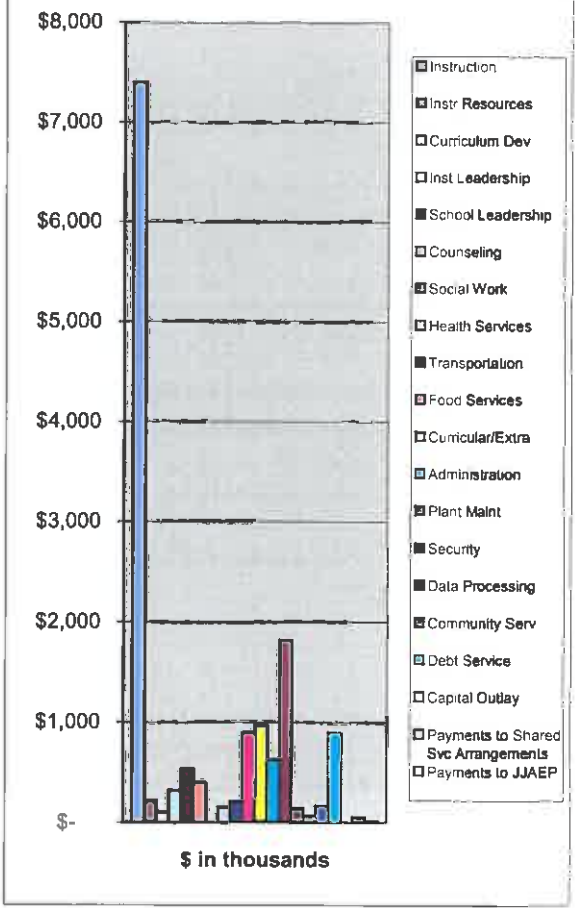


Figure A-5 Sources of Revenues for FY 2009-2010

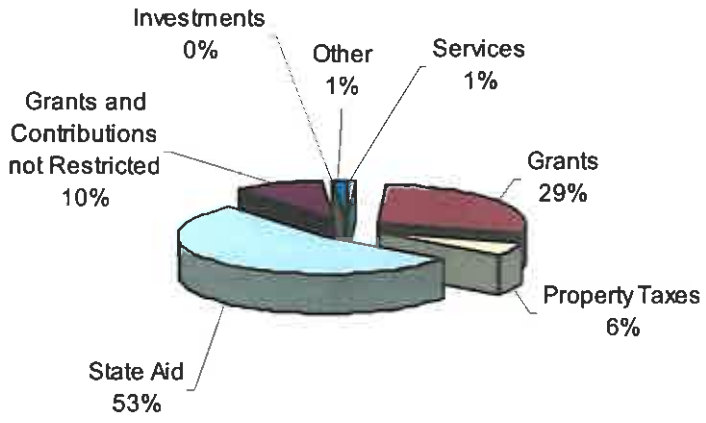


Table A-3 presents the cost of each of the District's largest functions/programs as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

Table A-3
Net Cost of Selected District Programs/Functions
(in thousands of dollars)

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2010	2009		2010	2009	
Instruction	7,398	6,316	17.13%	3,897	4,485	(13.11)%
School administration	532	550	(3.27)%	492	518	(5.02)%
Food Services	899	737	21.98%	140	(25)	660.00%
Plant Maintenance & Operations	1,817	1,768	2.77%	1,781	1,730	2.95%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, Santa Rosa ISD uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

General Fund

The fund balance of the Santa Rosa ISD's General Fund is $2,783,285 as of August 31, 2010. It increased by $1,005,976 during the current fiscal year; an increase of 56.6%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the District had invested $26,267,478 in a broad range of capital assets, including land, equipment, buildings, vehicles, and Construction in Progress. (See Table A-4.) This amount represents a net increase (including additions and deductions) of 21.8 % over last year.

More detailed information about the District's capital assets is presented in the notes to the financial statements.

Table A-4
District's Capital Assets
(in thousands of dollars)

	Governmental Activities	
	2010	2009
Land	$305	$305
Buildings and improvements	26,639	24,778
Furniture & Equipment	1,940	1,794
Construction in Progress	3,599	228
Totals at historical cost	**32,483**	27,105
Total accumulated depreciation	6,216	5,534
Net capital assets	**$26,267**	$21,571

Long-Term Debt

At year-end the District had $13,752,953 in General Obligation Bonds as shown in Table A-5. Of this amount, $324,324 is due within the next year. The total long-term debt outstanding as of August 31, 2010 is $15,831,917. More detailed information about the District's debt is presented in the notes to the financial statements.

Table A-5
District's Long-Term Debt
(In thousands of dollars)

General Obligation Bonds	Governmental Activities 2010	2009
Bonds – Series 2000	$ 215	$ 310
Bonds – Series 2001	535	625
Bonds – Refunding Series 2007	8,638	8,695
Bonds – Series 2008	4,365	4,450
Total General Obligation Bonds	**13,753**	**14,080**
Capital Lease	$ 1,701	$ -
Premium on issuance of Bonds	614	643
Accrued Interest on CAB Bonds	221	184
Deferred loss on bond refunding	(539)	(564)
Compensated Absences	82	72
Total Long-Term Debt	**$ 15,832**	**$ 14,415**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2011 budget preparation is up $1,246,665 or 1.9% from 2010.
- General operating fund spending per student decreases in the 2011 budget from $9,654 to $9,266, a 4.02% decrease.
- The District's 2011 refined average daily attendance is expected to be 1,100; down 1.0% from last year.

These indicators were taken into account when adopting the general fund budget for 2011. Expenditures as budgeted are $10,193,989, a decrease of 9.0% from 2009-2010 actual expenditures.

If these estimates are realized, the District's budgetary general fund balance is expected to decrease by the end of 2011 due to enrollment decrease and M & O tax rate being decreased by 0.02/$100 from 1.06 to 1.04.

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 323 East Jesus T. Avila Avenue, Santa Rosa, Texas 78593.

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BASIC

FINANCIAL STATEMENTS

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2010

Data Control Codes		Primary Government: Governmental Activities
	ASSETS	
1110	Cash and Cash Equivalents	$ 3,342,149
1220	Property Taxes Receivable (Delinquent)	296,039
1230	Allowance for Uncollectible Taxes	(29,604)
1240	Due from Other Governments	900,774
1290	Other Receivables, net	17,821
1300	Inventories	18,076
1410	Deferred Expenses	19,030
1420	Capitalized Bond and Other Debt Issuance Costs	249,880
	Capital Assets:	
1510	Land	305,271
1520	Buildings, Net	22,079,025
1530	Furniture and Equipment, Net	283,861
1580	Construction in Progress	3,599,321
1000	Total Assets	31,081,643
	LIABILITIES	
2110	Accounts Payable	287,504
2150	Payroll Deductions & Withholdings	2,296
2160	Accrued Wages Payable	268,613
2180	Due to Other Governments	12,314
2190	Due to Student Groups	690
2200	Accrued Expenses	61,448
2300	Deferred Revenues	22,591
2400	Payable from Restricted Assets	26,289
	Noncurrent Liabilities	
2501	Due Within One Year	437,635
2502	Due in More Than One Year	15,394,281
2000	Total Liabilities	16,513,661
	NET ASSETS	
3200	Invested in Capital Assets, Net of Related Debt	11,716,195
3820	Restricted for Federal and State Programs	46,386
3850	Restricted for Debt Service	85,806
3900	Unrestricted Net Assets	2,719,595
3000	Total Net Assets	$ 14,567,982

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

EXHIBIT B-1

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes		1	Program Revenues 3	4	Net (Expense) Revenue and Changes in Net Assets 6
		Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:					
	GOVERNMENTAL ACTIVITIES:				
11	Instruction	$ 7,397,555	$ 151	$ 3,500,082	$ (3,897,322)
12	Instructional Resources and Media Services	218,443	-	58,255	(160,188)
13	Curriculum and Staff Development	103,403	-	98,852	(4,551)
21	Instructional Leadership	317,718	-	301,418	(16,300)
23	School Leadership	531,896	-	39,930	(491,966)
31	Guidance, Counseling and Evaluation Services	397,207	-	130,393	(266,814)
33	Health Services	150,002	-	27,700	(122,302)
34	Student (Pupil) Transportation	205,361	-	14,592	(190,769)
35	Food Services	899,034	73,030	686,194	(139,810)
36	Extracurricular Activities	971,885	33,076	24,952	(913,857)
41	General Administration	614,167	-	27,248	(586,919)
51	Plant Maintenance and Operations	1,817,013	-	35,731	(1,781,282)
52	Security and Monitoring Services	137,814	-	10,125	(127,689)
53	Data Processing Services	62,076	-	839	(61,237)
61	Community Services	160,089	-	-	(160,089)
72	Debt Service - Interest on Long Term Debt	891,196	-	-	(891,196)
73	Debt Service - Bond Issuance Cost and Fees	600	-	-	(600)
93	Payments related to Shared Services Arrangements	44,601	-	-	(44,601)
95	Payments to Juvenile Justice Alternative Ed. Prg.	9,020	-	-	(9,020)
99	Other Intergovernmental Charges	7,613	-	-	(7,613)
	[TP] TOTAL PRIMARY GOVERNMENT:	$ 14,936,693	$ 106,257	$ 4,956,311	(9,874,125)

Data Control Codes		
	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	694,925
DT	Property Taxes, Levied for Debt Service	146,418
SF	State Aid - Formula Grants	7,997,357
GC	Grants and Contributions not Restricted	1,473,495
IE	Investment Earnings	32,991
MI	Miscellaneous Local and Intermediate Revenue	189,612
TR	Total General Revenues	10,534,798
CN	Change in Net Assets	660,673
NB	Net Assets--Beginning	13,907,309
NE	Net Assets--Ending	$ 14,567,982

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

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2010

Data Control Codes		10 General Fund	ESEA I, A Improving Basic Program	60 Capital Projects
	ASSETS			
1110	Cash and Cash Equivalents	$ 2,271,658	$ -	$ 902,567
1220	Property Taxes - Delinquent	250,592	-	-
1230	Allowance for Uncollectible Taxes (Credit)	(25,059)	-	-
1240	Receivables from Other Governments	370,294	156,515	-
1260	Due from Other Funds	593,244	590	-
1290	Other Receivables	17,821	-	-
1300	Inventories	18,076	-	-
1410	Deferred Expenditures	19,030	-	-
1000	Total Assets	$ 3,515,656	$ 157,105	$ 902,567
	LIABILITIES AND FUND BALANCES			
	Liabilities:			
2110	Accounts Payable	$ 81,720	$ -	$ 205,784
2150	Payroll Deductions and Withholdings Payable	2,296	-	-
2160	Accrued Wages Payable	247,109	13,068	-
2170	Due to Other Funds	80,739	142,898	-
2180	Due to Other Governments	-	-	-
2190	Due to Student Groups	691	-	-
2200	Accrued Expenditures	59,563	1,139	-
2300	Deferred Revenues	260,253	-	-
2400	Payable from Restricted Assets	-	-	-
2000	Total Liabilities	732,371	157,105	205,784
	Fund Balances:			
	Reserved For:			
3410	Investments in Inventory	18,076	-	-
3420	Retirement of Long Term Debt	-	-	-
3430	Prepaid Items	57,375	-	-
3450	Food Service/Federal or State Funds	19,030	-	-
	Unreserved and Undesignated:			
3600	Reported in the General Fund	2,688,804	-	-
3610	Reported in Special Revenue Funds	-	-	-
3620	Reported in Capital Projects Funds	-	-	696,783
3000	Total Fund Balances	2,783,285	-	696,783
4000	Total Liabilities and Fund Balances	$ 3,515,656	$ 157,105	$ 902,567

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

Other Funds	Total Governmental Funds
$ 167,924	$ 3,342,149
45,447	296,039
(4,545)	(29,604)
373,965	900,774
95	593,929
-	17,821
-	18,076
-	19,030
$ 582,886	$ 5,158,214
$ -	$ 287,504
-	2,296
8,435	268,612
370,292	593,929
12,312	12,312
-	691
745	61,447
42,803	303,056
26,290	26,290
460,877	1,556,137
-	18,076
85,806	85,806
-	57,375
9,393	28,423
-	2,688,804
36,994	36,994
(10,184)	686,599
122,009	3,602,077
$ 582,886	$ 5,158,214

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SANTA ROSA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
AUGUST 31, 2010

	Total Fund Balances - Governmental Funds	$	3,602,077
1	Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of these assets was $32,483,822 and the accumulated depreciation was $6,216,344. The net effect of capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		26,267,478
2	Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(15,750,362)
3	Other long-term assets such as capitalized bond costs are not available to pay for current-period expenditures and are deferred in the funds.		249,880
4	Long-term liabilities, including payables for compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		(81,555)
5	Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		280,464
19	**Net Assets of Governmental Activities**	$	14,567,982

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

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes		10 General Fund	ESEA I, A Improving Basic Program	60 Capital Projects
	REVENUES:			
5700	Total Local and Intermediate Sources	$ 978,878	$ -	$ 28,886
5800	State Program Revenues	8,480,011	-	-
5900	Federal Program Revenues	949,052	1,095,010	-
5020	Total Revenues	10,407,941	1,095,010	28,886
	EXPENDITURES:			
	Current:			
0011	Instruction	3,799,683	969,963	-
0012	Instructional Resources and Media Services	165,133	-	-
0013	Curriculum and Instructional Staff Development	-	2,929	-
0021	Instructional Leadership	2,315	59,764	-
0023	School Leadership	508,112	-	-
0031	Guidance, Counseling and Evaluation Services	264,709	18,345	-
0033	Health Services	122,593	20,806	-
0034	Student (Pupil) Transportation	196,322	-	-
0035	Food Services	733,463	-	103,607
0036	Extracurricular Activities	930,663	-	-
0041	General Administration	570,608	-	11,975
0051	Facilities Maintenance and Operations	3,464,763	-	-
0052	Security and Monitoring Services	128,353	-	-
0053	Data Processing Services	64,723	-	-
0061	Community Services	8,328	23,203	-
	Debt Service:			
0071	Debt Service - Principal on Long Term Debt	95,198	-	-
0072	Debt Service - Interest on Long Term Debt	81,860	-	-
0073	Debt Service - Bond Issuance Cost and Fees	-	-	-
	Capital Outlay:			
0081	Facilities Acquisition and Construction	-	-	3,493,123
	Intergovernmental:			
0093	Payments to Fiscal Agent/Member Districts of SSA	44,601	-	-
0095	Payments to Juvenile Justice Alternative Ed. Prg.	9,020	-	-
0099	Other Intergovernmental Charges	7,613	-	-
6030	Total Expenditures	11,198,060	1,095,010	3,608,705
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(790,119)	-	(3,579,819)
	OTHER FINANCING SOURCES (USES):			
7913	Capital Leases	1,796,095	-	-
7080	Total Other Financing Sources (Uses)	1,796,095	-	-
1200	Net Change in Fund Balances	1,005,976	-	(3,579,819)
0100	Fund Balance - September 1 (Beginning)	1,777,309	-	4,276,602
3000	Fund Balance - August 31 (Ending)	$ 2,783,285	$ -	$ 696,783

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

Other Funds	Total Governmental Funds
$ 172,434	$ 1,180,198
1,205,072	9,685,083
2,698,018	4,742,080
4,075,524	15,607,361
2,342,026	7,111,672
48,944	214,077
95,923	98,852
241,654	303,733
11,023	519,135
96,669	379,723
-	143,399
-	196,322
26,952	864,022
-	930,663
4,809	587,392
2,691	3,467,454
3,517	131,870
-	64,723
121,511	153,042
327,045	422,243
764,859	846,719
600	600
11,490	3,504,613
-	44,601
-	9,020
-	7,613
4,099,713	20,001,488
(24,189)	(4,394,127)
-	1,796,095
-	1,796,095
(24,189)	(2,598,032)
146,198	6,200,109
$ 122,009	$ 3,602,077

SANTA ROSA 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, 2010

Total Net Change in Fund Balances - Governmental Funds	$	(2,598,033)
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 2010 capital outlays and debt principal payments is to increase (decrease) net assets.		5,378,526
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.		(682,256)
Certain property tax revenues are deferred in the funds. This is the change in these amounts for the current period.		(6,838)
Repayment of bond principal is an expenditure in the funds but it is not an expense in the Statement of Activities.		422,243
The accretion of interest on capital appreciation bonds is not reported in the funds.		(209,893)
Compensated absences are reported as the amount earned in the Statement of Net Assets but as the amount paid in the funds.		(9,240)
The accretion of interest on capital appreciation bonds is not reported in the funds. This is the payment of interest accretion on capital appreciation bonds during 2010.		172,955
Bond issuance costs and similar items are amortized in the Statement of Activities but not in the funds.		(10,696)
Some of the capital assets acquired during the year were financed with a capital lease. The amount financed by the lease is reported in the governmental funds as a source of financing. On the other hand, the capital lease is not revenue in the statement of activities, but rather constitutes a long-term liability in the statement of net assets.		(1,796,095)
Change in Net Assets of Governmental Activities	$	660,673

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

EXHIBIT E-1

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2010

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	$ 2,843	$ 50,318
Total Assets	2,843	$ 50,318
LIABILITIES		
Accounts Payable	-	$ 7,314
Due to Student Groups	-	43,004
Total Liabilities	-	$ 50,318
NET ASSETS		
Unrestricted Net Assets	2,843	
Total Net Assets	$ 2,843	

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

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2010

	Private Purpose Trust Funds
DEDUCTIONS:	
Other Operating Costs	$ 1,000
Total Deductions	1,000
Change in Net Assets	(1,000)
Total Net Assets - September 1 (Beginning)	3,843
Total Net Assets - August 31 (Ending)	$ 2,843

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

NOTE A – REPORTING ENTITY

This report includes the financial statements of the funds required to account for those activities, organizations and functions which are related to the Santa Rosa Independent School District (the District) and which are controlled by or dependent upon the District's governing body, the Board of Trustees. The Board of Trustees (the Board), includes seven eligible members elected at large by the qualified voters of the Santa Rosa Independent School District, the Board has the exclusive power and duty to govern and oversee the management of the public schools of the District; all powers and duties not specifically delegated by statute to the Texas Education Agency (TEA) or to the State Board of Education are reserved for the Board, and TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board.

The District receives funding from local, state and federal government sources and must comply with the applicable requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by GASB Statement No. 14 *The Financial Reporting Entity* since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The District is a governmental entity exempt from federal income taxation under Internal Revenue Code Section 115. The District has no component units as defined by GASB Statement No. 39.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of Presentation

Government-Wide Statements:

The government-wide financial statements consist of the statement of net assets and the statement of activities. These statements report information on all of the non-fiduciary activities of the District. The effect of the interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include charges to customers and grants used for operational requirements. Governmental activities are supported by tax revenues, state aid, charges for services, investment earnings and intergovernmental revenues such as grants.

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

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Financial Statements:

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that compromise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for the purpose of, carrying on specific activities in accordance with laws, regulations, or other appropriate requirements. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Capital Projects Fund. The capital projects fund of the District accounts for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and related capital asset acquisitions.

ESEA Title I, Improving Basic Programs – Special Revenue Fund. Special Revenue Funds are the funds that account for state and federally financed programs or expenditures legally restricted for specified purposes or where unused balances are returned to the grantor at the close of specified project periods.

Other Governmental Funds

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

Other Special Revenue Funds. Special Revenue Funds are the funds that account for state and federally financed programs or expenditures legally restricted for specified purposes or where unused balances are returned to the grantor at the close of specified project periods.

Debt Service Fund. 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.

Fiduciary Funds

Scholarship Private-Purpose Trust Fund. The Scholarship Private-Purpose Trust Fund is used to account for resources held in trust to be used by various other third parties to award scholarships to former students of the District.

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

These government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become available and measurable. The District considers revenues as available if they are collected within the 60 days after year end. Revenues susceptible to accrual are property taxes, fiscal year state funding, and interest revenues. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Deferred revenue is reported in the governmental funds when a potential revenue does not meet both the "measurable and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

3. *Budgets*

The official school budget was prepared for adoption for required Governmental Fund Types by August 31, 2009. The budget was formally adopted by the board of school trustees at a duly advertised public meeting prior to the expenditure of funds. The budget was amended by the board of school trustees throughout the year. Expenditures may not legally exceed budgeted appropriations at the function level.

4. *Cash and Cash Equivalents*

For the purposes of the statement of cash flows, investments are considered to be cash equivalents if they are highly liquid and have a maturity within three months or less.

5. *Investments*

Money market investments which are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances and U. S. Treasury and agency obligations are reported at fair value.

6. *Inventory*

Inventory is valued at cost (average). The District accounts for gasoline by using the consumption method whereby expenditures are recognized only when inventory items are used. Maintenance supplies inventory is accounted for by using the purchase method whereby purchases of inventories are recognized as expenditures when the goods are received and the transaction is vouchered. Reported inventories are equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Commodity inventory is offset by deferred revenue.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

7. *Deferred Expenditures*

Deferred expenditures are prepaid expenses that will benefit periods beyond August 31, 2010. The only prepaid expenses included are for unexpired insurance policy premiums paid by August 31, 2010, and which extend beyond that date. The reported prepaid insurance is equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. *Capital Assets*

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of $5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Assets Class	Estimated Useful Lives
Buildings & Improvements	25-50
Vehicles	8
Furniture and Equipment	5-10

9. *Interfund Activity*

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

10. *Long-term Obligations*

In government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received and discounts incurred on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from debt proceeds, are reported as debt service requirements.

11. *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. *Compensated Absences*

The District allows all employees to accumulate sick leave days to a maximum of 30 workdays. An amount equal to the daily rate of pay of a substitute shall be deducted.

13. *Accounting System*

In accordance with the Resource Guide, the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure prescribed by TEA in the Resource Guide. Mandatory codes are recorded in the order provided in that section.

14. *Data Control Codes*

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a State-wide database for policy development and funding plans.

15. *Fund Equity*

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. "Other Reserves" on the fund financial statements consist of reserves for construction, campus and student activities, and state programs. Designations of fund balance represent tentative management plans that are subject to change.

16. *Encumbrance Accounting*

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31st and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget.

NOTE C - CASH AND INVESTMENTS

Investment Accounting Policy

The District is required by Government Code Chapter 2256, The Public Funds Investment Act (the "Act"), to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies. The District's management believes that it has complied in all material respects with the requirements of the act and the District's investment policies.

NOTE C - CASH AND INVESTMENTS – Continued

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

The Act determines the types of investments, which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, 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, and (10) common trust funds. The District policy authorizes all the State allowable investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act, the District's investment policy, and Government Code Chapter 2257 "Collateral For Public Funds" contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public fund investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a $1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than .0995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits

At August 31, 2010, the District's carrying amount had a balance of $1,090,266 (cash, certificates of deposit, and interest-bearing savings accounts) and the bank balance was $1,863,444. In addition to these cash and cash equivalents, the District maintains $1,635,241 in a government investment pool and $669,803 in a government money market fund. The District's cash deposits at August 31, 2010 and during the year ended August 31, 2010 were entirely covered by FDIC insurance or by pledged collateral held in the District's name by a bank other than the pledging bank.

NOTE C - CASH AND INVESTMENTS – Continued

The District's cash deposits at August 31, 2010 are maintained primarily at First National Bank of Edinburg. These deposits were entirely covered by FDIC insurance held by the District's agent bank. The deposits were collateralized in accordance with Texas Law, and the Texas Education Agency maintains copies of all safekeeping receipts in the name of the District. Deposits were properly secured at all times.

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

a. Name of Bank First National Bank of Edinburg, Texas.
b. Amount of bond and/or market value of securities pledged as of the date of the highest combined balance on deposit was $ -0- .
c. Largest cash, savings and time deposit combined account balance amounted to $3,584,535 and occurred during the month of December 2009.
d. Total amount of FDIC coverage at the time of largest combined balance was $3,584,535.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the specific investments and their maturity:

Description	CUSIP	Amount	Maturity	Days
TexPool	N/A	$1,635,241	N/A	Daily
Money Market Government Fund	N/A	669,803	N/A	Daily
		$2,305,044		

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the District's investment policy and the Texas Public Fund Investment Act and the actual rating as of year end for each investment:

Description	Minimum Legal Rating	Amount	Rating	Percentage
TexPool	AAA	$1,635,241	AAA	71%
Money Market Government Fund	AAA	669,803	AAA	29%
		$2,305,044		

Concentration of Credit Risk

The Investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Public Funds Investment Act. The above mentioned investments represents 100% of total District investments.

NOTE C - CASH AND INVESTMENTS – Continued

Public Funds Investment Pools

TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully-collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United Stated Government agency securities and placed through a primary government securities dealer. The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safekeep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. TexPool operates in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. Accordingly, the District's investments in TexPool are stated at cost, which approximates fair value. TexPool is currently rated AAA by Standard and Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

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

NOTE D - PROPERTY TAX

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. 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 1 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 when they become due or past due and receivable within the current period and those expected to be collected during a 60 day period after the close of the school fiscal year.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. The District's 2009 tax rate was $1.060 for maintenance and $0.233 for debt service per $100 assessed valuation. The 2009 assessed valuation was $69,940,046. Allowances for uncollectibles within the General and Debt Service Funds are based upon 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. At August 31, 2010 outstanding taxes in the general fund and debt service fund was $250,592 and $45,447 with a corresponding allowance for doubtful accounts of $25,059 and $4,545.

NOTE E - DUE TO AND FROM OTHER GOVERNMENTS AND AGENCIES

Amounts due to and from other governments and agencies are as follows:

	Due To	Due From
General Fund		
Texas Education Agency:		
Foundation Revenues	$ -	$319,347
Other Governmental Funds		
Texas Education Agency:		
ESEA Title I, Part A	-	156,515
ESEA Title I, Part A – ARRA	-	50,671
ESEA Title I, Part C	-	15,595
Gear up Grant	-	21,842
Title I, SIP Academy Grant	-	9,558
Student Success Initiative	-	275
Reading First	519	22,128
ESEA Title II, Part A	192	10,279
Adult Education – English Literacy	10,899	7,961
State Funded Special Revenue Fund	-	24,035
ESEA Title III, Part A	-	6,299
ESEA Title II, Part D – ARRA	-	2,170
Title IV, Part B – 21st Century Community Learning Center	-	66,933
Title XIV, State Fiscal Stabilization Fund – ARRA	111	92,101
ESEA Title VI, Part B – Rural and Low Income Program	-	9,156
Special Education – ARRA	593	44,504
State Funded Optional Extended – Year Program	-	636
Distance Awards Teachers Excellence	-	8,527
Texas Fitness Now Grant	-	3,949
Carl D. Perkins Basic Grant	-	1,381
U. S. Department of Agriculture:		
School Breakfast Program/National Lunch Program	-	26,912
Total due to/from other governments and agencies	$ 12,314	$900,774

NOTE F - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at August 31, 2010 were:

Due to	Due From	
General Fund	Funds within the general fund	$ 2,398
General Fund	Capital Projects Fund	10,184
General Fund	Non-major Fund	555,215
Non-major Fund	Funds within the general fund	26,132
	Totals	$593,929

The remaining balances resulted from a routine lag between the dates that transactions such as year-end payroll accruals and worker's compensation adjustments payments between the funds are made.

All amounts are rescheduled to be repaid within one year.

NOTE G – DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2010, were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Other Receivables	Total Receivables
Governmental Activities:					
General Fund	$250,592	$370,294	$593,244	$ 17,821	$1,231,951
ESEA – Title I, Part A Fund	-	156,515	590	-	157,105
Capital Projects Fund	-	-	95	-	95
Nonmajor Governmental Funds	45,447	373,965	-	-	419,412
Total Governmental Activities	$296,039	$900,774	$593,929	$ 17,821	$1,808,563
Amounts not scheduled for collection during the subsequent year	$ -	$ -	$ -	$ -	$ -

Payables at August 31, 2010, were as follows:

	Accounts Payable	Salaries and Benefits	Due to Other Funds	Due to Other Governments	Total Payables
Governmental Activities:					
General Fund	$ 81,720	$249,405	$ 80,739	$ -	$ 411,864
ESEA – Title I, Part A Fund	-	13,068	142,898	-	155,966
Capital Projects Fund	205,784	-	10,184	-	215,968
Nonmajor Governmental Funds	-	8,435	360,108	12,312	380,855
Total Governmental Activities	$287,504	$270,908	$593,929	$ 12,312	$1,164,653
Amounts not scheduled for collection during the subsequent year	$ -	$ -	$ -	$ -	$ -

NOTE H – CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2010, was as follows:

	September 1, 2009	Increase	Decrease	August 31, 2010
Governmental activities				
Capital assets not being depreciated				
Land	$ 305,271	$ -	$ -	$ 305,271
Construction in progress	228,340	3,370,981	-	3,599,321
Total capital assets not being depreciated	533,611	3,370,981	-	3,904,592
Capital assets being depreciated				
Buildings and improvements	24,777,853	65,657	-	24,843,510
Capital leases	-	1,796,095	-	1,796,095
Furniture and equipment	1,793,832	145,793	-	1,939,625
Total capital assets being depreciated	26,571,685	2,007,545	-	28,579,230
Less accumulated depreciation:				
Building and improvements	4,062,254	498,326	-	4,560,580
Furniture and equipment	1,471,834	183,930	-	1,655,764
Total accumulated depreciation	5,534,088	682,256	-	6,216,344
Total capital assets being depreciated, net	21,037,597	1,325,289	-	22,362,886
Governmental activities capital assets, net	$21,571,208	$4,696,270	$ -	$26,267,478

Depreciation was charged to the following functions:

Government Activities:	
11 – Instruction	$325,502
12 – Instructional Resources and Media Services	10,507
13 – Curriculum and Staff Development	8,119
21 – Instructional Leadership	15,897
23 – School Leadership	29,883
31 – Guidance, Counseling and Evaluation Services	19,444
33 – Health Services	8,255
34 – Student Transportation	8,324
35 – Food Services	41,959
36 – Cocurricular/Extracurricular Activities	39,776
41 – General Administration	41,754
51 – Plant Maintenance and Operations	115,097
52 – Security and Monitoring Services	7,778
53 – Data Processing Services	4,639
61 – Community Services	5,322
	$682,256

Construction commitments

The District has expended $3,370,981 for construction in progress related to the construction of a cafetorium and fine arts addition with estimated project costs totaling $3,837,040. The District has remaining commitments in the amount of $466,059.

NOTE I - LONG-TERM OBLIGATIONS

Long-term obligations include bonds, loans, capital leases and compensated absences. Changes in long-term obligations for the year ended August 31, 2010 are as follows:

Governmental Activities	Beginning Balance 09/01/09	Increase	Decrease	Ending Balance 08/31/10	Due Within One Year
General Obligation Bonds					
Bond Series 2000	$ 310,000	$ -	$ (95,000)	$ 215,000	$105,000
Bond Series 2001	625,000	-	(90,000)	535,000	95,000
Bond Series 2007	8,565,000	-	-	8,565,000	-
Bond Series 2007 - CAB	129,998	-	(57,045)	72,953	34,324
Bond Series 2008	4,450,000	-	(85,000)	4,365,000	90,000
Total general obligation bonds	14,079,998	-	(327,045)	13,752,953	324,324
Premium on issuance – Refunding Bond Series 2007	626,456	-	(28,498)	597,958	-
Premium on issuance – Refunding Bond Series 2008	16,129	-	(310)	15,819	-
Accrued interest on CAB	184,449	209,893	(172,955)	221,387	56,771
Deferred loss on – Refunding Bond Series 2007	(564,303)	-	25,650	(538,653)	-
Capital leases	-	1,796,095	(95,198)	1,700,897	56,540
Compensated absences	72,315	81,555	(72,315)	81,555	-
Total governmental activities	$14,415,044	$2,087,543	$(670,671)	$15,831,916	$437,635

General Obligation Bonds:

On December 4, 2000, the District issued $4,330,000 in Unlimited Tax School Building Bonds, Series 2000. The purpose of the bond issuance is to construct various school building facilities in the District and the purchase of the necessary sites for that purpose. The bonds mature or are subject to mandatory redemption prior to maturity on August 15th in each of the years and in the amounts shown on the Official Bond Statement. Interest on the $4,330,000 accrued from December 4, 2000, and is payable February 15th and August 15th of each year commencing August 15, 2001. Furthermore, interest is calculated on the basis of a 360-day year consisting of twelve 30-day months and the interest rate ranges from 5.25% - 7.00%. Principal and interest on the bonds is payable to Texas State Bank (Paying Agent/Registrar) in McAllen, Texas. All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal and interest on all bonds. Additionally, the payment of the bonds is guaranteed by the Permanent School Fund of Texas. $ 215,000

NOTE I - LONG-TERM OBLIGATIONS – Continued

On September 27, 2001, the District issued $4,100,000 in Unlimited Tax School Building Bonds, Series 2001. The purpose of the bond issuance was to construct and equip a new elementary school and to pay the related issuance costs. The bonds mature or are subject to mandatory redemption prior to maturity, on August 15 in each of the years and in the amounts shown on the Official Bond Statement. Interest on the $4,100,000 accrued from September 27, 2001, and is payable February 15 and August 15 of each year commencing August 15, 2002. Furthermore, interest is calculated on the basis of a 360-day year consisting of twelve 30-day months and the interest rate ranges from 4.30% - 5.80%. Principal and interest on the bonds is payable to U. S. National Bank Association (Paying Agent/Registrar). All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal and interest on all bonds. Additionally, the payment of the bonds is guaranteed by the Permanent School Fund of Texas.	$ 535,000
In December 2007, the District issued $7,340,000 in current interest serial bonds with a 4% interest rate, $1,685,000 in current interest term bonds with interest rates ranging from 4.125% to 4.250% and $129,998 in capital appreciation bonds to advance refund $9,154,998 outstanding of Unlimited Tax School Building Bonds, Series 1997, 2000 and 2001 (*"refunded bonds"*) with interest rates of 4.3% to 7%. The current interest serial bonds mature in the years 2008 through 2027 in installments ranging from $235,000 to $660,000. The current interest term bonds of $955,000 and $730,000 mature on August 15, 2029 and August 15, 2031, respectively. The capital appreciation bonds mature in the years 2010 to 2013 in installments ranging from $230,000 to $355,000. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds and to pay the costs of issuance of the bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds, has been removed from the long-term debt account.	8,637,953
On September 1, 2008, the District issued $4,545,000 in Unlimited Tax School Building Bonds, Series 2008. The purpose of the bond issuance was to remodel and equip the old high school and to pay the related issuance costs. The bonds mature or are subject to mandatory redemption prior to maturity, on August 15 in each of the years and in the amounts shown in the Official Bond Statement. Interest on the $4,545,000 accrued from September 1, 2008, and is payable February 15 and August 15 of each year commencing February 15, 2009. Furthermore, interest is calculated on the basis of a 360-day year consisting of twelve 30-day months and the interest rate ranges from 3.125% - 5.250%. Principal and interest on the bonds is payable to Regions Bank (Paying Agent/Registrar). All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal and interest on all bonds. Additionally, the payment of the bonds is guaranteed by the Permanent School Fund of Texas.	4,365,000
Total general obligation bonds	13,752,953

NOTE I - LONG-TERM OBLIGATIONS – Continued

Capital Leases:

During the year ended August 31, 2010, the District entered into two capital leases for an energy management system with TAC Americas, Inc. (TAC). The capital leases are payable in 30 semi-annual installment payments. The lease is secured by the components of the energy management system (primarily air conditioning units and fluorescent lights) and matures in September 1, 2024. TAC has guaranteed that the annual payments over the 15 year life of the contracts will be funded by energy costs reductions. If the energy cost savings do not equal the payment, TAC will fund the difference. $ 1,700,897

Total $15,453,850

Debt service requirements on long-term debt at August 31, 2010 are as follows:

Year Ending August 31,	Bonds Payable		Capital Lease		Total Requirement
	Principal	Interest	Principal	Interest	
2011	$ 324,324	$ 778,053	$ 56,540	$ 125,122	$ 1,284,039
2012	325,645	784,323	86,367	95,295	1,291,630
2013	222,984	888,881	91,516	90,146	1,293,527
2014	560,000	543,946	96,973	84,689	1,285,608
2015	585,000	521,828	102,755	78,907	1,288,490
2016-2020	335,000	2,238,143	590,669	296,311	3,460,123
2021-2025	3,165,000	1,548,820	676,079	103,005	5,492,904
2026-2030	3,190,000	929,647	-	-	4,119,647
2031-2035	1,275,000	375,603	-	-	1,650,603
2036-2038	770,000	82,163	-	-	852,163
	$10,752,953	$8,691,407	$1,700,898	$873,475	$22,018,734

NOTE J - REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Capital Projects	Other Governmental Fund	Total Governmental Fund
Property taxes	$693,095	$ -	$152,970	$ 846,065
Food sales	73,030	-	8,306	81,336
Investment income	2,869	28,886	1,236	32,991
Penalties, interest and other tax-related income	50,671	-	9,922	60,593
Co-curricular student activities	33,076	-	-	33,076
Other	126,137	-	-	126,137
	$978,878	$ 28,886	$172,434	$1,180,198

NOTE K - DEFERRED REVENUE

	Unavailable	Unearned	Total
SRISD taxes	$266,435	$ -	$266,435
Commodity inventory	-	11,291	11,291
Advances placement incentives	-	1,901	1,901
State and private grants	-	23,429	23,429
	$266,435	$ 36,621	$303,056

Deferred property taxes will be recognized as revenue in the fiscal year that they become available.

NOTE L - GENERAL FUND FEDERAL SOURCE REVENUES

Programs or Source	CFDA Number	Amount
School Breakfast Program	10.553	$249,991
National School Lunch Program	10.555	460,122
USDA – Donated Commodities	10.565	33,812
ESEA, Title I, Part A	84.010/84.389A	98,902
SHARS	-	106,225
		$949,052

NOTE M - CONTINGENT LIABILITIES

The District participates in a number of grant programs funded by State and Federal Agencies. These programs are subject to compliance audits by the grantor agencies or their representatives.

Audits of all of these programs for the year ended August 31, 2010 have not been conducted. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

The District is a party to various legal actions, none of which is believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying combined financial statements for such contingencies.

NOTE N - DEFINED BENEFIT PENSION PLAN

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal year 2010, 2009 and 2008, and state contribution rate of 6.644% for fiscal year 2010 and 6.58% for fiscal years 2009 and 2008. In certain instances, the reporting District is required to make all or a portion of the state's 6.644% contribution, limited to 6.4% for the period of September through December 2009 and increased to 6.644% for the period of January through August 2010.

State contributions to TRS made on behalf of the Santa Rosa Independent School District's employees for the years ended August 31, 2010, 2009 and 2008 were $352,509, $406,179, and $430,305, respectively. The Santa Rosa Independent School District paid additional state contributions for the years ended August 31, 2010, 2009 and 2008 in the amount of $34,045, $33,867 and $30,565, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

NOTE O - POSTEMPLOYMENT HEALTH BENEFITS FOR PUBLIC SCHOOL EMPLOYEES

Plan Description. The Teacher Retirement System of Texas (TRS) administers the Texas Public School Retired Employees Group Insurance Plan (TRS-Care), a cost-sharing multiple-employer defined benefit OPEB plan, in accordance with Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish basic and optional group coverage for participants.

The TRS-Care program is currently funded on a pay-as-you-go basis and is subject to changes based on available funding. The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year. Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, school districts and the State of Texas.

NOTE O - POSTEMPLOYMENT HEALTH BENEFITS FOR PUBLIC SCHOOL EMPLOYEES – Cont.

Benefit Provisions and Service Requirements. Retirees can receive a free basic level of coverage and optional coverage is also available. All dependent coverage is optional. Basic coverage is a comprehensive major medical group health insurance plan. Generally, TRS public school retirees with more than 10 years of service and their dependents are eligible for this insurance coverage.

Funding Policy. Funding for the free basic coverage is provided by the program based upon public school district payroll. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2010, 2009 and 2008. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage.

NOTE P - SCHOOL DISTRICT RETIREE HEALTH PLAN

Plan Description. The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Texas Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care.

That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2010, 2009 and 2008. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2010, 2009, and 2008, the State's contributions to TRS-Care were $13,433, $12,787 and $9,285, respectively, the active member contributions were $48,245, $46,098 and $46,750, respectively, and the school district's contributions were $40,823, $39,006 and $39,559, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2010, 2009, and 2008, the subsidy payments received by TRS-Care on behalf of the District were $17,334, $14,920 and $15,844, respectively.

NOTE Q - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year. In addition, there were no settlements exceeding insurance for each of the past three fiscal years.

Health Coverage

Effective September 1, 2003, the District entered into a health insurance contract with TRS-Active Care. These plans are fully-funded, pure premium plans for which the District pays premiums of $225, respectively per month per employee to the plan, and the employees, at their option, may authorize payroll withholdings to pay premiums for dependents. Terms of coverage and premium costs are included in the contractual provisions.

The determination of such claims and expenses and the appropriateness of the related liability is continually reviewed and updated. It is reasonably possible that the accrued estimated liability for self-insured claims may need to be revised in the near term.

Workers' Compensation Insurance

During the year ended August 31, 2010, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund ("the Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers Compensation Program is authorized by Chapter 504, Texas Labor Code. All districts participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The District participates in the Fund's reimbursable aggregate deductible program. As such, the District is responsible for a certain amount of claims liability as outlined on the District's Contribution and Coverage Summary document. After the District's deductible has been met, the Fund is responsible for additional claims.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of $1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2010, the Fund carries a discounted reserve of $73,463,401 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2010, member districts will have no additional liability beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The Fund engages the services of Independent auditors to conduct an independent financial audit after the close of each plan year on August 31st and is approved by the Fund's Board of Trustees in February the following year. The Fund's audited financial statements as of August 31, 2009, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

NOTE R - JOINT VENTURE - SHARED SERVICE ARRANGEMENTS

The District participates in a shared service arrangement with the Regional Service Center ("Region One"). Those programs provided through the shared services include the Teacher and Principal Training through the ESEA Title II, Part A. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Region One Education Service Center, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Santa Rosa Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

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

Revenues		
5929	Federal revenue distributed by TEA	$89,267
	Total revenue	$89,267
Expenditures		
6100	Payroll costs	$14,000
6200	Purchased and contracted services	39,449
6300	Supplies and materials	6,303
6400	Miscellaneous operating expenses	29,515
	Total expenditures	$89,267

NOTE S - COMPLIANCE AND ACCOUNTABILITY

a. Finance-Related Legal and Contractual Provision

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

School districts in Texas must comply with constitutional provisions, statutory laws, public policy established by common law, Title 19 of the Texas Administrative Code, and with regulations of the Texas Education Agency.

One instance was noted in which expenditures exceeded budgeted amounts at the functional level as detailed in the General Fund – Budgetary comparison Schedule (Exhibit G-1) for the following fund:

Function Code		Budget	Actual	Variances
General Fund:				
51	Facilities Maintenance and Operations	$1,723,494	$3,464,763	$(1,741,269)
99	Other Intergovernmental Charges	$ -	$ 7,613	$ (7,613)

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REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT G-1

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 1,009,853	$ 1,000,599	$ 978,878	$ (21,721)
5800	State Program Revenues	8,816,197	8,816,406	8,480,011	(336,395)
5900	Federal Program Revenues	1,405,500	831,884	949,052	117,168
5020	Total Revenues	11,231,550	10,648,889	10,407,941	(240,948)
	EXPENDITURES:				
	Current:				
0011	Instruction	5,082,489	3,965,202	3,799,683	165,519
0012	Instructional Resources and Media Services	176,563	177,063	165,133	11,930
0013	Curriculum and Instructional Staff Development	1,700	1,700	-	1,700
0021	Instructional Leadership	3,050	3,050	2,315	735
0023	School Leadership	535,199	535,199	508,112	27,087
0031	Guidance, Counseling and Evaluation Services	277,473	278,973	264,709	14,264
0033	Health Services	167,395	167,435	122,593	44,842
0034	Student (Pupil) Transportation	195,878	276,696	196,322	80,374
0035	Food Services	741,412	766,412	733,463	32,949
0036	Extracurricular Activities	1,050,230	1,093,076	930,663	162,413
0041	General Administration	660,829	689,729	570,608	119,121
0051	Facilities Maintenance and Operations	1,775,552	1,723,494	3,464,763	(1,741,269)
0052	Security and Monitoring Services	137,256	137,756	128,353	9,403
0053	Data Processing Services	83,517	101,915	64,723	37,192
0061	Community Services	11,400	11,900	8,328	3,572
	Debt Service:				
0071	Debt Service - Principal on Long Term Debt	-	95,198	95,198	-
0072	Debt Service - Interest on Long Term Debt	-	81,860	81,860	-
	Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	44,601	44,601	44,601	-
0095	Payments to Juvenile Justice Alternative Ed. Prg.	1,500	16,500	9,020	7,480
0099	Other Intergovernmental Charges	-	-	7,613	(7,613)
6030	Total Expenditures	10,946,044	10,167,759	11,198,060	(1,030,301)
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	285,506	481,130	(790,119)	(1,271,249)
	OTHER FINANCING SOURCES (USES):				
7913	Capital Leases	-	-	1,796,095	1,796,095
7080	Total Other Financing Sources (Uses)	-	-	1,796,095	1,796,095
1200	Net Change in Fund Balances	285,506	481,130	1,005,976	524,846
0100	Fund Balance - September 1 (Beginning)	1,777,309	1,777,309	1,777,309	-
3000	Fund Balance - August 31 (Ending)	$ 2,062,815	$ 2,258,439	$ 2,783,285	$ 524,846

Stewardship, compliance, and accountability

Budgetary information

The Board adopts an "appropriated budget" on a basis consistent with GAAP for the general fund and debt service fund. At a minimum, the District is required to present the original and the final amended budgets for revenues and expenditures compared to actual revenues and expenditures for these two funds.

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

- Prior to August 20 for a fiscal year start date of September 1, the District prepares a budget based on the modified zero-based budgeting concept for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.

- After one or more budget workshops with the Board, a meeting is called for the purpose of adopting the proposed budget. At least ten days but not more than 30 days public notice of the meeting is required.

- Prior to August 31st for a fiscal year start date of September 1, the Board legally adopts the budget for the general fund and debt service fund.

- After the budget for the above listed funds is approved, any amendment that causes an increase or decrease in a fund or functional spending category or total revenue or other resources object category requires Board approval prior to the fact. These amendments are presented to the Board at its regular monthly meeting and are reflected in the official minutes. Because the District has a policy of careful budgetary control, several budgetary amendments were necessary throughout the year.

- Expenditure budgets are controlled at the expenditure functional and object level by the appropriate administrator. Transfers may be authorized within functional and organizational categories that do not affect the total functional and organizational appropriation. All budget appropriations lapse at year-end.

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation, is used in all governmental funds. Encumbrances outstanding at year-end are commitments that do not constitute expenditures or liabilities. Since appropriations lapse at the end of each year, outstanding encumbrances are appropriately provided for in the subsequent fiscal year's budget to provide for the liquidation of the prior commitments.

One instance was noted in which expenditures exceeded budgeted amounts at the functional level as detailed in the General Fund – Budgetary comparison Schedule (Exhibit G-1) for the following fund:

Function Code		Budget	Actual	Variances
51	Facilities Maintenance and Operations	$1,723,494	$3,464,763	$(1,741,269)
99	Other Intergovernmental Charges	$ -	$ 7,613	$ (7,613)

Although the District did budget for debt payments for the new capital lease, this negative variance resulted from the District failing to properly budget for capital outlay that resulted from the addition of the TAC capital lease. The District budgeted for the tax appraisal fees in function 41 however these fees needed to be classified in function 99 which then resulted in a negative variance.

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OTHER SCHEDULES

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2010

Last 10 Years Ended August 31		(1) Tax Rates Maintenance	(2) Tax Rates Debt Service	(3) Assessed/Appraised Value for School Tax Purposes
2001	and prior years	Various	Various	$ Various
2002		1.400000	0.220000	39,450,160
2003		1.460000	0.160000	43,413,660
2004		1.460000	0.160000	47,235,186
2005		1.460000	0.160000	48,696,560
2006		1.460000	0.160000	51,042,884
2007		1.330000	0.160000	59,748,334
2008		1.040000	0.222000	60,091,791
2009		1.040000	0.292000	62,692,177
2010	(School year under audit)	1.060000	0.233000	65,400,594
1000	TOTALS			

(10) Beginning Balance 9/1/2009	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2010
$ 44,066	$ -	$ 1,879	$ 147	$ (9,918)	$ 32,122
7,972	-	429	67	(1,323)	6,153
9,190	-	1,139	125	(962)	6,964
15,191	-	1,859	204	(962)	12,166
16,420	-	4,017	440	(905)	11,058
21,059	-	5,385	590	(955)	14,129
33,237	-	10,452	1,257	(710)	20,818
45,814	-	15,390	3,285	(671)	26,468
129,783	-	54,290	15,243	(694)	59,556
-	847,127	602,667	132,473	(5,381)	106,605
$ 322,732	$ 847,127	$ 697,507	$ 153,831	$ (22,481)	$ 296,039

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

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	$ 566	$ -	$ 153,290	$ 231,226	$ -	$ -	$ 385,082
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	305	-	-	-	305
6212	Audit Services	-	-	-	18,440	-	-	18,440
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	16,792	-	-	-	-	16,792
621X	Other Professional Services	-	-	34,788	3,500	-	-	38,288
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	16,196	-	-	16,196
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	4,208	6,936	-	-	11,144
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	1,269	-	4,387	8,705	-	-	14,361
6410	Travel, Subsistence, Stipends	8,686	-	11,017	12,151	-	-	31,854
6420	Ins. and Bonding Costs	-	-	-	-	-	-	-
6430	Election Costs	4,814	-	-	-	-	-	4,814
6490	Miscellaneous Operating	1,922	-	41,976	13,831	-	-	57,729
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	$ 17,257	$ 16,792	$ 249,971	$ 310,985	$ -	$ -	$ 595,005

Total expenditures/expenses for General and Special Revenue Funds:			(9)	$ 15,287,280
LESS: Deductions of Unallowable Costs				
FISCAL YEAR				
Total Capital Outlay (6600)	(10)	$ 1,873,913		
Total Debt & Lease(6500)	(11)	177,058		
Plant Maintenance (Function 51, 6100-6400)	(12)	1,657,361		
Food (Function 35, 6341 and 6499)	(13)	355,232		
Stipends (6413)	(14)	-		
Column 4 (above) - Total Indirect Cost		310,985		
SubTotal:				4,374,548
Net Allowed Direct Cost				$ 10,912,732
CUMULATIVE				
Total Cost of Buildings before Depreciation (1520)			(15)	$ 24,843,510
Historical Cost of Building over 50 years old			(16)	$ 5,000,000
Amount of Federal Money in Building Cost (Net of #16)			(17)	$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)			(18)	$ 1,939,625
Historical Cost of Furniture & Equipment over 16 years old			(19)	$ -
Amount of Federal Money in Furniture & Equipment (Net of #19)			(20)	$ -

(8) NOTE A: $15,196 in Function 53 expenditures are included in this report on administrative costs.
$7,613 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
GENERAL FUND AS OF AUGUST 31, 2010

UNAUDITED

1	Total General Fund Balance as of 8/31/10 (Exhibit C-1 object 3000 for the General Fund Only)			$ 2,783,285
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	$ 94,481		
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 two month's average cash disbursements during the fiscal year.	2,488,458		
6	Estimate of delayed payments from state sources (58xx).	-		
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	Adjustment to meet Board Policy	-		
11	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9 +			2,582,939
12	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)			$ 200,346

Explanation of need for and/or projected use of net positive Undesignated Unreserved General Fund Fund Balance:

The District will use the excess Undesignated Unreserved General Fund Fund Balance to complete ongoing construction projects throughout the year.

EXHIBIT J-4

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2010

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	$ 175,656	$ 175,656	$ 164,128	$ (11,528)
5800	State Program Revenues	954,585	954,585	920,034	(34,551)
5020	Total Revenues	1,130,241	1,130,241	1,084,162	(46,079)
	EXPENDITURES:				
0041	General Administration	-	-	1,509	(1,509)
	Debt Service:				
0071	Debt Service - Principal on Long Term Debt	1,096,906	328,447	327,045	1,402
0072	Debt Service - Interest on Long Term Debt	-	764,859	764,859	-
0073	Debt Service - Bond Issuance Cost and Fees	-	600	600	-
6030	Total Expenditures	1,096,906	1,093,906	1,094,013	(107)
1200	Net Change in Fund Balances	33,335	36,335	(9,851)	(46,186)
0100	Fund Balance - September 1 (Beginning)	95,657	95,657	95,657	-
3000	Fund Balance - August 31 (Ending)	$ 128,992	$ 131,992	$ 85,806	$ (46,186)

FEDERAL AWARDS SECTION

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

To the Board of Trustees
Santa Rosa Independent School District

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 Rosa Independent School District as of and for the year ended August 31, 2010, which collectively comprise Santa Rosa Independent School District's basic financial statements and have issued our report thereon dated January 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as 10-1 and 10-2. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Rosa 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 10-2.

We noted certain other matters that we reported to management of Santa Rosa Independent School District in a separate letter dated January 18, 2011.

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

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

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 18, 2011

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

To the Board of Trustees
Santa Rosa Independent School District

Members of the Board:

Compliance

We have audited Santa Rosa Independent School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Santa Rosa Independent School District's major federal programs for the year ended August 31, 2010. Santa Rosa Independent School 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 Rosa Independent School District's management. Our responsibility is to express an opinion on Santa Rosa Independent School 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 Rosa 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 Rosa Independent School District's compliance with those requirements.

In our opinion, Santa Rosa Independent School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 10-3.

Internal Control Over Compliance

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

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

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

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

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

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 18, 2011

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SANTA ROSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2010

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
• Material weakness(es) identified?	_____ yes	__X__ no
• Significant deficiencies identified that are not considered to be material weaknesses?	__X__ yes	_____ no
Noncompliance material to financial statements noted?	_____ yes	__X__ no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	_____ yes	__X__ no
• Significant deficiencies identified that are not considered to be material weakness(es)?	_____ yes	__X__ no
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	__X__ yes	_____ no

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
	Title I, Part A Cluster:
84.010	ESEA Title I, Part A – Improving Basic Programs
84.389	ESEA Title I, Part A – Improving Basic Programs - ARRA
	Special Education Cluster:
84.391	IDEA-B Formula – ARRA
84.392	IDEA-B Preschool – ARRA
	Educational Technology State Grants Cluster:
84.318	Enhancing Education Through Technology Program
84.386	Enhancing Education Through Tech. Program – ARRA
84.287	Twenty First Century Community Learning Centers
84.394	ARRA of 2009 Title XIV State Fiscal Stabilization Fund

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	__X__ yes	_____ no

Section II - Financial Statement Findings

PROGRAM DESCRIPTION	DESCRIPTION
Schedule Reference Number: (10-1)	**Allocated State Program Revenues**
General	
Condition Found:	The District failed to expend at least 55% of its allocation for Gifted and Talented and 60% of its Career and Technical (Program Code 21 and 22, respectively) programs during the 2009-2010 year.
Criteria:	For programs financed under the Foundation School Program Act, the District must expend at least 55% or 60% of its allocation as mandated by the Act.
Questioned Costs/Basis:	Gifted and Talented (Program Code 21) - $14,951. Career and Technical (Program Code 22) - $69,985. Questioned costs represent the amount under 55% and 60% (Program Code 21 and 22, respectively), which the District failed to expend.
Context:	The questioned costs represent the total amount under spent for the program listed.
Effect:	Failure by the District to utilize these funds for the purposes for which they are designated could result in downward adjustments to the District's entitlements in future years' program(s).
Recommendation:	Although the District did meet the expenditure requirements for the year, it continues to carryover prior year amounts causing it to not be in compliance. The District should review amounts budgeted for these entitlements to ensure that appropriate consideration is given to the utilization of these funds for the purpose for which they are designated. The District should also review coding of expenditures to insure that all costs associated with the program are properly accounted.

Section II - Financial Statement Findings

PROGRAM DESCRIPTION	DESCRIPTION
Schedule Reference Number: (10-2)	**Expenditures in Excess of Budget Appropriations**
General	
Condition Found:	As indicated in the notes to the District's financial statements, we noted two instances in which the District's budget had been exceeded on a functional level.
Criteria:	State law requires budget amendments to be made prior to exceeding a major functional category.
Questioned Costs/Basis:	Not applicable
Context:	We noted negative variances in two functional expenditure category.
Effect:	The District incurs expenditures that are not budgeted in advance by the Board of Trustees.
Recommendation:	Budget versus actual comparisons should continue to be made on a monthly basis, and control over expenditures should include a review of available budget amounts prior to approval of purchase orders for the expenditure of funds.

Total all questioned costs	$ -

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

PROGRAM DESCRIPTION	DESCRIPTION
Schedule Reference Number: (10-3)	**Time and Effort Documentation**
Title I, Part A (84.010) **Title I, Part A – ARRA (84.389)**	
Criteria:	In accordance with OMB Circular A-87, "where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee."
Condition Found:	Certifications of time and effort were not obtained at least semi-annually in accordance with Federal requirements for selected personnel charged to grant programs.
Questioned Costs/Basis:	None.
Context:	All charges to payroll for grant funded personnel must be based on one of the following: Certification; time and effort records; or substitute system.
Effect:	The District may not have complied with Federal documentation requirements. Untimely certifications of employees' time and effort can lead to overcharges to Federal grants.
Recommendation:	Obtain and review semi-annual certifications for all personnel working in Federal grant programs in accordance with OMB Circular A-87. Implement procedures to monitor compliance with Federal grant requirements on a regular basis. Implement a process to ensure that employees are charged to the grants where they spent their time and effort.

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
SCHEDULE OF STATUS OF PRIOR FINDINGS
YEAR ENDED AUGUST 31, 2010

PROGRAM DESCRIPTION	STATUS OF PRIOR YEAR'S FINDING/COMPLIANCE
Schedule Reference Number: (09-1)	**Allocated State Program Revenue** Additional corrective action is necessary as noted in the current year.
Schedule Reference Number: (09-2)	**Expenditures in Excess of Budget Appropriations** Additional corrective action is needed as noted in the current year findings.

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2010

PROGRAM DESCRIPTION	CORRECTIVE ACTION PLAN
Schedule Reference Number: (10-1)	**Allocated State Program Revenues**
General	
Corrective Action Plan:	The expenditures in the Gifted and Talented and Career and Technical were expended for this year's allocations. However, these programs include prior year carryovers that have been budgeted to be expended during the 2010-2011 school year.
Schedule Reference Number: (10-2)	**Expenditures in Excess of Budget Appropriations**
General	
Corrective Action Plan:	The chief financial officer will continue to monitor the budget on a monthly basis for the remainder of the current school year and will prepare amendments for the Board's approval as needed. Any amendments will be regularly placed on the Board's agenda for approval.
Schedule Reference Number: (10-3)	**Time and Effort Documentation**
General	
Corrective Action Plan:	Measures are being taken to properly document semi-annual certifications and job descriptions to comply with Federal guidelines and OMB Circular A-87.
Contact Person:	Hilda Rendon Business Manager
Implementation Time Frame:	Within the next fiscal year

EXHIBIT K-1

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2010

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
Adult Education (ABE) - Federal	84.002	1041200087110213	$ 64,056
Adult Education (ABE) - Federal	84.002	1141200087110213	1,377
Total CFDA Number 84.002			65,433
ESEA, Title I, Part A - Improving Basic Programs*	84.010A	10615001031914	1,036,424
ESEA, Title I, Part A - Improving Basic Programs*	84.010A	11615001031914	58,586
Total CFDA Number 84.010A			1,095,010
ESEA, Title I, Part C - Migratory Children	84.011	10615001031914	122,761
ESEA, Title I, Part C - Migratory Children	84.011	11615001031914	9,099
Total CFDA Number 84.011			131,860
Career and Technical - Basic Grant	84.048	10420006031914	27,255
ESEA Title IV, Pt. A - Safe and Drug-Free Schools	84.186A	11420006031914	1,954
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287	106950137110039	533,120
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287	116950137110039	10,676
Total CFDA Number 84.287			543,796
Title II, Part D-Enhancing Ed. Through Technology*	84.318	000276022893	119,345
GEAR UP	84.334S	514532	111,676
Reading First	84.357	096455017110054	134,257
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	10696001031914	22,758
Title III, Part A - English Language Acquisition	84.365A	109671001031914	15,835
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	109694501108950	89,267
Title I SIP Academy Grant	84.377A	106107010131914001	55,634
Title II D Enhancing Ed. Through Tech. - ARRA*	84.386	105536001031914	13,473
ESEA, Title I, A - ARRA - Improving Basic Prgms.*	84.389	10551001031914	530,137
SSA - IDEA, Part B, Formula - ARRA*	84.391	10554001245903	73,006
SSA - IDEA, Part B, Preschool - ARRA*	84.392	10555001245903	6,520
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394	10557001031914	740,523
Total Passed Through State Department of Education			$ 3,777,739
TOTAL DEPARTMENT OF EDUCATION			$ 3,777,739
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through the State Department of Agriculture			
School Breakfast Program*	10.553		$ 249,991
National School Lunch Program - Cash Assistance*	10.555		460,122
National School Lunch Prog. - Non-Cash Assistance*	10.555		33,811
Total CFDA Number 10.555			493,933
Summer Feeding Program - Cash Assistance	10.559		15,290
Total Passed Through the State Department of Agriculture			$ 759,214
TOTAL DEPARTMENT OF AGRICULTURE			$ 759,214
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 4,536,953

*Clustered Programs as required by Compliance Supplement March, 2010

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2010

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Santa Rosa Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

NOTE B - PROGRAM REPORTING

SHARS and $97,109 of indirect cost are accounted for in the general fund. The National School Lunch Program, School Breakfast Program Commodity Supplemental Food Program, and Summer Feeding Program are accounted for in the General Fund. Expenditures are not specifically attributable to these revenues and are shown on this schedule in an amount equal to revenue for balancing purposes only.

Reconciliation

Amount of federal revenues Exhibit C-3	$4,742,080
Less amounts not considered to be federal awards, excluded on the Schedule of Expenditures of Federal Awards:	
School Health and Related Service Program (SHARS)	106,225
Indirect costs	98,902
Total expenditures of federal awards, per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	$4,536,953

EXHIBIT K-3

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2010

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the District receive a clean audit? Was there an unqualified opinion in the annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instance of material weaknesses in internal controls?	No
SF9	Was there any disclosures in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	$221,387

MEMORANDUM OF ADVISORY COMMENTS

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

August 31, 2010

To the Board of Trustees and Management
Santa Rosa Independent School District

In planning and performing our audit of the financial statements of the Santa Rosa Independent School District for the year ended August 31, 2010, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit, we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report, dated January 18, 2011, on the financial statements of the Santa Rosa Independent School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assisting you in implementing the recommendations.

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

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 18, 2011

COMMENTS AND OBSERVATIONS

We have the following additional comments and observations that came to our attention during the performance of our audit procedures.

Review and Adjust Allowance for Doubtful Accounts Regularly

In prior years, the District's allowance for doubtful accounts has been a percentage of property taxes receivable of 10%. During our audit, the allowance for doubtful accounts did not match the percentage of 10% of property taxes receivable. The District should review the adequacy of the allowance during the year and appropriately adjust the allowance. These efforts should minimize the need for a year-end adjustment of this account as well as improve the accuracy of interim financial statements.

Review Deferred Revenue Accounts

During our audit, we noted the District's deferred revenue balances for property taxes did not match the gross property taxes receivable balances. The District's deferred property tax revenue and gross property tax receivable should match. We recommend that the District evaluate these accounts for continued deferral and adjust the balances accordingly.

New Pronouncements

The GASB has issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement establishes new categories for reporting fund balance and revises the definitions for governmental fund types. For the District, the requirements of this Statement are effective for the year ending August 31, 2011. We recommend that the District's management review the new pronouncement and determine if fund types as reported in the past are correct according to the new definitions of GASB 54. The Board of Trustees need to enact a fund policy that is compliant with GASB 54 and allows correct classifications of fund balance components. The Financial Accounting Resource Guide promulgated by the Texas Educational Agency as been updated to reflect fund equity reporting requirements for the next fiscal year.

Recording Cash Transfers: Timely Posting

Current cash reconciliations procedures and practices allow for transfers to be recognized when a bank reconciliation is completed, but not initiated on the same day. Although this did not cause any serious problems for the current year under audit, it could result in major cash cutoff problems if the practice continues. We strongly suggest that all transfers be recorded and initiated on the same day and therefore there should be no delay in the recording process.

Cash Disbursements: Sequential, Numerical Check Control

During our audit testing of the operating cash account, we noted that a block of checks was used out of sequence. Cash disbursements control procedures should be designed to be practicable and to provide reasonable assurance that no unauthorized payments are made, all liabilities are timely paid, and payments are accurately recorded. These controls include accounting for the sequential ordering of checks as they are released for use, prior to preparation. We recommend that strict numerical control be kept over all checks issued and that checks be issued in sequence as much as possible.

Reconciling Inventory to General Ledger

During our audit procedures we noted that the District currently performs a food inventory count once a year. We also noted that the inventory records do not reconcile to the general ledger. We suggest management consider monthly or quarterly inventory counts to better ensure the accuracy of amounts reported in the financial statements as well as better safeguarding its inventory from potential loss.

Investment Policy

The Public Funds Investment Act contains the following compliance requirements:

1) Investment officers need to attend at least one training session relating to their responsibilities under the Act within 12 months after taking office or assuming duties.
2) Investment officers need to attend an investment training session not less than once in a two year period and receive not less than 10 hours of instruction relating to investment responsibilities from an independent source approved by the governing body or investment committee.
3) The governing body must perform an annual review of the policy and strategy.
4) Internal management reports must be prepared and submitted to the governing board not less than quarterly.

During the current audit year, our compliance review of the investment policy noted that the October 2009 and November 2009 monthly internal management reports were not prepared and submitted to the governing body. Currently, the District has chosen to prepare monthly reports rather then quarterly reports.

It is our recommendation that management make provisions to prepare its internal management reports monthly or not less than quarterly and submit it to the governing body.

Monthly Reconciliation and Closing Procedures

Our audit procedures revealed that there is no systematic method of ensuring that timely and complete monthly reconciliation and closing procedures occur. With the exception of bank reconciliations, there are no procedures requiring reconciliation of subsidiary ledgers for accounts receivable, accounts payable, fixed assets and other balance sheet items. This situation resulted in a continuing and growing backlog of transactions and journal entries that were not posted into the accounting system. These processes and procedures assist in detecting significant errors and/or irregularities in the financial records and financial statements in a timely manner. This situation should be corrected as soon as possible with the establishment of a system of consistent monthly reconciliations and closing procedures which include:

- Recording the date assets are acquired and retired for fixed asset and depreciation schedules so as to properly determine the appropriate depreciation expense as well as the proper investment in general fixed assets and property and equipment.

- Preparing reconciliations for the following which are agreed to general ledger balances as previously discussed above.

  i) All accounts receivable subsidiary reports
  ii) All property taxes receivable subsidiary reports
  iii) All account payable subsidiary reports

Complete information derived through appropriate reconciliations would provide excellent control for the safeguarding of these assets.