SANTA ROSA
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT
AND
COMPLIANCE REPORT

FOR THE YEAR ENDED AUGUST 31, 2011

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
Santa Rosa, Texas
Year Ended August 31, 2011

TRUSTEES

Andres Contreras - President

Danny Theys - Vice-President

Dina Escamilla - Secretary

James Robert Mendoza

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, 2011

TABLE OF CONTENTS

	EXHIBIT	PAGE
INTRODUCTORY SECTION		
Certificate of Board	-	7
FINANCIAL SECTION		
Independent Auditors' Report	-	11
Management's Discussion and Analysis (Required Supplementary information)	-	15
Basic Financial Statements		
Government-wide Financial Statements		
Statement of Net Assets	A-1	24
Statement of Activities	B-1	25
Fund Financial Statements		
Balance Sheet – Governmental Funds	C-1	26
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	C-2	29
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	C-3	30
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	C-4	32
Statement of Fiduciary Net Assets – Fiduciary Funds	E-1	33
Statement of Changes in Fiduciary Fund Net Assets – Fiduciary Funds	E-2	34
Notes to Financial Statements		35
REQUIRED SUPPLEMENTARY INFORMATION		
General Fund - Budgetary Comparison Schedule	G-1	56
Notes to Required Supplementary Information		57
OTHER SCHEDULES		
Schedule of Delinquent Taxes Receivable	J-1	60
Schedule of Expenditures for Computations of Indirect Cost for 2012-2013 - General and Special Revenue Funds	J-2	62
Debt Service Fund - Budgetary Comparison Schedule	J-3	63

TABLE OF CONTENTS - CONTINUED

	EXHIBIT	PAGE
FEDERAL AWARDS SECTION		
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*	-	67
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	-	71
Schedule of Findings and Questioned Costs	-	75
Schedule of Status of Prior Findings	-	78
Corrective Action Plan		79
Schedule of Expenditures of Federal Awards	K-1	80
Notes on Accounting Policies for Federal Awards	K-2	82
Schedule of Required Responses to Selected School First Indicators	K-3	83

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 7 approved -- 0 disapproved for the year ended August 31, 2011 at a meeting of the board of school trustees of such school district on the 16th day of January, 2012.

Signature of Board Secretary

Signature of Board President

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FINANCIAL SECTION

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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

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, 2011, 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, 2011, 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 11, 2012 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.

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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 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 11, 2012

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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, 2011. 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 $15,744,222 at August 31, 2011. Net assets increased by $1,127,967 from the prior year.
- The general fund reported a fund balance this year of $3,406,971.

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

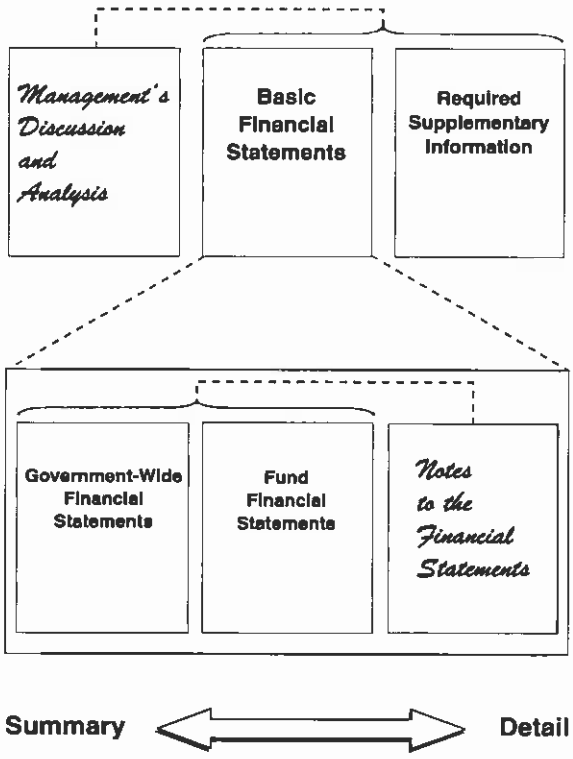


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents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

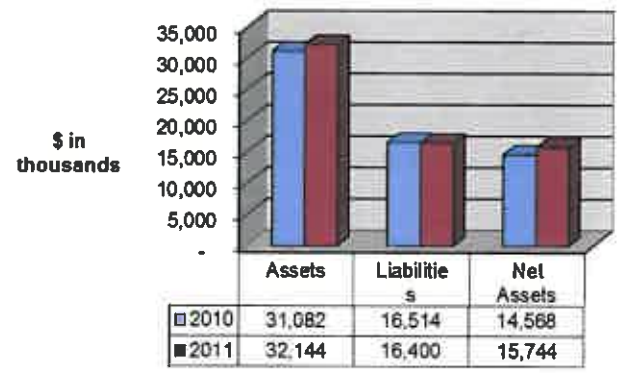
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net assets were $15,744,222 as of August 31, 2011, an increase of 8.1%. (See Table A-1).

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

	Governmental Activities	
	2011	2010
Current & other assets	$ 5,086	$ 4,814
Capital assets	27,058	26,268
Total assets	**$ 32,144**	**$ 31,082**
Current liabilities	950	682
Long-term liabilities	15,450	15,832
Total liabilities	**16,400**	**16,514**
Net Assets:		
Invested in capital assets-	11,923	11,716
Restricted	347	132
Unrestricted	3,474	2,720
Total Net Assets	**$ 15,744**	**$ 14,568**

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 $15,744,222 at the close of August 31, 2011.

A portion of the Santa Rosa ISD's net assets (76%) 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 ($3,666,517) may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities

- Property tax rates increased from 1.2930/$100 to 1.3722/$100 to comply with state mandates; however, property taxable values decreased by 5.2 % from the prior year.
- The cost of all governmental activities this year was $14,292,061 a decrease of $644,632.
- Some of the cost was paid by those who directly benefited from the programs $136,124 or by grants and contributions $5,046,863.

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

	Governmental Activities	
	2011	2010
Program Revenues:		
Charges for Services	$ 136	$ 106
Operating Grants and Contributions	5,046	4,956
General Revenues		
Property Taxes	909	841
State Aid – Formula	8,077	7,997
Grants and Contributions not Restricted	1,187	1,474
Investment Earnings	4	33
Other	109	190
Total Revenues	15,468	15,597
Instruction	6,856	7,397
Instructional Resources and Media Services	102	218
Curriculum Dev. And Instructional Staff Dev	99	103
Instructional Leadership	325	318
School Leadership	543	532
Guidance, Counseling and Evaluation Services	407	397
Social Work Services	3	-
Health Services	154	150
Student (Pupil) Transportation	211	205
Food Services	788	899
Curricular/Extracurricular Activities	902	972
General Administration	661	622
Plant Maintenance & Operations	1,725	1,817
Security & Monitoring Services	113	138
Data Processing Services	159	62
Community Services	169	160
Debt Service – Interest on Long-Term Debt	915	892
Payments Related to Shared Services Arrangements	46	45
Payments Related to Juvenile Justice Alt. Ed. Prg.	9	9
Other Intergovernmental Charges	105	-
Total Expenses	$ 14,292	$ 14,936
Increase (Decrease) in Net Assets	$ 1,176	$ 661

Figure A-4 Santa Rosa ISD Expenses FY 2010-2011

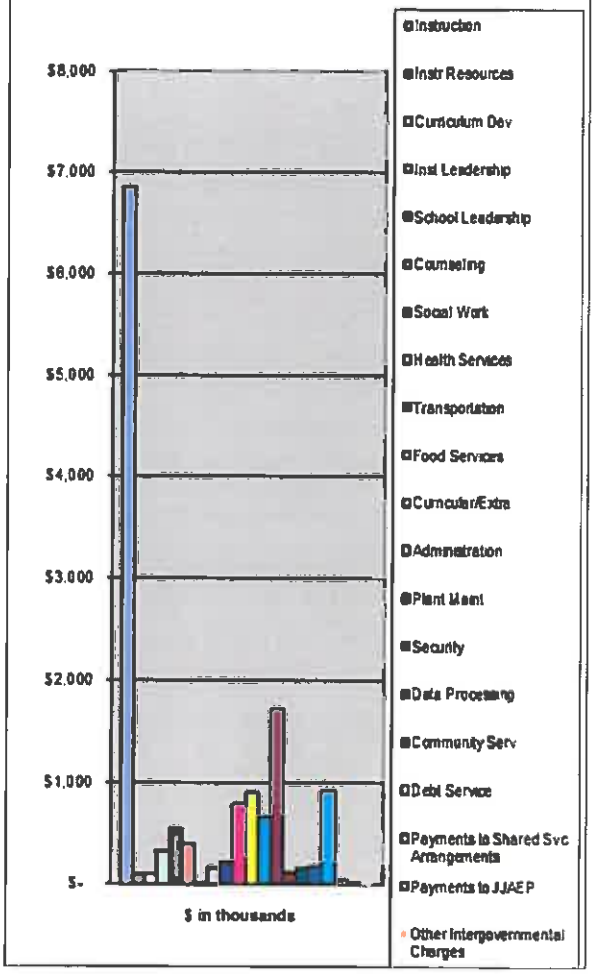


Figure A-5 Sources of Revenues for FY 2010-2011

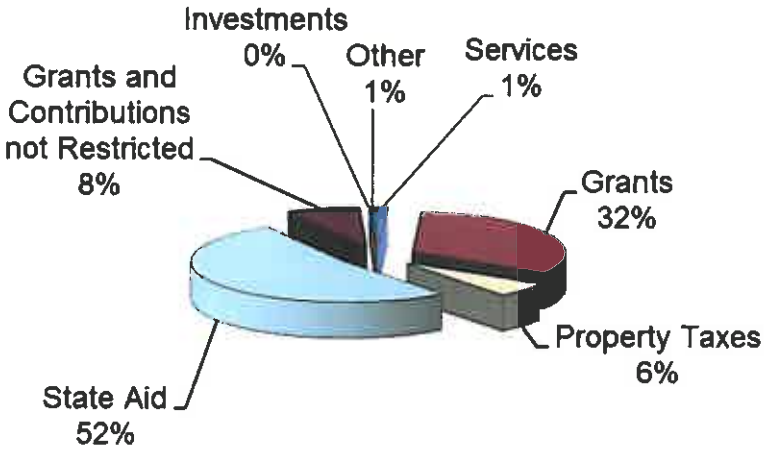


Table A-3 presents the cost of each of the District's largest functions/programs as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

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

	Total Cost of Services			Net Cost of Services		
	2011	2010	% Change	2011	2010	% Change
Instruction	6,856	7,398	(7.33)%	3,812	3,897	(2.18)%
School administration	543	532	2.07%	418	492	(15.04)%
Food Services	788	899	(12.35)%	142	140	1.43%
Plant Maintenance & Operations	1,725	1,817	(5.06)%	1,688	1,781	(5.22)%

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 $3,406,971 as of August 31, 2011. It increased by $623,686 during the current fiscal year; an increase of 22.4%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the District had invested $27,057,833 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 3% 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	
	2011	2010
Land	$305	$305
Buildings and improvements	31,076	26,639
Furniture & Equipment	2,591	1,940
Construction in Progress	36	3,599
Totals at historical cost	**34,008**	32,483
Total accumulated depreciation	6,950	6,216
Net capital assets	**$27,058**	$26,267

Long-Term Debt

At year-end the District had $13,428,629 in General Obligation Bonds as shown in Table A-5. Of this amount, $325,645 is due within the next year. The total long-term debt outstanding as of August 31, 2011 is $15,449,818. 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 2011	2010
Bonds – Series 2000	$ 110	$ 215
Bonds – Series 2001	440	535
Bonds – Refunding Series 2007	8,604	8,638
Bonds – Series 2008	4,275	4,365
Total General Obligation Bonds	13,429	13,753
Capital Lease	$ 1,644	$ 1,701
Premium on issuance of Bonds	585	614
Accrued Interest on CAB Bonds	226	221
Deferred loss on bond refunding	(513)	(539)
Compensated Absences	79	82
Total Long-Term Debt	$ 15,450	$ 15,832

Fund Balances

The District has adopted GASB 54 effective for the fiscal year ending August 31, 2011. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. Previously, fund balance was classified as reserved or unreserved. GASB 54 provided for two major types of fund balances, which are non-spendable and spendable.

Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. The District has inventories and prepaid insurance that are considered non-spendable.

The spendable fund balances include restricted, committed, assigned and unassigned based upon the hierarchy of spending constraints. ***Restricted:*** fund balances that are constrained by external parties, constitutional provisions or enabling legislation; ***committed:*** fund balances that contain self-imposed constraints of the government from its highest level of decision making authority (the board of trustees); ***assigned:*** fund balances that contained self-imposed constraints of the government to be used for a particular purpose; and ***unassigned:*** fund balance of the general fund that has not been constrained for any particular purpose.

As of August 31, 2011, the District's governmental funds reported ending fund balances of $3,610,648. The unassigned fund balance of $3,245,058 or 90% of this total amount is available for spending at the government's discretion. Of the current ending fund balances, the following categories are recorded and primary users noted in accordance with GASB No. 54.

- $22,581 is recorded as non-spendable for inventories and prepaid items;
- $343,009 is recorded as Restricted; $234,730 in food service; and $108,279 in debt service;
- $3,245,058 is the remaining fund balance and is recorded as Unassigned.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2012 budget preparation is down $18,947 from 2011.
- General operating fund spending per student increases in the 2012 budget from $9,266 to $10,180, a 9.86% increase.
- The District's 2012 refined average daily attendance is expected to be 1,110; up 1.0% from last year.

These indicators were taken into account when adopting the general fund budget for 2012. Expenditures as budgeted are $11,300,619, an increase of 9.0% from 2010-2011 actual expenditures.

If these estimates are realized, the District's budgetary general fund balance is expected to remain the same. The M & O tax rate was increased by 0.13/$100 from 1.04 to 1.17 and the debt service rate was reduced by 0.13/$100.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office at 323 East Jesus T. Avila Avenue, Santa Rosa, Texas 78593.

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BASIC

FINANCIAL STATEMENTS

SANTA ROSA ISD
STATEMENT OF NET ASSETS
AUGUST 31, 2011

Data Control Codes		Primary Government Governmental Activities
	ASSETS	
1110	Cash and Cash Equivalents	$ 3,454,007
1220	Property Taxes Receivable (Delinquent)	299,535
1230	Allowance for Uncollectible Taxes	(29,954)
1240	Due from Other Governments	1,030,884
1290	Other Receivables, net	70,595
1300	Inventories	4,275
1410	Deferred Expenses	18,306
1420	Capitalized Bond and Other Debt Issuance Costs	239,184
	Capital Assets:	
1510	Land	305,271
1520	Buildings, Net	25,912,606
1530	Furniture and Equipment, Net	803,994
1580	Construction in Progress	35,962
1000	Total Assets	32,144,665
	LIABILITIES	
2110	Accounts Payable	481,893
2160	Accrued Wages Payable	323,565
2190	Due to Student Groups	1,150
2200	Accrued Expenses	51,460
2300	Deferred Revenues	66,357
2400	Payable from Restricted Assets	26,290
	Noncurrent Liabilities	
2501	Due Within One Year	631,367
2502	Due in More Than One Year	14,818,361
2000	Total Liabilities	16,400,443
	NET ASSETS	
3200	Invested in Capital Assets, Net of Related Debt	11,922,927
3820	Restricted for Federal and State Programs	239,005
3850	Restricted for Debt Service	108,279
3900	Unrestricted Net Assets	3,474,011
3000	Total Net Assets	$ 15,744,222

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

EXHIBIT B-1

SANTA ROSA ISD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011

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	$ 6,856,485	$ 162	$ 3,043,896	$ (3,812,427)
12	Instructional Resources and Media Services	101,948	-	60,218	(41,730)
13	Curriculum and Staff Development	98,859	-	93,390	(5,469)
21	Instructional Leadership	325,107	-	307,893	(17,214)
23	School Leadership	542,496	-	124,913	(417,583)
31	Guidance, Counseling and Evaluation Services	407,274	-	164,576	(242,698)
32	Social Work Services	2,729	-	2,585	(144)
33	Health Services	153,532	-	40,806	(112,726)
34	Student (Pupil) Transportation	210,873	-	107,668	(103,205)
35	Food Services	788,217	98,696	839,358	149,837
36	Extracurricular Activities	901,657	37,266	23,250	(841,141)
41	General Administration	661,414	-	26,641	(634,773)
51	Facilities Maintenance and Operations	1,725,268	-	37,100	(1,688,168)
52	Security and Monitoring Services	112,573	-	5,706	(106,867)
53	Data Processing Services	158,728	-	8,391	(150,337)
61	Community Services	169,409	-	160,472	(8,937)
72	Debt Service - Interest on Long Term Debt	914,986	-	-	(914,986)
73	Debt Service - Bond Issuance Cost and Fees	850	-	-	(850)
93	Payments related to Shared Services Arrangements	45,608	-	-	(45,608)
95	Payments to Juvenile Justice Alternative Ed. Prg.	9,362	-	-	(9,362)
99	Other Intergovernmental Charges	104,686	-	-	(104,686)
[TP]	TOTAL PRIMARY GOVERNMENT:	$ 14,292,061	$ 136,124	$ 5,046,863	(9,109,074)

Data Control Codes		
	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	688,672
DT	Property Taxes, Levied for Debt Service	219,860
SF	State Aid - Formula Grants	8,076,588
GC	Grants and Contributions not Restricted	1,187,339
IE	Investment Earnings	4,114
MI	Miscellaneous Local and Intermediate Revenue	108,740
TR	Total General Revenues	10,285,313
CN	Change in Net Assets	1,176,239
NB	Net Assets--Beginning	14,567,983
NE	Net Assets--Ending	$ 15,744,222

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

SANTA ROSA ISD
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2011

Data Control Codes		10 General Fund	Education Jobs Fund	60 Capital Projects
	ASSETS			
1110	Cash and Cash Equivalents	$ 2,883,859	$ -	$ 433,259
1220	Property Taxes - Delinquent	245,909	-	-
1230	Allowance for Uncollectible Taxes (Credit)	(24,591)	-	-
1240	Receivables from Other Governments	401,168	236,019	-
1260	Due from Other Funds	651,673	-	10,184
1290	Other Receivables	70,595	-	-
1300	Inventories	4,275	-	-
1410	Deferred Expenditures	18,306	-	-
1000	Total Assets	$ 4,251,194	$ 236,019	$ 443,443
	LIABILITIES AND FUND BALANCES			
	Liabilities:			
2110	Accounts Payable	$ 141,725	$ -	$ 340,168
2160	Accrued Wages Payable	281,161	-	-
2170	Due to Other Funds	64,349	236,019	10,184
2190	Due to Student Groups	1,150	-	-
2200	Accrued Expenditures	51,460	-	-
2300	Deferred Revenues	304,378	-	-
2400	Payable from Restricted Assets	-	-	-
2000	Total Liabilities	844,223	236,019	350,352
	Fund Balances:			
	Nonspendable Fund Balance:			
3410	Inventories	4,275	-	-
3430	Prepaid Items	18,306	-	-
	Restricted Fund Balance:			
3450	Federal or State Funds Grant Restriction	234,730	-	-
3480	Retirement of Long-Term Debt	-	-	-
3600	Unassigned Fund Balance	3,149,660	-	93,091
3000	Total Fund Balances	3,406,971	-	93,091
4000	Total Liabilities and Fund Balances	$ 4,251,194	$ 236,019	$ 443,443

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

Other Funds	Total Governmental Funds
$ 136,889	$ 3,454,007
53,626	299,535
(5,363)	(29,954)
393,697	1,030,884
-	661,857
-	70,595
-	4,275
-	18,306
$ 578,849	$ 5,509,505
$ -	$ 481,893
42,404	323,565
351,305	661,857
-	1,150
-	51,460
48,264	352,642
26,290	26,290
468,263	1,898,857
-	4,275
-	18,306
-	234,730
108,279	108,279
2,307	3,245,058
110,586	3,610,648
$ 578,849	$ 5,509,505

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SANTA ROSA ISD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
AUGUST 31, 2011

	Total Fund Balances - Governmental Funds	$	3,610,649
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 34,008,229 and the accumulated depreciation was 6,950,396. The net effect of including capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		27,057,833
2	Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(15,370,611)
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.		239,184
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.		(79,117)
5	Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		286,284
19	**Net Assets of Governmental Activities**	$	15,744,222

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

SANTA ROSA ISD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes		10 General Fund	Education Jobs Fund	60 Capital Projects
	REVENUES:			
5700	Total Local and Intermediate Sources	$ 933,207	$ -	$ 241
5800	State Program Revenues	8,464,259	-	-
5900	Federal Program Revenues	1,083,724	236,019	-
5020	Total Revenues	10,481,190	236,019	241
	EXPENDITURES:			
	Current:			
0011	Instruction	4,044,817	33,369	-
0012	Instructional Resources and Media Services	40,403	56,167	-
0013	Curriculum and Instructional Staff Development	253	-	-
0021	Instructional Leadership	-	-	-
0023	School Leadership	417,688	81,602	-
0031	Guidance, Counseling and Evaluation Services	240,630	64,881	-
0032	Social Work Services	-	-	-
0033	Health Services	110,985	-	-
0034	Student (Pupil) Transportation	305,562	-	-
0035	Food Services	688,319	-	22,146
0036	Extracurricular Activities	854,090	-	-
0041	General Administration	626,543	-	-
0051	Facilities Maintenance and Operations	1,629,568	-	-
0052	Security and Monitoring Services	106,634	-	-
0053	Data Processing Services	186,388	-	-
0061	Community Services	-	-	-
	Debt Service:			
0071	Principal on Long Term Debt	56,540	-	-
0072	Interest on Long Term Debt	125,122	-	-
0073	Bond Issuance Cost and Fees	-	-	-
	Capital Outlay:			
0081	Facilities Acquisition and Construction	301,053	-	571,604
	Intergovernmental:			
0093	Payments to Fiscal Agent/Member Districts of SSA	45,608	-	-
0095	Payments to Juvenile Justice Alternative Ed. Prg.	9,362	-	-
0099	Other Intergovernmental Charges	9,816	-	-
6030	Total Expenditures	9,799,381	236,019	593,750
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	681,809	-	(593,509)
	OTHER FINANCING SOURCES (USES):			
7915	Transfers In	739,769	-	-
8911	Transfers Out (Use)	(703,024)	-	-
8949	Other (Uses)	(94,869)	-	-
7080	Total Other Financing Sources (Uses)	(58,124)	-	-
1200	Net Change in Fund Balances	623,685	-	(593,509)
0100	Fund Balance - September 1 (Beginning)	2,783,286	-	686,600
3000	Fund Balance - August 31 (Ending)	$ 3,406,971	$ -	$ 93,091

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

Other Funds	Total Governmental Funds
$ 224,732	$ 1,158,180
1,131,292	9,595,551
3,389,005	4,708,748
4,745,029	15,462,479
2,793,587	6,871,773
-	96,570
93,390	93,643
307,893	307,893
14,648	513,938
80,277	385,788
2,585	2,585
34,447	145,432
94,502	400,064
36,169	746,634
-	854,090
-	626,543
4,682	1,634,250
-	106,634
4,008	190,396
160,472	160,472
324,324	380,864
778,054	903,176
850	850
-	872,657
-	45,608
-	9,362
-	9,816
4,729,888	15,359,038
15,141	103,441
-	739,769
(36,746)	(739,770)
-	(94,869)
(36,746)	(94,870)
(21,605)	8,571
132,192	3,602,078
$ 110,587	$ 3,610,649

SANTA ROSA ISD
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, 2011

Total Net Change in Fund Balances - Governmental Funds	$	8,571
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 2011 capital outlays and debt principal payments is to increase (decrease) net assets.		1,524,407
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.		(734,052)
Certain property tax revenues are deferred in the funds. This is the change in those amounts for the current period.		5,821
Repayment of bond principal is an expenditure in the funds but it is not an expense in the Statement of Activities.		380,864
The accretion of interest on capital appreciation bonds is not reported in the funds.		205,269
Compensated absences are reported as the amount earned in the Statement of Net Assets but as the amount paid in the funds.		2,438
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 2011.		(200,676)
Bond issuance costs and similar items are amortized in the Statement of Activities but not in the funds.		(16,403)
Change in Net Assets of Governmental Activities	$	1,176,239

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

SANTA ROSA ISD
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2011

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	$ 1,843	$ 62,456
Total Assets	1,843	$ 62,456
LIABILITIES		
Accounts Payable	-	$ 5,500
Due to Student Groups	-	56,956
Total Liabilities	-	$ 62,456
NET ASSETS		
Unrestricted Net Assets	1,843	
Total Net Assets	$ 1,843	

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

EXHIBIT E-2

SANTA ROSA ISD
STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011

	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)	2,843
Total Net Assets - August 31 (Ending)	$ 1,843

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.

Education Jobs Fund – 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, 2010. 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 the food inventory by using the purchase method whereby purchases of inventories are recognized as expenditures when the goods are received. The District accounts for school supply and maintenance inventory by the consumption method whereby expenditures are recognized when the inventory items are used. Reported inventories are equally offset by non-spendable fund balance 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 unearned revenue.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

7. *Deferred Expenditures*

Deferred expenditures are prepaid expenses that will benefit periods beyond August 31, 2011. The only prepaid expenses included are for unexpired insurance policy premiums paid by August 31, 2011, 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*

Each employee shall earn state personal leave at the rate of one-half workday for each 18 workdays of employment, up to the statutory maximum of five workdays annually and is cumulative. The local leave policy is that all employees shall earn four workdays of local convenience leave per school year; two days shall be earned at the same rate as state personal leave and may be taken at the employee's discretion and are non-cumulative.

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 Balance Reporting*

The District has adopted GASB 54 during the current year. GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items and inventories. The District has prepaid items and inventories that are considered nonspendable.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- **Restricted**: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.

- **Committed**: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The responsibility to commit funds rests with the Board of Trustees. Committed amounts cannot be used for any other purpose unless the governing board changes or lifts the constraint taking the same formal action that imposed the constraint originally.

- **Assigned**: fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The responsibility to assign funds rests with the Superintendent or the Assistant Superintendent for Business Services.

- **Unassigned**: fund balance of the general fund that is not constrained for any particular purpose.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, The District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

NOTE C - DEPOSITS 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.

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.

NOTE C - DEPOSITS AND INVESTMENTS – Continued

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, 2011, the District's carrying amount had a balance of $803,949 (cash, certificates of deposit, and interest-bearing savings accounts) and the bank balance was $790,391. In addition to these cash and cash equivalents, the District maintains $2,714,664 in a government investment pool. The District's cash deposits at August 31, 2011 and during the year ended August 31, 2011 were entirely covered by FDIC insurance or by pledged collateral held in the District's name by a bank other than the pledging bank.

The District's cash deposits at August 31, 2011 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 $2,934,494 and occurred during the month of January 2011.
d. Total amount of FDIC coverage at the time of largest combined balance was $2,934,494.

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	$2,714,664	N/A	Daily

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.

NOTE C - DEPOSITS AND INVESTMENTS – Continued

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	$2,714,664	AAA	100%

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.

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 2010 tax rate was $1.040 for maintenance and $0.332 for debt service per $100 assessed valuation.

NOTE D - PROPERTY TAX – Continued

The 2010 assessed valuation was $68,070,681. 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, 2011 outstanding taxes in the general fund and debt service fund was $245,909 and $53,626 with a corresponding allowance for doubtful accounts of $24,591 and $5,363.

NOTE E - DUE TO AND FROM OTHER GOVERNMENTS AND AGENCIES

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

	Due From
General Fund	
Texas Education Agency:	
Foundation Revenues	$ 365,610
Other Governmental Funds	
Texas Education Agency:	
ESEA Title I, Part A	72,255
ESEA Title I, Part A – ARRA	9,093
ESEA Title I, Part C	9,078
Gear up Grant	27,212
Title I, SIP Academy Grant	19,901
Student Success Initiative	6,358
ESEA Title II, Part A	20,175
Adult Education – English Literacy	3,184
State Funded Special Revenue Fund	86,569
ESEA Title III, Part A	357
Title IV, Part B – 21st Century Community Learning Center	69,741
Title XIV, State Fiscal Stabilization Fund – ARRA	383
Special Education – ARRA	66,661
Education Jobs	236,019
U. S. Department of Agriculture:	
School Breakfast Program/National Lunch Program	38,288
Total due to/from other governments and agencies	$1,030,884

NOTE F - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at August 31, 2011 were:

Due to	Due From	
General Fund	Funds within the general fund	$ 64,349
General Fund	Capital Projects Fund	10,184
General Fund	Non-major Fund	587,312
General Fund	Debt service fund	12
	Totals	$661,857

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, 2011, were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Other Receivables	Total Receivables
Governmental Activities:					
General Fund	$245,909	$ 401,168	$651,673	$ 70,595	$1,369,345
Education Jobs Fund	-	236,019	-	-	236,019
Capital Projects Fund	-	-	10,184	-	10,184
Nonmajor Governmental Funds	53,626	393,697	-	-	447,323
Total Governmental Activities	$299,535	$1,030,884	$661,857	$ 70,595	$2,062,871
Amounts not scheduled for collection during the subsequent year	$ -	$ -	$ -	$ -	$ -

Payables at August 31, 2011, were as follows:

	Accounts Payable	Salaries and Benefits	Due to Other Funds	Total Payables
Governmental Activities:				
General Fund	$141,725	$281,161	$ 64,349	$ 487,235
Education Jobs Fund	-	-	236,019	236,019
Capital Projects Fund	340,168	-	10,184	350,352
Nonmajor Governmental Funds	-	42,403	351,305	393,708
Total Governmental Activities	$481,893	$323,564	$661,857	$1,467,314
Amounts not scheduled for collection during the subsequent year	$ -	$ -	$ -	$ -

NOTE H – CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2011, was as follows:

	September 1, 2010	Increase	Transfers	August 31, 2011
Governmental activities				
Capital assets not being depreciated				
Land	$ 305,271	$ -	$ -	$ 305,271
Construction in progress	3,599,321	35,962	(3,599,321)	35,962
Total capital assets not being depreciated	3,904,592	35,962	-	341,233
Capital assets being depreciated				
Buildings and improvements	26,639,605	836,695	3,599,321	31,075,622
Furniture and equipment	1,939,625	651,750	-	2,591,375
Total capital assets being depreciated	28,579,230	1,488,445	3,599,321	33,666,997
Less accumulated depreciation:				
Building and improvements	4,560,580	602,435	-	5,163,015
Furniture and equipment	1,655,764	131,617	-	1,787,381
Total accumulated depreciation	6,216,344	734,052	-	6,950,396
Total capital assets being depreciated, net	22,362,886	754,393	3,599,321	26,716,600
Governmental activities capital assets, net	$26,267,478	$ 790,355	$ -	$27,057,833

Depreciation was charged to the following functions:

Government Activities:	
11 – Instruction	$383,993
12 – Instructional Resources and Media Services	5,396
13 – Curriculum and Staff Development	5,233
21 – Instructional Leadership	17,271
23 – School Leadership	28,653
31 – Guidance, Counseling and Evaluation Services	21,558
32 – Social Work Services	144
33 – Health Services	8,127
34 – Student Transportation	22,355
35 – Food Services	41,722
36 – Cocurricular/Extracurricular Activities	47,726
41 – General Administration	34,987
51 – Plant Maintenance and Operations	91,321
52 – Security and Monitoring Services	5,959
53 – Data Processing Services	10,639
61 – Community Services	8,968
	$734,052

Construction commitments

The District has expended $35,962 for construction in progress related to the estimated project costs totaling $119,872. The District has remaining commitments in the amount of $83,910

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, 2011 are as follows:

Governmental Activities	Beginning Balance 09/01/10	Increase	Decrease	Ending Balance 08/31/11	Due Within One Year
General Obligation Bonds					
Bond Series 2000	$ 215,000	$ -	$(105,000)	$ 110,000	$110,000
Bond Series 2001	535,000	-	(95,000)	440,000	105,000
Bond Series 2007	8,565,000	-	-	8,565,000	-
Bond Series 2007 - CAB	72,953	-	(34,324)	38,629	20,645
Bond Series 2008	4,365,000	-	(90,000)	4,275,000	90,000
Total general obligation bonds	13,752,953	-	(324,324)	13,428,629	325,645
Premium on issuance – Refunding Bond Series 2007	597,958	-	(28,474)	569,484	-
Premium on issuance – Refunding Bond Series 2008	15,819	-	(565)	15,254	-
Accrued interest on CAB	221,387	205,269	(200,676)	225,980	219,355
Deferred loss on – Refunding Bond Series 2007	(538,653)	-	25,650	(513,003)	-
Capital leases	1,700,897	-	(56,540)	1,644,357	86,367
Compensated absences	81,555	22,745	(25,183)	79,117	-
Total governmental activities	$15,831,916	$ 228,014	$(610,112)	$15,449,818	$631,367

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. $ 110,000

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.	$ 440,000
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.	8,603,629
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.	4,275,000
Total general obligation bonds	13,428,629

NOTE I - LONG-TERM OBLIGATIONS – Continued

Capital Leases:

During the year ended August 31, 2011, 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. $ 1,644,357

Total $15,072,986

Debt service requirements on long-term debt at August 31, 2011 are as follows:

Year Ending August 31,	Bonds Payable		Capital Lease		Total Requirement
	Principal	Interest	Principal	Interest	
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	3,335,000	2,238,143	590,669	296,311	6,460,123
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
	$13,428,629	$7,913,354	$1,644,358	$748,353	$23,734,695

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	$677,761	$ -	$207,244	$ 885,005
Food sales	92,204	-	6,492	98,696
Investment income	3,255	241	618	4,114
Penalties, interest and other tax-related income	46,292	-	10,378	56,670
Co-curricular student activities	37,266	-	-	37,266
Other	76,429	-	-	76,429
	$933,207	$ 241	$224,732	$1,158,180

NOTE K - DEFERRED REVENUE

	Unavailable	Unearned	Total
SRISD taxes	$269,581	$ -	$269,581
State and private grants	-	83,061	83,061
	$269,581	$ 83,061	$352,642

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	$ 276,484
National School Lunch Program	10.555	476,935
USDA - Donated Commodities	10.565	38,000
Indirect Costs	Various	137,536
SHARS	-	154,769
		$1,083,724

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, 2011 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 2011, 2010 and 2009, and state contribution rate of 6.644% for fiscal year 2011 and 6.58% for fiscal years 2010 and 2009. 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 2011.

State contributions to TRS made on behalf of the Santa Rosa Independent School District's employees for the years ended August 31, 2011, 2010 and 2009 were $380,995, $352,509, and $406,179, respectively. The Santa Rosa Independent School District paid additional state contributions for the years ended August 31, 2011, 2010 and 2009 in the amount of $32,699, $34,045, and $33,867, 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 2011, 2010 and 2009. 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 2011, 2010 and 2009. 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, 2011, 2010, and 2009, the State's contributions to TRS-Care were $21,136, $13,433 and $12,787, respectively, the active member contributions were $47,054, $48,245 and $46,098, respectively, and the school district's contributions were $39,815, $40,823 and $39,006, 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, 2011, 2010, and 2009, the subsidy payments received by TRS-Care on behalf of the District were $16,271, $17,334 and $14,920, 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 2011, 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, 2011, 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 $73,157,884 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, 2010, 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	$82,940
	Total revenue	$82,940
Expenditures		
6100	Payroll costs	$12,153
6200	Purchased and contracted services	58,181
6300	Supplies and materials	3,641
6400	Miscellaneous operating expenses	8,965
	Total expenditures	$82,940

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:			
81 Facilities Acquisition and Construction	$265,091	$301,053	$(35,962)

NOTE T – FUND BALANCES

The District has classified its fund balances with the following hierarchy:

Nonspendable: The District has inventories of $4,275 and prepaid insurance of $18,306 totaling $22, 581.

Spendable: The District has classified spendable fund balances ad *Restricted, Committed, Assigned* and *Unassigned* and considered each to have been spent when expenditures are incurred.

Restricted for Food Service, Federal and State Programs, Debt Service and Capital Projects – Federal laws, Texas statutes and local ordinances require that certain revenues be specifically designed for the purposes of food service, federal and state programs, debt service, and capital projects. The funds have been included in the restricted category of fund balance.

Unassigned – the unassigned fund balance has no constraints.

	General Funds	Other Governmental Funds: Capital Projects	Other Governmental Funds: Other Funds	Total Governmental Funds
Fund balances				
Nonspendable				
Inventories				
Food service	$ 4,275	$ -	$ -	$ 4,275
Prepaid insurance				
General fund	18,306	-	-	18,306
Restricted				
Food service	234,730	-	-	234,730
Debt service	-	-	108,279	108,279
Unassigned	3,149,660	93,091	2,307	3,245,058
	$3,406,971	$ 93,091	$110,586	$3,610,648

REQUIRED SUPPLEMENTARY INFORMATION

SANTA ROSA ISD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2011

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	$ 860,670	$ 860,670	$ 933,207	$ 72,537
5800	State Program Revenues	8,288,677	8,288,677	8,464,259	175,582
5900	Federal Program Revenues	851,130	851,130	1,083,724	232,594
5020	Total Revenues	10,000,477	10,000,477	10,481,190	480,713
	EXPENDITURES:				
	Current:				
0011	Instruction	4,181,336	4,181,686	4,044,817	136,869
0012	Instructional Resources and Media Services	95,178	95,178	40,403	54,775
0013	Curriculum and Instructional Staff Development	1,700	1,700	253	1,447
0023	School Leadership	492,461	492,461	417,688	74,773
0031	Guidance, Counseling and Evaluation Services	310,604	307,604	240,630	66,974
0033	Health Services	118,486	118,486	110,985	7,501
0034	Student (Pupil) Transportation	286,145	363,825	305,562	58,263
0035	Food Services	694,130	694,130	688,319	5,811
0036	Extracurricular Activities	1,014,367	1,017,017	854,090	162,927
0041	General Administration	700,971	689,971	626,543	63,428
0051	Facilities Maintenance and Operations	1,757,926	1,758,391	1,629,568	128,823
0052	Security and Monitoring Services	136,542	136,542	106,634	29,908
0053	Data Processing Services	150,371	200,371	186,388	13,983
0061	Community Services	11,000	11,000	-	11,000
	Debt Service:				
0071	Principal on Long Term Debt	56,541	56,541	56,540	1
0072	Interest on Long Term Debt	125,123	125,123	125,122	1
	Capital Outlay:				
0081	Facilities Acquisition and Construction	-	265,091	301,053	(35,962)
	Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	45,608	45,608	45,608	-
0095	Payments to Juvenile Justice Alternative Ed. Prg.	15,500	15,500	9,362	6,138
0099	Other Intergovernmental Charges	-	11,000	9,816	1,184
6030	Total Expenditures	10,193,989	10,587,225	9,799,381	787,844
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(193,512)	(586,748)	681,809	1,268,557
	OTHER FINANCING SOURCES (USES):				
7915	Transfers In	-	807,692	739,769	(67,923)
8911	Transfers Out (Use)	-	(882,692)	(703,024)	179,668
8949	Other (Uses)	-	-	(94,869)	(94,869)
7080	Total Other Financing Sources (Uses)	-	(75,000)	(58,124)	16,876
1200	Net Change in Fund Balances	(193,512)	(661,748)	623,685	1,285,433
0100	Fund Balance - September 1 (Beginning)	2,783,286	2,783,286	2,783,286	-
3000	Fund Balance - August 31 (Ending)	$ 2,589,774	$ 2,121,538	$ 3,406,971	$ 1,285,433

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
81	Facilities Acquisition and Construction	$ 265,091	$ 301,053	$ (35,962)

Although the District did budget for the VAV-Box related expenditure, it was done so in function 51 and not function 81.

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OTHER SCHEDULES

SANTA ROSA ISD
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2011

Last 10 Years Ended August 31		(1) Tax Rates Maintenance	(2) Tax Rates Debt Service	(3) Assessed/Appraised Value for School Tax Purposes
2002	and prior years	Various	Various	$ Various
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		1.060000	0.233000	69,940,046
2011	(School year under audit)	1.040000	0.332220	68,070,681
1000	TOTALS			

(10) Beginning Balance 9/1/2010	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2011
$ 38,275	$ -	$ 1,655	$ 126	$ (674)	$ 35,820
6,964	-	656	72	(198)	6,038
12,166	-	1,921	210	(684)	9,351
11,058	-	1,764	193	(298)	8,802
14,129	-	3,247	356	(28)	10,498
20,818	-	5,333	642	(25)	14,818
26,468	-	7,002	1,495	(20)	17,951
59,556	-	18,204	5,111	783	37,024
106,605	-	48,749	10,716	665	47,805
-	909,488	602,724	192,536	(2,804)	111,424
$ 296,039	$ 909,488	$ 691,255	$ 211,456	$ (3,283)	$ 299,533

SANTA ROSA ISD
SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2012-2013
GENERAL AND SPECIAL REVENUE FUNDS
AUGUST 31, 2011

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	$ -	$ -	$ 161,077	$ 244,723	$ -	$ -	$ 405,800
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	27,778	-	-	-	27,778
6212	Audit Services	-	-	-	22,000	-	-	22,000
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	19,232	-	-	-	-	19,232
621X	Other Professional Services	-	-	40,320	3,500	-	-	43,820
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	16,500	-	-	16,500
6240	Contr. Maint. and Repair	-	-	-	250	-	-	250
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	3,855	7,611	-	-	11,466
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	1,253	-	6,539	13,604	-	-	21,396
6410	Travel, Subsistence, Stipends	11,810	-	8,758	5,504	-	-	26,072
6420	Ins. and Bonding Costs	-	-	-	-	-	-	-
6430	Election Costs	5,416	-	-	-	-	-	5,416
6490	Miscellaneous Operating	2,365	-	35,726	14,037	-	-	52,128
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	$ 20,844	$ 19,232	$ 284,053	$ 327,729	$ -	$ -	$ 651,858

Total expenditures/expenses for General and Special Revenue Funds:			(9) $	13,753,165
LESS: Deductions of Unallowable Costs				
FISCAL YEAR				
Total Capital Outlay (6600)	(10) $	952,802		
Total Debt & Lease(6500)	(11)	272,493		
Plant Maintenance (Function 51, 6100-6400)	(12)	1,634,250		
Food (Function 35, 6341 and 6499)	(13)	367,412		
Stipends (6413)	(14)	1,500		
Column 4 (above) - Total Indirect Cost		327,729		
SubTotal:				3,556,186
Net Allowed Direct Cost				$ 10,196,979
CUMULATIVE				
Total Cost of Buildings before Depreciation (1520)			(15) $	31,075,622
Historical Cost of Building over 50 years old			(16) $	5,000
Amount of Federal Money in Building Cost (Net of #16)			(17) $	-
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)			(18) $	2,591,375
Historical Cost of Furniture & Equipment over 16 years old			(19) $	-
Amount of Federal Money in Furniture & Equipment (Net of #19)			(20) $	-

(8) NOTE A: $15,500 in Function 53 expenditures are included in this report on administrative costs.
$9,816 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

SANTA ROSA ISD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2011

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	$ 205,522	$ 205,522	$ 218,240	$ 12,718
5800	State Program Revenues	898,858	898,858	907,461	8,603
5020	Total Revenues	1,104,380	1,104,380	1,125,701	21,321
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long Term Debt	324,324	324,324	324,324	-
0072	Interest on Long Term Debt	778,056	778,056	778,054	2
0073	Bond Issuance Cost and Fees	2,000	2,000	850	1,150
6030	Total Expenditures	1,104,380	1,104,380	1,103,228	1,152
1200	Net Change in Fund Balances	-	-	22,473	22,473
0100	Fund Balance - September 1 (Beginning)	85,806	85,806	85,806	-
3000	Fund Balance - August 31 (Ending)	$ 85,806	$ 85,806	$ 108,279	$ 22,473

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FEDERAL AWARDS SECTION

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

To the Board of Trustees
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, 2011, which collectively comprise Santa Rosa Independent School District's basic financial statements and have issued our report thereon dated January 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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.

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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 11-1.

We noted certain other matters that we reported to management of Santa Rosa Independent School District in a separate letter dated January 11, 2012.

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 11, 2012

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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, 2011. 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, 2011. 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 11-2.

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 11, 2012

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SANTA ROSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2011

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?	_____ yes	__X__ 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
	Child Nutrition Cluster:
10.553	School Breakfast Program
10.555	National School Lunch Program
10.559	Summer Feeding Program
84.388	Title I, SIP Academy Grant - ARRA
84.410	Education Jobs Fund
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: (11-1)	**Expenditures in Excess of Budget Appropriations**
General	
Condition Found:	As indicated in the notes to the District's financial statements, we noted one instance 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 one functional expenditure category. However, this variance was a direct result of a reclassification entry made to reclassify an expenditure from Function 51 to 81.
Effect:	The District could incur expenditures that are not budgeted. In this case, the District did budget for the expenditure, but it was done so in Function 51 instead of 81.
Recommendation:	The District has made every effort to ensure that expenditures, at a functional level, do not exceed budgeted amounts. It should continue to do so and make any budget amendments as necessary.

Total all questioned costs	$ -

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

PROGRAM DESCRIPTION	DESCRIPTION
Schedule Reference Number: (11-2)	**Campus Improvement Plans**
Title I, Part A (84.010)	
Condition Found:	We noted that the Elementary and Middle School plans do not include all of the core elements and components required under "Schoolwide".
Criteria:	Campuses running a schoolwide program must include the core elements and components in their Plans.
Questioned Costs/Basis:	Not applicable
Context:	Not applicable
Effect:	The Campus may not be in compliance with the school-wide program.
Recommendation:	The District should revise its Campus Improvement Plans to include all required core elements and components under "Schoolwide".

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
SCHEDULE OF STATUS OF PRIOR FINDINGS
YEAR ENDED AUGUST 31, 2011

PROGRAM DESCRIPTION	STATUS OF PRIOR YEAR'S FINDING/COMPLIANCE
Schedule Reference Number: (10-1)	**Allocated State Program Revenue** No additional corrective action is necessary.
Schedule Reference Number: (10-2)	**Expenditures in Excess of Budget Appropriations** No additional corrective action is necessary.
Schedule Reference Number: (10-3)	**Time and Effort Documentation** No additional corrective action is necessary.

PROGRAM DESCRIPTION	CORRECTIVE ACTION PLAN
Schedule Reference Number: (11-1)	**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: (11-2)	
General	**Campus Improvement Plans**
Corrective Action Plan:	These items have been corrected under the current campus improvement plans.
Contact Person:	Hilda Rendon Business Manager
Implementation Time Frame:	Within the next fiscal year

SANTA ROSA ISD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2011

(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*	1141200087110213	$ 76,697
Adult Education (ABE) - Federal	84.002	1241200087110213	2,960
Total CFDA Number 84.002			79,657
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	12615001031914	42,773
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	11615001031914	901,156
Total CFDA Number 84.010A			943,929
*ESEA, Title I, A - ARRA -Improving Basic Programs	84.389	10551001031914	82,893
Total Title I, Part A Cluster			1,026,822
ESEA, Title I, Part C - Migratory Children	84.011	12615001031914	12,843
ESEA, Title I, Part C - Migratory Children	84.011	11615001031914	86,092
Total CFDA Number 84.011			98,935
*IDEA, Part B, Formula - ARRA	84.391	10554001245903	172,181
Career and Technical - Basic Grant	84.048	11420006031914	34,479
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287	116950137110039	496,782
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287	126950137110039	34,402
Total CFDA Number 84.287			531,184
*Title II, Part D -Enhancing Ed Through Technology	84.318	000276022893	1,596
*Title II D Enhancing Ed Through Technology - ARRA	84.386	105536001031914	5,459
Total Educational Technology State Grants Cluster			7,055
GEAR UP	84.334S	514532	103,085
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	11696001031914	6,845
Title III, Part A - English Language Acquisition	84.365A	129671001031914	9,720
Title III, Part A - English Language Acquisition	84.365A	119671001031914	18,715
Total CFDA Number 84.365A			28,435
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	129694501108950	6,251
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	119694501108950	76,689
Total CFDA Number 84.367A			82,940
Title I SIP Academy Grant - ARRA	84.388	105520017110058	570,310
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394	10557001031914	622,109
Education Jobs Fund	84.410	11550101031914	236,019
Total Passed Through State Department of Education			$ 3,600,056
TOTAL DEPARTMENT OF EDUCATION			$ 3,600,056
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through the State Department of Agriculture			
*School Breakfast Program	10.553		$ 300,438
*National School Lunch Program - Cash Assistance	10.555		452,981
*National School Lunch Prog. - Non-Cash Assistance	10.555		38,000
Total CFDA Number 10.555			490,981
*Summer Feeding Program - Cash Assistance	10.559		24,966
Total Child Nutrition Cluster			816,385
Total Passed Through the State Department of Agriculture			$ 816,385

EXHIBIT K-1

SANTA ROSA ISD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2011

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
TOTAL DEPARTMENT OF AGRICULTURE			$ 816,385
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 4,416,441

*Clustered Programs

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2011

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	$4,708,748
Less amounts not considered to be federal awards, excluded on the Schedule of Expenditures of Federal Awards:	
School Health and Related Service Program (SHARS)	154,771
Indirect costs	137,536
Total expenditures of federal awards, per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	$4,416,441

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2011

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?	$225,980

MEMORANDUM OF ADVISORY COMMENTS

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

August 31, 2011

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
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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, 2011, 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 11, 2012, 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 assist 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 11, 2012

COMMENTS AND OBSERVATIONS

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

Stale Checks

In the process of reviewing bank reconciliations, we noted several stale checks in the student activity account that have been outstanding for almost two years. We recommend that the District investigate these stale checks and take appropriate action as required in accordance with State escheat laws.

Maintenance of Detailed Capital Assets Schedule

The District's monthly accounting process should include maintenance of detailed capital assets records that are reconciled to the general ledger on a monthly basis. Currently, the District does not maintain a detailed capital asset schedule. The District should establish formal policies and procedures that require the maintenance of detailed capital asset records and a reconcilement of these records to the general ledger on a monthly basis. These records should also include a system whereas the District can easily identify items that have been purchased with Federal funds.

Journal Entries

During our audit, we selected a sample of journal entries made through the year for our review; however, we noted that although a signature of the preparer is included, there is no evidence that the entries are reviewed or approved by supervisory personnel. We recommend that the District establish a written procedure requiring that all adjusting journal entries made into the accounting system be formally reviewed for accuracy and propriety and approved before posting into the accounting records. We believe that the initials of the approving person, other than the preparer, on the related documents should be used as evidence of review and approval, and supporting documentation for each adjustment should be filed with the journal voucher package.

Review Deferred Revenue Accounts

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

Excluded Parties Listing System

While performing Single Audit procedures, we became aware that the District does not verify whether vendors are on the excluded parties listing system. This verification is of the utmost importance because non-Federal entities are prohibited from doing business with parties that are suspended or debarred or whose principals are suspended or debarred. We recommend that the District verify that vendors are not listed prior to any purchases being initiated.