SANTA ROSA
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT
AND
COMPLIANCE REPORT

FOR THE YEAR ENDED AUGUST 31, 2013

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
Santa Rosa, Texas
Year Ended August 31, 2013

TRUSTEES

Raul Garza - President

Hector Lumbrera - Vice-President

Sandra Rickford - Secretary

James Robert Mendoza

Leah Theys

Danny Theys

Arnulfo Castaneda

SUPERINTENDENT

Heriberto Villarreal

BUSINESS MANAGER

Hilda Rendon

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED AUGUST 31, 2013

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INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

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

We the undersigned, do hereby certify that the attached annual financial reports of the above named school district were reviewed and 5 approved -- 0 disapproved for the year ended August 31, 2013 at a meeting of the board of school trustees of such school district on the 22nd day of January, 2014.

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

402 East Tyler
Harlingen, Texas 78550
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Fax (956) 428-7520
www.longchilton.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Santa Rosa Independent School District

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Rosa Independent School District, as of August 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note B to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board ("GASB") Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 17–24 and 58-59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Santa Rosa Independent School District's basic financial statements. The introductory section and the accompanying financial information listed as Texas Education Agency Required Schedules in the table of contents are presented in accordance with requirements of the Texas Education Agency for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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The Texas Education Agency Required Schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Education Agency Required Schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2014, on our consideration of the Santa Rosa Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Rosa Independent School District's internal control over financial reporting and compliance.

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 16, 2014

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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, 2013. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was $18,084,343 at August 31, 2013. Net position increased by $1,170,427 from the prior year.
- The general fund reported a fund balance this year of $5,263,186, which is an increase of $648,976 over the prior year.
- The District received an above standard rating for the Financial Integrity Reporting System of Texas (FIRST) for 2013. This rating evaluates quality of performance in the management of the school district's financial resources.

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

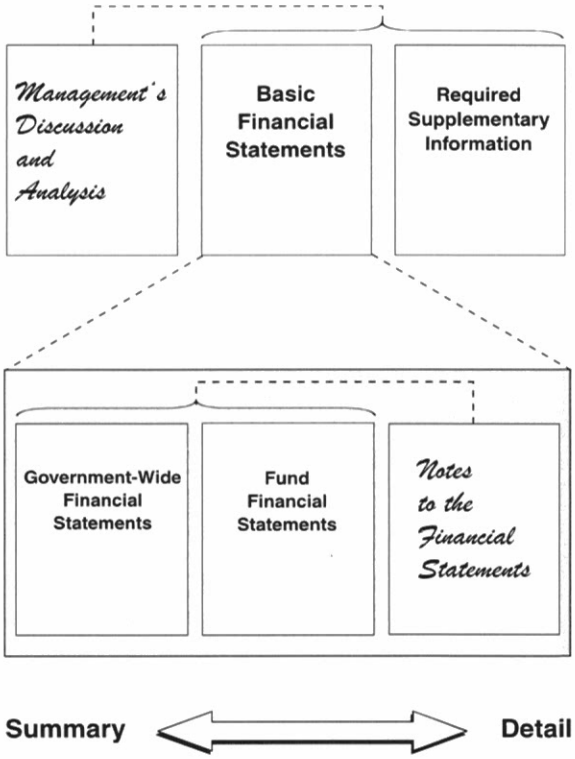


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents 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 position includes all of the government's assets, deferred outflows, liabilities, deferred inflows, with the difference of total assets and deferred outflows from total assets and deferred inflows being the net position. 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 position and how they have changed. Net position—the difference between the District's assets and deferred outflows from liabilities and deferred inflows—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's Net position 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.

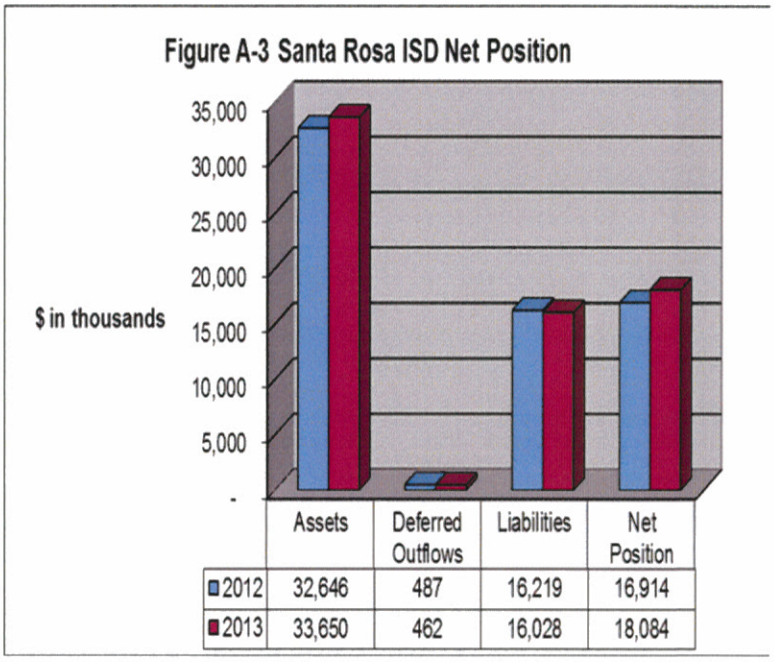
Fiduciary funds—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary Net position and a statement of changes in fiduciary Net position. 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 position were $18,084,343 as of August 31, 2013, an increase of 6.9%. (See Table A-1).

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

	Governmental Activities	
	2013	Restated* 2012
Current & other assets	$ 6,410	$ 5,506
Capital assets	27,240	27,140
Total assets	**$ 33,650**	**$ 32,646**
Deferred charge for refunding	462	487
Total deferred outflows of resources	**462**	**487**
Current liabilities	792	638
Long-term liabilities	15,236	15,581
Total liabilities	**16,028**	**16,219**
Net Position:		
Net investment in capital assets	12,302	11,882
Restricted	165	313
Unrestricted	5,617	4,719
Total Net Position	**$ 18,084**	**$ 16,914**



*As a result of implementing GASBS No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and Statement No. 65 *Items Previously Reported as Assets and Liabilities,* The District restated beginning net position in the government-wide Statement of Activities, resulting in capitalized bond issue costs of $228,488 being removed from 2012 assets and net position, and portions of long term debt being reclassified as deferred charge for refunding.

Net position 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 $18,084,343 at the close of August 31, 2013.

A portion of the Santa Rosa ISD's Net position (68%) 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. Santa Rosa ISD uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although 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 position (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted Net position ($5,616,807) may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities

- Property tax rates remained at 1.3722/$100; property taxable values increased by 3.0 % from the prior year.
- The cost of all governmental activities this year was $15,264,459, an increase of $1,265,156.
- Some of the cost was paid by those who directly benefited from the programs $218,650 or by grants and contributions $4,232,777.

Table A-2

Changes in Santa Rosa Independent School District's Net position

(in thousands of dollars)

	Governmental Activities	
	2013	2012
Program Revenues:		
Charges for Services	$ 219	$ 135
Operating Grants and Contributions	4,233	4408
General Revenues		
Property Taxes	918	806
State Aid – Formula	9,526	8,853
Grants and Contributions not Restricted	1,386	1,050
Investment Earnings	5	5
Other	148	140
Total Revenues	16,435	15,397
Instruction	7,011	6,608
Instructional Resources and Media Services	129	125
Curriculum Dev. And Instructional Staff Dev	239	201
Instructional Leadership	474	486
School Leadership	536	521
Guidance, Counseling and Evaluation Services	449	351
Social Work Services	38	45
Health Services	144	156
Student (Pupil) Transportation	325	257
Food Services	894	777
Curricular/Extracurricular Activities	1,009	812
General Administration	702	696
Plant Maintenance & Operations	1,914	1,640
Security & Monitoring Services	92	68
Data Processing Services	284	187
Community Services	185	189
Debt Service – Interest on Long-Term Debt	791	831
Payments Related to Shared Services Arrangements	39	40
Payments Related to Juvenile Justice Alt. Ed. Prg.	-	-
Other Intergovernmental Charges	10	9
Total Expenses	$ 15,265	$ 13,999
Increase (Decrease) in Net position	$ 1,170	$ 1,176

Figure A-4 Santa Rosa ISD Expenses FY 2012 - 2013

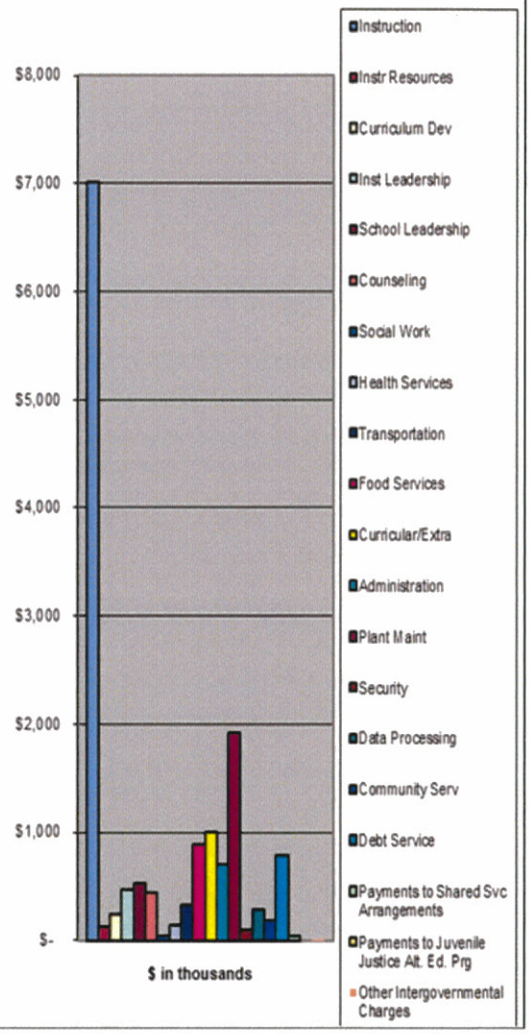


Figure A-5 Sources of Revenues for FY 2012-2013

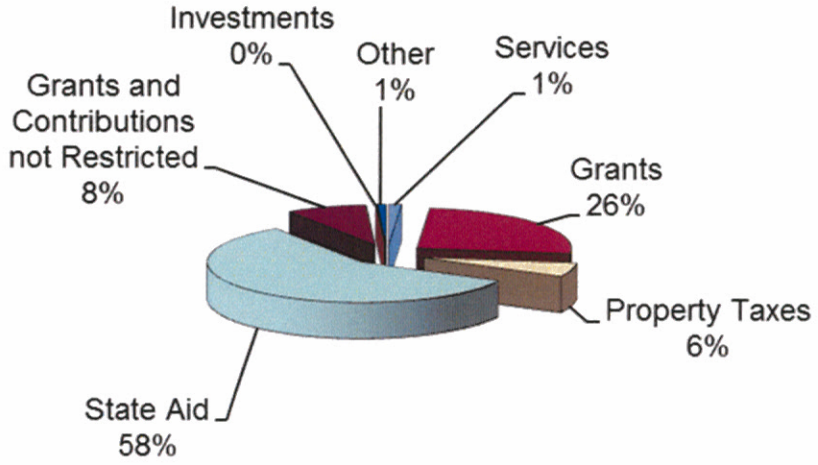


Table A-3 presents the cost of each of the District's largest functions/programs as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

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

	Total Cost of Services		% Change	Net Cost (Income) of Services		% Change
	2013	2012		2013	2012	
Instruction	$7,011	$6,608	6.10%	$4,719	$4,282	10.21%
School administration	536	521	2.88%	491	480	2.30%
Food Services	894	777	15.06%	125	(142)	188.03%
Plant Maintenance & Operations	1,914	1,640	16.71%	1,880	1,608	16.92%

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 $5,263,186 as of August 31, 2013. It increased by $648,976 during the current fiscal year; an increase of 14.06%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the District had invested $27,240,775 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 0.4% 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	
	2013	2012
Land	$305	$305
Buildings and improvements	31,945	31,558
Furniture & Equipment	3,725	3,072
Totals at historical cost	**35,975**	**34,935**
Total accumulated depreciation	8,734	7,795
Net capital assets	**$27,241**	**$27,140**

Long-Term Debt

At year-end the District had $12,880,000 in General Obligation Bonds as shown in Table A-5. Of this amount, $560,000 is due within the next year. The total long-term debt outstanding as of August 31, 2013 is $15,236,112. More detailed information about the District's debt is presented in the notes to the financial statements.

The District's current underlying credit rating is "AAA" by Fitch based on a guaranty provided by the Texas Permanent School Fund (PSF), whose bond guaranty program is rated "AAA" by Fitch.

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

General Obligation Bonds	Governmental Activities 2013	2012
Bonds – Series 2001	$ 225	$ 335
Bonds – Refunding Series 2007	8,565	8,583
Bonds – Series 2008	4,090	4,185
Total General Obligation Bonds	**12,880**	**13,103**
Capital Lease	$ 1,776	$ 1,667
Premium on issuance of Bonds	526	555
Accrued Interest on CAB Bonds	-	192
Deferred loss on bond refunding	-	-
Compensated Absences	54	64
Total Long-Term Debt*	**$ 15,236**	**$ 15,581**

**Note: prior year long term debt included $(487) of deferred loss on refunding as a component of long term debt. Under GASBS No. 65 it is now considered a deferred outflow of resources.*

Fund Balances

GASB Statement 54 establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides 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, 2013, the District's governmental funds reported ending fund balances of $5,379,825. The unassigned fund balance of $5,206,488 or 97% of the total fund balance 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.

- $8,366 is recorded as non-spendable for inventories and prepaid items;
- $164,971 is recorded as Restricted; $48,332 in food service, $56,660 in debt service, and 59,979 in capital projects
- $5,206,488 is the remaining fund balance and is recorded as Unassigned.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District revised its budget numerous times during the year, resulting in overall budgeted appropriations of $13,099,702, resulting in a budgeted decrease in fund balance of $1,256,770. Actual expenditures were $1,543,855 below final budgeted amounts, resulting in a positive change in fund balance of $648,976. The positive variances resulted mostly from transactions which were budgeted for but for which actual expenditures were not incurred. Encumbrances related to these transactions were appropriately provided for in the 2014 fiscal year budget. Some of the more notable variances are:

- Variances in student transportation resulted from planned purchases for 2013 not actually occurring until fiscal 2014.
- Instructional staffing variances occurred because certain positions were budgeted for but the expenditures were not incurred.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2014 budget preparation is up $1,710,243 from 2013.
- General operating fund spending per student increases in the 2014 budget from $9,273 to $9,453, a 1.9% increase.
- The District's 2014 refined average daily attendance is expected to be 1,107; up .5% from last year.

These indicators were taken into account when adopting the general fund budget for 2014. Expenditures as budgeted are $12,958,332, an increase of 12.1% from 2012-2013 actual expenditures. If these estimates are realized, the District's budgetary general fund balance is expected to remain the same due to enrollment changes being less than 1 percent and spending per student also being less than 1%.

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

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BASIC

FINANCIAL STATEMENTS

SANTA ROSA ISD
STATEMENT OF NET POSITION
AUGUST 31, 2013

Data Control Codes		Governmental Activities
	ASSETS	
1110	Cash and Cash Equivalents	$ 4,933,688
1220	Property Taxes Receivable (Delinquent)	290,350
1230	Allowance for Uncollectible Taxes	(29,035)
1240	Due from Other Governments	1,206,641
1300	Inventories	8,366
	Capital Assets:	
1510	Land	305,271
1520	Buildings, Net	25,519,691
1530	Furniture and Equipment, Net	1,415,813
1000	Total Assets	33,650,785
	DEFERRED OUTFLOWS OF RESOURCES	
1701	Deferred Charge for Refunding	461,883
1700	Total Deferred Outflows of Resources	461,883
	LIABILITIES	
2110	Accounts Payable	371,516
2160	Accrued Wages Payable	275,418
2180	Due to Other Governments	142,686
2190	Due to Student Groups	2,593
	Noncurrent Liabilities	
2501	Due Within One Year	739,415
2502	Due in More Than One Year	14,496,697
2000	Total Liabilities	16,028,325
	NET POSITION	
3200	Net Investment in Capital Assets	12,302,565
3820	Restricted for Federal and State Programs	48,332
3850	Restricted for Debt Service	56,660
3860	Restricted for Capital Projects	59,979
3900	Unrestricted	5,616,807
3000	Total Net Position	$ 18,084,343

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

SANTA ROSA ISD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes		1	Program Revenues 3	4	Net (Expense) Revenue and Changes in Net Position 6
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government:					
	GOVERNMENTAL ACTIVITIES:				
11	Instruction	$ 7,010,870	$ 251	$ 2,291,595	$ (4,719,024)
12	Instructional Resources and Media Services	128,494	-	44,920	(83,574)
13	Curriculum and Staff Development	239,020	-	224,122	(14,898)
21	Instructional Leadership	473,605	-	444,086	(29,519)
23	School Leadership	536,257	-	44,850	(491,407)
31	Guidance, Counseling and Evaluation Services	448,347	93,480	129,605	(225,262)
32	Social Work Services	38,005	-	35,636	(2,369)
33	Health Services	143,684	-	42,138	(101,546)
34	Student (Pupil) Transportation	325,161	-	13,030	(312,131)
35	Food Services	894,329	90,210	679,400	(124,719)
36	Extracurricular Activities	1,009,340	34,709	18,742	(955,889)
41	General Administration	702,357	-	20,498	(681,859)
51	Facilities Maintenance and Operations	1,913,607	-	33,340	(1,880,267)
52	Security and Monitoring Services	92,057	-	3,755	(88,302)
53	Data Processing Services	284,064	-	33,231	(250,833)
61	Community Services	185,384	-	173,829	(11,555)
72	Debt Service - Interest on Long Term Debt	789,650	-	-	(789,650)
73	Debt Service - Bond Issuance Cost and Fees	900	-	-	(900)
93	Payments related to Shared Services Arrangements	39,392	-	-	(39,392)
99	Other Intergovernmental Charges	9,936	-	-	(9,936)
[TP]	TOTAL PRIMARY GOVERNMENT:	$ 15,264,459	$ 218,650	$ 4,232,777	(10,813,032)

Data Control Codes		
	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	782,882
DT	Property Taxes, Levied for Debt Service	135,459
SF	State Aid - Formula Grants	9,525,926
GC	Grants and Contributions not Restricted	1,386,426
IE	Investment Earnings	5,075
MI	Miscellaneous Local and Intermediate Revenue	147,691
TR	Total General Revenues	11,983,459
CN	Change in Net Position	1,170,427
NB	Net Position - Beginning, as Restated	16,913,916
NE	Net Position--Ending	$ 18,084,343

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

EXHIBIT C-1

SANTA ROSA ISD
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2013

Data Control Codes		10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
	ASSETS				
1110	Cash and Cash Equivalents	$ 4,377,910	$ 363,887	$ 191,891	$ 4,933,688
1220	Property Taxes - Delinquent	246,396	-	43,954	290,350
1230	Allowance for Uncollectible Taxes (Credit)	(24,640)	-	(4,395)	(29,035)
1240	Receivables from Other Governments	679,760	-	526,881	1,206,641
1260	Due from Other Funds	513,387	-	3,790	517,177
1300	Inventories	8,366	-	-	8,366
1000	Total Assets	$ 5,801,179	$ 363,887	$ 762,121	$ 6,927,187
	LIABILITIES				
2110	Accounts Payable	$ 65,936	$ 303,908	$ 1,672	$ 371,516
2160	Accrued Wages Payable	263,596	-	11,822	275,418
2170	Due to Other Funds	3,790	-	513,387	517,177
2180	Due to Other Governments	-	-	142,686	142,686
2190	Due to Student Groups	2,593	-	-	2,593
2000	Total Liabilities	335,915	303,908	669,567	1,309,390
	DEFERRED INFLOWS OF RESOURCES				
2601	Unavailable Revenue - Property Taxes	202,078	-	35,894	237,972
2600	Total Deferred Inflows of Resources	202,078	-	35,894	237,972
	FUND BALANCES				
	Nonspendable Fund Balance:				
3410	Inventories	8,366	-	-	8,366
	Restricted Fund Balance:				
3450	Federal or State Funds Grant Restriction	48,332	-	-	48,332
3480	Retirement of Long-Term Debt	-	-	56,660	56,660
3490	Other Restricted Fund Balance	-	59,979	-	59,979
3600	Unassigned Fund Balance	5,206,488	-	-	5,206,488
3000	Total Fund Balances	5,263,186	59,979	56,660	5,379,825
4000	Total Liabilities, Deferred Inflows & Fund Balances	$ 5,801,179	$ 363,887	$ 762,121	$ 6,927,187

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

SANTA ROSA ISD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
AUGUST 31, 2013

	Total Fund Balances - Governmental Funds	$	5,379,825
1	Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $34,935,116 and the accumulated depreciation was $7,795,350. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation), long-term debt and deferred outflows of resources in the governmental activities is to increase (decrease) net position.		12,045,664
2	Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements,but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2013 capital outlays, debt principal payments, and other changes in long term debt and deferred outflows is to increase (decrease) net position.		1,359,901
3	The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(939,019)
4	Property taxes receivable but unavailable to pay for current period expenditures are unavailable revenue (deferred inflows of resources) in the governmental funds.		237,972
19	**Net Position of Governmental Activities**	$	18,084,343

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, 2013

Data Control Codes		10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 1,065,315	$ 369	$ 155,345	$ 1,221,029
5800	State Program Revenues	9,882,734	-	1,061,765	10,944,499
5900	Federal Program Revenues	1,046,717	-	3,149,234	4,195,951
5020	Total Revenues	11,994,766	369	4,366,344	16,361,479
	EXPENDITURES:				
	Current:				
0011	Instruction	4,857,888	-	2,073,575	6,931,463
0012	Instructional Resources and Media Services	78,697	-	41,788	120,485
0013	Curriculum and Instructional Staff Development	-	-	224,122	224,122
0021	Instructional Leadership	-	-	444,086	444,086
0023	School Leadership	479,398	-	23,435	502,833
0031	Guidance, Counseling and Evaluation Services	303,499	-	116,903	420,402
0032	Social Work Services	-	-	35,636	35,636
0033	Health Services	97,306	-	37,422	134,728
0034	Student (Pupil) Transportation	346,875	-	-	346,875
0035	Food Services	989,447	-	24,910	1,014,357
0036	Extracurricular Activities	952,103	-	-	952,103
0041	General Administration	658,580	-	-	658,580
0051	Facilities Maintenance and Operations	1,801,587	-	1,444	1,803,031
0052	Security and Monitoring Services	86,319	-	-	86,319
0053	Data Processing Services	245,656	-	28,808	274,464
0061	Community Services	-	-	173,829	173,829
	Debt Service:				
0071	Principal on Long Term Debt	101,149	-	222,984	324,133
0072	Interest on Long Term Debt	95,984	-	888,881	984,865
0073	Bond Issuance Cost and Fees	-	-	900	900
	Capital Outlay:				
0081	Facilities Acquisition and Construction	412,031	828	-	412,859
	Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	39,392	-	-	39,392
0099	Other Intergovernmental Charges	9,936	-	-	9,936
6030	Total Expenditures	11,555,847	828	4,338,723	15,895,398
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	438,919	(459)	27,621	466,081
	OTHER FINANCING SOURCES (USES):				
7913	Capital Leases	210,057	-	-	210,057
7915	Transfers In	752,446	-	-	752,446
8911	Transfers Out (Use)	(752,446)	-	-	(752,446)
7080	Total Other Financing Sources (Uses)	210,057	-	-	210,057
1200	Net Change in Fund Balances	648,976	(459)	27,621	676,138
0100	Fund Balance - September 1 (Beginning)	4,614,210	60,438	29,039	4,703,687
3000	Fund Balance - August 31 (Ending)	$ 5,263,186	$ 59,979	$ 56,660	$ 5,379,825

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

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, 2013

Total Net Change in Fund Balances - Governmental Funds	$	676,138
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 2013 capital outlays and debt principal payments is to increase (decrease) net position.		1,559,375
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 position.		(939,019)
Certain property tax revenues are deferred in the funds. This is the change in those amounts for the current period.		73,408
Compensated absences are reported as amounts are earned in the Statement of Net Position but as amounts paid in the funds.		10,582
Lease proceeds provide current financial resources to government funds, but issuing debt increases the long term liabilities in the Statement of Net Positon.		(210,057)
Change in Net Position of Governmental Activities	$	1,170,427

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

SANTA ROSA ISD
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2013

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	$ 1,843	$ 33,220
Total Assets	1,843	$ 33,220
LIABILITIES		
Due to Student Groups	-	$ 33,220
Total Liabilities	-	$ 33,220
NET POSITION		
Restricted for Scholarships	1,843	
Total Net Position	$ 1,843	

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

SANTA ROSA ISD
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

	Private Purpose Trust Funds
Change in Net Position	-
Total Net Position - September 1 (Beginning)	1,843
Total Net Position - August 31 (Ending)	$ 1,843

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

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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 position 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.

Other Governmental Funds

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

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.

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

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 - Continued

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.

Unearned 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, 2012. 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 amortized cost which approximates 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

7. *Prepayments*

Prepayments are expenditures that will benefit periods beyond August 31, 2013. The District does not have any prepayments in the current year.

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*

GASB Statement No. 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 Statement No. 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 B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

16. *Deferred Outflows and Inflows of Resources*

The District adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net position applicable to a future reporting period.

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The District has an accounting loss on refunding bonds which is a deferred resource outflow and also has unavailable revenues from property taxes which are deferred resource inflows under this standard.

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 adhered to the requirements of the act. 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.

NOTE C - DEPOSITS AND INVESTMENTS - Continued

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 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

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

Cash Deposits

At August 31, 2013, the District's carrying amount had a balance of $448,408 (cash, certificates of deposit, and interest-bearing savings accounts) and the bank balance was $728,225. In addition to these cash and cash equivalents, the District maintains $4,520,343 in a government investment pool. The District's cash deposits at August 31, 2013 and during the year ended August 31, 2013 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, 2013 are maintained primarily at First National Bank of Edinburg. These deposits were entirely covered by FDIC insurance held by the District's agent bank. The deposits were collateralized in accordance with Texas Law, and the Texas Education Agency maintains copies of all safekeeping receipts in the name of the District. Deposits were properly secured at all times.

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

a. Name of Bank First National Bank of Edinburg, Texas.
b. Amount of bond and/or market value of securities pledged as of the date of the highest combined balance on deposit was $ -0- .
c. Largest cash, savings and time deposit combined account balance amounted to $3,703,117 and occurred during the month of November 2012.
d. Total amount of FDIC coverage at the time of largest combined balance was $3,703,117.

NOTE C - DEPOSITS AND INVESTMENTS - Continued

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	$4,520,343	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.

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	$4,520,343	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.

NOTE C - DEPOSITS AND INVESTMENTS - Continued

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 2012 tax rate was $1.170 for maintenance and $0.202 for debt service per $100 assessed valuation.

The 2012 assessed valuation was $69,683,751. 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, 2013 outstanding taxes in the general fund and debt service fund was $246,396 and $43,954 with a corresponding allowance for doubtful accounts of $24,640 and $4,395.

NOTE E - DUE TO AND FROM OTHER GOVERNMENTS AND AGENCIES

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

	Due To	Due From
General Fund		
Texas Education Agency:		
Foundation Revenues	$ -	$ 658,037
U. S. Department of Agriculture:		
School Breakfast Program/National Lunch Program	-	21,723
Other Governmental Funds		
Texas Education Agency:		
ESEA Title I, Part A	-	104,046
ESEA Title I, Part C	-	19,764
Gear up Grant	-	32,228
Title I, SIP Academy Grant	-	251,480
Student Success Initiative	-	2,848
ESEA Title II, Part A	-	35,997
Adult Education – English Literacy	-	11,604
Title IV, Part B – 21st Century Community Learning Center	-	65,945
Career and Technical – Basic Grant	-	122
Title III, Part A – English Language Acquisition	-	82
State Textbook Fund	13,326	-
Existing Debt Allotment	129,360	-
U. S. Department of Agriculture:		
Summer Feeding Program	-	2,765
Total due to/from other governments and agencies	$142,686	$1,206,641

NOTE F - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at August 31, 2013 were:

Due to	Due From	
Nonmajor governmental funds	General fund	$ 3,790
General fund	Nonmajor governmental funds	513,387
		$517,177

The balances resulted primarily from amounts paid out of the general fund for activities in special revenue funds for which cash has not yet been collected in the special revenue fund. All amounts are scheduled to be repaid within one year.

NOTE G – DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2013, were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Total Receivables
Governmental Activities:				
General Fund	$246,396	$ 679,760	$513,387	$ 926,156
Nonmajor Governmental Funds	43,954	526,881	3,790	574,625
Total Governmental Activities	$290,350	$1,206,641	$517,177	$1,500,781
Amounts not scheduled for collection during the subsequent year	$ -	$ -	$ -	$ -

Payables at August 31, 2013, were as follows:

	Accounts Payable	Salaries and Benefits	Due to Other Funds	Total Payables
Governmental Activities:				
General Fund	$ 65,936	$263,596	$ 3,790	$333,397
Capital Projects Fund	303,908	-	-	303,908
Nonmajor Governmental Funds	1,672	11,822	513,387	13,495
Total Governmental Activities	$371,516	$275,418	$517,177	$650,800
Amounts not scheduled for collection during the subsequent year	$ -	$ -	$ -	$ -

NOTE H – CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2013, was as follows:

	Balance Sept. 1, 2012	Increase	Decrease	Transfers	Balance Aug. 31, 2013
Governmental activities					
Capital assets not being depreciated:					
Land	$ 305,271	$ -	$ -	$ -	$ 305,271
Total capital assets not being depreciated	305,271	-	-	-	305,271
Capital assets being depreciated:					
Buildings and improvements	31,557,431	387,368	-	-	31,944,799
Furniture and equipment	3,072,414	652,660	-	-	3,725,074
Total capital assets being depreciated	34,629,845	1,040,028	-	-	35,669,873
Less accumulated depreciation:					
Building and improvements	5,789,216	635,892	-	-	6,425,108
Furniture and equipment	2,006,134	303,127	-	-	2,309,261
Total accumulated depreciation	7,795,350	939,019	-	-	8,734,369
Total capital assets being depreciated, net	26,834,495	101,009	-	-	26,935,504
Governmental activities capital assets, net	$27,139,766	$ 101,009	$ -	$ -	$27,240,775

Depreciation was charged to the following functions:

Government Activities:	
11 – Instruction	$460,962
12 – Instructional Resources and Media Services	8,009
13 – Curriculum and Staff Development	14,898
21 – Instructional Leadership	29,519
23 – School Leadership	33,424
31 – Guidance, Counseling and Evaluation Services	27,945
32 – Social Work Services	2,369
33 – Health Services	8,956
34 – Student Transportation	23,057
35 – Food Services	67,426
36 – Cocurricular/Extracurricular Activities	63,288
41 – General Administration	43,777
51 – Plant Maintenance and Operations	119,851
52 – Security and Monitoring Services	5,738
53 – Data Processing Services	18,245
61 – Community Services	11,555
	$939,019

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, 2013 are as follows:

Governmental Activities	Beginning Balance 09/01/12	Increase	Decrease	Ending Balance 08/31/13	Due Within One Year
General Obligation Bonds					
Bond Series 2001	$ 335,000	$ -	$(110,000)	$ 225,000	$ 110,000
Bond Series 2007	8,565,000	-	-	8,565,000	355,000
Bond Series 2007 - CAB	17,984	-	(17,984)	-	-
Bond Series 2008	4,185,000	-	(95,000)	4,090,000	95,000
Total general obligation bonds	13,102,984	-	(222,984)	12,880,000	560,000
Premium on issuance – Refunding Bond Series 2007	541,010	-	(28,474)	512,536	-
Premium on issuance – Refunding Bond Series 2008	14,689	-	(565)	14,124	-
Accrued interest on CAB	191,736	145,855	(337,591)	-	-
Capital leases	1,666,709	210,057	(101,149)	1,775,617	179,415
Compensated absences	64,417	41,860	(52,442)	53,835	-
Total governmental activities	$15,581,545	$397,772	$(743,205)	$15,236,112	$ 739,415

General Obligation Bonds:

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.

$ 225,000

NOTE I - LONG-TERM OBLIGATIONS - Continued

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. $ 8,565,000

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. 4,090,000

Total general obligation bonds $12,880,000

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. $1,466,475

NOTE I - LONG-TERM OBLIGATIONS - Continued

During the year ended August 31, 2012, the District entered into a capital lease for an energy conservation system with Government Capital Corporation. The capital lease is payable in 20 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 on March 1, 2021.	$ 99,087
During the year ended August 31, 2013, the District entered into a capital lease for computer lab equipment which is operated as one system in a computer lab. Payments are due in 3 annual installments. The lease is secured by the lab equipment and matures on September 1, 2015.	210,057
Total	$1,775,619

Debt service requirements on long-term debt at August 31, 2013 are as follows:

Year Ending	Bonds Payable		Capital Lease		Total
August 31,	Principal	Interest	Principal	Interest	Requirement
2014	$ 560,000	$ 543,946	$ 179,415	$ 91,654	$ 1,375,015
2015	585,000	521,828	180,752	90,317	1,377,897
2016	615,000	498,113	190,734	80,335	1,384,182
2017	640,000	473,906	127,336	69,797	1,311,039
2018	665,000	448,700	130,615	62,252	1,306,568
2019-2023	3,475,000	1,822,688	966,767	204,989	6,469,443
2024-2028	2,945,000	1,181,034	-	-	4,126,034
2029-2033	2,175,000	664,713	-	-	2,839,713
2034-2038	1,220,000	198,713	-	-	1,418,713
	$12,880,000	$6,353,641	$1,775,619	$599,344	$21,608,603

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 Funds	Total Governmental Funds
Property taxes	$ 801,330	$ -	$ 141,069	$ 942,399
Food sales	85,532	-	4,678	90,210
Investment income	3,991	369	715	5,075
Penalties, interest and other tax-related income	46,022	-	8,883	54,905
Co-curricular student activities	34,709	-	-	34,709
Other	93,731	-	-	93,731
Total government activities	$1,065,315	$ 369	$ 155,345	$1,221,029

NOTE K – DEFERRED INFLOWS OF RESOURCES

Unavailable revenues from property taxes in the general fund and the debt service fund at August 31, 2013 were $202,078 and $35,894 respectively.

At the government-wide financial statements (Exhibit A-1), the District reports cumulative deferred charges on refundings as a Deferred Outflows of Resources in the amount of $461,883.

NOTE L - GENERAL FUND FEDERAL SOURCE REVENUES

Programs or Source	CFDA Number	Amount
School Breakfast Program	10.553	$ 149,341
National School Lunch Program	10.555	465,466
USDA – Donated Commodities	10.565	35,205
Indirect Costs	Various	168,547
SHARS	-	228,158
		$1,046,717

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, 2013 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.

NOTE N - DEFINED BENEFIT PENSION PLAN - Continued

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 2013, 2012 and 2011, and state contribution rate of 6.4% for fiscal year 2013, 6% for fiscal year 2012, and 6.44% for fiscal year 2011. In certain instances, the reporting District is required to make all or a portion of the state's contribution.

State contributions to TRS made on behalf of the Santa Rosa Independent School District's employees for the years ended August 31, 2013, 2012 and 2011 were $352,389, $355,534, and $380,995, respectively. The Santa Rosa Independent School District paid additional state contributions for the years ended August 31, 2013, 2012 and 2011 in the amount of $35,221, $29,434, and $32,699, 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 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. 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. 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 0.5% and 0.65% of public school payroll, respectively, for fiscal year 2013 and 1.0% and 0.65% for fiscal years 2012 and 2011. School districts contribute a percentage of payroll set at 0.55% for fiscal years 2013, 2012 and 2011. 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, 2013, 2012, and 2011, the State's contributions to TRS-Care were $9,198, $17,532 and $21,136, respectively, the active member contributions were $48,322, $46,571 and $47,054 respectively, and the school district's contributions were $41,042, $39,405 and $39,815, respectively, which equaled the required contributions each year.

NOTE O - POSTEMPLOYMENT HEALTH BENEFITS FOR PUBLIC SCHOOL EMPLOYEES – Continued

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, 2013, 2012, and 2011, the subsidy payments received by TRS-Care on behalf of the District were $20,601, $18,532 and $16,271, respectively.

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependents regardless of age. This temporary program is available to help employers continue to provide coverage to early retirees. TRS has been certified for this program and has received funds from the ERRP program.

NOTE P - 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 2013, 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, 2013, 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.

NOTE P - RISK MANAGEMENT – Continued

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, 2012, the Fund carries a discounted reserve of $68,883,628 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2013, 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, 2012, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

NOTE Q - 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	$77,724
5930		
	Total revenue	$77,724
Expenditures		
6100	Payroll costs	$14,759
6200	Purchased and contracted services	25,928
6300	Supplies and materials	1,252
6400	Miscellaneous operating expenses	35,785
	Total expenditures	$77,724

NOTE R - 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.

There were no instances noted in which expenditures exceeded budgeted amounts at the functional level as detailed in the General Fund – Budgetary comparison Schedule (Exhibit G-1).

NOTE S – FUND BALANCES

The District has classified its fund balances according to GASB Statement No. 54, with the following hierarchy:

Nonspendable: The District has inventories of $8,366.

Spendable: The District has classified spendable fund balances as *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 Fund	Other Governmental Funds: Capital Projects	Other Governmental Funds: Other Funds	Total Governmental Funds
Fund balances				
Nonspendable				
Inventories				
Food service	$ 8,366	$ -	$ -	$ 8,366
Restricted				
Food service	48,332	-	-	48,332
Debt service	-	-	56,660	56,660
Capital projects	-	59,979	-	59,979
Unassigned	5,206,488	-	-	5,206,488
	$5,263,186	$ 59,979	$ 56,660	$5,379,825

NOTE T – ADJUSTMENT TO BEGINNING NET POSITION

Due to the early implementation of GASB 65, as discussed in Note B, most issuance costs for debt are no longer capitalized and amortized but rather expensed as incurred. This statement, then, requires the removal of deferred charges for issuance costs previously capitalized and reduces the beginning net position in the amount of $228,488.

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REQUIRED SUPPLEMENTARY

INFORMATION

EXHIBIT G-1

SANTA ROSA ISD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 1,076,142	$ 1,076,142	$ 1,065,315	$ (10,827)
5800	State Program Revenues	9,659,426	9,659,426	9,882,734	223,308
5900	Federal Program Revenues	1,107,364	1,107,364	1,046,717	(60,647)
5020	Total Revenues	11,842,932	11,842,932	11,994,766	151,834
	EXPENDITURES:				
	Current:				
0011	Instruction	4,755,067	5,281,955	4,857,888	424,067
0012	Instructional Resources and Media Services	83,498	83,498	78,697	4,801
0023	School Leadership	503,347	503,347	479,398	23,949
0031	Guidance, Counseling and Evaluation Services	316,620	316,620	303,499	13,121
0033	Health Services	119,729	119,729	97,306	22,423
0034	Student (Pupil) Transportation	333,778	597,528	346,875	250,653
0035	Food Services	832,364	1,046,364	989,447	56,917
0036	Extracurricular Activities	1,005,205	1,053,205	952,103	101,102
0041	General Administration	768,552	768,552	658,580	109,972
0051	Facilities Maintenance and Operations	1,970,554	2,119,304	1,801,587	317,717
0052	Security and Monitoring Services	98,216	98,216	86,319	11,897
0053	Data Processing Services	423,366	423,366	245,656	177,710
	Debt Service:				
0071	Principal on Long Term Debt	101,150	101,150	101,149	1
0072	Interest on Long Term Debt	95,986	95,986	95,984	2
	Capital Outlay:				
0081	Facilities Acquisition and Construction	370,000	425,382	412,031	13,351
	Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of	40,000	40,000	39,392	608
0095	Payments to Juvenile Justice Alternative Ed.	10,500	10,500	-	10,500
0099	Other Intergovernmental Charges	15,000	15,000	9,936	5,064
6030	Total Expenditures	11,842,932	13,099,702	11,555,847	1,543,855
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(1,256,770)	438,919	1,695,689
	OTHER FINANCING SOURCES (USES):				
7913	Capital Leases	-	-	210,057	210,057
7915	Transfers In	845,444	845,444	752,446	(92,998)
8911	Transfers Out (Use)	-	(845,444)	(752,446)	92,998
7080	Total Other Financing Sources (Uses)	845,444	-	210,057	210,057
1200	Net Change in Fund Balances	845,444	(1,256,770)	648,976	1,905,746
0100	Fund Balance - September 1 (Beginning)	-	4,614,210	4,614,210	-
3000	Fund Balance - August 31 (Ending)	$ 845,444	$ 3,357,440	$ 5,263,186	$ 1,905,746

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.

There were no instances in which expenditures exceeded budgeted amounts at the functional level as detailed in the General Fund – Budgetary comparison Schedule (Exhibit G-1).

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OTHER SUPPLEMENTARY

INFORMATION

SANTA ROSA ISD
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2013

Last 10 Years Ended August 31		(1) Tax Rates Maintenance	(2) Tax Rates Debt Service	(3) Assessed/Appraised Value for School Tax Purposes
2004	and prior years	Various	Various	$ Various
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		1.040000	0.332220	68,070,681
2012		1.170000	0.202200	67,645,946
2013	(School year under audit)	1.170000	0.202200	69,683,751
1000	TOTALS			

(10) Beginning Balance 9/1/2012	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2013
$ 39,032	$ -	$ 1,310	$ 125	$ (1,777)	$ 35,820
10,300	-	479	53	(3,477)	6,291
9,212	-	584	64	(306)	8,258
15,112	-	2,387	287	(1,700)	10,738
14,482	-	2,146	458	(1,374)	10,504
23,573	-	5,240	1,471	(1,564)	15,298
31,043	-	7,849	1,725	(521)	20,948
55,537	-	15,801	5,048	143	34,831
109,059	-	47,763	8,254	545	53,587
-	956,200	732,626	126,613	(2,886)	94,075
$ 307,350	$ 956,200	$ 816,185	$ 144,098	$ (12,917)	$ 290,350

SANTA ROSA ISD
SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2014-2015
GENERAL AND SPECIAL REVENUE FUNDS
AUGUST 31, 2013

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	$ -	$ -	$ 174,383	$ 216,023	$ -	$ -	$ 390,406
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	56,111	-	-	-	56,111
6212	Audit Services	-	-	-	29,700	-	-	29,700
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	19,877	-	-	-	-	19,877
6214	Lobbying	-	-	-	-	-	-	-
621X	Other Professional Services	-	-	682	21,693	-	-	22,375
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	27,642	-	-	27,642
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	5,659	9,530	-	-	15,189
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	1,790	-	6,483	12,830	-	-	21,103
6410	Travel, Subsistence, Stipends	15,327	-	9,005	9,599	-	-	33,931
6420	Ins. and Bonding Costs	-	-	-	-	-	-	-
6430	Election Costs	6,095	-	-	-	-	-	6,095
6490	Miscellaneous Operating	12,143	-	48,329	13,257	-	-	73,729
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	$ 35,355	$ 19,877	$ 300,652	$ 340,274	$ -	$ -	$ 696,158

Total expenditures/expenses for General and Special Revenue Funds:			(9)	$ 14,781,805
LESS: Deductions of Unallowable Costs				
FISCAL YEAR				
Total Capital Outlay (6600)	(10)	$ 1,039,200		
Total Debt & Lease(6500)	(11)	197,133		
Plant Maintenance (Function 51, 6100-6400)	(12)	1,790,158		
Food (Function 35, 6341 and 6499)	(13)	409,528		
Stipends (6413)	(14)	-		
Column 4 (above) - Total Indirect Cost		340,274		
SubTotal:				3,776,293
Net Allowed Direct Cost				$ 11,005,512
CUMULATIVE				
Total Cost of Buildings before Depreciation (1520)			(15)	$ 31,944,799
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)	$ 3,725,074
Historical Cost of Furniture & Equipment over 16 years old			(19)	$ -
Amount of Federal Money in Furniture & Equipment (Net of #19)			(20)	$ -

(8) NOTE A: $27,642 in Function 53 expenditures are included in this report on administrative costs.
$9,936 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, 2013

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	$ 155,308	$ 155,308	$ 150,667	$ (4,641)
5800	State Program Revenues	917,000	917,000	989,719	72,719
5020	Total Revenues	1,072,308	1,072,308	1,140,386	68,078
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long Term Debt	222,985	222,985	222,984	1
0072	Interest on Long Term Debt	888,882	888,882	888,881	1
0073	Bond Issuance Cost and Fees	2,000	2,000	900	1,100
6030	Total Expenditures	1,113,867	1,113,867	1,112,765	1,102
1200	Net Change in Fund Balances	(41,559)	(41,559)	27,621	69,180
0100	Fund Balance - September 1 (Beginning)	29,039	29,039	29,039	-
3000	Fund Balance - August 31 (Ending)	$ (12,520)	$ (12,520)	$ 56,660	$ 69,180

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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

We have audited, in accordance with the 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, the 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, 2013, and the related notes to the financial statements, which collectively comprise Santa Rosa Independent School District's basic financial statements, and have issued our report thereon dated January 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Santa Rosa Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Santa Rosa Independent School District's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain other matters that we reported to management of Santa Rosa Independent School District in a separate letter dated January 16, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 16, 2014

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Trustees
Santa Rosa Independent School District

Report on Compliance for Each Major Federal Program

We have audited Santa Rosa Independent School District's compliance with the types of compliance requirements described in the *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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Santa Rosa Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Santa Rosa Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Santa Rosa Independent School District, complied, in all material respects, with the types of 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, 2013.

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 13-1. Our opinion on each major federal program is not modified with respect to these matters.

Santa Rosa Independent School District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Santa Rosa Independent School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Santa Rosa Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Santa Rosa Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 13-1, that we consider to be a significant deficiency.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 16, 2014

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SANTA ROSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified	
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)?	__X__ yes	_____ no
Type of auditors' report issued on compliance for major programs:	Unmodified	
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*
84.287	Title IV, Part B - 21st Century Community Learning Centers
84.388	Title I, SIP Academy Grant - ARRA

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

No findings were reported in the current year.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

PROGRAM	DESCRIPTION
Schedule Reference Number: (13-1)	**Allowable Costs/Cost Principles**

U. S. Department of Education
CFDA 84.388 – Title I SIP Academy Grant ARRA

Criteria:	All costs charged to the grant must be made in accordance with the cost principles of OMB A-87. Charges for salaries and wages should be based on either a semi-annual certification or time and activity reports signed by the employee and reflect an after the fact distribution for the total activity for which each employee is compensated.
Condition Found:	One employee salary was re-allocated and charged to the grant after the end of the school year, but the semi-annual certification on file was not signed until after the end of the fiscal year. Two payroll transactions were noted where the employee signature was missing from the documentation to support the charge to the grant.
Questioned Costs/Basis:	None
Context:	One of six journal entries tested was to reclassify salary and wages for an employee who did not have semi-annual certifications on file when the journal entry was made. In addition, two payroll records tested out of 18 did not have the required employee signatures on the time and activity report. The job descriptions and descriptions of activities being performed by such employees appear to be for allowable activities, but due to the missing semi-annual certification and missing signatures they do not comply with OMB guidelines.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

PROGRAM	DESCRIPTION
Schedule Reference Number:	**Allowable Costs/Cost Principles - Continued**
Effect:	The payroll costs may not be documented in a manner which is fully in compliance with OMB guidelines. Without corrective action, other payroll costs could be charged to the grant and not be in compliance.
Recommendation:	We recommend that the District implement additional controls to verify re-allocations of payroll to grants by requiring that a copy of the semi-annual certification(s) or other supporting payroll activity reports be attached with the journal entry write up when it is submitted to the accountant for processing. In addition, all payroll charged to federal awards should be required to have the minimum OMB guidelines met prior to being paid out, which includes having the employee signature on it.

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
SCHEDULE OF STATUS OF PRIOR FINDINGS
YEAR ENDED AUGUST 31, 2013

No findings were reported in the prior year.

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2013

PROGRAM DESCRIPTION	CORRECTIVE ACTION PLAN
Schedule Reference Number: (13-1)	**Allowable Costs/Cost Principles**
CFDA 84.388 – Title I SIP Academy Grant ARRA	
Corrective Action Plan:	The District has taken the recommended measures to ensure that all required OMB guidelines are met prior to any pay outs. Forms have been updated to ensure all employee signatures are obtained.
Contact Person:	Hilda Rendon, Business Manager
Implementation Time Frame:	Ongoing

EXHIBIT K-1

SANTA ROSA ISD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2013

(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	134100087110516	$ 113,127
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	12610101031914	38,406
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	13610101031914	818,900
Total CFDA Number 84.010A			857,306
Total Title I, Part A Cluster			857,306
ESEA, Title I, Part C - Migratory Children	84.011	12615001031914	33,479
ESEA, Title I, Part C - Migratory Children	84.011	13615001031914	106,963
Total CFDA Number 84.011			140,442
Career and Technical - Basic Grant	84.048	13420006031914	23,877
Career and Technical - Basic Grant	84.048	14420006031914	1,006
Total CFDA Number 84.048			24,883
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287	126950147110053	379,228
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287	136950147110053	24,498
Total CFDA Number 84.287			403,726
GEAR UP	84.334S	P334A110180-12	78,988
Title III, Part A - English Language Acquisition	84.365A	12671001031914	3,357
Title III, Part A - English Language Acquisition	84.365A	13671001031914	13,594
Total CFDA Number 84.365A			16,951
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	129694501108950	16,749
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	139694501108950	60,975
Total CFDA Number 84.367A			77,724
Title I SIP Academy Grant - ARRA	84.388	105520017110058	1,415,856
Total Passed Through State Department of Education			$ 3,129,003
TOTAL DEPARTMENT OF EDUCATION			$ 3,129,003
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through the State Department of Agriculture			
*School Breakfast Program	10.553		$ 252,727
*National School Lunch Program - Cash Assistance	10.555		362,080
*National School Lunch Prog. - Non-Cash Assistance	10.555		35,205
Total CFDA Number 10.555			397,285
*Summer Feeding Program - Cash Assistance	10.559		20,232
Total Child Nutrition Cluster			670,244
Total Passed Through the State Department of Agriculture			$ 670,244
TOTAL DEPARTMENT OF AGRICULTURE			$ 670,244
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 3,799,247

*Clustered Programs

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2013

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 $168,547 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	$4,195,951
Less amounts not considered to be federal awards, excluded on the Schedule of Expenditures of Federal Awards:	
School Health and Related Service Program (SHARS)	228,157
Indirect costs	168,547
Total expenditures of federal awards, per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	$3,799,247

EXHIBIT K-3

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2013

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 unmodified 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?	$ -

MEMORANDUM OF ADVISORY COMMENTS

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

August 31, 2013

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

LONG CHILTON, LLP

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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, 2013, 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 16, 2014, 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 16, 2014

COMMENTS AND OBSERVATIONS

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

Improve accounting for and security of paper checks

While conducting tests of payroll, we noted that some check numbers printed on the check did not match the check number which was recorded in the ledger. Upon further investigation, it was found that paper check stock was mistakenly left in the printer and other reports were printed on those checks, resulting in those check numbers being effectively voided.

Due to time constraints on completing the payroll timely, the issue was not able to be resolved properly. This resulted in a series of payroll checks which cleared the bank with a check number different than what was recorded in the ledger. We recommend that paper check stock be adequately secured before and after all check runs, and that the check numbers be properly accounted for so that the bank ledgers match the recording in the accounting ledger.

Payroll documentation records, approval and review

In conducting general tests of payroll, one instance was noted where the required supervisory signature was not obtained. While testing payroll related to grants, we also noted that in two instances the employee had not signed the timesheet. To properly document that payroll records support the amounts paid as legitimate obligations of the District, we recommend that all time sheets/activity reports be signed by the employee involved and the immediate supervisor, at a minimum.

Documentation of salary for substitute teachers

Two instances were noted where substitute teachers were paid out of federal funds for substituting for a teacher not normally paid out of federal funds, but the documentation of the payroll did not include the reason why the charge to the federal grant was appropriate. Upon further investigation it was found that the teacher was absent in order to attend workshops and training sessions which were a part of a federally funded grant improvement activity meant to improve performance of all teachers in the campus. We recommend that in such cases, the payroll documentation include additional details to support the rationale for charging the amount to the federal program.

Record capital outlay and expenditures in accordance with TEA FASRG

Two instances were noted in our tests of capital outlay items where the object code used was "reserved for future state definition" according to the TEA FASRG. A reclassification was made so that the object code matched the TEA guidance. We recommend only using account coding which complies with the TEA approved classifications.