

GATESVILLE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the year ended
AUGUST 31, 2011

GATESVILLE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2011

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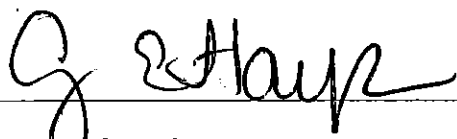
CERTIFICATE OF BOARD

Gatesville Independent School District
Name of School District

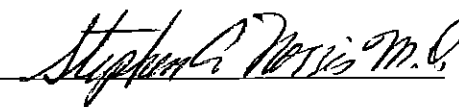
Coryell
County

050902
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2011 at a meeting of the Board of Trustees of such school district on the 12th day of December, 2011.



Signature of Board Secretary



Signature of Board President

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



Lott, Vernon & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

KILLEEN • COPPERAS COVE • TEMPLE

109 EAST AVENUE B
POST OFFICE BOX 935
KILLEEN, TEXAS 76540

254-526-0571
800-460-0571
FAX 254-526-7667

*Member of
American Institute & Texas Society of
Certified Public Accountants*

Independent Auditor's Report

Board of Trustees
Gatesville Independent School District
Gatesville, Texas 76528

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gatesville Independent School District (the district) as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 Gatesville Independent School District as of August 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated November 17, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit

performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 6 and 33 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Gatesville Independent School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management of Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Gatesville Independent School District. In addition, the combining and individual nonmajor fund financial statements and the TEA required schedules listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, combining and individual nonmajor fund financial statements and the TEA required schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America (except for Exhibit J-3, Fund Balance and Cash Flow Calculation Worksheet, which is marked **UNAUDITED** and on which we express no opinion). In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lott, Vernon & Company, P.C.

November 17, 2011

Management's Discussion and Analysis Gatesville Independent School District

In this section of the Annual Financial and Compliance Report, we, the managers of Gatesville Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2011. Please read it in conjunction with the independent auditors' report on page 1, and the District's Basic Financial Statements, which begin on page 7.

Using this annual report

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 7 and 8). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 9) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 15) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 7. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the District and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net assets and changes in them. The District's net assets (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, one should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 9 and provide detailed information about the most significant funds, not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the ESEA, Title I, Part A from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District has only governmental type funds.

Governmental Funds: Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and Statement of Revenues, Expenditures, and Changes in Fund Balance) and governmental funds in reconciliation schedules following each of the fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Fund Net Assets on pages 13 and 14. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets of the District's governmental activities increased from \$27.4 million to \$30.27 million. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, was \$16.3 million at August 31, 2011.

Table I
Gatesville Independent School District
Net Assets

	<u>2010</u>	<u>2011</u>	<u>% Change</u>
Current and Other Assets	\$15,537,693	\$17,843,184	14.838%
Capital and Non-current Assets	17,042,587	16,693,333	-2.049%
Total Assets	\$32,580,280	\$34,536,517	6.004%
Current Liabilities	\$1,261,097	\$1,053,860	-16.433%
Long Term Liabilities	3,904,474	3,208,797	-17.817%
Total Liabilities	\$5,165,571	\$4,262,657	-17.479%
Net Assets			
Invested in Capital Assets net of Related Debt	\$13,128,802	\$13,490,760	2.757%
Restricted	550,153	495,563	-9.923%
Unrestricted	13,735,755	16,287,537	18.578%
Total Net Assets	\$27,414,710	\$30,273,860	10.429%

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the Statement of Revenues, Expenditures, and Changes in Fund Balance on page 11), reported a combined fund balance of \$16.52 million, which was more than last year's total of \$13.97 million. The increase is due to a combination of higher revenues and a reduction of \$1.15 million in capital outlays. Local, State and Federal revenues all increased, with the largest attributable to an increase in the District's Weighted Average Daily Attendance (WADA).

Over the course of the year, the Board of Trustees amended the District's budget several times. These amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August of 2010). The second category includes amendments to reallocate funds from functions having favorable variances to functions with budget overruns. The third category was to accommodate capital expenditures for various capital projects throughout the District.

The District's General Fund balance of \$15.9 million reported on pages 11 and 33 differs from the General Fund's budgetary fund balance of \$13.2 million as the District chose primarily to amend the original budget for increases in appropriations between functions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the District had \$16.7 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. The District's fiscal year 2011 major additions included \$146,608 for baseball field lighting, \$35,196 for outdoor awnings at the intermediate and Junior High schools, and \$23,195 for a new sign at the primary school. Additional information about the District's capital assets is presented in Note IV, E (page 26) to the financial statements.

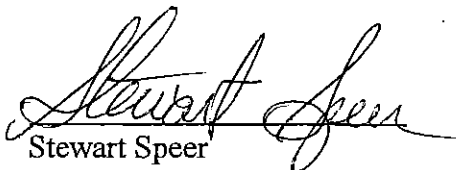
At year-end, the District had \$3.2 million in bonds outstanding versus \$3.9 million last year, a decrease of 17.8 percent. The District's general obligation bond rating continues to carry the highest rating possible, according to national rating agencies. More detailed information about the District's long-term liabilities is presented in Note IV, F (page 27) to the financial statements.

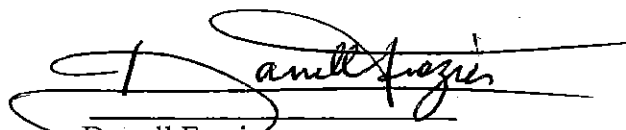
ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's elected and appointed officials considered many factors when setting the fiscal year 2012 budget and tax rates. These factors include the economy, projected enrollment, taxpayer burden, and the possibility of legislative changes.

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 show 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 administration office, at Gatesville Independent School District, 311 South Lovers Lane, Gatesville, Texas.


Stewart Speer
Superintendent


Darrell Frazier
Business Manager

GATESVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2011

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 16,513,797
1220 Property Taxes Receivable (Delinquent)	320,792
1230 Allowance for Uncollectible Taxes	(41,689)
1240 Due from Other Governments	1,044,849
1290 Other Receivables, net	2,741
1490 Other Current Assets	2,694
Capital Assets:	
1510 Land	583,305
1520 Buildings, Net	15,159,968
1530 Furniture and Equipment, Net	950,060
1000 Total Assets	34,536,517
LIABILITIES	
2110 Accounts Payable	151,815
2140 Interest Payable	6,396
2160 Accrued Wages Payable	822,814
2200 Accrued Expenses	17,406
2300 Deferred Revenues	55,429
Noncurrent Liabilities	
2501 Due Within One Year	840,000
2502 Due in More Than One Year	2,368,797
2000 Total Liabilities	4,262,657
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	13,490,760
3850 Restricted for Debt Service	495,563
3900 Unrestricted Net Assets	16,287,537
3000 Total Net Assets	\$ 30,273,860

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

GATESVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 12,366,736	\$ 571,117	\$ 1,384,605	\$ (10,411,014)
12 Instructional Resources and Media Services	472,906	-	89,860	(383,046)
13 Curriculum and Staff Development	306,058	-	180,401	(125,657)
21 Instructional Leadership	72,255	-	4,367	(67,888)
23 School Leadership	1,148,380	-	67,380	(1,081,000)
31 Guidance, Counseling and Evaluation Services	603,477	-	60,481	(542,996)
32 Social Work Services	26,089	-	156	(25,933)
33 Health Services	227,956	-	16,513	(211,443)
34 Student (Pupil) Transportation	885,060	-	29,710	(855,350)
35 Food Services	1,465,376	487,675	778,195	(199,506)
36 Extracurricular Activities	1,144,999	128,556	25,859	(990,584)
41 General Administration	666,584	-	382,735	(283,849)
51 Facilities Maintenance and Operations	2,183,985	2,365	58,766	(2,122,854)
52 Security and Monitoring Services	47,893	-	770	(47,123)
53 Data Processing Services	324,216	-	11,799	(312,417)
72 Debt Service - Interest on Long Term Debt	190,653	-	-	(190,653)
73 Debt Service - Bond Issuance Cost and Fees	2,500	-	-	(2,500)
93 Payments related to Shared Services Arrangements	389,159	-	389,159	-
99 Other Intergovernmental Charges	125,017	-	-	(125,017)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 22,649,299</u>	<u>\$ 1,189,713</u>	<u>\$ 3,480,756</u>	<u>(17,978,830)</u>
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			5,772,125
DT	Property Taxes, Levied for Debt Service			488,411
GC	Grants and Contributions not Restricted			14,382,972
IE	Investment Earnings			60,956
MI	Miscellaneous Local and Intermediate Revenue			133,516
TR	Total General Revenues			<u>20,837,980</u>
CN	Change in Net Assets			2,859,150
NB	Net Assets--Beginning			27,414,710
NE	Net Assets--Ending			<u>\$ 30,273,860</u>

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

GATESVILLE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2011

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110	\$ 15,775,969	\$ 737,828	\$ 16,513,797
1220	295,766	25,026	320,792
1230	(38,437)	(3,252)	(41,689)
1240	922,887	121,962	1,044,849
1260	77,074	-	77,074
1290	1,775	966	2,741
1490	-	2,694	2,694
1000	<u>\$ 17,035,034</u>	<u>\$ 885,224</u>	<u>\$ 17,920,258</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2110	\$ 100,811	\$ 51,004	\$ 151,815
2160	759,706	63,108	822,814
2170	-	77,074	77,074
2200	14,755	2,651	17,406
2300	273,149	61,383	334,532
2000	<u>1,148,421</u>	<u>255,220</u>	<u>1,403,641</u>
Fund Balances:			
Restricted Fund Balance:			
3480	-	470,874	470,874
3490	46,640	31,930	78,570
Committed Fund Balance:			
3510	4,000,000	-	4,000,000
3545	3,000,000	-	3,000,000
Assigned Fund Balance:			
3550	2,000,000	-	2,000,000
3590	-	127,200	127,200
3600	6,839,973	-	6,839,973
3000	<u>15,886,613</u>	<u>630,004</u>	<u>16,516,617</u>
4000	<u>\$ 17,035,034</u>	<u>\$ 885,224</u>	<u>\$ 17,920,258</u>

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

GATESVILLE INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 AUGUST 31, 2011

Total Fund Balances - Governmental Funds	\$	16,516,617
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 \$33,503,282 and the accumulated depreciation was \$16,460,695. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets. See page 19.		13,138,113
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 2011 capital outlays and debt principal payments is to increase (decrease) net assets. See page 20.		1,301,678
3 The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. See page 27.		(843,312)
4 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		160,764
19 Net Assets of Governmental Activities	\$	30,273,860

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

GATESVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 6,546,701	\$ 1,133,473	\$ 7,680,174
5800 State Program Revenues	14,900,596	696,862	15,597,458
5900 Federal Program Revenues	135,026	2,131,244	2,266,270
5020 Total Revenues	<u>21,582,323</u>	<u>3,961,579</u>	<u>25,543,902</u>
EXPENDITURES:			
Current:			
0011 Instruction	10,927,538	1,110,112	12,037,650
0012 Instructional Resources and Media Services	418,518	67,972	486,490
0013 Curriculum and Instructional Staff Development	181,721	123,083	304,804
0021 Instructional Leadership	71,903	352	72,255
0023 School Leadership	1,137,509	7,328	1,144,837
0031 Guidance, Counseling and Evaluation Services	573,636	29,159	602,795
0032 Social Work Services	25,537	552	26,089
0033 Health Services	224,666	2,712	227,378
0034 Student (Pupil) Transportation	799,857	-	799,857
0035 Food Services	47,032	1,381,337	1,428,369
0036 Extracurricular Activities	939,759	125,882	1,065,641
0041 General Administration	648,375	10,300	658,675
0051 Facilities Maintenance and Operations	2,163,190	-	2,163,190
0052 Security and Monitoring Services	43,668	-	43,668
0053 Data Processing Services	324,962	1,057	326,019
Debt Service:			
0071 Principal on Long Term Debt	-	795,000	795,000
0072 Interest on Long Term Debt	-	94,245	94,245
0073 Bond Issuance Cost and Fees	-	2,500	2,500
Capital Outlay:			
0081 Facilities Acquisition and Construction	204,999	-	204,999
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	-	389,159	389,159
0099 Other Intergovernmental Charges	125,017	-	125,017
6030 Total Expenditures	<u>18,857,887</u>	<u>4,140,750</u>	<u>22,998,637</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,724,436</u>	<u>(179,171)</u>	<u>2,545,265</u>
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	23,195	589,475	612,670
8911 Transfers Out (Use)	(160,153)	(452,517)	(612,670)
7080 Total Other Financing Sources (Uses)	<u>(136,958)</u>	<u>136,958</u>	<u>-</u>
1200 Net Change in Fund Balances	2,587,478	(42,213)	2,545,265
0100 Fund Balance - September 1 (Beginning)	<u>13,299,135</u>	<u>672,217</u>	<u>13,971,352</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 15,886,613</u>	<u>\$ 630,004</u>	<u>\$ 16,516,617</u>

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

GATESVILLE INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2011

Total Net Change in Fund Balances - Governmental Funds	\$	2,545,265
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2011 capital outlays and debt principal payments is to increase (decrease) net assets. See page 20.		1,301,678
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets. See page 27.		(843,312)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets. See page 21.		(144,481)
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>2,859,150</u>

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

GATESVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2011

EXHIBIT E-1

	836 Scholarship Fund	865 Student Activity Fund
<hr/>		
ASSETS		
Cash and Cash Equivalents	\$ -	\$ 182,812
Restricted Assets	292,963	-
Total Assets	292,963	\$ 182,812
 LIABILITIES		
Due to Student Groups	-	\$ 182,812
Total Liabilities	-	\$ 182,812
 NET ASSETS		
Restricted for Scholarships	292,963	
Total Net Assets	\$ 292,963	

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

GATESVILLE INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2011

	836 Scholarship Fund
ADDITIONS:	
Local and Intermediate Sources	\$ 88,184
Total Additions	<u>88,184</u>
DEDUCTIONS:	
Other Operating Costs	<u>67,560</u>
Total Deductions	<u>67,560</u>
Change in Net Assets	20,624
Total Net Assets - September 1 (Beginning)	<u>272,339</u>
Total Net Assets - August 31 (Ending)	<u><u>\$ 292,963</u></u>

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

GATESVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Gatesville Independent School District nonfiduciary activities with most of the inter-fund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. The fund activity is segregated into the following categories invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 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 the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some of the governmental funds major and reports their financial condition and results of operations in a separate column.

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

The government-wide financial statements use the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use *the current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available. Revenue is considered *available* when it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, government considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, user fees, and interest associated with the current fiscal period are recognized under the susceptible-to-accrual concept, that is, when they are both measurable and available. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

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

The District reports the following major governmental fund:

1. **The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

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

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a *Special Revenue Fund*, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Debt Service Funds** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Fiduciary Funds:

3. **Private Purpose Trust Funds** – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District’s Private Purpose Trust fund is the Scholarship fund.
4. **Agency Fund** – The District accounts for resources held for others in a custodial capacity in agency funds. The District’s agency fund is Student Activities.

When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted resources first, then unrestricted resources as they are needed.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. *Deposits and Investments*

The District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer’s Investment Pool.

Investments for the government are reported at fair value. The State Treasurer’s Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due/to from other funds” (i.e., the current portion of inter-fund loans) or “advances to/from other funds” (i.e., the non-current portion inter-fund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business –type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All property taxes receivable are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 13% of outstanding property taxes at August 31, 2011.

Property taxes are levied as of October 1 on property values assessed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of tax bill and are delinquent if not paid before February 1 of the following year. On January 31 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

3. *Capital Assets*

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building & Improvements	39
Portable Buildings	39
Vehicles	7
Furniture & Equipment	3-7

4. *Restricted Assets*

Certain assets of the Scholarship Fund are classified as restricted net assets because their use is restricted by applicable contract covenants. As of August 31, 2011, the amount of \$292,963 is restricted for this purpose.

5. *Long Term Obligations*

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums and discounts. Bond issuance costs are reported as deferred and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. *Fund Equity*

In the fund financial statements, governmental funds report restrictions of fund balance for amounts that are constrained for specific purposes by providers such as grantors, bond holders, or higher levels of government. Committed fund balances are constrained to specific purposes by the Board. Assigned fund balances are amounts the District intends to use for specific purposes as expressed by the Board or authorized administrators.

7. *Data Control Codes*

The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (“TEA”) in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.

8. *Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimates as of August 31, 2011 will change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

<u>Capital Assets at the Beginning of the Year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Assets</u>
Land & Improvements	\$ 583,305	\$ -	\$ 583,305	
Buildings	29,554,801	14,003,416	15,551,385	
Furniture & Equipment	3,365,176	2,457,279	907,897	
Change in Net Assets				<u>\$ 17,042,587</u>
			<u>Payable at the Beginning of the Year</u>	
Long-term Liabilities at the Beginning of the Year			\$ (4,345,000)	
Bonds Payable			440,526	
Less: Accreted Interest				<u>(3,904,474)</u>
Change in Net Assets				
Net Adjustment to Net Assets				<u><u>\$ 13,138,113</u></u>

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

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

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current Year Capital Outlay</u>			
Land	\$ -		
Buildings & Improvements	204,998		
Construction in Progress	-		
Furniture & Equipment	<u>301,680</u>		
Total Capital Outlay	<u>506,678</u>	<u>506,678</u>	<u>506,678</u>
<u>Debt Principal Payment</u>			
Bond Principal	<u>795,000</u>		
Total Principal Payments	<u>795,000</u>	<u>795,000</u>	<u>795,000</u>
Total Adjustment to Net Assets		<u>\$ 1,301,678</u>	<u>\$ 1,301,678</u>

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

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>		
Adjustments required for tax revenues for prior and current years collections adjusted for full accrual.	\$ 35,443	\$ 35,443
<u>Reclassifications related to Bonds</u>		
Accreted Interest	99,323	99,323
<u>Adjustments to Expenditures and Accrued Liabilities</u>		
Bond Interest Accrual Adjustment	(2,915)	(2,915)
Adjustments for loss on disposal of assets	12,630	12,630
Total	<u>\$ 144,481</u>	<u>\$ 144,481</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G1 and the other two reports are in Exhibits J4 and J5.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year to fund positions that were filled during the year and other unanticipated costs.

4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.

A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

August 31, 2011	
<u>Fund Balance</u>	
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ -
Non-appropriated Budget Funds	159,130
All Special Revenue Funds	159,130

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended August 31, 2011, the district did not have excess of expenditures over appropriations.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledged approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At August 31, 2011, the carrying amount of the District's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$16,313,065 and the bank balance was \$16,478,167. The FDIC Transaction Guarantee Program became effective October 14, 2008. Under this program, all NOW accounts with interest rates below .50% are fully covered by the FDIC, regardless of the account balance. The Transaction Guarantee Program ended on December 31, 2010 and the Dodd-Frank Deposit Insurance Provision became effective at that time and will extend through December 31, 2012. Under the new program, all funds in non-interest bearing transaction accounts held at FDIC-insured depository institutions ("IDIs") will be fully insured. The District's cash deposits during the year ended August 31, 2011 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

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

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District’s policy regarding types of deposits allowed and collateral requirements are mentioned in the previous paragraphs. As noted above, the District is not exposed to custodial credit risk due to deposits being covered by FDIC insurance and pledged securities held in the name of the District.

Custodial Credit Risk – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. It is the District’s policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The District’s investments that are held by an outside party are fully insured and backed by the U.S. Government and, registered in the name of the District. Therefore, the District is not exposed to custodial credit risk.

Interest Rate Risk –Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 180 days.

Concentration Risk – Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. All of the District’s investments are explicitly guaranteed by the U.S. government or invested in an external investment pool and therefore, not exposed to concentration risk.

As of August 31, 2011, the district had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool	\$ 668,791	46

External Investment Pools:

The District uses the following external investment pools:

TexPool

The Texas Local Government Investment Pool (TexPool) was organized in 1989 and is the largest and oldest local government investment pool in the State of Texas. TexPool is governed by and complies with the Interlocal Cooperation Act, Chapter 791 and the Public Funds Investment Act (the “Act”), Chapter 2256, of the Texas Government Code.

The Comptroller of Public Accounts (the “Comptroller”) is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust company (the “Trust Company”), which operates TexPool. The Comptroller and the Trust Company have contracted with Federated Investors, Inc. (“Federated”) to provide administrative and investment services to TexPool under the Comptroller’s oversight. State Street Bank serves as custodian to TexPool.

In addition, the Comptroller has established the TexPool Investment Advisory Board (the “Board”) composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool and are qualified to advise TexPool. The board advises on TexPool’s Investment Policy and approves the management fee structure.

TexPool is rated AAAM by Standard & Poors, the highest rating possible. The primary objectives of TexPool are the preservation and safety of principal; liquidity; and yield. It seeks to maintain a stable \$1.00 net asset value per share and states its investments at amortized cost. TexPool investments consist exclusively of U.S. Government securities, repurchase agreements collateralized by U.S. Government Securities, and AAA-rated no-load money market mutual funds.

B. Receivables

Receivables as of year-end for the District's individual major, non-major and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	<u>General</u>	<u>Other</u>	<u>Total</u>
Receivables:			
Taxes	\$ 295,766	\$ 25,026	\$ 320,792
Foundation payments	922,887	-	922,887
Grants	-	121,962	121,962
Gross Receivables	<u>1,218,653</u>	<u>146,988</u>	<u>1,365,641</u>
Less: Allowance for uncollectibles	<u>(38,437)</u>	<u>(3,252)</u>	<u>(41,689)</u>
Net Total Receivables	<u>\$ 1,180,216</u>	<u>\$ 143,736</u>	<u>\$ 1,323,952</u>

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Net Tax Revenue	\$ 257,329	\$ -	\$ 21,774	\$ 279,103
Athletic Receipts	15,820	-	-	15,820
Other	-	379	-	379
Total Deferred Revenue	<u>273,149</u>	<u>379</u>	<u>21,774</u>	<u>295,302</u>
Grants and Gifts	-	2,694	-	2,694
Child Nutrition Receipts	-	36,536	-	36,536
Total Unearned Revenue	<u>-</u>	<u>39,230</u>	<u>-</u>	<u>39,230</u>
Total Deferred Revenues & Unearned Revenues	<u>\$ 273,149</u>	<u>\$ 39,609</u>	<u>\$ 21,774</u>	<u>\$ 334,532</u>

C. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the state through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2011, are summarized below. All federal grants shown below are passed through TEA and are reported on the financial statements as Due from Other Governments.

<u>Fund</u>	<u>State Entitlements</u>	<u>Inter- governmental</u>	<u>Totals</u>
General	\$ 922,887	\$ -	\$ 922,887
Nonmajor and other funds	-	121,962	121,962
Total	<u>\$ 922,887</u>	<u>\$ 121,962</u>	<u>\$ 1,044,849</u>

D. *Inter-fund Balances and Transfers*

Inter-fund balances are created when there are transactions that span more than one fund and cash is not transferred between the funds at that time. Inter-fund balances at August 31, 2011 consisted of the following individual fund receivables and payables:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund:		
Non-major Governmental Funds	<u>\$ 77,074</u>	<u>\$ -</u>
Total General Fund	77,074	-
Non-major Governmental Funds:		
General Fund	-	<u>77,074</u>
Total Non-major Governmental Funds	-	<u>77,074</u>
Total	<u>\$ 77,074</u>	<u>\$ 77,074</u>

Inter-fund balances resulted from the time lag between the dates that 1) inter-fund goods and services are provided on reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Inter-fund transfers for the year ended August 31, 2011, consisted of the following amounts:

Transfers to Other Federal:	
Special Revenue Fund (Fund 288):	
ESEA Title I, A	346,089
ESEA Title II, A	83,233
	<u>429,322</u>
Transfers to National Breakfast & Lunch Program:	
General Fund	156,357
Transfers to Donor Designated Grants and Gift Fund	
General Fund	3,796
Transfers to General Fund	
Campus Activity Fund	23,195
	<u>23,195</u>
Total Transfers	<u><u>612,670</u></u>

E. CAPITAL ASSET ACTIVITY

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

	<u>9/1/2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>8/31/2011</u>
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 583,305	\$ -	\$ -	\$ 583,305
Construction in Progress	-	-	-	-
Total Capital Assets, not being depreciated:	<u>583,305</u>	<u>-</u>	<u>-</u>	<u>583,305</u>
Capital Assets, being depreciated:				
Buildings	29,554,801	204,998	(18,660)	29,741,139
Machinery and Equipment	3,365,176	301,680	(148,652)	3,518,204
Total Capital Assets, being depreciated	<u>32,919,977</u>	<u>506,678</u>	<u>(167,312)</u>	<u>33,259,343</u>
Less Accumulated Depreciations For:				
Buildings	(14,003,416)	(584,932)	7,177	(14,581,171)
Machinery and Equipment	(2,457,279)	(258,380)	147,515	(2,568,144)
Total Accumulated Depreciation	<u>(16,460,695)</u>	<u>(843,312)</u>	<u>154,692</u>	<u>(17,149,315)</u>
Total Capital Assets, being depreciated, net	<u>16,459,282</u>	<u>(336,634)</u>	<u>(12,620)</u>	<u>16,110,028</u>
Governmental Activities Capital Assets, net	<u>\$ 17,042,587</u>	<u>\$ (336,634)</u>	<u>\$ (12,620)</u>	<u>\$ 16,693,333</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 430,753
Instructional resources	46,602
Curriculum development and instructional staff development	1,254
School leadership	3,543
Guidance, counseling and evaluation services	682
Health services	578
Student (Pupil) transportation	173,413
Food services	37,007
Co-curricular / extracurricular activities	88,009
General administration	7,909
Plant maintenance and operations	12,737
Security and monitoring services	4,225
Data processing services	36,600
Total Depreciation Expense	<u>\$ 843,312</u>

F. Long-term Debt

Bonds Payable

A summary of changes in general long-term debt for the year ended August 31, 2011 is as follows:

Description	Amounts Original Issue	Interest Current Year	Payable Amounts Outstanding 9/1/10	Issued	Retired	Interest Accretion	Payable Amounts Outstanding 8/31/11	Amounts Due Within One Year
Unlimited Tax School Building and Refunding Bonds Series 1995; Interest 5.5% to 5.9%	\$ 7,715,547	\$ -	\$ 1,394,474	\$ -	\$ -	\$ 99,323	\$ 1,493,797	
Unlimited Tax Refunding Bonds, Series 1998 Interest 3.7% to 4.5%	5,164,682	94,245	2,510,000	-	795,000		1,715,000	840,000
Total		<u>\$ 94,245</u>	<u>\$ 3,904,474</u>	<u>\$ -</u>	<u>\$ 795,000</u>	<u>\$ 99,323</u>	<u>\$ 3,208,797</u>	<u>\$ 840,000</u>

Debt obligations are paid from Debt Service Fund and are serviced by property tax revenue.

Debt service requirements are as follows:

Year Ended August 31,	<u>General Obligations</u>		Total Requirements
	<u>Principal</u>	<u>Interest</u>	
2012	840,000	58,065	898,065
2013	875,000	19,688	894,688
2014	920,000	-	920,000
2015	915,000	-	915,000
Total	<u>\$ 3,550,000</u>	<u>\$ 77,753</u>	<u>\$ 3,627,753</u>

A portion of bonds sold in the Series 1995 and 1998 refunding bond issues were premium capital appreciation bonds. These obligations have par values of \$478,273 and maturity values of \$1,835,000. The interest on these obligations will be paid upon maturity at fiscal years ending August 31, 2014 and 2015. The accreted values of these bonds at August 31, 2011, are \$1,493,797, which has been recorded in the government-wide financial statements.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Administration has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2011.

G. Operating Leases

Commitments under operating (non-capitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2011 as follows:

Years Ending August 31,	
2012	81,324
2013	81,324
2014	81,324
Total Minimum Rentals	<u>\$ 243,972</u>
Rental Expenditures for year ended August 31, 2011	<u>\$ 94,522</u>

H. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

At August 31, 2011, the District had no liability for accrued sick leave or vacation leave.

I. DEFINED BENEFIT PENSION PLAN

Plan Description. Gatesville 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, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are legally 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 10.0% 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 the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2011, 2010, and 2009, and a state contribution rate of 6.644% for fiscal years 2011 and 2010 and 6.58% for fiscal year 2009. In certain instances the reporting district is required to make all or a portion of the state's 6.644% contribution, limited to 6.4% for the period of September through December 2009 and increased to 6.644% for the periods after January 2010. State contributions to TRS made on behalf of Gatesville Independent School District's employees for the years ended August 31, 2011, 2010 and 2009 were \$816,414, \$804,370 and \$752,113, respectively. Gatesville Independent School District paid additional state contributions for the years ended August 31, 2011, 2010 and 2009 in the amount of \$69,194, \$65,477 and \$59,718, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

Medicare Part D – On Behalf Payments Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2009, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments of \$36,373, \$33,816, and 28,857 were recognized for the years ended August 31, 2011, 2010 and 2009 respectively, as equal revenues and expenditures.

J. Health Care Coverage

During the year ended August 31, 2011, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$345 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable September 1, 2011, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the insurer are available for the year ended December 31, 2010, and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

K. Retiree Health Plan

Plan Description The Gatesville Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-CARE), a cost-sharing multiple employer defined benefit post employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care 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 Teacher Retirement System of Texas 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 under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

Funding Policy Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contributions rates were 1.00% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2011, 2010, and 2009. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2011, 2010, and 2009, the State's contributions to TRS-Care were \$138,428, \$137,424, and \$129,951, respectively, the active member contributions were \$89,978, \$89,328, and \$84,468, respectively, and the school district's contributions were \$76,134, \$75,583, and \$71,473, respectively, which equaled the required contributions each year.

L. Self-Funded Workers' Compensation

On September 1, 2005, the District joined a workers' compensation self-insurance joint fund with other districts pursuant to Texas Labor Code CH, 504 (Workers' Compensation Insurance Coverage for Employees of Political Subdivisions) and Texas Government Code Ch. 791 (the inter-local Cooperation Act). The District has adopted a three-year participation requirement. Claims Administrative Services, Inc., through its actuarial review of the workers' compensation self-funded program, projected an undiscounted liability of \$54,706 as of August 31, 2011 and \$48,763 as of August 31, 2010. Claims administration is provided by Claims Administrative Services, Inc. Stop-loss coverage was in effect for annual aggregate claims exceeding \$53,814. There were no claims against the stop-loss coverage in the past two years.

The claims liability for workers' compensation self-funding of \$54,706 includes incurred but not reported claims in the amount of \$32,332 as of August 31, 2011. This liability reported in the fund at August 31, 2011, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to issuance of the financial statements indicates that it is reasonably probable that a liability has been incurred as of the date of the financial statements, and the amount of the loss can be reasonably estimated. Because actual claim liabilities depend on such compliance factors as inflation, changes in legal doctrine, and damage awards, the process used in computing the liability does not result in necessarily in an exact amount. The liability recorded was the undiscounted estimate of the actuary.

Changes in the workers' compensation claims liability amounts are presented below:

	Beginning of Fiscal Year Liability	Primary Government		Balance at Fiscal Year-end
		Current Year Claims and Change in Estimates	Claim Payments	
2006 - Claims Liability	\$ 3,738	\$ (1,199)	\$ 107	\$ 2,432
2007 - Claims Liability	1,267	88	220	1,135
2008 - Claims Liability	4,982	1,412	1,862	4,532
2009 - Claims Liability	5,225	694	727	5,192
2010 - Claims Liability	33,551	(18,261)	7,431	7,859
2011 - Claims Liability	-	56,643	23,087	33,556
Total	<u>\$ 48,763</u>	<u>\$ 39,377</u>	<u>\$ 33,434</u>	<u>\$ 54,706</u>

M. Commitments and Contingencies

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

N. Shared Service Arrangements

The District participates in a Shared Services Arrangement for Special Education Services with the following districts:

McGregor ISD	Oglesby ISD
Moody ISD	Gatesville ISD
Crawford ISD	

The district does not account for revenue or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, the Heart of Texas Co-op, 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 the District. The fiscal agent manager is responsible for all financial activities of the SSA. The District also participates in two Shared Service Arrangements with Education Service Center, Region XII, for migrant education and ESL/Immigrant Students.

O. Revenue From Local and Intermediate Sources

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

	General	National Breakfast and Lunch Program	Debt Services	Other Special Revenue Funds	Private Purpose Trust	Total
Property Taxes	\$ 5,799,167	\$ -	\$ 490,521	\$ -	\$ -	\$ 6,289,688
Penalties, Interest and Other Tax- related income	103,668	-	8,678	-	-	112,346
Investment Income	57,744	41	1,997	1,175	3,157	64,114
Food Sales	-	487,675	-	-	-	487,675
Student Activities	123,466	200	-	64,197	-	187,863
Gifts and Bequests	-	-	-	7,306	85,027	92,333
Rent	2,365	-	-	-	-	2,365
Athletic Activities	128,557	-	-	-	-	128,557
Shared Service Arrangement (SSA)	255,438	-	-	-	-	255,438
Other	76,296	-	-	71,683	-	147,979
Total	\$ 6,546,701	\$ 487,916	\$ 501,196	\$ 144,361	\$ 88,184	\$ 7,768,358

GATESVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 6,039,710	\$ 6,056,210	\$ 6,546,701	\$ 490,491
5800	State Program Revenues	14,403,710	14,403,710	14,900,596	496,886
5900	Federal Program Revenues	80,000	80,000	135,026	55,026
5020	Total Revenues	20,523,420	20,539,920	21,582,323	1,042,403
EXPENDITURES:					
Current:					
0011	Instruction	11,376,773	11,358,447	10,927,538	430,909
0012	Instructional Resources and Media Services	437,669	446,063	418,518	27,545
0013	Curriculum and Instructional Staff Development	200,674	203,418	181,721	21,697
0021	Instructional Leadership	72,133	72,233	71,903	330
0023	School Leadership	1,166,964	1,162,169	1,137,509	24,660
0031	Guidance, Counseling and Evaluation Services	577,873	595,990	573,636	22,354
0032	Social Work Services	25,507	26,507	25,537	970
0033	Health Services	217,455	229,643	224,666	4,977
0034	Student (Pupil) Transportation	1,001,161	1,001,613	799,857	201,756
0035	Food Services	71,396	72,722	47,032	25,690
0036	Extracurricular Activities	1,045,605	1,056,750	939,759	116,991
0041	General Administration	639,296	669,550	648,375	21,175
0051	Facilities Maintenance and Operations	2,772,783	2,766,849	2,163,190	603,659
0052	Security and Monitoring Services	77,291	78,426	43,668	34,758
0053	Data Processing Services	342,756	342,800	324,962	17,838
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	211,041	204,999	6,042
Intergovernmental:					
0099	Other Intergovernmental Charges	160,000	128,680	125,017	3,663
6030	Total Expenditures	20,185,336	20,422,901	18,857,887	1,565,014
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	338,084	117,019	2,724,436	2,607,417
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	23,195	23,195	-
8911	Transfers Out (Use)	(221,843)	(231,239)	(160,153)	71,086
7080	Total Other Financing Sources (Uses)	(221,843)	(208,044)	(136,958)	71,086
1200	Net Change in Fund Balances	116,241	(91,025)	2,587,478	2,678,503
0100	Fund Balance - September 1 (Beginning)	13,299,135	13,299,135	13,299,135	-
3000	Fund Balance - August 31 (Ending)	\$ 13,415,376	\$ 13,208,110	\$ 15,886,613	\$ 2,678,503

GATESVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2011

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	243 Career and Technical - Preparation	244 Career and Technical - Basic Grant
ASSETS				
1110	\$ -	\$ 86,749	\$ -	\$ -
1220	-	-	-	-
1230	-	-	-	-
1240	2,185	27,654	-	-
1290	-	966	-	-
1490	-	-	-	-
1000	<u>\$ 2,185</u>	<u>\$ 115,369</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110	\$ 1,667	\$ 44,536	\$ -	\$ -
2160	-	33,612	-	-
2170	518	-	-	-
2200	-	685	-	-
2300	-	36,536	-	-
2000	<u>2,185</u>	<u>115,369</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted Fund Balance:				
3480	-	-	-	-
3490	-	-	-	-
Assigned Fund Balance:				
3590	-	-	-	-
3000	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<u>\$ 2,185</u>	<u>\$ 115,369</u>	<u>\$ -</u>	<u>\$ -</u>

255 ESEA II,A Training and Recruiting	266 Title XIV ARRA State Stabilization	279 Title II, D ARRA - Ed. Technology	285 ESEA I,A Improving Basic Program	287 Education Jobs Fund	288 Other Federal Special Revenue Fund	397 Advanced Placement Incentives	404 Student Success Initiative
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,696	\$ 1,403	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,770	30,548	-	46,794	8,996	-	-	4,015
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 1,770</u>	<u>\$ 30,548</u>	<u>\$ -</u>	<u>\$ 46,794</u>	<u>\$ 8,996</u>	<u>\$ 20,696</u>	<u>\$ 1,403</u>	<u>\$ 4,015</u>
\$ -	\$ 4,801	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1,464	-	-	-	8,827	19,205	-	-
-	25,747	-	46,794	-	-	-	4,015
306	-	-	-	169	1,491	-	-
-	-	-	-	-	-	379	-
<u>1,770</u>	<u>30,548</u>	<u>-</u>	<u>46,794</u>	<u>8,996</u>	<u>20,696</u>	<u>379</u>	<u>4,015</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,024	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,024	-
<u>\$ 1,770</u>	<u>\$ 30,548</u>	<u>\$ -</u>	<u>\$ 46,794</u>	<u>\$ 8,996</u>	<u>\$ 20,696</u>	<u>\$ 1,403</u>	<u>\$ 4,015</u>

GATESVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2011

Data Control Codes	410 State Textbook Fund	411 Technology Allotment	461 Campus Activity Funds	480 Gatesville Ministerial Alliance	
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ 19,791	\$ 127,200	\$ 8,717
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Receivables from Other Governments	-	-	-	-
1290	Other Receivables	-	-	-	-
1490	Other Current Assets	-	-	-	-
1000	Total Assets	<u>\$ -</u>	<u>\$ 19,791</u>	<u>\$ 127,200</u>	<u>\$ 8,717</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued Wages Payable	-	-	-	-
2170	Due to Other Funds	-	-	-	-
2200	Accrued Expenditures	-	-	-	-
2300	Deferred Revenues	-	-	-	-
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Restricted Fund Balance:					
3480	Retirement of Long-Term Debt	-	-	-	-
3490	Other Restricted Fund Balance	-	19,791	-	8,717
Assigned Fund Balance:					
3590	Other Assigned Fund Balance	-	-	127,200	-
3000	Total Fund Balances	<u>-</u>	<u>19,791</u>	<u>127,200</u>	<u>8,717</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 19,791</u>	<u>\$ 127,200</u>	<u>\$ 8,717</u>

481 Donor Designated Grants & Gift	Total Nonmajor Special Revenue Funds	599 Debt Service	Total Nonmajor Governmental Funds
\$ 2,398	\$ 266,954	\$ 470,874	\$ 737,828
-	-	25,026	25,026
-	-	(3,252)	(3,252)
-	121,962	-	121,962
-	966	-	966
2,694	2,694	-	2,694
<u>\$ 5,092</u>	<u>\$ 392,576</u>	<u>\$ 492,648</u>	<u>\$ 885,224</u>
\$ -	\$ 51,004	\$ -	\$ 51,004
-	63,108	-	63,108
-	77,074	-	77,074
-	2,651	-	2,651
2,694	39,609	21,774	61,383
<u>2,694</u>	<u>233,446</u>	<u>21,774</u>	<u>255,220</u>
-	-	470,874	470,874
2,398	31,930	-	31,930
-	127,200	-	127,200
<u>2,398</u>	<u>159,130</u>	<u>470,874</u>	<u>630,004</u>
<u>\$ 5,092</u>	<u>\$ 392,576</u>	<u>\$ 492,648</u>	<u>\$ 885,224</u>

GATESVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	243 Career and Technical - Preparation	244 Career and Technical - Basic Grant
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ 487,916	\$ -	\$ -
5800 State Program Revenues	-	7,630	-	-
5900 Federal Program Revenues	364,558	729,434	7,037	25,151
5020 Total Revenues	<u>364,558</u>	<u>1,224,980</u>	<u>7,037</u>	<u>25,151</u>
EXPENDITURES:				
Current:				
0011 Instruction	3,907	-	7,037	13,154
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	4,406	-	-	-
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	11,997
0032 Social Work Services	156	-	-	-
0033 Health Services	-	-	-	-
0035 Food Services	-	1,381,337	-	-
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	10,000	-	-	-
0053 Data Processing Services	-	-	-	-
Debt Service:				
0071 Principal on Long Term Debt	-	-	-	-
0072 Interest on Long Term Debt	-	-	-	-
0073 Bond Issuance Cost and Fees	-	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	-	-
6030 Total Expenditures	<u>18,469</u>	<u>1,381,337</u>	<u>7,037</u>	<u>25,151</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>346,089</u>	<u>(156,357)</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	156,357	-	-
8911 Transfers Out (Use)	(346,089)	-	-	-
7080 Total Other Financing Sources (Uses)	<u>(346,089)</u>	<u>156,357</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

255 ESEA II,A Training and Recruiting	266 Title XIV ARRA State Stabilization	279 Title II, D ARRA - Ed. Technology	285 ESEA I,A Improving Basic Program	287 Education Jobs Fund	288 Other Federal Special Revenue Fund	397 Advanced Placement Incentives	404 Student Success Initiative
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	111,559
88,586	859,172	1,516	46,794	8,996	-	-	-
<u>88,586</u>	<u>859,172</u>	<u>1,516</u>	<u>46,794</u>	<u>8,996</u>	<u>-</u>	<u>-</u>	<u>111,559</u>
1,770	354,771	1,466	42,931	-	423,602	-	40,154
-	64,768	-	3,204	-	-	-	-
3,506	31,751	50	659	-	5,720	-	71,405
-	352	-	-	-	-	-	-
77	7,251	-	-	-	-	-	-
-	7,708	-	-	8,996	-	-	-
-	-	-	-	-	-	-	-
-	2,712	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	300	-	-	-	-	-	-
-	400	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	389,159	-	-	-	-	-	-
<u>5,353</u>	<u>859,172</u>	<u>1,516</u>	<u>46,794</u>	<u>8,996</u>	<u>429,322</u>	<u>-</u>	<u>111,559</u>
<u>83,233</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(429,322)</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	429,322	-	-
(83,233)	-	-	-	-	-	-	-
<u>(83,233)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>429,322</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,024	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,024</u>	<u>\$ -</u>

GATESVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	410 State Textbook Fund	411 Technology Allotment	461 Campus Activity Funds	480 Gatesville Ministerial Alliance
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 137,055	\$ -
5800 State Program Revenues	160,622	78,486	-	-
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>160,622</u>	<u>78,486</u>	<u>137,055</u>	<u>-</u>
EXPENDITURES:				
Current:				
0011 Instruction	160,622	52,452	-	-
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	-	5,586	-	-
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0032 Social Work Services	-	-	-	396
0033 Health Services	-	-	-	-
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	-	125,882	-
0041 General Administration	-	-	-	-
0053 Data Processing Services	-	657	-	-
Debt Service:				
0071 Principal on Long Term Debt	-	-	-	-
0072 Interest on Long Term Debt	-	-	-	-
0073 Bond Issuance Cost and Fees	-	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	-	-
6030 Total Expenditures	<u>160,622</u>	<u>58,695</u>	<u>125,882</u>	<u>396</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>19,791</u>	<u>11,173</u>	<u>(396)</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	-
8911 Transfers Out (Use)	-	-	(23,195)	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(23,195)</u>	<u>-</u>
1200 Net Change in Fund Balance	-	19,791	(12,022)	(396)
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>139,222</u>	<u>9,113</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ 19,791</u>	<u>\$ 127,200</u>	<u>\$ 8,717</u>

481 Donor Designated Grants & Gift	Total Nonmajor Special Revenue Funds	599 Debt Service	Total Nonmajor Governmental Funds
\$ 7,306	\$ 632,277	\$ 501,196	\$ 1,133,473
-	358,297	338,565	696,862
-	2,131,244	-	2,131,244
7,306	3,121,818	839,761	3,961,579
8,246	1,110,112	-	1,110,112
-	67,972	-	67,972
-	123,083	-	123,083
-	352	-	352
-	7,328	-	7,328
458	29,159	-	29,159
-	552	-	552
-	2,712	-	2,712
-	1,381,337	-	1,381,337
-	125,882	-	125,882
-	10,300	-	10,300
-	1,057	-	1,057
-	-	795,000	795,000
-	-	94,245	94,245
-	-	2,500	2,500
-	389,159	-	389,159
8,704	3,249,005	891,745	4,140,750
(1,398)	(127,187)	(51,984)	(179,171)
3,796	589,475	-	589,475
-	(452,517)	-	(452,517)
3,796	136,958	-	136,958
2,398	9,771	(51,984)	(42,213)
-	149,359	522,858	672,217
\$ 2,398	\$ 159,130	\$ 470,874	\$ 630,004

GATESVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2011

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2002 and prior years	Various	Various	\$ Various
2003	1.403000	0.097000	290,155,849
2004	1.403000	0.097000	288,204,974
2005	1.419000	0.081000	294,675,259
2006	1.419000	0.081000	371,122,501
2007	1.298000	0.071000	466,412,085
2008	1.040000	0.088000	508,174,808
2009	1.040000	0.088000	551,713,500
2010	1.040000	0.088000	554,910,952
2011 (School year under audit)	1.040000	0.088000	562,942,781
1000 TOTALS			

(10) Beginning Balance 9/1/2010	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2011
\$ 16,259	\$ -	\$ 62	\$ 4	\$ (6,792)	\$ 9,401
3,787	-	181	12	(110)	3,484
8,651	-	1,670	115	(132)	6,734
15,656	-	1,684	97	(935)	12,940
12,322	-	548	31	(1,793)	9,950
13,702	-	3,251	178	(998)	9,275
24,500	-	6,525	553	(977)	16,445
57,909	-	19,568	1,658	(1,395)	35,288
217,279	-	125,837	10,621	(12,143)	68,678
-	6,351,883	5,668,229	480,119	(54,938)	148,597
<u>\$ 370,065</u>	<u>\$ 6,351,883</u>	<u>\$ 5,827,555</u>	<u>\$ 493,388</u>	<u>\$ (80,213)</u>	<u>\$ 320,792</u>

GATESVILLE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2012-2013
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2011

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 112,548	\$ 362,553	\$ -	\$ -	\$ 475,101
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	37,699	-	-	-	37,699
6212	Audit Services	-	-	-	16,932	-	-	16,932
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	156,337	-	-	-	-	156,337
621X	Other Professional Services	-	-	-	-	-	-	-
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	575	-	480	34,826	-	-	35,881
6240	Contr. Maint. and Repair	700	-	-	1,185	-	-	1,885
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	2,666	-	-	2,666
6290	Miscellaneous Contr.	992	-	-	1,439	-	-	2,431
6320	Textbooks and Reading	119	-	-	75	-	-	194
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	365	-	61	16,835	-	-	17,261
6410	Travel, Subsistence, Stipends	1,234	-	357	3,227	-	-	4,818
6420	Ins. and Bonding Costs	-	-	-	7,672	-	-	7,672
6430	Election Costs	70	-	-	-	-	-	70
6490	Miscellaneous Operating	3,000	-	863	25,881	-	-	29,744
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	21,739	21,739
6000	TOTAL	\$ 7,055	\$ 156,337	\$ 152,008	\$ 473,291	\$ -	\$ 21,739	\$ 810,430

Total expenditures/expenses for General and Special Revenue Funds:	(9) \$	21,946,270
LESS: Deductions of Unallowable Costs		
FISCAL YEAR		
Total Capital Outlay (6600)	(10) \$	506,679
Total Debt & Lease(6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	2,158,628
Food (Function 35, 6341 and 6499)	(13)	533,602
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		473,291
SubTotal:		3,672,200
Net Allowed Direct Cost		\$ 18,274,070
CUMULATIVE		
Total Cost of Buildings before Depreciation (1520)	(15) \$	29,741,139
Historical Cost of Building over 50 years old	(16) \$	3,307,122
Amount of Federal Money in Building Cost (Net of #16)	(17) \$	-
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18) \$	3,518,204
Historical Cost of Furniture & Equipment over 16 years old	(19) \$	383,802
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20) \$	-

(8) NOTE A: \$36,782 in Function 53 expenditures are included in this report on administrative costs.
 \$125,017 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

GATESVILLE INDEPENDENT SCHOOL DISTRICT
 FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
 GENERAL FUND AS OF AUGUST 31, 2011

EXHIBIT J-3

UNAUDITED

1	Total General Fund Balance as of 8/31/11 (Exhibit C-1 object 3000 for the General Fund Only)	\$	15,886,613
2	Total Non-Spendable Fund Balance (from Exhibit C-1 - for the General Fund Only)	\$	-
3	Total Restricted Fund Balance (from Exhibit C-1 - for the General Fund Only)		46,640
4	Total Committed Fund Balance (from Exhibit C-1 - for the General Fund Only)		7,000,000
5	Total Assigned Fund Balance (from Exhibit C-1 - for the General Fund Only)		2,000,000
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)		-
7	Estimate of two month's average cash disbursements during the fiscal year.		3,200,000
8	Estimate of delayed payments from state sources (58xx).		2,800,000
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount.		350,000
10	Estimate of delayed payments from federal sources (59xx)		100,000
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)		-
12	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10+11)		<u>15,496,640</u>
13	Excess (Deficit) Unassigned Fund Balance (Line 1 minus Line 12)	\$	<u><u>389,973</u></u>

GATESVILLE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 499,400	\$ 499,400	\$ 487,916	\$ (11,484)
5800	State Program Revenues	7,500	7,500	7,630	130
5900	Federal Program Revenues	693,840	713,840	729,434	15,594
5020	Total Revenues	1,200,740	1,220,740	1,224,980	4,240
EXPENDITURES:					
0035	Food Services	1,422,583	1,448,183	1,381,337	66,846
6030	Total Expenditures	1,422,583	1,448,183	1,381,337	66,846
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(221,843)	(227,443)	(156,357)	71,086
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	221,843	227,443	156,357	(71,086)
7080	Total Other Financing Sources (Uses)	221,843	227,443	156,357	(71,086)
1200	Net Change in Fund Balances	-	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

GATESVILLE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 490,800	\$ 490,800	\$ 501,196	\$ 10,396
5800	State Program Revenues	314,669	315,169	338,565	23,396
5020	Total Revenues	805,469	805,969	839,761	33,792
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	891,245	795,000	795,000	-
0072	Interest on Long Term Debt	-	94,245	94,245	-
0073	Bond Issuance Cost and Fees	-	2,500	2,500	-
6030	Total Expenditures	891,245	891,745	891,745	-
1200	Net Change in Fund Balances	(85,776)	(85,776)	(51,984)	33,792
0100	Fund Balance - September 1 (Beginning)	522,858	522,858	522,858	-
3000	Fund Balance - August 31 (Ending)	\$ 437,082	\$ 437,082	\$ 470,874	\$ 33,792



Lott, Vernon & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

KILLEEN • COPPERAS COVE • TEMPLE

109 EAST AVENUE B
POST OFFICE BOX 935
KILLEEN, TEXAS 76540

254-526-0571
800-460-0571
FAX 254-526-7667

*Member of
American Institute & Texas Society of
Certified Public Accountants*

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

Independent Auditors Report

Board of Trustees
Gatesville Independent School District
Gatesville, TX 76528

Members of the Board:

We have audited the financial statements of Gatesville Independent School District as of and for the year ended August 31, 2011, which collectively comprise Gatesville Independent School District's basic financial statements and have issued our report thereon dated November 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gatesville Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gatesville Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of

expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gatesville Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gatesville Independent School District's internal control over financial reporting.

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

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

This report is intended solely for the information and use of the management, Board of Trustees, 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.

Lott, Vernon & Company, P.C.

November 17, 2011



Lott, Vernon & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

KILLEEN • COPPERAS COVE • TEMPLE

109 EAST AVENUE B
POST OFFICE BOX 935
KILLEEN, TEXAS 76540

254-526-0571
800-460-0571
FAX 254-526-7667

*Member of
American Institute & Texas Society of
Certified Public Accountants*

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

Independent Auditor's Report

Board of Trustees
Gatesville Independent School District
Gatesville, Texas 76528

Members of the Board:

We have audited Gatesville Independent School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Gatesville Independent School District's major federal programs for the year ended August 31, 2011. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Gatesville Independent School District's administrators. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gatesville Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Gatesville Independent School District's compliance with those requirements.

In our opinion, Gatesville Independent School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Gatesville Independent School District as of and for the year ended August 31, 2011, and have issued our report thereon dated November 17, 2011, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of the management of Gatesville Independent School District and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our

Gatesville Independent School District
November 17, 2011
Page 3

opinion, the information is fairly stated in all material respects, in relation to the financial statements taken as a whole.

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

Lott, Vernon & Company, P.C.

November 17, 2011

**GATESVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

1. Type of auditor's report issued on the financial statements: Unqualified.
2. No internal control findings required to be reported in this schedule were disclosed in the audit of the financial statements.
3. Noncompliance which was material to the financial statements: None
4. No internal control findings required to be reported in this schedule were disclosed in the audit of compliance of the major programs.
5. Type of auditor's report on compliance for major programs: Unqualified
6. Did the audit disclose findings which are required to be reported under Sec. 510(a):
No

Major programs include:

National School Lunch and Breakfast
Program – CFDA 10.555/10.553 - Fund
240
ESEA I, Part A Improving Basic
Programs – CFDA 84.010A - Fund 211
ARRA ESEA I, Part A Improving Basic
Programs – CFDA 84.389 - Fund 285
ARRA State Fiscal Stabilization Fund –
CFDA 84.394 – Fund 266

7. Dollar threshold used to distinguish between Type A and Type B programs:
\$300,000
8. Low risk auditee: Yes
9. Pass-through entity for applicable programs: Texas Education Agency

II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS

None

III. FINDINGS AND QUESTIONED COSTS RELATED TO THE FEDERAL AWARDS

No findings or questioned costs were identified for the year ended August 31, 2011 audit.

GATESVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2011

Not Applicable in the current year.

GATESVILLE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2011

Not Applicable for the current year.

GATESVILLE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL PROGRAMS
 FOR THE YEAR ENDED AUGUST 31, 2011

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Project Number	Federal Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
DIRECT PROGRAMS			
Impact Aid - P.L. 107-110	84.041	33050902	\$ 132,876
Tech-Prep Education	84.243	101719	<u>7,037</u>
TOTAL DIRECT PROGRAMS			\$ 139,913
PASSED THROUGH STATE DEPARTMENT OF EDUCATION			
ESEA Title I Part A* Total CFDA Number 84.010A	84.010A	11610101050902	<u>364,558</u> <u>364,558</u>
Vocational Education- Basic Grant Total CFDA Number 84.048	84.048	11420006050902	<u>25,151</u> <u>25,151</u>
ESEA Title II, Part A, Teacher & Principal Training	84.367A	11694501050902	86,816
ESEA Title II, Part A, Teacher & Principal Training	84.367A	12694501050902	<u>1,770</u>
Total CFDA Number 84.367			<u>88,586</u>
Summer School LEP	84.369A	69551002	2,150
Title II, Part D, Enhancing Education Through Technology - ARRA	84.386	10553001050902	1,516
ESEA, Title I, Part A - Improving Basic Programs - ARRA*	84.389A	10551001050902	46,794
Title XIV, State Fiscal Stabilization Fund - ARRA*	84.394A	10557001050902	88,022
Title XIV, State Fiscal Stabilization Fund - ARRA*	84.394A	11557001050902	<u>771,150</u>
Total CFDA Number 84.394A			<u>859,172</u>
Education Jobs Fund	84.410	10550101050902	<u>8,996</u>
TOTAL PASS THROUGH PROGRAMS			\$ 1,396,923
TOTAL DEPARTMENT OF EDUCATION			\$ 1,536,836
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
National School Lunch Program*	10.555	71301101	<u>524,900</u> <u>524,900</u>
National School Lunch Program (Donated Commodities)	10.550	N/A	79,614
National School Breakfast Program*	10.553	71401101	<u>124,920</u> <u>124,920</u>
TOTAL DEPARTMENT OF AGRICULTURE			\$ 729,434
TOTAL FEDERAL ASSISTANCE			\$ 2,266,270

* Indicates a major program

GATESVILLE INDEPENDENT SCHOOL DISTRICT

NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS

YEAR ENDED AUGUST 31, 2011

1. The District utilizes the fund types specified by the Texas Education Agency in the Financial Accountability System Resource Guide.

Special Revenue Funds - are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in the General Fund, Special Revenue Fund or a Capital Projects Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All federal grant funds were accounted for in a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in fund balance.

The modified accrual basis of accounting is used for the Governmental Fund Types, the Expendable Trust Funds, and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H. Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Supplement – June 2011 Revision.
4. The disbursement of funds received under the various federal and state grant programs requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies and the TEA. Any disallowed claims resulting from such audits would become a liability of the general fund. However, in the opinion of management any potential disallowed claims, if any, would not have a material effect on the financial statements or on the overall financial position of the District at August 31, 2011.