

SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2009

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CERTIFICATE OF BOARD

South Texas Independent School District \_\_\_\_\_ 031916  
Name of School District County Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) \_\_\_\_\_ approved \_\_\_\_\_ disapproved for the year ended August 31, 2009 at a meeting of the Board of Trustees of such school district on the 16th day of December, 2009.

\_\_\_\_\_  
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)

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

Independent Auditor's Report

Board of Trustees  
South Texas Independent School District  
100 Med High Dr  
Mercedes, Texas 78570

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 South Texas Independent School District (the District) as of and for the year ended August 31, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of South Texas Independent School District as of August 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund and Child Nutrition Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis *and other RSI such as budgetary comparison information if not presented in the Basic Financial Statements* are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting

and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

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

*Luis C Orozco*  
*Certified Public Accountant*

*December 16, 2009*

## **SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

In this section of the Annual Financial and Compliance Report, we, the managers of SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2009. Please read it in conjunction with the independent auditors' report on page 3, and the District's Basic Financial Statements which begin on page 11.

#### **FINANCIAL HIGHLIGHTS**

·The District's net assets increased by \$9,569,145 as a result of this year's operations. Net assets of our governmental activities increased by the same amount, \$9,569,145.

·During the year, the District had expenses that were \$9,569,145 million less than the \$45,621,695 million generated in tax and other revenues for governmental programs (before special items). This compares to last year when revenues exceeded expenses by \$10,009,452 million.

·The General Fund ended the year with a fund balance of \$19,660,300 million, of which \$10,379,850 million is unreserved, undesignated.

·The resources available for appropriation were \$3,920,426 million more than budgeted for the General Fund.

#### **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. These provide information about the activities of the District as a whole and present a long-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 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 provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.



The combining statements for non-major 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 11. 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 of 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, however, you should consider non-financial 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.

In the Statement of Net Assets and the Statement of Activities, one kind of activity is reported for the District:

·Governmental activities—Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

### **Reporting the District's Most Significant Funds**

#### ***Fund Financial Statements***

The fund financial statements 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 No Child Left Behind Act 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's two kinds of funds—governmental and proprietary—use different accounting approaches.

·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 the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

·Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. In fact, the District's internal service funds (the other category of proprietary funds) report activities that provide supplies and services for the District's other programs and activities—such as the District's self-insurance programs, the print shop, and transportation.

## **The District as Trustee**

### ***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for money raised by student activities and alumnae scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. 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**

The District implemented GASB Statement #34 during fiscal year August 31, 2002. Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental and business-type activities.

Net assets of the District's governmental activities increased from \$55,719,710 million to \$65,288,858 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 \$14,596,604 million at August 31, 2009. This decrease is relatively significant to the overall operations of the District.

**Table I**  
**SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT**  
**NET ASSETS**

	Governmental Activities 2009	Governmental Activities 2008	Total 2009	Total 2008
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 20,102,219	\$ 17,451,013	\$ 20,102,219	\$ 17,451,013
Property taxes receivable	3,868,374	3,484,510	3,868,374	3,484,510
Allowance for uncollectible taxes	(386,837)	(348,451)	(386,837)	(348,451)
Due from other government	2,494,342	2,272,361	2,494,342	2,272,361
Accrued interest	141,092	153,900	141,092	153,900
Internal Balances	(1)	-	(1)	-
Other receivables	47,057	59,488	47,057	59,488
Deferred expenditures/expenses	280,450	60,286	280,450	60,286
Total current assets	<u>26,546,696</u>	<u>23,133,107</u>	<u>26,546,696</u>	<u>23,133,107</u>
<b>Non current assets:</b>				
Land	2,498,772	2,378,150	2,498,772	2,378,150
Building	34,852,284	43,045,150	34,852,284	43,045,150
Furniture & equipment	4,490,235	6,798,776	4,490,235	6,798,776
Leased property under capital leases	878,870	878,870	878,870	878,870
Construction in progress	417,071	966,887	417,071	966,887
Less:				
Accumulated depreciation	-	(17,357,012)	-	(17,357,012)
Total noncurrent assets	<u>43,137,232</u>	<u>36,710,821</u>	<u>43,137,232</u>	<u>36,710,821</u>
<b>Total assets</b>	<u><b>69,683,928</b></u>	<u><b>59,843,928</b></u>	<u><b>69,683,928</b></u>	<u><b>59,843,928</b></u>
Accounts payable	\$ 1,402,713	\$ 755,563	\$ 1,402,713	\$ 755,563
Payroll deductions/withholdings	215,404	12,477	215,404	12,477
Accrued wages paybles	1,116,952	925,560	1,116,952	925,560
Due to other government	-	4,579	-	4,579
Accrued expenditures/expenses	-	-	-	-
Deferred revenues	-	6,038	-	6,038
<b>Non-current liabilities</b>				
Due within one year	805,000	760,000	805,000	760,000
Due in more than one year	855,000	1,660,000	855,000	1,660,000
Total liabilities	<u>4,395,069</u>	<u>4,124,217</u>	<u>4,395,069</u>	<u>4,124,217</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	41,477,233	34,290,821	41,477,233	34,290,821
Restricted for federal and state programs	215,021	200,498	215,021	200,498
Restricted for capital projects	9,000,000	4,400,000	9,000,000	4,400,000
Unrestricted net assets	<u>14,596,604</u>	<u>16,828,391</u>	<u>14,596,604</u>	<u>16,828,391</u>
Total net assets	<u><b>65,288,857</b></u>	<u><b>55,719,712</b></u>	<u><b>65,288,857</b></u>	<u><b>55,719,712</b></u>

**Table II**  
**SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT**  
**CHANGES IN NET ASSETS**  
in thousands

	Governmental Activities 2009	Governmental Activities 2008	Total 2009	Total 2008
<b>Revenues:</b>				
<b>Program Revenues:</b>				
Charges for Services	\$ 294,156	\$ -	\$ -	\$ -
Operating grants and contributions	5,215,601	4,721,461	5,215,601	4,721,461
<b>General Revenues:</b>				
Investment Earnings	441,317	696,604	441,317	696,604
Property taxes	21,706,918	20,747,162	21,706,918	20,747,162
State aid - formula grants	-	-	-	-
Grants and Contributions not restricted to specific functions	17,299,574	16,370,841	17,299,574	16,370,841
Special Items	1	-	1	-
Miscellaneous	664,128	284,482	664,128	284,482
Total Revenue	<u>45,621,695</u>	<u>42,820,549</u>	<u>45,327,539</u>	<u>42,820,549</u>
<b>Expenses:</b>				
Instruction	18,260,130	16,301,123	18,260,130	16,301,123
Instruction, curriculum and media services	1,469,151	1,408,369	1,469,151	1,408,369
Curriculum and staff development	264,471	339,982	264,471	339,982
Instructional and school leadership	2,299,269	1,887,042	2,299,269	1,887,042
Guidance, counseling and evaluation services	1,763,586	1,470,824	1,763,586	1,470,824
Social Services	138,970	135,425	138,970	135,425
Health Services	308,536	283,250	308,536	283,250
Student (pupil) transportation	2,415,410	2,356,380	2,415,410	2,356,380
Food services	1,155,489	989,127	1,155,489	989,127
Curricular/extracurricular activities	422,618	359,073	422,618	359,073
General administration	1,431,897	1,721,908	1,431,897	1,721,908
Plant maintenance and operations	4,788,184	4,403,416	4,788,184	4,403,416
Security and monitoring services	213,813	368,901	213,813	368,901
Data processing services	512,843	578,772	512,843	578,772
Community services	11,484	16,388	11,484	16,388
Debt services	146,869	179,775	146,869	179,775
Bond issuance cost and fees	2,300	2,000	2,300	2,000
Facilities acquisition and construction	34,106	17,865	34,106	17,865
Payments to Juvenile Justice Alternative Ed. Prg.	4,440	2,760	4,440	2,760
Other Intergovernmental Charges	416,369	-	416,369	-
Total Expenses	<u>\$ 36,059,935</u>	<u>\$ 32,822,380</u>	<u>\$ 36,059,935</u>	<u>\$ 32,822,380</u>
Increase in net assets before transfers and special items	9,561,760	9,998,169	9,561,760	9,998,169
Transfers	7,383	11,280	7,383	11,280
Special Items	-	-	-	-
Net assets at Beginning of Year	55,719,712	45,710,263	55,719,712	45,710,263
Net assets at Ending of the Year	<u>\$ 65,288,857</u>	<u>\$ 55,719,712</u>	<u>\$ 65,288,857</u>	<u>\$ 55,719,712</u>

The District's total revenues increased by 6.5 percent (\$2,801,146). The total cost of all programs

and services was moderately higher (\$3,237,555) than last year.

The cost of all governmental activities this year was \$36,059,935 compared to \$32,822,378 last year. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$21,706,918 because the rest of the costs (\$14,353,017) were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions or by State equalization funding.

#### THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet) reported a combined fund balance of \$19,660,300 which is more than last year's total of \$17,845,594. The increase is primarily due to increase in property tax.

Over the course of the year, the Board of Trustees revised the District's budget several times. These amendments principally involved reclassifications between functional categories and funds from programs that did not need all the resources originally appropriated to them to programs with resource needs and reclassifications between functional categories.

#### CAPITAL ASSET AND DEBT ADMINISTRATION

##### Capital Assets

At the end of 2009, the District had \$43,137,232 (net of depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of just over \$6,426,460, or 17.5 percent, above last year.

This year's major additions (construction in progress) included:

	<u>2009</u>
Land	\$ 120,622
Buildings	7,100,419
Furniture and Equipment	900,452
Vehicles	502,445
Leased Property	-
Construction In Progress	<u>415,167</u>
Total at historical cost	9,039,105
Less:	
Accumulated Depreciation	<u>(1,647,711)</u>
Net Capital Asset Additions	<u>\$ 7,391,394</u>

Debt At year-end, the District had \$1,660,000 in bonds outstanding, slightly less than last year.

Bonds outstanding include series 1996.

	<u>Balance</u>	<u>Pricipal</u>	<u>Principal</u>	<u>Balance</u>
	<u>09/01/08</u>	<u>Issued</u>	<u>Retired</u>	<u>08/31/09</u>
Revenue Bond	\$ 2,420,000	\$ -	\$ 760,000	\$ 1,660,000
<b>Total Long-Term Debt</b>	<b>\$ 2,420,000</b>	<b>\$ -</b>	<b>\$ 760,000</b>	<b>\$ 1,660,000</b>

#### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

These indicators were taken into account when adopting the General Fund budget for 2010. Amounts available for appropriation in the General Fund budget are \$10,379,850, a increase of approximately 54 percent from the final 2010 budget of \$42,570,000 resulting from state per capita payments, and grant revenue decreases. The District will use its revenues to finance programs we currently offer.

The budget approved by the Board of Trustees was not a balanced budget.

Expenditures are budgeted to decrease 8.7% to \$41,280,350. The decrease is mainly due to construction.

If these estimates are realized, the District's budgetary General Fund balance is expected to increase constant by the close of 2010, less any amounts from fund balance for major renovations and new district initiatives.

#### 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 business office, at SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT, 100 Med High Dr., Mercedes, Texas 78570.



SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
AUGUST 31, 2009

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 20,102,219
1220 Property Taxes Receivable (Delinquent)	3,868,374
1230 Allowance for Uncollectible Taxes	(386,837)
1240 Due from Other Governments	2,494,342
1250 Accrued Interest	141,092
1260 Internal Balances	(1)
1290 Other Receivables, net	47,057
1410 Deferred Expenses	280,450
Capital Assets:	
1510 Land	2,498,772
1520 Buildings, Net	34,852,284
1530 Furniture and Equipment, Net	4,490,235
1550 Leased Property Under Capital Leases, Net	878,870
1580 Construction in Progress	417,071
1000 Total Assets	69,683,929
<b>LIABILITIES</b>	
2110 Accounts Payable	1,402,713
2150 Payroll Deductions & Withholdings	215,404
2160 Accrued Wages Payable	1,116,952
Noncurrent Liabilities	
2501 Due Within One Year	805,000
2502 Due in More Than One Year	855,000
2000 Total Liabilities	4,395,069
<b>NET ASSETS</b>	
3200 Invested in Capital Assets, Net of Related Debt	41,477,233
3820 Restricted for Federal and State Programs	215,021
3860 Restricted for Capital Projects	9,000,000
3900 Unrestricted Net Assets	14,596,604
3000 Total Net Assets	\$ 65,288,858

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



SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2009

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Expenses	3	4	6	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 18,260,130	\$ 249,002	\$ 2,847,912	\$ (15,163,217)
12 Instructional Resources and Media Services	1,469,151	-	98,100	(1,371,050)
13 Curriculum and Instructional Staff Development	264,471	-	175,860	(88,611)
21 Instructional Leadership	131,762	-	7,718	(124,044)
23 School Leadership	2,167,507	-	139,512	(2,027,995)
31 Guidance, Counseling and Evaluation Services	1,763,586	-	274,144	(1,489,442)
32 Social Work Services	138,970	-	106,265	(32,705)
33 Health Services	308,536	-	20,079	(288,458)
34 Student (Pupil) Transportation	2,415,410	-	106,473	(2,308,937)
35 Food Services	1,155,489	-	1,156,133	644
36 Extracurricular Activities	422,618	-	18,636	(403,982)
41 General Administration	1,431,897	45,154	63,712	(1,323,031)
51 Plant Maintenance and Operations	4,788,184	-	166,397	(4,621,787)
52 Security and Monitoring Services	213,813	-	-	(213,813)
53 Data Processing Services	512,843	-	23,179	(489,664)
61 Community Services	11,484	-	11,483	(1)
72 Debt Service - Interest on Long Term Debt	146,869	-	-	(146,869)
73 Debt Service - Bond Issuance Cost and Fees	2,300	-	-	(2,300)
81 Facilities Acquisition and Construction	34,106	-	-	(34,106)
95 Payments to Juvenile Justice Alternative Ed. Prg.	4,440	-	-	(4,440)
99 Other Intergovernmental Charges	416,369	-	-	(416,369)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 36,059,934</u>	<u>\$ 294,156</u>	<u>\$ 5,215,601</u>	<u>(30,550,177)</u>

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	21,706,918
GC	Grants and Contributions not Restricted	17,299,574
IE	Investment Earnings	441,317
MI	Miscellaneous Local and Intermediate Revenue	664,128
S1	Special Item -	1
FR	Transfers In (Out):	7,383
TR	Total General Revenues, Special Items, and Transfers	<u>40,119,321</u>
CN	Change in Net Assets	9,569,144
NB	Net Assets--Beginning	55,719,712
NE	Net Assets--Ending	<u>\$ 65,288,857</u>

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

SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2009

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 19,332,384	\$ 325,280	\$ 19,657,664
1220 Property Taxes - Delinquent	3,868,374	-	3,868,374
1230 Allowance for Uncollectible Taxes (Credit)	(386,837)	-	(386,837)
1240 Due from Other Governments	2,308,032	186,310	2,494,342
1250 Accrued Interest	141,092	-	141,092
1260 Due from Other Funds	177,013	-	177,013
1290 Other Receivables	-	47,057	47,057
1410 Deferred Expenditures	280,450	-	280,450
1000 Total Assets	<u>\$ 25,720,508</u>	<u>\$ 558,647</u>	<u>\$ 26,279,155</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
2110 Accounts Payable	\$ 1,285,482	\$ 117,231	\$ 1,402,713
2150 Payroll Deductions and Withholdings Payable	215,404	-	215,404
2160 Accrued Wages Payable	1,077,784	39,168	1,116,952
2170 Due to Other Funds	-	177,014	177,014
2300 Deferred Revenues	3,481,536	10,213	3,491,749
2000 Total Liabilities	<u>6,060,206</u>	<u>343,626</u>	<u>6,403,832</u>
Fund Balances:			
Reserved For:			
3430 Prepaid Items	280,450	-	280,450
Unreserved Designated For:			
3510 Construction	9,000,000	-	9,000,000
Unreserved and Undesignated:			
3600 Reported in the General Fund	10,379,850	-	10,379,850
3610 Reported in Special Revenue Funds	-	215,021	215,021
3000 Total Fund Balances	<u>19,660,300</u>	<u>215,021</u>	<u>19,875,321</u>
4000 Total Liabilities and Fund Balances	<u>\$ 25,720,506</u>	<u>\$ 558,647</u>	<u>\$ 26,279,153</u>

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

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

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	19,875,321
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase net assets.		444,555
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$54,067,833 and the accumulated depreciation was \$(17,357,012). 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 net assets.		34,290,821
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2009 capital outlays and debt principal payments is to increase net assets.		8,834,122
4 The 2009 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(1,647,711)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		3,491,749
<b>19 Net Assets of Governmental Activities</b>	<b>\$</b>	<b>65,288,857</b>

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

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

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 22,750,830	\$ 530,521	\$ 23,281,351
5800 State Program Revenues	18,743,687	910,141	19,653,828
5900 Federal Program Revenues	121,883	2,208,944	2,330,827
5020 Total Revenues	<u>41,616,400</u>	<u>3,649,606</u>	<u>45,266,006</u>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
0011 Instruction	15,746,313	1,962,325	17,708,638
0012 Instructional Resources and Media Services	1,298,481	55,748	1,354,229
0013 Curriculum and Instructional Staff Development	88,866	175,605	264,471
0021 Instructional Leadership	131,762	-	131,762
0023 School Leadership	2,074,682	14,622	2,089,304
0031 Guidance, Counseling and Evaluation Services	1,514,818	190,803	1,705,621
0032 Social Work Services	34,489	104,481	138,970
0033 Health Services	306,244	2,292	308,536
0034 Student (Pupil) Transportation	2,576,822	1,800	2,578,622
0035 Food Services	-	1,096,795	1,096,795
0036 Extracurricular Activities	422,618	-	422,618
0041 General Administration	1,417,569	-	1,417,569
0051 Facilities Maintenance and Operations	4,758,295	5,415	4,763,710
0052 Security and Monitoring Services	341,778	-	341,778
0053 Data Processing Services	500,570	28,308	528,878
0061 Community Services	-	11,484	11,484
<b>Debt Service:</b>			
0071 Debt Service - Principal on Long Term Debt	-	760,000	760,000
0072 Debt Service - Interest on Long Term Debt	-	147,620	147,620
0073 Debt Service - Bond Issuance Cost and Fees	-	2,300	2,300
<b>Capital Outlay:</b>			
0081 Facilities Acquisition and Construction	7,053,382	-	7,053,382
<b>Intergovernmental:</b>			
0095 Payments to Juvenile Justice Alternative Ed. Prg.	4,440	-	4,440
0099 Other Intergovernmental Charges	416,369	-	416,369
6030 Total Expenditures	<u>38,687,498</u>	<u>4,559,598</u>	<u>43,247,096</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,928,902</u>	<u>(909,992)</u>	<u>2,018,910</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
7912 Sale of Real and Personal Property	2,831	-	2,831
7915 Transfers In	-	924,513	924,513
8911 Transfers Out (Use)	(921,080)	-	(921,080)
7956 Insurance Recovery	4,553	-	4,553
7080 Total Other Financing Sources (Uses)	<u>(913,696)</u>	<u>924,513</u>	<u>10,817</u>
1200 Net Change in Fund Balances	2,015,206	14,521	2,029,727
0100 Fund Balance - September 1 (Beginning)	<u>17,645,095</u>	<u>200,498</u>	<u>17,845,593</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 19,660,301</u>	<u>\$ 215,019</u>	<u>\$ 19,875,320</u>

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

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

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	2,029,727
<p>The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets.</p>		
		(2,683)
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2009 capital outlays and debt principal payments is to increase net assets.</p>		
		8,834,122
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.</p>		
		(1,647,711)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.</p>		
		355,689
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b>9,569,144</b>

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

SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
AUGUST 31, 2009

EXHIBIT D-1

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	Governmental Activities -
	Internal Service Fund
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 444,555
Total Assets	<u>444,555</u>
<b>NET ASSETS</b>	
Unrestricted Net Assets	<u>444,555</u>
Total Net Assets	<u><u>\$ 444,555</u></u>

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

SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2009

EXHIBIT D-2

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 1,428
Total Operating Revenues	1,428
OPERATING EXPENSES:	
Debt Service	677
Total Operating Expenses	677
Income Before Transfers	751
Transfers Out	(3,434)
Change in Net Assets	(2,683)
Total Net Assets - September 1 (Beginning)	447,238
 Total Net Assets - August 31 (Ending)	 \$ 444,555

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

SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2009

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Investments	\$ 1,428
Cash Payments for Other Operating Expenses	(677)
Net Cash Provided by Operating Activities	751
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	(3,434)
Net Decrease in Cash and Cash Equivalents	(2,683)
Cash and Cash Equivalents at Beginning of the Year:	447,238
Cash and Cash Equivalents at the End of the Year:	\$ 444,555
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>	
Operating Income (Loss):	\$ 751

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



SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
AUGUST 31, 2009

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EXHIBIT E-1

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 347,724
Total Assets	<u>\$ 347,724</u>
LIABILITIES	
Due to Student Groups	\$ 347,724
Total Liabilities	<u>\$ 347,724</u>

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

SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

South Texas Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. 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 School Trustees ("Board"), a twenty-one group, has governance responsibilities over all activities related to public, special, and secondary school education within the jurisdiction of the South Texas Independent School District. The District has no exclusive jurisdiction but instead recruits students from other districts within Cameron, Hidalgo and Willacy counties. Because members of the Board of Trustees are elected by the public and appointed; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters; the District is not included in any other governmental "reporting entity" as defined by Governmental Accounting Standards Board ("GASB"), Statement No. 14, The Financial Reporting Entity.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth in GASB 14. Based upon the application of these criteria, the component unit disclosed below is included in the District's reporting entity because of the significance of their operational and financial relationship with the District. Since the District receives funding from local, state and federal government sources, it must comply with the requirements of the entities providing those funds.

Component unit included:

South Texas Independent School District Public Facilities Corporation ("PFC") was formed as an independent separate entity to finance the construction of various school facilities by issuing revenue bonds. The PFC is used to finance the payment of bonds by leasing the school buildings to the District. Enough revenue should be realized from the annual lease proceeds to service the principal and interest on the bonds. The PFC was formed by the District to facilitate the construction of several school buildings. The PFC Board of Directors are also members of the School Board. PFC is included in these financial statements in a blended presentation since the entity has essentially the same Board as the District; it receives all of its revenue from the lease solely from the District and is a mere extension of the District. Financial information on the PFC is available for review at the District's administrative offices.

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on the entire District with the interfund activities removed. Governmental activities include programs supported primarily by grants, state foundation funds and other intergovernmental revenues.

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 the entire District with the interfund activities removed. Governmental activities include programs supported primarily by grants, state foundation funds and other intergovernmental revenues.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use or directly benefit from goods or services provided by a given function or segment of the District. Examples

include services provided to students within the District, refunds, and miscellaneous income, etc. The “grants and contributions” column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants through the Department of Education and Department of Agriculture. If revenue is not program revenue, it is general revenue used to support all of the District’s functions.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. All other revenues and expenses are non-operating.

#### 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, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for 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. The District considers all revenues available if they are collectible within 60 days after year-end.

#### D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Revenues from local sources consist primarily of property taxes. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

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

#### E. BASIS OF PRESENTATION - FUND ACCOUNTING

The District reports the following major governmental funds:

1. General Fund - is used to account for financial resources used for general operations. This is a budgeted fund and any fund balances are considered resources available for current operations. All revenues and expenditures not required to be accounted for in other funds, are accounted for in this fund.

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

Governmental Funds:

1. Special Revenue Funds - are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Normally, unused balances are returned to the grantor at the close of specified project periods.
2. Debt Service Fund - is used to account for tax revenues and payments made for principal and interest and related costs on long-term debt.
3. Permanent Funds - is used to account for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs. The District has no Permanent Funds.

Proprietary Fund:

1. Internal Service Funds - are used to account for revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund.

#### BASIS OF PRESENTATION - FUND ACCOUNTING

Fiduciary funds:

1. Private Purpose Trust Funds - are used to account for donations, which have stipulations that the principal may not be expended; only the income may be used for a specific purpose. The District has no private purpose trust funds.
2. Agency Funds – are used to account for assets held by the District in a trustee capacity or as an agent for individual, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets and liabilities) and do not involve measurement of results of operations.

#### F. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have maturity of three months or less when purchased.
2. Inventories of supplies on the balance sheet are stated at weighted average cost and they include consumable maintenance, instructional and office items. Supplies are recorded as expenditures when they are consumed.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.
4. Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost equal to or more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings, furniture 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	40
Buses	10
Other Vehicles	7
Equipment	5

5. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.
6. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.
7. The Data Control Codes refer to the account code structure prescribed by TEA in the Financial Accountability System Resource Guide. Texas Education Agency requires school districts and service centers 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.

E. OTHER ACCOUNTING POLICIES

8. The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2009, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF 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 capital leases payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

Capital assets at the <u>Beginning of Year</u>	Historical <u>Cost</u>	Accumulated <u>Depreciation</u>	Net Value at the <u>Beginning of Year</u>	Change in <u>Net Assets</u>
Land	\$ 2,378,150	\$ -	\$ 2,378,150	
Buildings & Improvements	43,045,150	(14,151,687)	28,893,463	
Furniture & Equipment	6,798,776	(3,205,325)	3,593,451	
Leased Property	878,870	-	878,870	
Construction In Progress	966,887	-	966,887	
Change in Net Assets				\$ 36,710,821
Long-Term liabilities at the <u>Beginning of Year</u>			Payable at the <u>Beginning of Year</u>	
Bonds Payable			2,420,000	
Change in Net Assets				2,420,000
Net Adjustment to Net Assets				\$ 39,130,821

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

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

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments in Net Assets</u>
Current Year Capital Outlay			
Land	\$ 120,622	\$ 120,622	
Buildings & Improvements	7,100,419	7,100,419	
Furniture & Equipment	1,402,897	1,402,897	
Construction In Progress	(549,816)	(549,816)	
Total Capital Outlay			\$ 8,074,123
Debt Principal Payments			
Long Term Debt Payment	760,000	760,000	
Total Principal Payments			760,000
Net Adjustment to Net Assets			\$ 8,834,123

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 Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	\$ 1,105,467	\$ (1,105,467)	-
Uncollected taxes (assumed collectible) from Current Year Levy	1,587,227	1,587,227	-
Uncollected taxes (assumed collectible) from Prior Year Levy	2,281,147	-	-
Correct Prior Year Estimates	126,071	(126,071)	355,689
<u>Reclassified Proceeds of Bonds, Loans &amp; Capital Leases</u>			
New Bonds Issue	-	-	-
Discount (Premium) on Issuance of Bonds	-	-	-
Capital Lease Proceeds	-	-	-
Other	-	-	-
Reclassify liabilities incurred but not liquidated this year	-	-	-
Unused Vacation Pay and/or unused sick leave	-	-	-
Reclassify certain expenditures to prepaid assets:	-	-	-
Prepaid Insurance Premiums	-	-	-
Total		\$ 355,689	355,689

### III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. BUDGETARY DATA

The official budget was prepared for adoption for the General Fund, Debt Service Fund and the Food Service Fund, which is included within the Special Revenue Funds, which is included within the General Funds. The General Fund, Debt Service Fund and the Food Service Fund Budget reports appear in Exhibits G-1, G-2, G-3 respectively. The following procedures are followed in establishing the budgetary data reflected in the general purpose financial statements: The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20th the District prepares a budget for the next succeeding fiscal year beginning September 1st. 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. Public notice of the meeting must be given at least ten days prior to the meeting.
3. Prior to September 1st, 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. During the year, the budget was amended as necessary. There were significant budget amendments passed during the 2008-2009 school year.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function or object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31st, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. The District had no outstanding end-of-year encumbrances.

### 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 pledge of 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, 2009, the carrying amount of the District's deposits (cash, and interest bearing savings accounts) was \$(22,206) and the bank balance was \$496,598. The District's cash deposits at August 31, 2009 and the year ended were entirely covered by FDIC insurance and by pledged collateral held by the District's agent bank in the District's name. In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Frost Bank
- b. Highest combined balances of cash accounts amounted to \$6,014,638 and occurred on January 14, 2009.
- c. Total amount of FDIC coverage at the time of the highest combined balance was \$250,000.
- d. The market value of securities pledged as of the date of the highest combined balance on deposits was \$17,345,273.

District Policies and Legal Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits – State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure on deposit at the end of each business day. The pledged securities must be in

the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial risk for deposits.

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

#### District Policies and Legal Contractual Provisions Governing Investments

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

The District’s temporary investments at August 31, 2009 are shown below:

Name	Carrying Amounts	Market Value	Maturity
Certificates of Deposit	\$ 14,731,020	\$ 14,731,020	Less than 1 year
TexPool	4,158,440	4,158,440	Less than 1 year
Totals	<u>\$ 18,889,460</u>	<u>\$ 18,889,460</u>	

Additional policies and contractual provisions governing deposits and investments for the District are specified below:

Credit Risk – In accordance with state law and the District’s investment policy, investments in mutual funds and investment pools must be rated at least AAA or have an equivalent rating, commercial paper must be rated at least A-1, P-1 or have an equivalent rating, and obligations of states, agencies, counties, and cities must be at least A or its equivalent. As of August 31, 2009, the District’s investments in TexPool was rated AAAM by Standard and Poor’s (S&P).

Custodial Risk for Investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments held by third parties were fully collateralized and held in the District’s name.

Concentration of Credit Risk – The investment portfolio is diversified in terms of investment instruments and maturity scheduling to reduce risk of loss resulting from over concentration of assets in specific class of investments, specific maturity or specific issuer. As of August, 31, 2009, the District had 78% of its investments in certificates of deposits in Compass Bank. These certificates of deposits were fully covered by eligible pledged securities. The District had 22% of its investments in Texpool investment pools rated AAA as noted above.

Interest Rate Risk – In accordance with state law and the District’s investment policy, the District does not purchase any investments greater than five (5) years for its operating funds.



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

The Public Facilities Corporation’s temporary investments at August 31, 2009, are shown below:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
<b>Bank of New York:</b>					
Cash Pmt. Fund	\$ 58	\$ -	\$ -	\$ -	\$ -
Cash Reserve Fund	444,498	-	-	-	-
<b>Total</b>	<b>\$ 444,555</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

The Public Funds Investment Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the general purpose financial statements, disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

**B. PROPERTY TAXES**

Property taxes are levied by October 1st in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1st of the year following the year in which imposed. On January 1st of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period and those expected to be collected during a 60-day period after the close of the school fiscal year. The District’s 2009 tax rate was \$0.04920 for maintenance, per \$100 assessed valuation. The assessed valuation of \$44,183,214,250 used to determine the tax rates, represents 100% of the fair market value of the property. Allowances for uncollectible taxes within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**C. INTERFUND RECEIVABLES AND PAYABLES**

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

<b>Interfund Assets/Liabilities</b>		
<b>Due From/due to Other Funds:</b>		
<b>Fund</b>	<b>Due From Other</b>	<b>Due to Other</b>
General Fund		
Special Revenue Funds	\$ 177,013	\$ -
Total Due From	177,013	-
Special Revenue Funds		
General Fund	-	177,013
Total Due To	-	177,013
Total Due From Minus Due To:	\$ 177,013	\$ (177,013)

Balances resulted from the time lag between the dates that interfund goods and services are provided

D. DUE FROM AND TO 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 and to federal and state governments as of August 31, 2009, are summarized below:

	Due From	Due to
<u>General Fund</u>	Other Gov'ts	Other Gov'ts
Texas Education Agency	\$ 1,298,703	-
Various School Districts	526,444	-
Cameron County	25,348	-
Willacy County	5,033	-
Hidalgo County	62,722	-
Other Governments	389,781	-
<b>Total General Fund</b>	<b>\$ 2,308,032</b>	<b>\$ -</b>
<b>Special Revenue Funds</b>		
National School Lunch Program	\$ 20,508	\$ -
Technology Allotment	9,959	-
State Funded Special Revenue	12,000	-
<b>Total Special Revenue Funds</b>	<b>\$ 42,467</b>	<b>\$ -</b>
<b>Total</b>	<b>\$ 2,350,499</b>	<b>\$ -</b>

E. CAPITAL ASSET ACTIVITY

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

	Balance as of 8/31/2008	Increases	Retirements	Balance as of 8/31/2009
<b>Governmental Activities</b>				
Land	2,378,150	120,622	-	2,498,772
Buildings & Improvements	43,045,150	7,100,419	-	50,145,569
Furniture and Equipment	2,248,350	900,452	-	3,148,801
Vehicles	4,550,427	502,445	-	5,052,872
Leased Property	878,870	-	-	878,870
Construction in process	966,886	415,167	(964,983)	417,070
<b>Total at Historical Costs</b>	<b>54,067,833</b>	<b>9,039,105</b>	<b>(964,983)</b>	<b>62,141,955</b>
<b>Less Accumulated Depreciation</b>				
Buildings & Improvements	(14,151,687)	(1,141,598)	-	(15,293,285)
Furniture and Equipment	(3,205,325)	(506,113)	-	(3,711,438)
<b>Total Accumulated Depreciation</b>	<b>(17,357,012)</b>	<b>(1,647,711)</b>	<b>-</b>	<b>(19,004,723)</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>36,710,821</b>	<b>7,391,394</b>	<b>(964,983)</b>	<b>43,137,232</b>

Depreciation Expense was charged to governmental functions as follows:		
	Instruction	\$ 795,941
	Instructional Resources and Media Services	114,922
	Curriculum Development and Instructional Staff	-
	Instructional Leadership	-
	School Leadership	78,203
	Guidance, Counseling and Evaluation Services	57,965
	Social Work Services	-
	Health Services	-
	Student (Pupil) Transportation	341,523
	Food Services	79,679
	Curriculum/Extracurricular Activities	-
	General Administration	14,328
	Plant Maintenance and Operations	76,290
	Security and Monitoring Services	48,013
	Data Processing Services	6,743
	Community Services	-
	Facilities Acquisition and Construction	34,106
	Contracted Instructional Services Between Schools	-
	Debt Service - Principal on Long Term Debt	-
	In addition, depreciation on capital assets held by the	
	Internal Service Fund(s) is charged to various	
	based on their usage of the assets	-
	<b>Total Depreciation Expense</b>	<b>\$ 1,647,711</b>

#### F. BONDS PAYABLE

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Revenue Bonds School Facility Lease Revenue Bonds Series 1996 dated June 15, 1996 consisting of \$1,660,000 in serial bonds payable in annual installments with interest of 6 %. Debt service requirements are as follows:

Year Ended	Revenue Bonds		Total Required
	Principal	Interest	
August 31,			
2010	805,000	101,260	906,260
2011	855,000	52,155	907,155
2012	-	-	-
<b>Totals</b>	<b>\$ 1,660,000</b>	<b>\$ 153,415</b>	<b>\$ 1,813,415</b>

G. CHANGES IN GENERAL LONG-TERM DEBT

Activity in the General Long-Term Debt Account Group for the District for the year ended August 31, 2009, was as follows:

	<u>Balance</u>	<u>Pricipal</u>	<u>Principal</u>	<u>Balance</u>
	<u>09/01/08</u>	<u>Issued</u>	<u>Retired</u>	<u>08/31/09</u>
Revenue Bond	\$ 2,420,000	\$ -	\$ 760,000	\$ 1,660,000
<b>Total Long-Term Debt</b>	<b>\$ 2,420,000</b>	<b>\$ -</b>	<b>\$ 760,000</b>	<b>\$ 1,660,000</b>

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

H. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	<u>Fund</u>
Net Tax Revenue	\$ 3,481,536
State Foundation Revenue	10,213
<b>Total</b>	<b>\$ 3,491,749</b>

I. DEFINED PENSION PLAN

Plan Description. The District contributes to the Teacher Retirement System of Texas (TRS), a cost sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8; Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 8701, 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](http://www.trs.state.tx.us), under the TRS Publications heading.

Funding Policy. State law provides a state contribution rate of 6.58% and a member contribution rate of 6.4%. In certain instances the reporting district (I.S.D., college, university, or state agency) is required to make all or a portion of the state's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.58% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would

be increased by such action. State contributions to TRS made on behalf of the District's employees for the years ended August 31, 2009, 2008 and 2007 was \$1,511,803, \$1,352,073 and \$1,089,304, respectively.

The District paid additional state contributions for the years ended August 31, 2009, 2008, and 2007 in the amount of \$184,133, \$153,579, and \$132,045 respectively.

The District received additional state contributions from TRS Medicare Part D on-behalf payments for years ended August 31, 2009, 2008, and 2007 in the amounts of \$54,193.00, \$46,932.00, and \$39,539.00 respectively.

#### J. RISK MANAGEMENT

On September 1, 2007, the District entered into an interlocal agreement with the Texas Association State Board ("TASB") for the purpose of providing the statutory workers' compensation benefits for employees. The TASB Board establishes an experience rating formula for each Fund member and a specific contribution amount. The District's contribution amount for the year was \$224,795. This contribution to the plan was accrued throughout the year and paid in one installment by the District. The District assumes no joint or several liabilities beyond the annual contribution amount. However, should the District continue in this Plan, it would be subject to annual rate contribution adjustments, which would be based on claims experience.

#### K. LITIGATION

The District's attorney reports no pending or threatened lawsuits, claims or assessments, including civil rights complaints.

#### L. 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 collectibles 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.

#### M. RECLASSIFICATIONS

In the preparation of the general purpose financial statements, certain prior period balances have been reclassified to comparatively relate to current year reported balances.

#### N. USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and/or disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

O. MAINTENANCE OF EFFORT

The amount paid by the District for employee health care premiums is as follows:

a) Total District Premium paid for health care 2008-09		<u>\$ 1,562,266</u>
b) Subtract any non-medical expenditures		
Life Insurance	\$ 29,634	
Dental Insurance	69,932	
Vision Insurance	-	
Long-Term Disability	24,786	
Short-Term Disability	-	
Alternate Plans	-	
COBRA Expense	-	
Retiree Expense	-	
		<u>\$ 124,352</u>
c) 2008-2009 Maintenance of Effort		<u>\$ 1,437,914</u>

P. SUBSEQUENT EVENTS

Subsequent to year end, the District paid off its Long-Term Debt under the Public Facility Corp School Facility Lease Revenue Bond, Series 1996. The payment was made as follows on November 10, 2009:

<b>Principal</b>	<b>\$ 1,660,000.00</b>
<b>Interest</b>	<b>50,630.00</b>
<b>Premium</b>	<b>8,300.00</b>
<b>Less: Interest Income</b>	<u><b>444,555.50</b></u>
<b>Total Paid</b>	<u><b>1,274,374.50</b></u>



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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 21,868,000	\$ 21,868,000	\$ 22,750,830	\$ 882,830
5800 State Program Revenues	20,270,000	19,662,233	18,743,687	(918,546)
5900 Federal Program Revenues	50,000	50,000	121,883	71,883
5020 Total Revenues	42,188,000	41,580,233	41,616,400	36,167
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	17,425,100	16,824,236	15,746,313	1,077,923
0012 Instructional Resources and Media Services	1,392,950	1,392,950	1,298,481	94,469
0013 Curriculum and Instructional Staff Development	194,000	194,000	88,866	105,134
0021 Instructional Leadership	130,000	141,000	131,762	9,238
0023 School Leadership	2,143,450	2,143,450	2,074,682	68,768
0031 Guidance, Counseling and Evaluation Services	1,708,400	1,708,400	1,514,818	193,582
0032 Social Work Services	52,500	52,500	34,489	18,011
0033 Health Services	320,050	320,050	306,244	13,806
0034 Student (Pupil) Transportation	3,991,500	3,991,500	2,576,822	1,414,678
0036 Extracurricular Activities	477,850	477,850	422,618	55,232
0041 General Administration	1,914,300	1,489,300	1,417,569	71,731
0051 Facilities Maintenance and Operations	5,637,700	5,637,700	4,758,295	879,405
0052 Security and Monitoring Services	357,100	357,100	341,778	15,322
0053 Data Processing Services	604,600	604,600	500,570	104,030
Capital Outlay:				
0081 Facilities Acquisition and Construction	7,930,000	7,930,000	7,053,382	876,618
Intergovernmental:				
0095 Payments to Juvenile Justice Alternative Ed. Prg.	25,000	25,000	4,440	20,560
0099 Other Intergovernmental Charges	-	425,000	416,369	8,631
6030 Total Expenditures	44,304,500	43,714,636	38,687,498	5,027,138
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,116,500)	(2,134,403)	2,928,902	5,063,305
<b>OTHER FINANCING SOURCES (USES):</b>				
7912 Sale of Real and Personal Property	-	-	2,831	2,831
8911 Transfers Out (Use)	(910,000)	(925,000)	(921,080)	3,920
7956 Insurance Recovery	-	-	4,553	4,553
7080 Total Other Financing Sources (Uses)	(910,000)	(925,000)	(913,696)	11,304
1200 Net Change in Fund Balances	(3,026,500)	(3,059,403)	2,015,206	5,074,609
0100 Fund Balance - September 1 (Beginning)	17,645,095	17,645,095	17,645,095	-
3000 Fund Balance - August 31 (Ending)	\$ 14,618,595	\$ 14,585,692	\$ 19,660,301	\$ 5,074,609



## **COMBINING AND OTHER STATEMENTS**

SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2009

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	224 IDEA - Part B Formula
<b>ASSETS</b>				
1110	\$ -	\$ -	\$ -	\$ -
1240	-	22,820	-	13,023
1290	-	-	-	-
1000	<u>\$ -</u>	<u>\$ 22,820</u>	<u>\$ -</u>	<u>\$ 13,023</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
2110	\$ -	\$ -	\$ -	\$ -
2160	-	11,443	-	13,023
2170	-	11,377	-	-
2300	-	-	-	-
2000	<u>-</u>	<u>22,820</u>	<u>-</u>	<u>13,023</u>
Fund Balances:				
Unreserved and Undesignated:				
3610	-	-	-	-
3000	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<u>\$ -</u>	<u>\$ 22,820</u>	<u>\$ -</u>	<u>\$ 13,023</u>

EXHIBIT H-1 (Cont'd)

240 National Breakfast and Lunch Program	244 Vocational Ed Basic Grant	255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	350 SSA - III, A English Lang. Acquisition	397 Advanced Placement Incentives	411 Technology Allotment	428 High School Allotment
\$ 276,991	\$ 3,072	\$ -	\$ -	\$ -	\$ 10,213	\$ 30,859	\$ -
20,508	-	-	-	-	-	9,959	-
4,492	-	-	-	-	-	-	-
<u>\$ 301,991</u>	<u>\$ 3,072</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,213</u>	<u>\$ 40,818</u>	<u>\$ -</u>
\$ 90,308	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,778	\$ -
14,702	-	-	-	-	-	-	-
-	3,072	-	-	-	-	-	-
-	-	-	-	-	10,213	-	-
<u>105,010</u>	<u>3,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,213</u>	<u>22,778</u>	<u>-</u>
196,981	-	-	-	-	-	18,040	-
<u>196,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,040</u>	<u>-</u>
<u>\$ 301,991</u>	<u>\$ 3,072</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,213</u>	<u>\$ 40,818</u>	<u>\$ -</u>

SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2009

Data Control Codes	429 Other State Special Revenue Funds	481 Nat'l Lib of Medicine Grant	482 High School Engineer Magnum	483 Strategies
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ -	\$ 4,145	\$ -	\$ -
1240 Due from Other Governments	120,000	-	-	-
1290 Other Receivables	-	37,565	5,000	-
1000 Total Assets	<u>\$ 120,000</u>	<u>\$ 41,710</u>	<u>\$ 5,000</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
2110 Accounts Payable	\$ -	\$ 4,145	\$ -	\$ -
2160 Accrued Wages Payable	-	-	-	-
2170 Due to Other Funds	120,000	37,565	5,000	-
2300 Deferred Revenues	-	-	-	-
2000 Total Liabilities	<u>120,000</u>	<u>41,710</u>	<u>5,000</u>	<u>-</u>
Fund Balances:				
Unreserved and Undesignated:				
3610 Reported in Special Revenue Funds	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 120,000</u>	<u>\$ 41,710</u>	<u>\$ 5,000</u>	<u>\$ -</u>

Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 325,280	\$ -	\$ 325,280
186,310	-	186,310
47,057	-	47,057
<u>\$ 558,647</u>	<u>\$ -</u>	<u>\$ 558,647</u>
\$ 117,231	\$ -	\$ 117,231
39,168	-	39,168
177,014	-	177,014
10,213	-	10,213
<u>343,626</u>	<u>-</u>	<u>343,626</u>
215,021	-	215,021
<u>215,021</u>	<u>-</u>	<u>215,021</u>
<u>\$ 558,647</u>	<u>\$ -</u>	<u>\$ 558,647</u>

SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUNDBALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	224 IDEA - Part B Formula
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	12,537	800,836	64,761	408,797
5020 Total Revenues	<u>12,537</u>	<u>800,836</u>	<u>64,761</u>	<u>408,797</u>
EXPENDITURES:				
Current:				
0011 Instruction	12,537	673,494	64,761	218,886
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	-	11,377	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	189,911
0032 Social Work Services	-	104,481	-	-
0033 Health Services	-	-	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
0053 Data Processing Services	-	-	-	-
0061 Community Services	-	11,484	-	-
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	-	-	-	-
0072 Debt Service - Interest on Long Term Debt	-	-	-	-
0073 Debt Service - Bond Issuance Cost and Fees	-	-	-	-
6030 Total Expenditures	<u>12,537</u>	<u>800,836</u>	<u>64,761</u>	<u>408,797</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	-
7080 Total Other Financing Sources (Uses)	-	-	-	-
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>

240 National Breakfast and Lunch Program	244 Vocational Ed Basic Grant	255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	350 SSA - III, A English Lang. Acquisition	397 Advanced Placement Incentives	411 Technology Allotment	428 High School Allotment
\$ 402,258	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6,022	-	-	-	6,050	22,253	78,204	577,612
747,853	30,048	139,151	4,961	-	-	-	-
<u>1,156,133</u>	<u>30,048</u>	<u>139,151</u>	<u>4,961</u>	<u>6,050</u>	<u>22,253</u>	<u>78,204</u>	<u>577,612</u>
-	30,048	-	2,137	6,050	-	73,960	600,709
-	-	-	-	-	-	-	-
-	-	139,151	2,824	-	22,253	-	-
-	-	-	-	-	-	2,249	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,096,795	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	28,308	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>1,096,795</u>	<u>30,048</u>	<u>139,151</u>	<u>4,961</u>	<u>6,050</u>	<u>22,253</u>	<u>104,517</u>	<u>600,709</u>
59,338	-	-	-	-	-	(26,313)	(23,097)
4,593	-	-	-	-	-	-	-
4,593	-	-	-	-	-	-	-
63,931	-	-	-	-	-	(26,313)	(23,097)
133,049	-	-	-	-	-	44,352	23,097
<u>\$ 196,980</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,039</u>	<u>\$ -</u>

SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUNDBALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	429 Other State Special Revenue Funds	481 Nat'l Lib of Medicine Grant	482 High School Engineer Magnum	483 Strategies
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ 46,463	\$ 5,000	\$ 76,800
5800 State Program Revenues	220,000	-	-	-
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>220,000</u>	<u>46,463</u>	<u>5,000</u>	<u>76,800</u>
EXPENDITURES:				
Current:				
0011 Instruction	202,893	-	5,000	71,850
0012 Instructional Resources and Media Services	-	55,748	-	-
0013 Curriculum and Instructional Staff Development	-	-	-	-
0023 School Leadership	7,473	-	-	4,900
0031 Guidance, Counseling and Evaluation Services	842	-	-	50
0032 Social Work Services	-	-	-	-
0033 Health Services	2,292	-	-	-
0034 Student (Pupil) Transportation	1,800	-	-	-
0035 Food Services	-	-	-	-
0051 Facilities Maintenance and Operations	4,700	715	-	-
0053 Data Processing Services	-	-	-	-
0061 Community Services	-	-	-	-
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	-	-	-	-
0072 Debt Service - Interest on Long Term Debt	-	-	-	-
0073 Debt Service - Bond Issuance Cost and Fees	-	-	-	-
6030 Total Expenditures	<u>220,000</u>	<u>56,463</u>	<u>5,000</u>	<u>76,800</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(10,000)</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	10,000	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 530,521	\$ -	\$ 530,521
910,141	-	910,141
2,208,944	-	2,208,944
<u>3,649,606</u>	<u>-</u>	<u>3,649,606</u>
1,962,325	-	1,962,325
55,748	-	55,748
175,605	-	175,605
14,622	-	14,622
190,803	-	190,803
104,481	-	104,481
2,292	-	2,292
1,800	-	1,800
1,096,795	-	1,096,795
5,415	-	5,415
28,308	-	28,308
11,484	-	11,484
-	760,000	760,000
-	147,620	147,620
-	2,300	2,300
<u>3,649,678</u>	<u>909,920</u>	<u>4,559,598</u>
(72)	(909,920)	(909,992)
<u>14,593</u>	<u>909,920</u>	<u>924,513</u>
<u>14,593</u>	<u>909,920</u>	<u>924,513</u>
14,521	-	14,521
200,498	-	200,498
<u>\$ 215,019</u>	<u>\$ -</u>	<u>\$ 215,019</u>

SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED AUGUST 31, 2009

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2000 and prior years	Various	Various	\$ 35,736,737,059
2001	0.037200	0.000000	20,244,655,745
2002	0.039200	0.000000	23,362,386,978
2003	0.039200	0.000000	25,098,158,017
2004	0.039200	0.000000	26,848,912,853
2005	0.039200	0.000000	30,097,163,050
2006	0.039200	0.000000	32,522,770,968
2007	0.039200	0.000000	36,038,520,908
2008	0.049200	0.000000	40,603,060,838
2009 (School year under audit)	0.049200	0.000000	44,825,923,627
1000 TOTALS			

(10) Beginning Balance 9/1/2008	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2009
\$ 451,371	\$ -	\$ 26,312	\$ -	\$ (56,116)	\$ 368,944
91,501	-	9,232	-	(6,356)	75,912
112,540	-	12,038	-	(6,832)	93,671
133,680	-	18,607	-	(6,754)	108,320
172,071	-	30,695	-	(3,861)	137,515
240,704	-	50,724	-	(9,755)	180,225
336,081	-	79,614	-	1,445	257,912
516,305	-	169,735	-	(4,811)	341,759
1,430,256	-	708,511	-	(4,855)	716,890
-	21,521,960	20,419,582	-	484,848	1,587,227
<u>\$ 3,484,510</u>	<u>\$ 21,521,960</u>	<u>\$ 21,525,049</u>	<u>\$ -</u>	<u>\$ 386,953</u>	<u>\$ 3,868,374</u>

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

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

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLL COSTS	\$ 39,161	\$ -	\$ 326,699	\$ 502,270	\$ 102,733	\$ -	\$ 970,863
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	15,995	-	-	-	15,995
6212	Audit Services	-	-	-	23,000	-	-	23,000
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	416,369	-	-	-	-	416,369
621X	Other Professional Services	-	-	65,560	-	-	-	65,560
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	71,765	-	-	71,765
6240	Contr. Maint. and Repair	-	-	-	-	6,318	-	6,318
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	5,268	5,908	4,967	-	16,143
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	1,503	-	-	-	1,503
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	14,163	-	53,339	15,765	10,496	-	93,763
6410	Travel, Subsistence, Stipends	83,936	-	13,137	14,873	7,558	-	119,504
6420	Ins. and Bonding Costs	6,243	-	-	-	-	-	6,243
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	4,423	-	91,731	685	1,839	-	98,678
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 147,926	\$ 416,369	\$ 573,232	\$ 634,266	\$ 133,911	\$ -	\$ 1,905,704

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 42,337,177

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 8,074,122
Total Debt & Lease(6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	4,711,894
Food (Function 35, 6341 and 6499)	(13)	356,024
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		634,266

SubTotal: 13,776,306

Net Allowed Direct Cost \$ 28,560,870

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 50,145,569
Historical Cost of Building over 50 years old	(16)	-
Amount of Federal Money in Building Cost (Net of #16)	(17)	-
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	8,201,673
Historical Cost of Furniture & Equipment over 16 years old	(19)	-
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	-

(8) NOTE A: \$71,765 in Function 53 expenditures are included in this report on administrative costs.  
 \$416,369 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT  
 FUNDBALANCE AND CASHFLOW CALCULATION WORKSHEET  
 GENERAL FUND AS OF AUGUST 31, 2009

**UNAUDITED**

1	Total General Fund Balance as of 8/31/09 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 19,660,300
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$ 280,450	
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)	9,000,000	
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	7,608,505	
5	Estimate of one month's average cash disbursements during the regular school session (9/1/09-5/31/10).	4,128,035	
6	Estimate of delayed payments from state sources (58xx) including August payment delays	-	
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount.	-	
8	Estimate of delayed payments from federal sources (59xx)	-	
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	-	
10	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)		<u>21,016,990</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)		<u>\$ (1,356,690)</u>

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 283,000	\$ 355,200	\$ 402,258	\$ 47,058
5800 State Program Revenues	7,000	7,000	6,022	(978)
5900 Federal Program Revenues	660,000	729,800	747,853	18,053
5020 Total Revenues	950,000	1,092,000	1,156,133	64,133
EXPENDITURES:				
0035 Food Services	950,000	1,092,000	1,096,795	(4,795)
6030 Total Expenditures	950,000	1,092,000	1,096,795	(4,795)
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	59,338	59,338
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	4,593	4,593
7080 Total Other Financing Sources (Uses)	-	-	4,593	4,593
1200 Net Change in Fund Balances	-	-	63,931	63,931
0100 Fund Balance - September 1 (Beginning)	133,049	133,049	133,049	-
3000 Fund Balance - August 31 (Ending)	\$ 133,049	\$ 133,049	\$ 196,980	\$ 63,931

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
EXPENDITURES:					
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	910,000	760,000	760,000	-
0072	Debt Service - Interest on Long Term Debt	-	147,620	147,620	-
0073	Debt Service - Bond Issuance Cost and Fees	-	2,380	2,300	80
6030	Total Expenditures	910,000	910,000	909,920	80
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(910,000)	(910,000)	(909,920)	80
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	910,000	910,000	909,920	(80)
7080	Total Other Financing Sources (Uses)	910,000	910,000	909,920	(80)
1200	Net Change in Fund Balances	-	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

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

Independent Auditor's Report

Board of Trustees  
South Texas Independent School District  
100 Med High Dr  
Mercedes, TX 78570

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Texas Independent School District (the District) as of and for the year ended August 31, 2009. These collectively comprise the District's basic financial statements. We have issued our report on them dated December 16, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered South Texas 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 South Texas Independent School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of South Texas Independent School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies



in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Texas 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*.

South Texas Independent School District's response to the findings identified in our audit are described in the accompanying schedule of findings and responses.

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

*Luis C. Orozco*  
*Certified Public Accountant*

*December 16, 2009*

**LUIS C OROZCO**  
CERTIFIED PUBLIC ACCOUNTANT  
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[lcocpa@lcocpa.com](mailto:lcocpa@lcocpa.com)

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

Independent Auditor's Report

Board of Trustees  
100 Med High Dr  
Mercedes, Texas 78570

Members of the Board:

Compliance

We have audited the compliance of South Texas Independent School District with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2009. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of South Texas 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 South Texas 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 South Texas Independent School District's compliance with those requirements.

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

Internal Control Over Compliance

The administration of South Texas Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could

have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

South Texas Independent School District's response to the findings in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit South Texas Independent School District's response and accordingly express no opinion on it.

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

*Luis C. Orozco*  
*Certified Public Accountant*

*December 16, 2009*

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

**I. Summary of the Auditor's Results:**

1. The type of report issued on the financial statements of the SOUTH TEXAS INDEPENDENT SCHOOL DISTRICT was a(n) Unqualified opinion
2. There were no significant deficiencies in internal control disclosed by the audit of the financial statements. There were no material weaknesses.
3. The audit disclosed no instances of noncompliance material to the financial statements.
4. There were no significant deficiencies in internal control over major programs disclosed by the audit. There were no significant deficiencies considered material weaknesses.
5. The type of report the auditor issued on compliance for major programs. Unqualified opinion.
6. There were no audit findings required to report under OMB Circular A-133 Section \_\_.510(a).
7. Major Federal Programs included: National School Lunch Program CFDA 10.555, School Breakfast Program CFDA 10.553.
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee qualified as a low-risk auditee.

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

None were reported

**III. Findings and Questioned Costs for Federal Awards :**

None were reported

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

(Prepared by the District's Administration)

None were reported in prior years.

CORRECTIVE ACITON PLAN  
FOR THE YEAR ENDED AUGUST 31, 2009

(Prepared by the District's Administration)

There are no items to be reported.

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

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	09-610101031916	\$ 789,459
ESEA, Title I, Part A - Improving Basic Programs	84.010A	10-610101031916	11,377
Total CFDA Number 84.010A			800,836
ESEA, Title I, Part C - Migratory Children	84.011	09-615001031916	64,761
IDEA - Part B, Formula	84.027	09-66000010319166600	408,797
Career and Technical - Basic Grant	84.048	09-420006031916	30,048
ESEA Title IV - Safe and Drug-Free Schools	84.186A	09-691001031916	12,537
Title II, Part D - Enhancing Ed. Through Technology	84.318X	09-630001031916	4,961
SSA - English Lang. Acquisition & Lang. Enhancement	84.365A		6,050
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	09-694501031916	139,151
Total Passed Through State Department of Education			\$ 1,467,141
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<b>\$ 1,467,141</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
School Breakfast Program*	10.553	2009IN109946	\$ 192,646
National School Lunch Program - Cash Assistance*	10.555	2009IN109946	514,609
National School Lunch Prog. - Non-Cash Assistance*	10.555	2009IN109946	40,598
Total CFDA Number 10.555			555,207
Total Passed Through the State Department of Agriculture			\$ 747,853
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<b>\$ 747,853</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 2,214,994</b>

\*Clustered Programs as required by Compliance Supplement March, 2009

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

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

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

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

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



SCHOOLS FIRST QUESTIONNAIRE

South Texas Independent School District

Fiscal Year 2009

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SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	