

**SWEENY  
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
AUGUST 31, 2013**

**KENNEMER, MASTERS & LUNSFORD, LLC  
CERTIFIED PUBLIC ACCOUNTANTS  
8 WEST WAY COURT  
LAKE JACKSON, TEXAS 77566**

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# SWEENEY INDEPENDENT SCHOOL DISTRICT

*Annual Financial Report  
For the Year Ended August 31, 2013*

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**SWEENEY INDEPENDENT SCHOOL DISTRICT**

*Annual Financial Report  
For the Year Ended August 31, 2013*

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## **INTRODUCTORY SECTION**

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**CERTIFICATE OF BOARD**

Sweeny Independent School District  
Name of School District

Brazoria  
County

020-906  
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, 2013, at a meeting of the board of trustees of such school district on the 14<sup>th</sup> day of January, 2014.

Donna Bohler-Schroeder  
Signature of Board Secretary

[Signature]  
Signature of Board President

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

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## **FINANCIAL SECTION**

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# KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

**Lake Jackson Office:**  
8 West Way Court  
Lake Jackson, Texas 77566

**El Campo Office:**  
201 W. Webb  
El Campo, Texas 77437

**Houston Office:**  
10260 Westheimer, Suite 410  
Houston, Texas 77042

## Independent Auditor's Report

To the Board of Trustees  
Sweeny Independent School District  
Sweeny, Texas 77480

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sweeny Independent School District (the "District") as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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### ***Opinions***

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

### ***Emphasis of Matter***

As described in Note 2 to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 15 - 23 and 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and the required Texas Education Agency schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the required Texas Education Agency schedules, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Kennemer, Masters & Hunford, LLC*

Lake Jackson, Texas  
December 20, 2013

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**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS*  
*AUGUST 31, 2013*

As management of the Sweeny Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2013. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

**Financial Highlights**

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent period by \$ 33,020,850 (*net position*). Of this amount, \$ 6,571,200 (*unrestricted net position*) may be used to meet the District's ongoing obligations.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 12,223,769. Approximately 30 percent of this total amount, \$ 3,653,215, is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 3,653,783, or 23 percent of the total general fund expenditures.
- During the year, the District had expenses that were \$ 574,654 less than the \$ 20,803,883 generated in tax and other revenues for governmental programs. This compares to last year when expenses were less than revenues by \$ 2,342,329.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference being reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (*governmental activities*) as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no *business-type activities*. The government-wide financial statements can be found on pages 24 through 25 of this report.

## SWEENY INDEPENDENT SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2013

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole.

- Some funds are required by State law and/or bond covenants.
- Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants.

All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The District maintains seventeen governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, Sweeny Independent School District Educational Foundation (blended component unit), and debt service fund, all of which are considered to be major funds. Data from the other fourteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report. The District adopts an annual appropriated budget for its general fund, food service special revenue fund, and debt service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 26 through 29 of this report.
- **Fiduciary funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The District is the trustee, or *fiduciary*, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position that can be found on pages 30 and 31. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AUGUST 31, 2013**

**Notes to the financial statements.** The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 through 64 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on page 66 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements can be found on pages 68 through 74 of this report.

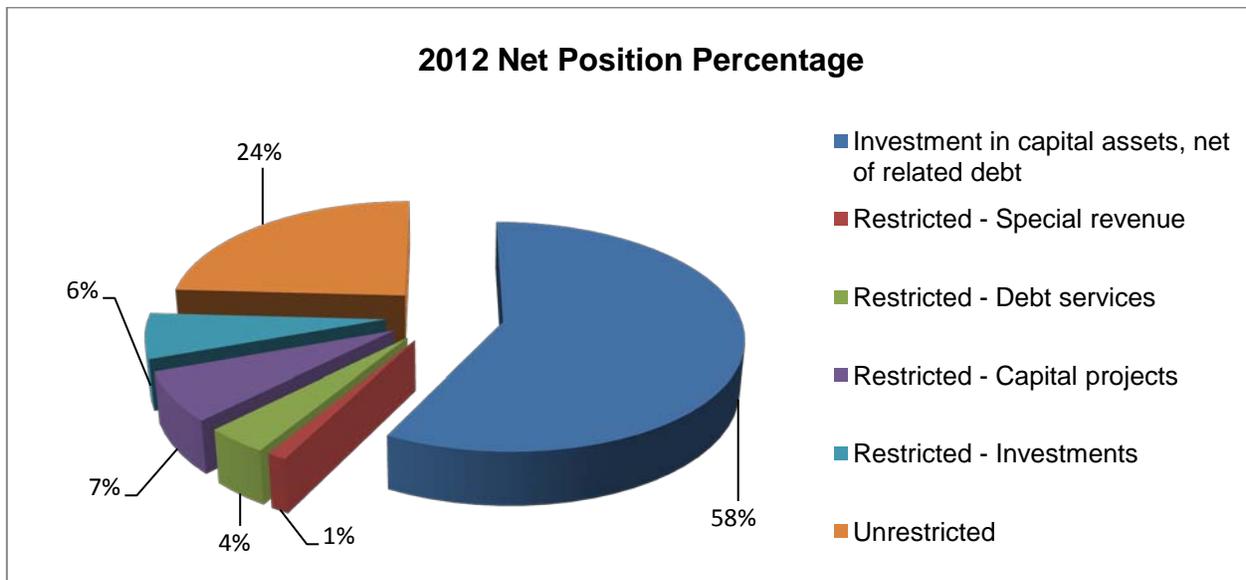
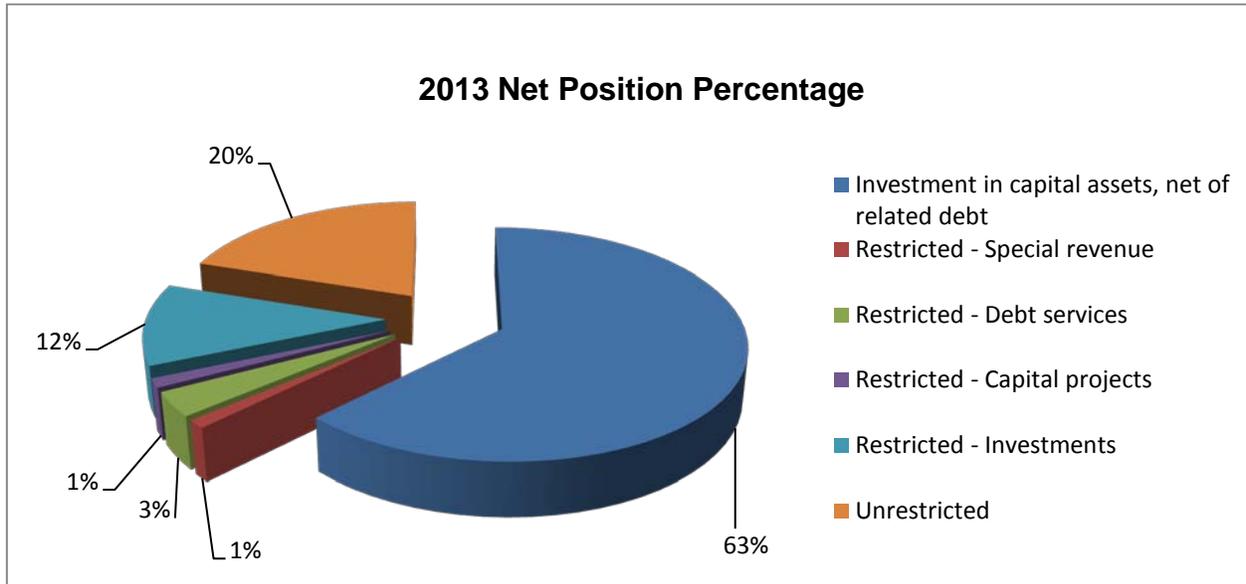
**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 33,020,850 as of August 31, 2013. Net position of the District's governmental activities increased from \$ 32,446,196 to \$ 33,020,850.

**The District's Net Position**

	2013	(Restated) 2012
	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 13,951,881	\$ 15,782,242
Capital assets	<u>39,098,353</u>	<u>39,094,428</u>
Total assets	<u>53,050,234</u>	<u>54,876,670</u>
Deferred outflows of resources	<u>936,575</u>	<u>-0-</u>
Long-term liabilities outstanding	19,341,389	20,416,889
Other liabilities	<u>1,624,570</u>	<u>2,013,585</u>
Total liabilities	<u>20,965,959</u>	<u>22,430,474</u>
Deferred inflows of resources	<u>-0-</u>	<u>-0-</u>
Net Position:		
Investment in capital assets, net of related debt	20,693,539	18,677,539
Restricted	5,756,111	5,943,414
Unrestricted	<u>6,571,200</u>	<u>7,825,243</u>
Total net position	<u>\$ 33,020,850</u>	<u>\$ 32,446,196</u>

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AUGUST 31, 2013**



Investment in capital assets (e.g., land and land improvements, buildings and building improvements, furniture, equipment, and vehicles) less any related debt used to acquire those assets that is still outstanding is \$ 20,693,539. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net position (approximately 17 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* \$ 6,571,200 may be used to meet the District's ongoing obligations. This surplus is not an indication that the District has significant resources available to meet financial obligations next year, but rather the result of having *long-term* commitments that are less than currently available resources.

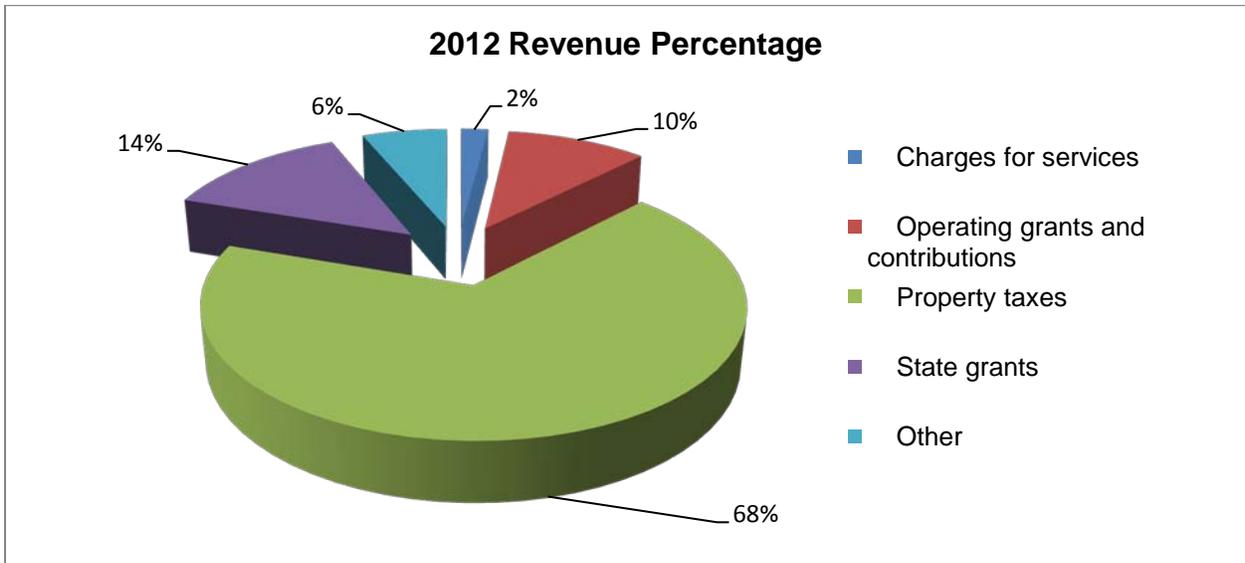
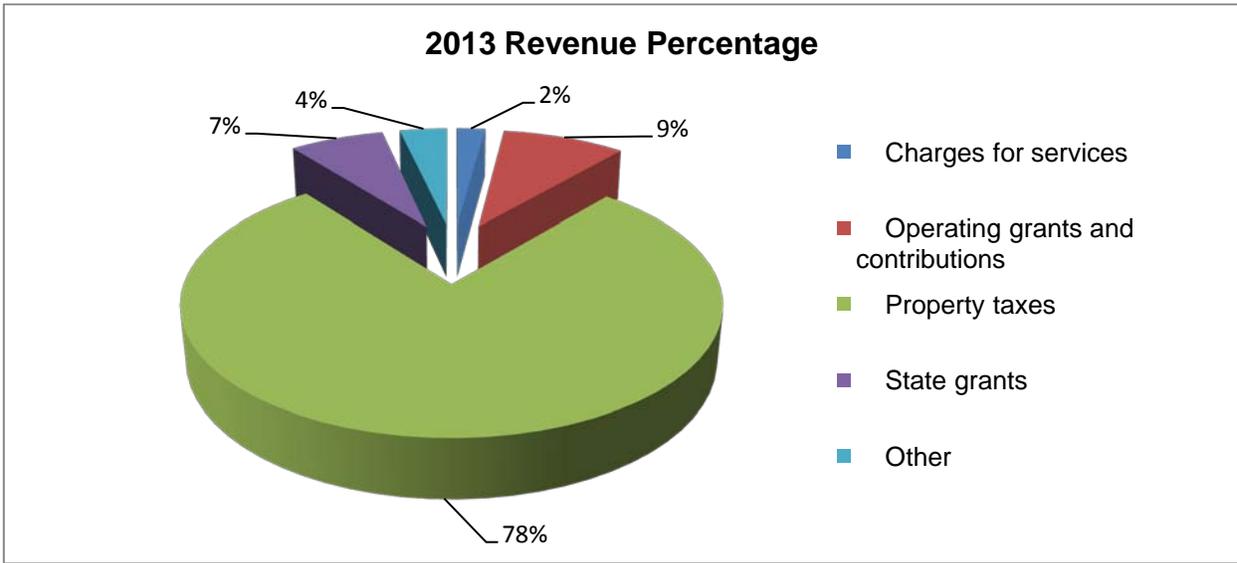
**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AUGUST 31, 2013**

**Governmental activities.** The District's total net position increased by \$ 574,654. The District's total revenue decreased by 10%. The District's total cost of all programs and services decreased 3%. The total cost of all *governmental activities* this year was \$ 20,229,179. The amount that our taxpayers paid for these activities through property taxes was \$ 16,282,579 or 80%. The amount of costs that were paid by those who directly benefited from the programs was \$ 440,679 or 2%. The costs that were paid by other governments and organizations that subsidized certain programs with grants and contributions or by some state equalization funding was \$ 1,896,325 or 9% and \$ 1,452,034 or 7%, respectively.

**Changes in the District's Net Position**

	<u>2013</u>	(Restated) <u>2012</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 440,679	\$ 460,379
Operating grants & contributions	1,896,325	2,396,426
General revenues:		
Property taxes	16,282,579	15,686,050
State grants	1,452,034	3,140,933
Other	<u>732,216</u>	<u>1,446,216</u>
Total revenues	<u>20,803,833</u>	<u>23,130,004</u>
Expenses:		
Instruction	9,762,970	9,611,240
Instructional resources & media services	252,018	245,351
Curriculum & staff development	25,141	23,006
Instructional leadership	614,809	528,175
School leadership	1,011,141	976,743
Guidance, counseling & evaluation services	578,564	555,045
Health services	221,945	207,716
Student (pupil) transportation	940,960	977,447
Food services	1,049,641	1,008,451
Extracurricular activities	826,644	771,348
General administration	676,291	595,723
Plant maintenance and operations	1,815,733	1,737,753
Security and monitoring services	90,879	58,760
Data processing services	223,110	132,598
Community services	9,260	9,260
Debt service-interest and fees on long-term debt	532,741	1,081,108
Facilities acquisition and construction	9,523	3,940
Contracted instructional services between public schools	1,035,270	1,660,824
Payments related to shared services arrangements	434,130	480,854
Other intergovernmental charges	<u>118,409</u>	<u>122,333</u>
Total expenses	<u>20,229,179</u>	<u>20,787,675</u>
Increase in net position	574,654	2,342,329
Beginning net position (restated)	<u>32,446,196</u>	<u>30,103,867</u>
Ending net position	<u>\$ 33,020,850</u>	<u>\$ 32,446,196</u>

**SWEENY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AUGUST 31, 2013**



**Financial Analysis of the District's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

**Governmental funds.** The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS*  
*AUGUST 31, 2013*

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 12,223,769, a decrease of \$ 1,394,097. Approximately 30 percent of this total amount (\$ 3,653,215) constitutes *unassigned fund balance*. The remainder of fund balance is non-spendable, restricted, committed, or assigned to indicate that it is not available for new spending because it has already been classified 1) for inventory \$ 130,559, 2) for prepaid items \$ 568, 3) for grant funds \$ 317,095, 4) to pay debt service \$ 1,136,933, 5) for construction \$ 424,905, 6) for long-term investments \$ 3,813,270, 7) for claims and judgments \$ 250,000, 8) for capital expenditures for equipment \$ 350,000, 9) for other miscellaneous commitments \$ 947,224, and 10) for other assignment \$ 1,200,000.

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 3,653,783, while the total fund balance was \$ 5,521,002. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to the total fund expenditures. Unassigned fund balance represents 24 percent of the total general fund expenditures, while total fund balance represents 35 percent of that same amount.

The fund balance of the District's general fund decreased \$ 58,442 or 1% during the current fiscal year compared to last year's total general fund balance of \$ 5,579,444. Revenues decreased from prior year approximately \$ 1,275,085 or 7%. Expenditures increased approximately 3% from prior year from \$ 15,443,811 to \$ 15,891,109. Key factors related to this change are as follows:

- Instruction cost increased \$ 412,247 from the prior year.
- School leadership cost increased \$ 349,273 from prior year.
- Contracted instructional services between public schools decreased \$ 625,554 from the prior year.
- General administration increased \$ 99,208 from prior year.
- Data processing services increased \$ 101,413 from prior year.

The Sweeny Education Foundation fund has a total fund balance of \$ 4,760,494, of which \$ 3,813,270 is restricted for long-term investment and \$ 947,224 is committed for other purposes. The net increase in fund balance during the period in the Sweeny Education Foundation fund was \$ 568,850 from last year's balance of \$ 4,191,644. The following are the factors contributing to this change:

- The Foundation received contributions of \$ 631,654 from Conoco Phillips Company.

The debt service fund has a total fund balance of \$ 1,136,933 all of which is restricted for the payment of debt service. The net decrease in fund balance during the period in the debt service fund was \$ 76,220 from last year's balance of \$ 1,213,153. The decrease in fund balance is due to additional cost incurred related to bond refunding.

**General Fund Budgetary Highlights**

Over the course of the year, the District recommended and the Board approved revisions to budgeted revenue and appropriations. These amendments were made during the year for unexpected occurrences.

After appropriations were amended as described above, actual revenues were \$ 191,658 below final budgeted amounts mainly due to decrease in state program revenue. Actual expenditures were \$ 1,192,513 below final budget amounts. The major portion of this positive variance is due to the decreases in expenditures in instruction, student transportation, and plant maintenance and operations.

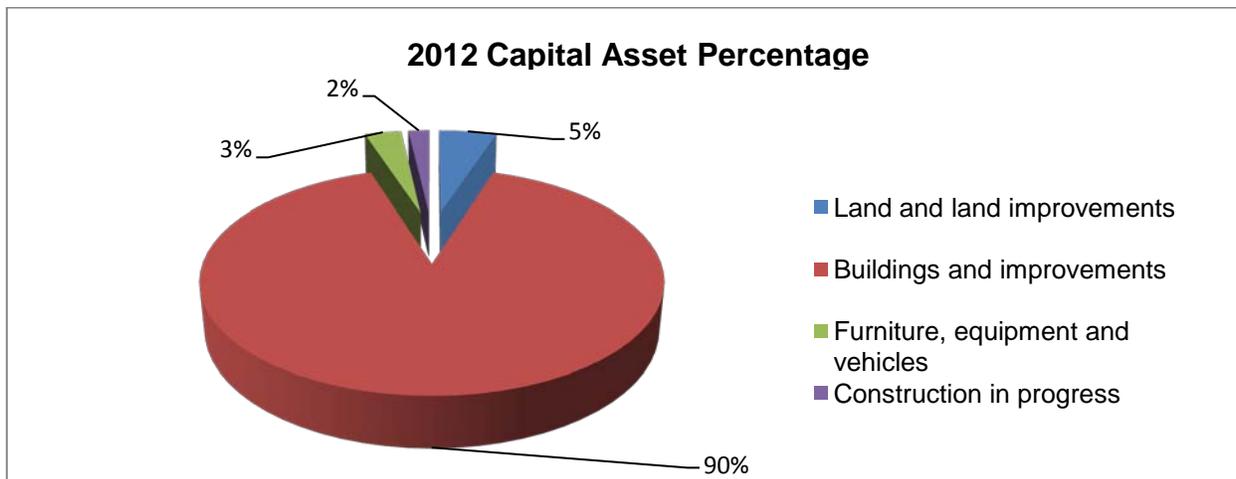
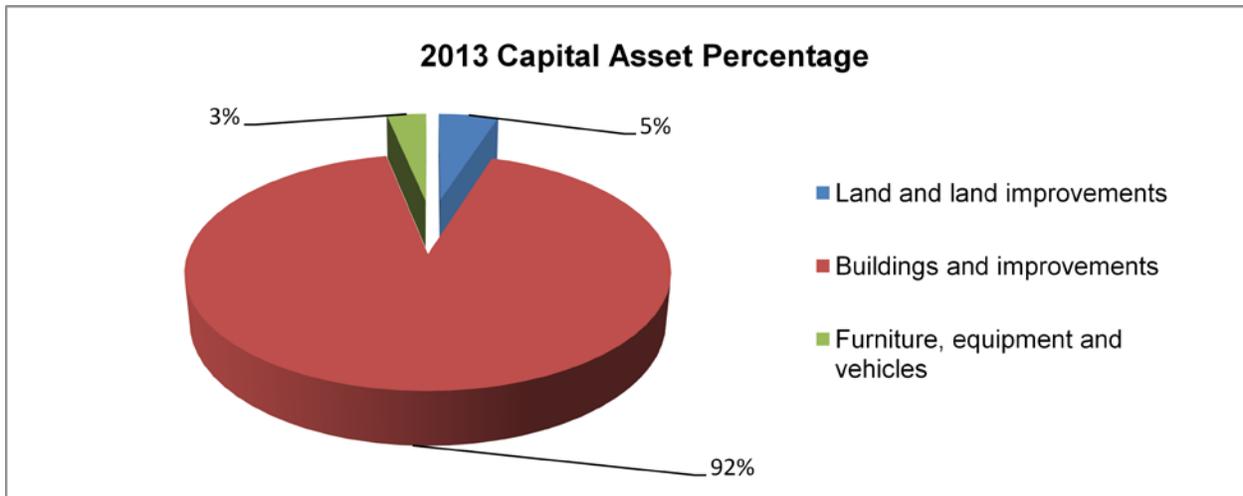
**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AUGUST 31, 2013**

**Capital Asset and Debt Administration**

**Capital assets.** The District's investments in capital assets for its governmental activities as of August 31, 2013 amounts to \$ 39,098,353 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and improvements, furniture, equipment and vehicles, and construction in progress.

**District's Capital Assets  
(net of depreciation)**

	<u>2013</u>	<u>2012</u>
Land and land improvements	\$ 1,927,249	\$ 1,948,127
Buildings and improvements	35,908,556	35,202,248
Furniture, equipment and vehicles	1,262,548	1,235,429
Construction in progress		<u>708,624</u>
Total at historical cost	<u>\$ 39,098,353</u>	<u>\$ 39,094,428</u>



**SWEENY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**AUGUST 31, 2013**

Additional information on the District's capital assets can be found in Note 6 on page 55 through 56 of this report.

**Long-term debt.** At August 31, 2013, the District had total long-term debt outstanding of \$ 19,341,389, a decrease of \$ 1,075,500 from the previous year. Long-term debt is made of the following:

**District's Long-Term Debt**

	<u>2013</u>	<u>2012</u>
General obligation bonds	\$ 18,688,740	\$ 19,835,000
Components of Long-Term Debt:		
Premium on general obligation bonds	622,156	528,003
Accrued interest payable	<u>30,493</u>	<u>53,886</u>
Total long-term debt	<u>\$ 19,341,389</u>	<u>\$ 20,416,889</u>

Additional information on the District's long-term debt can be found in Note 7 on pages 56 through 59 of this report.

**Economic Factors and Next Year's Budgets and Rates**

- Appraised Maintenance and Operations (M&O) values used for the 2014 budget increased \$ 103,951,934 or 7.93% from 2013 values.
- Appraised Interest and Sinking Fund (I&S) State Value Limitation, Chapter 313 Agreement values used for the 2014 budget decreased \$ 83,880,144 or 5.93% from 2013 values.
- The District's 2013-2014 refined average daily attendance is expected to be 1,806.
- The District's attendance rate is estimated to be 96%.
- The total Maintenance and Operations revenue budget is \$ 16,125,292. The revenue breakdown is \$ 14,737,618 from local funds, \$ 1,387,474 from state funds and \$ 200 from federal funds.
- The District has adopted a deficit budget of \$ 937,526. The District has appropriated General Fund revenues of \$ 16,125,292 and expenditures of \$ 17,062,818 which includes recapture expenditures of \$ 714,095.
- The 2014 District tax rate will remain the same as 2013 tax rate at \$ 1.2117 (\$ 1.04 for Maintenance and Operations and \$ 0.1717 for Interest and Sinking)
- For 2014, the District has made the one year supplemental pay increase of 3% of the mid point salary permanent and has also provided a 2% of the mid point salary increase for all employees.
- The 2013 employment salaries amount to 77.0% of the General Fund budget.
- The District funds per month \$ 264 per employee for health insurance, \$ 31.96 for dental insurance, \$ 2.10 for \$ 20,000 life insurance. Also the District is continuing to fund the \$ 500 health supplement benefit for all non-administrator employees; the District funds \$1,000 in health supplemental benefits for Administrators.

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, Business Services, Sweeny Independent School District, 1310 North Elm, Sweeny, Texas, 77480.

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**YEAR ENDED AUGUST 31, 2013**

Exhibit A-1  
Page 1 of 1

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	<b>ASSETS:</b>	
1110	Cash and cash equivalents	\$ 8,783,349
1120	Current investments	822,149
1220	Property taxes receivables - delinquent	623,753
1230	Allowance for uncollectible taxes (credit)	( 466,984)
1240	Due from other governments	212,549
1250	Accrued interest	10,833
1290	Other receivables (net)	21,835
1300	Inventories	130,559
1410	Prepaid expenses	568
	Capital Assets:	
1510	Land and land improvements	1,927,249
1520	Buildings and improvements, net	35,908,556
1530	Furniture, equipment and vehicles, net	1,262,548
1910	Investments	<u>3,813,270</u>
1000	Total assets	<u>53,050,234</u>
	<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
1700	Deferred outflows – bond refunding costs	<u>936,575</u>
	Total deferred outflows of resources	<u>936,575</u>
	<b>LIABILITIES:</b>	
2110	Accounts payable	439,405
2160	Accrued wages payable	571,258
2180	Due to other governments	546,165
2300	Unearned revenue	67,742
	Noncurrent Liabilities:	
2501	Due within one year	2,014,744
2502	Due in more than one year	<u>17,326,645</u>
2000	Total liabilities	<u>20,965,959</u>
	<b>DEFERRED INFLOWS OF RESOURCES</b>	
2600	Deferred inflows	<u>                    </u>
	Total deferred inflows of resources	<u>-0-</u>
	<b>NET POSITION:</b>	
3200	Invested in capital assets, net of related debt	20,693,539
	Restricted For:	
3820	Federal and state programs (food service)	381,003
3850	Debt service	1,136,933
3860	Capital projects	424,905
3890	Long-term investments	3,813,270
3900	Unrestricted	<u>6,571,200</u>
3000	Total net position	<u>\$ 33,020,850</u>

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

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED AUGUST 31, 2013**

Exhibit B-1  
Page 1 of 1

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
			3 Charges for Services	4 Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 9,762,970	\$	\$ 971,348	\$( 8,791,622)
12	Instructional resources and media services	252,018		8,362	( 243,656)
13	Curriculum and staff development	25,141		3,426	( 21,715)
21	Instructional leadership	614,809		69,344	( 545,465)
23	School leadership	1,011,141		47,152	( 963,989)
31	Guidance, counseling, and evaluation services	578,564		55,006	( 523,558)
33	Health services	221,945		9,604	( 212,341)
34	Student (pupil) transportation	940,960		23,889	( 917,071)
35	Food service	1,049,641	387,677	613,575	( 48,389)
36	Extracurricular activities	826,644	53,002	19,501	( 754,141)
41	General administration	676,291		19,808	( 656,483)
51	Plant maintenance and operations	1,815,733		42,922	( 1,772,811)
52	Security and monitoring services	90,879		2,199	( 88,680)
53	Data processing services	223,110		6,366	( 216,744)
61	Community services	9,260			( 9,260)
72	Interest on long-term debt	369,712			( 369,712)
73	Bond issuance costs and fees	163,029			( 163,029)
81	Facilities acquisition and construction	9,523			( 9,523)
91	Contracted instructional services between public schools	1,035,270			( 1,035,270)
93	Payments related to shared services arrangements	434,130		3,823	( 430,307)
99	Other intergovernmental charges	118,409			( 118,409)
TG	Total governmental activities	\$ <u>20,229,179</u>	\$ <u>440,679</u>	\$ <u>1,896,325</u>	\$( <u>17,892,175</u> )
General Revenues:					
Taxes:					
MT	Property taxes, levied for general purposes				\$ 13,831,562
DT	Property taxes, levied for debt service				2,451,017
SF	State aid-formula grants				1,452,034
GC	Grants and contributions not restricted to specific programs				697,453
IE	Investment earnings (loss)				( 20,267)
MI	Miscellaneous				<u>55,030</u>
TG	Total general revenues, special items, and other uses				<u>18,466,829</u>
CN	Change in net position				574,654
NB	Net position – beginning (restated)				<u>32,446,196</u>
NE	Net position – ending				\$ <u>33,020,850</u>

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

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**AUGUST 31, 2013**

Exhibit C-1  
Page 1 of 1

Data Control Codes	Functions/Programs	10 General Fund	40 Sweeny Education Foundation	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:</b>						
Assets:						
1110	Cash and cash equivalents	\$ 6,783,867	\$ 407,224	\$ 834,771	\$ 757,487	\$ 8,783,349
1120	Current investments		529,167	292,982		822,149
1220	Taxes receivable - delinquent	548,394		75,359		623,753
1230	Allowance for uncollectible taxes (credit)	( 414,320)		( 52,664)		( 466,984)
1240	Receivables from other governments	70,537			142,012	212,549
1250	Accrued interest receivable		10,833			10,833
1260	Due from other funds	97,494		1,841	212,382	311,717
1290	Other receivables	10,032			6,611	16,643
1300	Inventories	67,219			63,340	130,559
1410	Prepaid items				568	568
1910	Investments		3,813,270			3,813,270
1000	Total assets	<u>7,163,223</u>	<u>4,760,494</u>	<u>1,152,289</u>	<u>1,182,400</u>	<u>14,258,406</u>
Deferred Outflows of Resources						
1700	Deferred outflows					
1000A	Total deferred outflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	Total assets and deferred outflows of resources	<u>\$ 7,163,223</u>	<u>\$ 4,760,494</u>	<u>\$ 1,152,289</u>	<u>\$ 1,182,400</u>	<u>\$ 14,258,406</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:</b>						
Liabilities:						
2110	Accounts payable	\$ 268,863	\$	\$	\$ 170,542	\$ 439,405
2160	Accrued wages payable	529,967			41,291	571,258
2170	Due to other funds	209,040			97,485	306,525
2180	Payable to other governments	546,165				546,165
2300	Unearned revenue				67,742	67,742
2000	Total liabilities	<u>1,554,035</u>	<u>-0-</u>	<u>-0-</u>	<u>377,060</u>	<u>1,931,095</u>
Deferred Inflows of Resources:						
2600	Deferred inflows – property taxes	<u>88,186</u>		<u>15,356</u>		<u>103,542</u>
	Total deferred inflows of resources	<u>88,186</u>	<u>-0-</u>	<u>15,356</u>	<u>-0-</u>	<u>103,542</u>
Fund Balances:						
3410	Non-spendable - inventories	67,219			63,340	130,559
3430	Non-spendable - prepaid items				568	568
3450	Restricted - grant funds				317,095	317,095
3470	Restricted - capital acquisitions and contractual obligations				424,905	424,905
3480	Restricted - debt service			1,136,933		1,136,933
3490	Restricted - long-term investments		3,813,270			3,813,270
3520	Committed - claims and judgments	250,000				250,000
3530	Committed - capital expenditures for equipment	350,000				350,000
3545	Committed - other purposes		947,224			947,224
3590	Assigned - other	1,200,000				1,200,000
3600	Unassigned	<u>3,653,783</u>			( 568)	<u>3,653,215</u>
3000	Total fund balances	<u>5,521,002</u>	<u>4,760,494</u>	<u>1,136,933</u>	<u>805,340</u>	<u>12,223,769</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,163,223</u>	<u>\$ 4,760,494</u>	<u>\$ 1,152,289</u>	<u>\$ 1,182,400</u>	<u>\$ 14,258,406</u>

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

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION**  
**YEAR ENDED AUGUST 31, 2013**

Exhibit C-1R  
Page 1 of 1

Total fund balances – governmental funds balance sheet (C-1)	\$ 12,223,769
<b>Amounts reported for <i>governmental activities</i> in the statement of net position (A-1) are different because:</b>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 75,231,909 in assets less \$ 36,133,556 in accumulated depreciation.	39,098,353
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 88,186 and \$ 15,356, respectively.	103,542
Other long-term assets are not available to pay for current-year expenditures and therefore are deferred in the funds. This is the bond refunding costs which is amortized over the life of the refunding bond, or the refunded bonds, whichever is shorter. This amount is the bond refunding costs of \$ 984,893 less accumulated amortization costs of \$ 48,318.	936,575
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds increase long-term liabilities in the governmental activities statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds was \$ 622,156 (premium on sale of bonds of \$ 1,068,871 less amortization of \$ 446,715).	( 622,156)
Payables for bond principal are not reported in the funds.	( 18,688,740)
Payables for bond interest are not reported in the funds.	<u>( 30,493)</u>
Net position of governmental activities – statement of net position (see A-1)	<u>\$ 33,020,850</u>

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

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES – GOVERNMENTAL FUNDS**  
**YEAR ENDED AUGUST 31, 2013**

Exhibit C-2  
Page 1 of 1

Data Control Codes	Functions/Programs	10 General Fund	40 Sweeny Education Foundation	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
<b>REVENUES:</b>						
5700	Local and intermediate sources	\$ 13,989,991	\$ 589,250	\$ 2,468,596	\$ 423,234	\$ 17,471,071
5800	State program revenues	1,791,024			221,165	2,012,189
5900	Federal program revenues	<u>31,652</u>			<u>1,336,170</u>	<u>1,367,822</u>
5020	Total revenues	<u>15,812,667</u>	<u>589,250</u>	<u>2,468,596</u>	<u>1,980,569</u>	<u>20,851,082</u>
<b>EXPENDITURES:</b>						
Current:						
0011	Instruction	7,888,236			903,502	8,791,738
0012	Instructional resources and media services	213,033				213,033
0013	Curriculum and staff development	21,715			3,426	25,141
0021	Instructional leadership	538,293			52,044	590,337
0023	School leadership	965,868			2,172	968,040
0031	Guidance, counseling, and evaluation services	531,968			31,081	563,049
0033	Health services	200,354			210	200,564
0034	Student (pupil) transportation	735,814			87,999	823,813
0035	Food Service				984,263	984,263
0036	Extracurricular activities	665,900			58,362	724,262
0041	General administration	654,238	400			654,638
0051	Plant maintenance and operations	1,670,988			135,055	1,806,043
0052	Security and monitoring services	50,133			36,552	86,685
0053	Data processing services	170,583			203,174	373,757
0071	Principal on long-term debt			1,955,000		1,955,000
0072	Interest on long-term debt			590,245		590,245
0073	Bond issuance costs and fees			163,029		163,029
0081	Facilities acquisition and construction				1,307,191	1,307,191
0091	Contracted instructional services between public schools	1,035,270				1,035,270
0093	Payments related to shared services arrangements	430,307			3,823	434,130
0099	Other intergovernmental charges	<u>118,409</u>				<u>118,409</u>
6030	Total expenditures	<u>15,891,109</u>	<u>400</u>	<u>2,708,274</u>	<u>3,808,854</u>	<u>22,408,637</u>
1100	Excess (deficiency) of revenues over expenditures	<u>( 78,442)</u>	<u>588,850</u>	<u>( 239,678)</u>	<u>( 1,828,285)</u>	<u>( 1,557,555)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
7911	Issuance of bonds			8,405,000		8,405,000
7915	Transfers in	20,000				20,000
7916	Premium on issuance of bonds			1,148,351		1,148,351
8911	Transfers out		( 20,000)			( 20,000)
8949	Payments to escrow agent			( 9,389,893)		( 9,389,893)
	Total other financing sources and (uses)	<u>20,000</u>	<u>( 20,000)</u>	<u>163,458</u>	<u>-0-</u>	<u>163,458</u>
1200	Net change in fund balances	<u>( 58,442)</u>	<u>568,850</u>	<u>( 76,220)</u>	<u>( 1,828,285)</u>	<u>( 1,394,097)</u>
0100	Fund balances – beginning (restated)	<u>5,579,444</u>	<u>4,191,644</u>	<u>1,213,153</u>	<u>2,633,625</u>	<u>13,617,866</u>
3000	Fund balances – ending	<u>\$ 5,521,002</u>	<u>\$ 4,760,494</u>	<u>\$ 1,136,933</u>	<u>\$ 805,340</u>	<u>\$ 12,223,769</u>

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

**SWEENEY INDEPENDENT SCHOOL DISTRICT****RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES  
YEAR ENDED AUGUST 31, 2013**Exhibit C-2R  
Page 1 of 1

Net change in fund balances – total governmental funds (from C-2)	\$( 1,394,097)
<b>Amounts reported for governmental activities in the statement of activities (B-1) are different because:</b>	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay \$ 1,708,304 was less than depreciation \$ 1,704,379 in the current period.	3,925
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 40,780 and \$ 6,469, respectively.	( 47,249)
Accretion of capital appreciation bonds increases debt service interest expense in the governmental activities statement of activities but is not reported in governmental funds.	( 7,870)
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds was \$ 94,153 (premium on sale of bonds of \$ 347,481 less amortization of \$ 253,328.)	( 94,153)
Deferred refunding cost is another use in the governmental funds, but the costs increase long-term assets in the statement of net position. This amount is amortized over the life of the refunding bonds or the refunded bonds, whichever is shorter. The payments to escrow agent of \$ 9,389,893 less bond principal refunded of \$ 8,405,000 equals \$ 984,893 cost of refunding less accumulated amortization of \$ 48,318.	936,575
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the governmental activities statement of net position. Long-term proceeds in the governmental fund were \$ 9,205,870 (principal of \$ 8,405,000 plus capital appreciation bond premium of \$ 800,870) for bonds, less \$ 8,405,000 of bonds refunded.	( 800,870)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net position. This amount was for general obligation bonded debt \$ 1,955,000.	1,955,000
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount of accrued interest on long-term debt of \$ 23,393.	<u>23,393</u>
Change in net position of governmental activities (see B-1)	<u>\$ 574,654</u>

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

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF FIDUCIARY NET POSITION*  
*FIDUCIARY FUNDS*  
*AUGUST 31, 2013*

Exhibit E-1  
Page 1 of 1

	<u>Family Crisis Trust</u>	<u>Agency Funds</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ <u>19,842</u>	\$ <u>278,030</u>
Total assets	<u>19,842</u>	<u>\$ 278,030</u>
<b>LIABILITIES:</b>		
Amounts due to student groups and others		\$ 277,929
Payroll deductions and withholdings		<u>101</u>
Total liabilities	<u>-0-</u>	<u>\$ 278,030</u>
<b>NET POSITION:</b>		
Held in trust for family crisis	<u>19,842</u>	
Total net position	<u>\$ 19,842</u>	

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

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF CHANGES IN FIDUCIARY NET POSITION*  
*FIDUCIARY FUNDS*  
*YEAR ENDED AUGUST 31, 2013*

Exhibit E-2  
Page 1 of 1

	Family Crisis Trust
ADDITIONS:	
Total additions	\$ <u>-0-</u>
DEDUCTIONS:	
Total deductions	<u>-0-</u>
Change in net position	-0-
NET POSITION:	
Net position - beginning of year	<u>19,842</u>
Net position - end of year	<u>\$ 19,842</u>

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

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**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEAR ENDED AUGUST 31, 2013*

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# **SWEENEY INDEPENDENT SCHOOL DISTRICT**

## *NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Sweeny Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees that are elected by registered voters of the District.

The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources; and it complies with the requirements of the appropriate version of Texas Education Agency's (the "TEA") *Financial Accountability System Resource Guide* (the "Resource Guide" or "FASRG") and the requirements of contracts and grants of agencies from which it receives funds.

The District's Financial Statements are in accordance with GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" which provides additional guidance for the implementation of GASB Statement No. 34, and GASB Statement No. 38 "Certain Financial Statement Disclosures" which changes the note disclosure requirements in the financial statements for governmental entities.

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, government-wide financial statements, required supplementary information and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow user's of financial reports to assess a government's operational accountability. The GASB Statement No. 34 reporting model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

The following is a summary of the most significant accounting policies.

#### **Reporting Entity**

The District is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations, or functions, as part of the District's financial reporting entity. Based on these considerations, the District's basic financial statements do not include any other entities. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

# **SWEENEY INDEPENDENT SCHOOL DISTRICT**

## *NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Reporting Entity (Continued)**

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments.

Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Board of Trustees (the "Board") is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) in its GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14. and No. 34". A blended component unit, although a legally separate entity, is, in substance, part of the District's operations.

- Blended component unit. The Sweeny Independent School District Educational Foundation was established under Internal Revenue Service regulations as a conduit for tax-deductible donations to the District. The Foundation's board is approved by the Superintendent. The Foundation is a supporting organization to the District. The Foundation is presented as a special revenue fund of the District.

The District receives support from various PTO and booster clubs. None of these organizations meet the criteria specified by GASB 61 to be included in the District's financial statements

#### **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. The *governmental activities* are supported by tax revenues, state foundation funds, grants, and intergovernmental revenues. The District has no *business-type activities* that rely, to a significant extent, on fees and charges for support.

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

# **SWEENEY INDEPENDENT SCHOOL DISTRICT**

## **NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED AUGUST 31, 2013**

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Government-Wide and Fund Financial Statements (Continued)**

Interfund activities between governmental funds appear as due to/due from on the Governmental Funds Balance Sheet and as other resources and other uses on the Governmental Funds Statement of Revenues, Expenditure and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as receivables and payables on the government-wide statement of net position.

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

#### **Measurement Focus, Basis Of Accounting, and Financial Statement Presentation**

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State of Texas are recognized under the susceptible-to-accrual concept, that is, when they are both measurable and available. 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.

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those

**SWEENEY INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus, Basis Of Accounting, and Financial Statement Presentation (Continued)**

investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

Grant funds are considered earned to the extent of the expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until the 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.

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

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. Major revenue sources include local property taxes, state funding under the Foundation School Program and interest earnings. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal and state government, food service, debt service, and capital projects.

The *Sweeny Educational Foundation* accounts for contributions that are tax-deductible. The foundation was established as a conduit for tax-deductible donations to the District.

The *debt service* fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the general fund after all of the related debt obligations have been met. Major revenue sources include local property taxes, and interest earnings. Expenditures include all costs associated with related debt service.

Additionally, the District reports the following fiduciary funds:

The *private-purpose trust funds* are used to account for donations and other specified donor purposes for family crisis. The District uses the fund to pay for medical care needed by disadvantaged students who cannot afford such care.

The *agency fund* accounts for resources held in a custodial capacity by the District, and consists of funds that are the property of students or others.

## **SWEENEY INDEPENDENT SCHOOL DISTRICT**

### *NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Cash and Investments**

The District considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Current investments have an original maturity greater than three months but less than one year at the time of purchase. Non-current investments have an original maturity of greater than one year at the time of purchase.

##### **Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All outstanding balances between funds are reported as "due to/from other funds". The District had no advances between funds. See Note 5 for additional discussion of interfund receivables and payables.

##### **Property Taxes**

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the district in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the District is the responsibility of the Brazoria County Appraisal District (BCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. BCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years.

Under certain circumstances taxpayers and taxing units, including the District, may challenge orders of the BCAD Review Board through various appeals and, if necessary, legal action.

The assessed value of the property tax roll on August 1, 2012, upon which the levy for the 2012-13 fiscal year was based, was \$ 1,273,678,303. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 20% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2013, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 1.04 and \$ .1717 per \$ 100 valuation, respectively, for a total of \$ 1.2117 per \$ 100 valuation.

**SWEENEY INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property Taxes (Continued)**

Current tax collections for the year ended August 31, 2013 were 100.02% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general and debt service funds are based on historical experience in collecting 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. As of August 31, 2013, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 134,074 and \$ 22,695 for the general and debt service funds, respectively.

**Inventories**

The consumption method is used to account for inventories (food products, school supplies and athletic equipment) of governmental funds. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed. Governmental fund inventories are offset by a fund balance reserve indicating that they are unavailable as current expendable financial resources. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their market value is recorded as inventory and unearned revenue when received in the governmental funds. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

**Capital Assets and Depreciation**

Capital assets, which include land and land improvements, buildings and improvements, and furniture, equipment and vehicles, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Land improvements, buildings and improvements, and furniture, equipment, and vehicles of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	20-40
Furniture and equipment	5-20
Vehicles	10-15

**SWEENEY INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Deferred Outflows and Inflows of Resources**

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, "Items Previously Reported as Assets and Liabilities", had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

**Compensated Absences**

Compensated absences are absences for which employees will be paid. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

In the governmental funds, compensated absences that are expected to be liquidated with expendable available resources are reported as an expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported in long-term liabilities on the statement of net position.

Vacations are to be taken within the twelve month period that they are earned. Any unused vacation days will be forfeited with the exception of five carry over days per year. A maximum of twenty total days can be accumulated and paid when an employee retires without prior approval. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, no liability for unused sick leave has been accrued in the accompanying basic financial statements.

The following is a summary of changes in the accumulated unused vacation liability:

	<u>2013</u>
Balance, September 1	\$ 57,168
Additions – net unused	26,298
Deductions – payments	<u>( 28,107)</u>
Balance, August 31	<u>\$ 55,359</u>

The amounts attributable to the current and non-current portions on the liability resulting from this policy can only be estimated. As such, the entire amount of the liability is accounted for in the general fund.

# **SWEENEY INDEPENDENT SCHOOL DISTRICT**

## *NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditure or expenses in the current period.

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

#### **Budgetary Data**

Formal budgetary accounting is employed for all required governmental funds, as outlined in TEA's FASRG, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required governmental funds prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund and the food service (special revenue fund). The remaining special revenue funds and the capital projects fund (if utilized) adopt project-length budgets, which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The budget was properly amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board.

The Official Budget was prepared for adoption for the general fund, food service (special revenue fund) and debt service fund prior to August 30, 2012. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within fund groups at the function code level and revenue object code level.

**SWEENY INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Budgetary Data (Continued)**

The Budget is formally adopted by the Board of Trustees at a duly advertised public meeting in accordance with law prior to the expenditure of funds. The approved budget is filed with the Texas Education Agency (TEA) through the Public Education Information Management System. Should any change in the approved budget be required, budget amendment requests are presented to the Board of Trustees for consideration. Amendments are made before the fact and once approved are reflected in the official minutes. During the year the budget was properly amended in accordance with the above procedures. The Board of Trustees approved the final budget amendment on August 16, 2013.

**Encumbrance Accounting**

The District utilizes encumbrance accounting, in its governmental funds. Encumbrances represent commitments related to contracts not yet performed (executor contracts), and are used to control expenditures for the period and to enhance cash management. A school district often issues purchase orders or signs contracts for the purchase of goods and services to be received in the future. At the time these commitments are made, which in its simplest form means that when a purchase order is prepared, the appropriate account is checked for available funds. If an adequate balance exists, the amount of the order is immediately charged to the account to reduce the available balance for control purposes. The encumbrance account does not represent an expenditure for the period, only a commitment to expend resources.

Prior to the end of the current period, every effort should be made to liquidate outstanding encumbrances. When encumbrances are outstanding at the current period end, the school district likely will honor the open purchase orders or contracts that support the encumbrances. For reporting purposes, as noted earlier, outstanding encumbrances are not considered expenditures for the current period. If the school district allows encumbrances to lapse, even though it plans to honor the encumbrances, the appropriations authority expires and the items represented by the encumbrances are usually re-appropriated in the following year's budget. Open encumbrances at current period-end are included in restricted, committed or assigned fund balance, as appropriate.

The District had no outstanding encumbrances as of August 31, 2013.

# **SWEENEY INDEPENDENT SCHOOL DISTRICT**

## *NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Fund Balances**

The District's Board of Trustees meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The District's Unassigned General Fund Balance is maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees. Fund Balance of the District may be committed for a specific source by formal action of the District's Board of Trustees. Amendments or modifications of the committed fund balance must also be approved by formal action by the District's Board of Trustees. When it is appropriate for fund balance to be assigned, the Board of Trustees, delegates authority to the Superintendent or the Executive Director of Business Services. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Beginning with fiscal 2011, the District implemented GASB Statement No. 54, "Fund Balance, Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on government's fund balance more transparent. The following classifications describe the relative strength of spending constraints:

Non-spendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions of enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the District's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amount had been restricted, committed or assigned.

# **SWEENEY INDEPENDENT SCHOOL DISTRICT**

## *NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Fund Balances (Continued)**

As of August 31, 2013, non-spendable fund balances include \$ 67,219 for inventories in the general fund, \$ 63,340 for inventories in food service and \$ 568 for prepaid items in other special revenue fund. Restricted fund balances include \$ 1,136,933 for debt service fund, \$ 317,095 for special revenue funds, \$ 424,905 for capital acquisition and contractual obligation, and \$ 3,813,270 for Sweeny education foundation fund long-term investments. Committed fund balances include \$ 250,000 for claims and judgments and \$ 350,000 for capital expenditures for equipment in the general fund, and \$ 947,224 for other purpose in Sweeny Education Foundation fund. Assigned fund balance includes \$ 1,200,000 in the general fund for other purposes. Unassigned fund balance includes \$ 4,853,783 in the general fund and \$ (568) in other special revenue fund.

#### **Data Control Codes**

The data control codes refer to the account code structure prescribed by TEA in the FASRG. The TEA requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

#### **Use of Estimates**

The presentation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reporting amounts of assets and deferred outflows of resources, and, liabilities and deferred inflows of resources at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

#### **New Pronouncements**

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", was issued November 2010. The statement was implemented and did not have an impact on the District's financial statements. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34", was issued November 2010. The statement was implemented and did not have an impact on the District's financial statements. This statement is effective for periods beginning after June 15, 2012.

**SWEENEY INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**New Pronouncements (Continued)**

GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", was issued December 2010. The statement was implemented and did not have an impact on the District's financial statements. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", was issued June 2011. The statement was implemented and did not have an impact on the District's financial statements, although it has reclassified items previously recorded as assets and liabilities within the District's financial statements as deferred outflows and inflows of resources. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions-and amendment of GASB Statements No. 53", was issued June 2011. The statement was implemented and did not have an impact on the District's financial statements.

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", was issued March 2012. The statement was implemented and did have an impact on the District's financial statements (See Note 2 Changes in Accounting Principles and Prior Period Adjustments). This statement is effective for periods beginning after December 15, 2012 and was adopted in the current fiscal year.

GASB Statement No. 66, "Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and No. 62", was issued March 2012. The management of the District does not believe that the implementation of this statement will have a material effect on the financial statements of the District. This statement is effective for periods beginning after December 15, 2012.

GASB Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25", was issued June 2012. The management of the District does not believe that the implementation of this statement will have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2013.

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", was issued June 2012. The management of the District believes that the implementation of this statement may have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2014.

GASB Statement No. 69, "Government Combinations and Disposals of Government Operations", was issued January 2013. The management of the District does not believe that the implementation of this statement will have a material effect on the financial statements of the District. This statement is effective for periods beginning after December 15, 2013.

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees", was issued April 2013. The management of the District does not believe that the implementation of this statement will have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2013



**SWEENEY INDEPENDENT SCHOOL DISTRICT***NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2013***NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES**

The District classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose an investment is considered a cash equivalent if when purchased it has maturity of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of one year or more.

Cash and cash equivalents, current investments, and non-current investments as reported on the statement of net position at August 31, 2013 are as follows:

	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and Cash Equivalents:			
Cash (petty cash accounts)	\$ 137	\$	\$ 137
Financial Institution Deposits:			
Demand deposits	926,165	297,872	1,224,037
Texpool	5,198,498		5,198,498
MBIA Texas Class	2,654,011		2,654,011
Lonestar	<u>4,538</u>		<u>4,538</u>
Total cash and cash equivalents	<u>8,783,349</u>	<u>297,872</u>	<u>9,081,221</u>
Current Investments:			
Certificates of deposit	250,000		250,000
Other investment	<u>572,149</u>		<u>572,149</u>
Total current investments	<u>822,149</u>	<u>-0-</u>	<u>822,149</u>
Non-current Investments:			
Certificates of deposit	1,430,880		1,430,880
Other investments	<u>2,382,390</u>		<u>2,382,390</u>
Non-current investments	<u>3,813,270</u>	<u>-0-</u>	<u>3,813,270</u>
Totals	<u>\$ 13,418,768</u>	<u>\$ 297,872</u>	<u>\$ 13,716,640</u>

**Deposits**

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to them. The District requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

Under Texas state law, a bank serving as the school depository must have a bond or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance.

## **SWEENEY INDEPENDENT SCHOOL DISTRICT**

### *NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

#### **NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)**

##### **Deposits (Continued)**

At August 31, 2013, in addition to petty cash of \$ 137, the carrying amount of the District's cash, savings, and time deposits was \$ 2,904,917. The financial institutions balances were \$ 2,926,488 at August 31, 2013. Deposit balances of \$ 2,180,880 were covered by federal depository insurance, \$ 171,525 was covered by the Securities Investor Protection Corporation Insurance, and \$ 574,083 was covered by collateral pledged in the District's name. The collateral was held in safekeeping departments of unrelated banks, which act as the pledging bank's agent. These amounts include those of the Sweeny Education Foundation.

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

Depository:

- a. Name of bank: First State Bank of Louise, Sweeny, Texas.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 1,577,887.
- c. Largest cash, savings and time deposit combined account balance amounted to \$ 2,550,558 and occurred on October 11, 2012.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$ 250,000.

On October 11, 2012, the District was under pledged in the amount of \$ 722,671.

##### **Investments**

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the District to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The District's deposits and investments are invested pursuant to the investment policy, which is approved by the Board of Trustees. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes an "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the District will deposit funds is addressed. The District's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The District's management believes it complied with the requirements of the PFIA and the District's investment policy.

The District's Investment Officer submits an investment report each quarter to the Board of Trustees. The report details the investment positions of the District and the compliance of the investment portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

## **SWEENEY INDEPENDENT SCHOOL DISTRICT**

### *NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

#### **NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)**

##### **Investments (Continued)**

The District is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009;
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010;
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011;
4. Banker's acceptances as permitted by Government Code 2256.012;
5. Commercial paper as permitted by Government Code 2256.013;
6. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014;
7. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and
8. Public funds investment pools as permitted by Government Code 2256.016.

The District participates in a forward delivery agreement for the purpose of investing funds to pay matured bonds. This agreement governs the investment of bond payments at a fixed rate between the District and the depository on scheduled dates. This agreement is not considered a deposit and is not insured by federal deposit insurance or any other insurance. These investments have a custodial risk as uninsured and unregistered, with securities held by the financial institutions trust department or agent in the District's name.

The District entered into this agreement for the purpose of repaying bonds. This agreement shall not be terminable upon demand. The District will participate in this agreement until completion of term with an interest rate of 2.95% on the investments. The District will then repay bonds with this investment. During the year ended August 31, 2013 the District made its 7<sup>th</sup> payment of \$ 37,307. At August 31, 2013 the value of cash and investments were \$ 292,982. See Note 7 on page 58 for additional information regarding the bonds and mandatory sinking fund requirements.

The District participates in three Local Government Investment Pools (LGIPs): Texpool, Lonestar and MBIA Texas Class. The State Comptroller oversees Texpool and Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Advisory boards consisting of participants or their designees, maintains oversight responsibility for MBIA Texas Class and Lonestar.

The District invests in Texpool, Lonestar and MBIA Texas Class to provide its liquidity needs. Texpool, Lonestar and MBIA Texas Class are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texpool, Lonestar and MBIA Texas Class are 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texpool, Lonestar and MBIA Texas Class are rated AAA and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

**SWEENEY INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

**NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)**

**Investments (Continued)**

At August 31, 2013 Texpool, Lonestar and MBIA Texas Class had a weighted average maturity of 56 days, 57 days and 43 days, respectively. Although Texpool, Lonestar and MBIA Texas Class portfolios had a weighted average maturity of 56 days, 57 days and 43 days, respectively, the District considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The District's investments in LGIPs are insured, registered, or the District's agent holds the securities in the District's name; therefore, the District is not exposed to custodial risk.

The following table includes the portfolio balances of all investment types of the District at August 31, 2013.

	<u>Maturity Date</u>	<u>Coupon Rate (%)</u>	<u>Weighted Average Maturity (Days)</u>	<u>Market Value</u>
Local Government Investment Pools:				
Texpool	N/A	Varies daily	37	\$ 5,198,498
MBIA Texas Class	N/A	Varies daily	15	2,654,011
Lonestar	N/A	Varies daily	0	<u>4,538</u>
Total local government investment pools			17	<u>7,857,047</u>
Certificates of Deposit:				
Certificate of deposit	12/12/13	0.65%	15	250,000
Certificate of deposit	12/16/13	0.25%	16	250,000
Certificate of deposit	03/30/15	0.45%	44	129,550
Certificate of deposit	08/31/15	1.15%	57	130,637
Certificate of deposit	09/14/15	0.80%	80	180,738
Certificate of deposit	12/21/15	0.45%	122	243,204
Certificate of deposit	04/19/16	1.15%	60	105,079
Certificate of deposit	07/18/16	1.30%	138	220,898
Certificate of deposit	01/14/20	1.30%	236	<u>170,774</u>
Total Certificates of Deposit			85	<u>1,680,880</u>
U.S. Government Bonds and commercial paper				
Commercial paper	02/28/14	0.00%	32	269,509
Municipal Bonds	06/01/16	3.00%	246	371,126
Municipal Bonds	07/01/18	1.73%	1018	<u>873,268</u>
			432	<u>1,513,903</u>

(continued)

**SWEENEY INDEPENDENT SCHOOL DISTRICT***NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2013***NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)****Investments (Continued)**

	<u>Maturity Date</u>	<u>Coupon Rate (%)</u>	<u>Weighted Average Maturity (Days)</u>	<u>Market Value</u>
Asset Backed Securities:				
FNMA discount	12/16/13	0.00%	22	\$ 292,982
Fed home in mtg corp	02/01/14	4.00%	1	9,658
FNMA gtd remit pas thru tr	08/25/16	5.10%	57	75,872
Fhlmc multiclass mtg prtn cfs gtd	09/15/16	6.00%	47	60,395
FNMA gtd remit pass thru tr	04/25/17	5.50%	137	148,120
Fhlmc multiclass mtg prtn cfs gtd	06/15/17	5.50%	23	23,829
FNMA gtd remit pass thru tr	12/25/17	1.51%	183	167,258
Fhlmc multiclass mtg prtn cfs gtd	09/15/18	2.00%	247	192,966
Fhlmc multiclass mtg prtn cfs gtd	11/15/18	2.50%	284	215,210
GNMA II gtd pass thru	12/20/19	4.50%	230	143,833
Fhlmc multiclass mtg prtn cfs gtd	05/15/20	2.25%	188	<u>110,513</u>
Asset backed securities			129	<u>1,440,636</u>
Totals			90	<u>\$ 12,492,466</u>

Credit Risk – As of August 31, 2013, the LGIPs (which represent approximately 63% of the portfolio) are rated AAAM by Standard and Poor's or AAA by Finch. Certificates of deposit (which represent approximately 13% of the portfolio) are fully insured by the Securities Investor Protection Corporation Insurance and by federal depository insurance through CDARS programs. The U.S. government bond and commercial paper (which represent approximately 12% of the portfolio) are rated AAA by Standard and Poor's. The asset backed securities (which represent approximately 12% of the portfolio) are not rated.

Interest Rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the District's cash flow requirements.

At August 31, 2013, 88% of the investment portfolio was invested in AAAM or AAA rated LGIPs (2(a)7 like pools), commercial paper and U.S. Government Securities, and certificates of deposit. 12% of the investment portfolio was invested in not rated asset backed securities. The dollar weighted average maturity for all investments was 90 days, which was less than the threshold of 365 days.

**SWEENY INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

**NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)**

**Derivatives**

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its values from another security, currency, commodity, or index, regardless of the source of funds used. The District made no direct investments in derivatives during the year ended August 31, 2013, and holds no direct investments in derivatives at August 31, 2013.

**NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS OF RESOURCES AND UNEARNED REVENUES**

**Receivables and Allowances**

Receivables as of August 31, 2013, for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Sweeny Education Foundation</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Receivables:					
Property taxes	\$ 548,394	\$	\$ 75,359	\$	\$ 623,753
Receivables from other governments	70,537			142,012	212,549
Interest		10,833			10,833
Other	<u>10,032</u>	<u></u>	<u></u>	<u>6,611</u>	<u>16,643</u>
Gross receivables	628,963	10,833	75,359	148,623	863,778
Less: Allowance for uncollectibles	<u>414,320</u>	<u></u>	<u>52,664</u>	<u></u>	<u>466,984</u>
Net total receivables	<u>\$ 214,643</u>	<u>\$ 10,833</u>	<u>\$ 22,695</u>	<u>\$ 148,623</u>	<u>\$ 396,794</u>

**Receivables/Payables from/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. All federal grants shown below are passed through the TEA or other state agency and are reported on the combined financial statements as either Receivable from or to Other Governments, as applicable.

**SWEENEY INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

**NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS OF RESOURCES AND UNEARNED REVENUES (Continued)**

Amounts due from federal, state, and local governments as of August 31, 2013 are summarized below.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>State Grants and Other</u>	<u>Total</u>
Major Governmental Funds:				
General	\$ 27,802	\$	\$ 42,735	\$ 70,537
Other funds	<u>                    </u>	<u>142,012</u>	<u>                    </u>	<u>142,012</u>
Totals	<u>\$ 27,802</u>	<u>\$ 142,012</u>	<u>\$ 42,735</u>	<u>\$ 212,549</u>

Amounts due to federal, state, and local governments as of August 31, 2013 are summarized below:

<u>Fund</u>	<u>State Entitlements</u>
Major Governmental Funds:	
General	<u>\$ 546,165</u>
Totals	<u>\$ 546,165</u>

**Deferred Inflows of Resources/Unearned Revenue**

Governmental funds defer the recognition of revenue in connection with receivables that are considered to be unavailable to liquidate liabilities of the current period and report these amounts as deferred inflows of resources. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of August 31, 2013, the various components of deferred inflows of resources and unearned revenue reported in the governmental funds were as follows:

	<u>Deferred Inflows of Resources (Unavailable)</u>	<u>Unearned Revenue</u>
Delinquent property taxes receivable (general fund)	\$ 88,186	\$
Delinquent property taxes receivable (debt service fund)	15,356	
Federal food commodities		36,993
Advance Funding:		
State and local grants	<u>                    </u>	<u>30,749</u>
Totals	<u>\$ 103,542</u>	<u>\$ 67,742</u>

**SWEENEY INDEPENDENT SCHOOL DISTRICT***NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2013***NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS****Interfund Receivables and Payables**

Interfund balances at August 31, 2013 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Special Revenue Funds	\$ 97,485	\$ 561
Debt Service Fund		1,841
Capital Project Fund		206,638
Fiduciary Funds	<u>9</u>	
	<u>97,494</u>	<u>209,040</u>
Special Revenue Funds:		
General Fund:		
ESEA Title II Part A Improving Basic Programs		35,243
IDEA Part B, Formula		35,400
IDEA, Part B, Preschool		3,348
Training and Recruitment		17,813
English Language Acquisition and Language Enhancement	561	1,611
Accelerated Reading		2,686
Summer School LEP		1,115
AP/IB Incentive Program		138
Instructional Materials		131
Fiduciary Funds	<u>5,183</u>	
	<u>5,744</u>	<u>97,485</u>
Debt Service:		
General Fund	<u>1,841</u>	
	1,841	-0-
Capital Projects:		
General Fund	<u>206,638</u>	
	<u>206,638</u>	<u>-0-</u>
Fiduciary Funds:		
General Fund		9
Special Revenue Fund		5,183
	<u>-0-</u>	<u>5,192</u>
	<u>\$ 311,717</u>	<u>\$ 311,717</u>

**SWEENEY INDEPENDENT SCHOOL DISTRICT***NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2013***NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)****Interfund Transfers**

Interfund transfers for the year ended August 31, 2013 consisted of the following individual fund transfer in and transfer out:

<u>Transferring Fund</u>	<u>Receiving Fund</u>	<u>Amount</u>
Sweeny Education Foundation	General Fund	\$ <u>20,000</u>
		\$ <u><u>20,000</u></u>

The Board of Trustees approved this transfer, as transfers of operational funds to cover planned expenditures.

**NOTE 6. CAPITAL ASSETS****Changes in Capital Assets and Accumulated Depreciation**

The following provides a summary of changes in capital assets and accumulated depreciation for the year ended August 31, 2013:

	<u>Balance September 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance August 31, 2013</u>
<b>Non-Depreciated Capital Assets:</b>				
Land	\$ 1,406,238	\$	\$	\$ 1,406,238
Construction in progress	<u>708,624</u>	<u></u>	<u>708,624</u>	<u>-0-</u>
Total non-depreciated	<u>2,114,862</u>	<u>-0-</u>	<u>708,624</u>	<u>1,406,238</u>
<b>Depreciated Capital Assets:</b>				
Land improvements	1,073,028	28,850		1,101,878
Buildings and improvements	67,318,561	2,067,907		69,386,468
Furniture, equipment & vehicles	<u>3,017,154</u>	<u>320,171</u>	<u></u>	<u>3,337,325</u>
Total depreciated	<u>71,408,743</u>	<u>2,416,928</u>	<u>-0-</u>	<u>73,825,671</u>
Total additions/retirements	<u>\$73,523,605</u>	<u>\$ 2,416,928</u>	<u>\$ 708,624</u>	<u>\$ 75,231,909</u>
<b>Accumulated Depreciated:</b>				
Land and land improvements	\$ 531,139	\$ 49,728	\$	\$ 580,867
Buildings and improvements	32,116,313	1,361,599		33,477,912
Furniture, equipment & vehicles	<u>1,781,725</u>	<u>293,052</u>	<u></u>	<u>2,074,777</u>
Total	<u>34,429,177</u>	<u>\$ 1,704,379</u>	<u>\$ -0-</u>	<u>36,133,556</u>
Net depreciated capital assets	<u>36,979,566</u>			<u>37,692,115</u>
Net capital assets	<u>\$39,094,428</u>			<u>\$ 39,098,353</u>

**SWEENEY INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

**NOTE 6. CAPITAL ASSETS (Continued)**

**Depreciation Expense**

In accordance with requirements of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*, depreciation expense of the governmental activities was charged to functions as follows:

<u>Data Control Codes</u>	<u>Function</u>	<u>Amount</u>
0011	Instruction	\$ 971,232
0012	Instructional resources and media services	38,985
0021	Instructional leadership	24,472
0023	School leadership	43,101
0031	Guidance, counseling, and evaluation services	15,515
0033	Health services	21,381
0034	Student (pupil) transportation	205,146
0035	Food service	79,461
0036	Extracurricular activities	147,583
0041	General administration	21,653
0051	Plant maintenance and operations	61,429
0052	Security and monitoring services	4,194
0053	Data processing services	51,444
0061	Community services	9,260
0081	Facilities acquisition and construction	<u>9,523</u>
	Total depreciation expense	<u>\$ 1,704,379</u>

**NOTE 7. LONG-TERM DEBT**

**Loans**

Short term debts are accounted for through the appropriate fund, and consist of notes made in accordance with the provisions of the Texas Education Code. This District was not a party to any loan transactions during the year ended August 31, 2013.

**General Obligation Bonds**

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, contractual obligations and loans. Contractual obligations are issued at parity with general obligation bonds, but carry a secondary revenue stream pledge; however, all certificates of obligation are tax, not revenue, supported. This debt, unlike other tax-supported debt, can be issued without a vote of the citizens. Bond premiums and discounts, and gain and losses on refunding are amortized using the straight-line method.

**SWEENEY INDEPENDENT SCHOOL DISTRICT***NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2013***NOTE 7. LONG-TERM DEBT (Continued)****General Obligation Bonds (Continued)**

The following is a summary of the District's general obligation bonded debt as of August 31, 2013:

<u>Date of Issue</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>% Rates</u>	<u>Outstanding Balance 08-31-13</u>
2005 QZAB	\$ 750,000	2022	0.500	\$ 750,000
2007	9,500,000	2026	4.100-7.100	1,095,000
2008	9,500,000	2027	4.000-5.375	5,820,000
2010	2,000,000	2015	2.000-2.250	2,000,000
2012	<u>9,205,870</u>	2026	1.750-2.5000	<u>9,023,740</u>
Total	<u>\$ 30,955,870</u>			<u>\$ 18,688,740</u>

Presented below is a summary of general obligation bond requirements to maturity:

<u>Year Ended August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2014	\$ 1,900,000	\$ 912,743	\$ 2,812,743
2015	1,955,000	838,963	2,793,963
2016	1,000,000	805,495	1,805,495
2017	1,015,000	849,708	1,864,708
2018	1,035,000	368,196	1,403,196
2019-2023	6,415,000	1,368,270	7,783,270
2024-2027	<u>5,415,000</u>	<u>525,136</u>	<u>5,940,136</u>
Totals	<u>\$ 18,735,000</u>	<u>\$ 5,668,511</u>	<u>\$ 24,403,511</u>

The \$ 46,260 difference between the general obligation bonds outstanding at August 31, 2013 of \$ 18,688,740 and the general obligation bond principal requirements of \$ 18,735,000 represents the amount of capital appreciation bonds to be accreted as interest over the life of these bonds.

Bond indebtedness of the District is recorded in the governmental activities statement of net position, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Proceeds of long-term issues are reflected as "Other Resources" in the operating statement of the recipient fund.

The District has entered into continuing disclosure undertaking to provide annual reports and material event notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of Sweeny Independent School District.

**SWEENEY INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

**NOTE 7. LONG-TERM DEBT (Continued)**

**General Obligation Bonds (Continued)**

There are limitations and restrictions contained in the general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2013.

**Debt Issuances and Defeased Debt**

During the year ended August 31, 2011, the District issued \$ 2,000,000 in Unlimited Tax School Building Bonds, Series 2010 for financing the construction of the District's stadium track and field.

During the year ended August 31, 2013, the District issued \$ 8,405,000 in Unlimited Tax Refunding Bonds, Series 2012. \$ 8,405,000 for the refunding of previously issued Unlimited Tax School Building, Series 2004. The District placed the proceeds of the refunding, in the amount of \$ 9,389,893, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 1,092,224. The economic gain resulting from the transaction was \$ 1,000,308.

General obligation bonds consist of 2005 Unlimited Tax School Building Bonds ("Qualified Zone Academy Bonds") bearing interest at 0.5%, 2007 Unlimited Tax School Building Bonds bearing interest at 4.10% to 7.10%, 2008 Unlimited Tax School Building Bonds bearing interest at 4.0% to 5.375%

In the year ended August 31, 2007, the District entered into a repurchase agreement for the 2005 Unlimited Tax School Building Bonds ("Qualified Zone Academy Bonds"). The 2005 QZAB bonds repurchase agreement calls for an annual payment of \$ 37,307 and will yield an interest rate of 2.95% with maturity date of December 15, 2021 and an expected yield of \$ 750,000. Payments are due each December 15th.

Presented below is a summary of the sinking fund requirements:

<u>Year Ended</u> <u>August 31</u>	<u>Annual</u> <u>Requirements</u>
2014	\$ 37,307
2015	37,307
2016	37,307
2017	37,307
2018	37,307
2019-2022	<u>149,228</u>
Total Minimum Requirements	\$ <u><u>335,763</u></u>

**SWEENEY INDEPENDENT SCHOOL DISTRICT***NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2013***NOTE 7. LONG-TERM DEBT (Continued)****Changes in Long-Term Liabilities**

Long-term liability activity for the governmental activities for the year ended August 31, 2013, was as follows:

	<u>Balance</u> <u>09-01-12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>08-31-13</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 19,835,000	\$ 9,213,740	\$ 10,360,000	\$ 18,688,740	\$ 1,912,910
Components of Long-Term Debt:					
Premium on general obligation bonds payable	528,003	347,481	253,328	622,156	71,341
Accrued interest	<u>53,886</u>	<u>30,493</u>	<u>53,886</u>	<u>30,493</u>	<u>30,493</u>
Totals	<u>\$20,416,889</u>	<u>\$ 9,591,714</u>	<u>\$10,667,214</u>	<u>\$19,341,389</u>	<u>\$ 2,014,744</u>

**NOTE 8. LEASES****Operating Leases**

Commitments under operating lease (non-capital) agreements for copier and other equipment provides for minimum future rental payments as of August 31, 2013 as follows:

<u>Year Ended</u> <u>August 31</u>	<u>Amount</u>
2014	\$ 90,623
2015	71,172
2016	57,403
2017	57,403
2018	<u>57,403</u>
Total minimum rentals	<u>\$ 334,004</u>

Rental expenditures on the above mentioned equipment for the year ended August 31, 2013 were \$ 94,641.

# SWEENEY INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2013

### NOTE 9. PENSION PLAN OBLIGATIONS

*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. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees.

*Funding Policy* - State law provides a state contribution rate of 6.0% for fiscal year 2011-2012 and 2012-2013. State law further provides a member contribution rate of 6.4% for fiscal years 2011-2013. In certain instances, the reporting District 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 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of 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.

*Types of staff members covered.* All staff members who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Subtitle C, Section 822.002 are covered. Service retirement is as follows:

Normal	any combination of age plus years of credited service which equals or exceeds 80 age 65 with 5 years of service
Reduced	age 55 with at least 5 years of credited service any age below 50 with 30 or more years of credited service

A member is fully vested after 5 years of creditable service and entitled to any benefit for which eligibility requirements have been met.

Contributions made by the State on behalf of the District are recorded in the financial statements as both revenue and expense. State contributions to TRS made on behalf of the District's employees for the years ended August 31, 2013, 2012, and 2011 were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
District payroll	\$ 10,864,134	\$ 10,396,948	\$ 11,544,009
District TRS payroll	\$ 10,336,739	\$ 10,102,309	\$ 11,041,367
District contributions	\$ 99,482	\$ 77,384	\$ 98,408
Federal contributions	\$ 48,460	\$ 36,680	\$ 51,907
State contributions	\$ 560,156	\$ 585,054	\$ 683,087
Medicare part D	\$ 24,804	\$ 26,229	\$ 25,596
State contribution rate	6.000%	6.000%	6.644%
Employee contributions	\$ 661,552	\$ 646,549	\$ 706,649
Employee contribution rate	6.40%	6.40%	6.40%

**SWEENEY INDEPENDENT SCHOOL DISTRICT***NOTES TO THE FINANCIAL STATEMENTS**YEAR ENDED AUGUST 31, 2013***NOTE 9. PENSION PLAN OBLIGATIONS (Continued)**

TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet web-site, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

**NOTE 10. GENERAL FUND FEDERAL SOURCE REVENUES**

Following is a schedule of federal source revenue recorded in the General Fund.

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Total</u>
Direct Costs:		
School Health and Related Services (SHARS)	---	\$ 2,395
Federal Refuge Act	15.000	<u>29,257</u>
Total direct		<u>\$ 31,652</u>

The School Health and Related Services (SHARS) funds are not considered federal financial assistance for inclusion in the Schedule of Federal Financial Assistance.

**NOTE 11. LOCAL AND INTERMEDIATE REVENUES**

During the current year, local and intermediate revenues for governmental funds consisted of the following:

	<u>General Fund</u>	<u>Sweeny Educational Foundation</u>	<u>Debt Service</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes	\$ 13,757,736	\$	\$ 2,440,985	\$	\$ 16,198,721
Investment income (loss)	9,617	( 42,404)	11,110	1,410	( 20,267)
Food sales				387,677	387,677
Enterprising activities	4,268				4,268
Penalties, interest and other tax related income	114,606				131,107
Co-curricular income	53,002		16,501		53,002
Gifts and bequests	2,844	631,654		28,964	663,462
Other	<u>47,918</u>			<u>5,183</u>	<u>53,101</u>
Total	<u>\$ 13,989,991</u>	<u>\$ 589,250</u>	<u>\$ 2,468,596</u>	<u>\$ 423,234</u>	<u>\$ 17,471,071</u>

**NOTE 12. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

## **SWEENEY INDEPENDENT SCHOOL DISTRICT**

### *NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

#### **NOTE 13. RISK POOL PARTICIPATION**

The District is a participant in the Texas Association of School Boards, Inc. (TASB) Risk Management for coverage of unemployment compensation and worker's compensation. The District pays annual premiums to the pool for coverage stated. The District participates in a pool and is not responsible for its own claims.

##### **Unemployment Compensation Pool**

During the year ended August 31, 2013, Sweeny Independent School District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligations to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2012, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

##### **Workers' Compensation Pool**

During the year ended August 31, 2013, Sweeny Independent School District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$ 1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2012, the Fund carries a discounted reserve of \$ 68,883,628 for future development on reported claims and claims that have been incurred but not yet reported. For the year-ended August 31, 2013, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2012, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

## **SWEENEY INDEPENDENT SCHOOL DISTRICT**

### *NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

#### **NOTE 14. LITIGATION AND CONTINGENCIES**

The District participates in numerous state and federal 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, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2013 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.

#### **NOTE 15. JOINT VENTURED-SHARED SERVICE ARRANGEMENTS**

The District participates in a Shared Services Arrangement (“SSA”) for the hearing impaired through the Brazoria-Fort Bend Cooperative with eleven other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Fort Bend Independent School District, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Sweeny Independent School District. The fiscal manager is responsible for all financial activities of the shared services arrangement. The amount of state revenues and expenditures attributable to the District’s participation is not available. The District portion of cost covered by revenue received by the fiscal agent was \$ 3,823.

The District participates in a shared services arrangement with Deer Park Independent School District for the supply of electricity and ancillary services to all facilities of the District. Deer Park Independent School District is the fiscal agent. All services are provided by the fiscal agent for the supply of electricity, the negotiation to purchase electricity, ancillary services, or other energy related products and services, and to encourage efficiency of operation and conservation on behalf of the buyer. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Deer Park ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Sweeny Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The expenditures attributable to the District’s participation totaled \$ 430,307 and were coded to 6492 payments to fiscal agents.

#### **NOTE 16. INTERLOCAL AGREEMENT**

During the year ended August 31, 2013, the Sweeny Independent School District (SISD) entered into an interlocal agreement with Brazosport Independent School District (BISD) for management and director services for SISD’s Child Nutrition Department. SISD agrees to continue supplying necessary personnel (except the Director position), equipment, supplies, food and other costs to operate the Child Nutrition Department. BISD agrees to supply a Director and other management personnel to direct and manage SISD Child Nutrition Department in accordance with applicable laws and regulations. The parties intend that BISD, in performing such services, shall act as an independent contractor and act as a third party director.

**SWEENEY INDEPENDENT SCHOOL DISTRICT**

*NOTES TO THE FINANCIAL STATEMENTS*

*YEAR ENDED AUGUST 31, 2013*

**NOTE 16. INTERLOCAL AGREEMENT (Continued)**

In consideration of the services above, SISD agrees to pay BISD \$ 40,000 annually.

The effective commencement date of this Agreement shall be September 1, 2012 and shall continue until August 31, 2013.

**NOTE 17. EVALUATION OF SUBSEQUENT EVENTS**

The District has evaluated subsequent events through December 20, 2013, the date which the financial statements were available to be issued.

**NOTE 18. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

During the year ended August 31, 2013, the District incurred expenditures in excess of appropriations within the following funds and functions:

General Fund:

Function 21 – Instructional leadership	\$ 10,577
Function 36 – Extracurricular activities	6,065
Function 53 – Data processing services	8,737
Function 91 – Contracted instructional services between public schools	100,385

Debt Service Fund:

Function 73 – Bond issuance costs and fees	64,675
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These variances resulted from underestimation of year-end accruals and third party liabilities as of August 31, 2013.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SWEENEY INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL – GENERAL FUND  
YEAR ENDED AUGUST 31, 2013**

*Exhibit G-1  
Page 1 of 1*

Data Control Codes		General Fund			Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and intermediate sources	\$ 13,652,528	\$ 13,652,528	\$ 13,989,991	\$ 337,463
5800	State program revenues	2,351,597	2,351,597	1,791,024	( 560,573)
5900	Federal program revenues	200	200	31,652	31,452
5020	Total revenues	<u>16,004,325</u>	<u>16,004,325</u>	<u>15,812,667</u>	<u>( 191,658)</u>
	EXPENDITURES:				
	Current:				
0011	Instruction	8,535,376	8,648,666	7,888,236	760,430
0012	Instructional resources and media services	212,777	216,836	213,033	3,803
0013	Curriculum and staff development	28,324	28,924	21,715	7,209
0021	Instructional leadership	507,064	527,716	538,293	( 10,577)
0023	School leadership	983,504	996,640	965,868	30,772
0031	Guidance, counseling, and evaluation services	597,547	625,958	531,968	93,990
0033	Health services	197,556	201,615	200,354	1,261
0034	Student (pupil) transportation	901,635	915,842	735,814	180,028
0036	Extracurricular activities	652,492	659,835	665,900	( 6,065)
0041	General administration	647,317	675,496	654,238	21,258
0051	Plant maintenance and operations	1,750,082	1,777,931	1,670,988	106,943
0052	Security and monitoring services	50,297	51,109	50,133	976
0053	Data processing services	60,717	161,846	170,583	( 8,737)
0071	Debt Service - principal on long-term debt	500	500		500
0091	Contracted instructional services between public schools	934,885	934,885	1,035,270	( 100,385)
0093	Payments related to shared services arrangements	520,000	523,823	430,307	93,516
0099	Other intergovernmental charges	<u>136,000</u>	<u>136,000</u>	<u>118,409</u>	<u>17,591</u>
6030	Total expenditures	<u>16,716,073</u>	<u>17,083,622</u>	<u>15,891,109</u>	<u>1,192,513</u>
1100	Excess (deficiency) of revenues over expenditures	<u>( 711,748)</u>	<u>( 1,079,297)</u>	<u>( 78,442)</u>	<u>1,000,855</u>
	OTHER FINANCING SOURCES (USES):				
7915	Transfers in		20,000	20,000	-0-
	Total other financing sources (uses)	<u>-0-</u>	<u>20,000</u>	<u>20,000</u>	<u>-0-</u>
1200	Net change in fund balances	<u>( 711,748)</u>	<u>( 1,059,297)</u>	<u>( 58,442)</u>	<u>1,000,855</u>
0100	Fund balances – beginning (restated)	<u>5,579,444</u>	<u>5,579,444</u>	<u>5,579,444</u>	<u>-0-</u>
3000	Fund balances – ending	<u>\$ 4,867,696</u>	<u>\$ 4,520,147</u>	<u>\$ 5,521,002</u>	<u>\$ 1,000,855</u>

## **OTHER SUPPLEMENTARY INFORMATION**

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**AUGUST 31, 2013**

Data Control Codes		Special				
		211 ESEA Title IV Part A -Safe Improving Basic Programs	224 IDEA Part B Formula	225 IDEA Part B Preschool	240 National School Lunch and Breakfast Program	244 Vocational Education Program
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:						
Assets:						
1110	Cash and cash equivalents	\$	\$	\$	\$ 380,147	\$ 107
1240	Receivables from other governments	47,181	49,778	5,149	15,013	
1260	Due from other funds					
1290	Other receivables				6,611	
1300	Inventories				63,340	
1410	Prepaid items		568			
1000	Total assets	<u>47,181</u>	<u>50,346</u>	<u>5,149</u>	<u>465,111</u>	<u>107</u>
Deferred Outflows of Resources:						
1700	Deferred outflows					
	Total deferred outflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
1000A	Total assets and deferred outflows of resources	<u>\$ 47,181</u>	<u>\$ 50,346</u>	<u>\$ 5,149</u>	<u>\$ 465,111</u>	<u>\$ 107</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:						
Liabilities:						
2110	Accounts payable	\$ 404	\$ 2,235	\$	\$ 35,634	\$ 107
2160	Accrued wages payable	11,534	12,711	1,802	12,049	
2170	Due to other funds	35,243	35,400	3,347		
2300	Unearned revenue				36,993	
2000	Total liabilities	<u>47,181</u>	<u>50,346</u>	<u>5,149</u>	<u>84,676</u>	<u>107</u>
Deferred Inflows of Resources:						
2600	Deferred inflows					
	Total deferred inflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Fund Balances:						
Non-spendable:						
3410	Inventories				63,340	
3430	Prepaid		568			
Restricted:						
3450	Grant funds				317,095	
3470	Capital acquisitions and contractual obligations					
3600	Unrestricted		( 568 )			
3000	Total fund balances	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>380,435</u>	<u>-0-</u>
4000	Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 47,181</u>	<u>\$ 50,346</u>	<u>\$ 5,149</u>	<u>\$ 465,111</u>	<u>\$ 107</u>

Revenue Funds							
255 ESEA, Title I Part A: Teacher and Principal Training and Recruitment	263 Title II Part A Language Education Program	289 Summer School Language Education program	404 Accelerated Reading Program	410 Instructional Materials Allotment (MA)	429 AP/IB Campus Awards	480 Local Grants	481 Security Grants
\$ 21,153 5,183	\$ 1,051 560	\$ 1,115	\$ 2,687	\$ 27,080	\$ 138	\$ 11,520	\$ 2,072
<u>26,336</u>	<u>1,611</u>	<u>1,115</u>	<u>2,687</u>	<u>27,080</u>	<u>138</u>	<u>11,520</u>	<u>2,072</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>\$ 26,336</u>	<u>\$ 1,611</u>	<u>\$ 1,115</u>	<u>\$ 2,687</u>	<u>\$ 27,080</u>	<u>\$ 138</u>	<u>\$ 11,520</u>	<u>\$ 2,072</u>
\$ 5,328 3,195 17,813	\$ 1,611	\$ 1,115	\$ 2,687	\$ 9,270 131 17,679	\$ 138	\$ 11,520	\$ 522 1,550
<u>26,336</u>	<u>1,611</u>	<u>1,115</u>	<u>2,687</u>	<u>27,080</u>	<u>138</u>	<u>11,520</u>	<u>2,072</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>\$ 26,336</u>	<u>\$ 1,611</u>	<u>\$ 1,115</u>	<u>\$ 2,687</u>	<u>\$ 27,080</u>	<u>\$ 138</u>	<u>\$ 11,520</u>	<u>\$ 2,072</u>

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**AUGUST 31, 2013**

*EXHIBIT H-1*  
*Page 2 of 2*

Data Control Codes		60	Total Special Revenue Fund	Capital Projects Fund	Total Non-major Governmental Funds		
	<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:</b>						
	Assets:						
1110	Cash and cash equivalents	\$	422,179	\$	335,308	\$	757,487
1240	Receivables from other governments		142,012				142,012
1260	Due from other funds		5,743		206,639		213,382
1290	Other receivables		6,611				6,611
1300	Inventories		63,340				63,340
1410	Prepaid items		568				568
1000	Total assets		640,453		541,947		1,182,400
	Deferred Outflows of Resources:						
1700	Deferred outflows						
	Total deferred outflows of resources		-0-		-0-		-0-
1000A	Total assets and deferred outflows of resources	\$	640,453	\$	541,947	\$	1,182,400
	<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:</b>						
	Liabilities:						
2110	Accounts payable	\$	53,500	\$	117,042	\$	170,542
2160	Accrued wages payable		41,291				41,291
2170	Due to other funds		97,485				97,485
2300	Unearned revenue		67,742				67,742
2000	Total liabilities		260,018		117,042		377,060
	Deferred Inflows of Resources:						
2600	Deferred inflows						
	Total deferred inflows of resources		-0-		-0-		-0-
	Fund Balances:						
	Non-spendable:						
3410	Inventories		63,340				63,340
3430	Prepaid		568				568
	Restricted:						
3450	Grant funds		317,095				317,095
3470	Capital acquisitions and contractual obligations			424,905			424,905
3600	Unrestricted		( 568 )				( 568 )
3000	Total fund balances		380,435		424,905		805,340
4000	Total liabilities, deferred inflows of resources and fund balances	\$	640,453	\$	541,947	\$	1,182,400

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**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED AUGUST 31, 2013**

Data Control Codes		Special				
		211	224	225	240	244
		ESEA Title IV Part A -Safe Improving Basic Programs	IDEA Part B Formula	IDEA Part B Preschool	National School Lunch and Breakfast Program	Vocational Education Program
REVENUES:						
5700	Local and intermediate sources	\$	\$	\$	\$ 387,677	\$
5800	State program revenues				13,519	
5900	Federal program revenues	<u>243,050</u>	<u>354,714</u>	<u>32,785</u>	<u>606,328</u>	<u>18,918</u>
5020	Total revenues	<u>243,050</u>	<u>354,714</u>	<u>32,785</u>	<u>1,007,524</u>	<u>18,918</u>
EXPENDITURES:						
Current:						
0011	Instruction	238,350	309,529	32,785		1,600
0013	Curriculum and staff development					
0021	Instructional leadership	4,700	12,120			17,318
0023	School leadership					
0031	Guidance, counseling and evaluation services		29,242			
0033	Health services					
0034	Student (pupil) transportation					
0035	Food Service				984,263	
0036	Extracurricular activities					
0041	General administration					
0051	Plant maintenance and operations					
0052	Security and monitoring services					
0053	Data processing services					
0081	Facilities acquisition and construction					
0093	Payments related to shared service arrangements		<u>3,823</u>			
6030	Total expenditures	<u>243,050</u>	<u>354,714</u>	<u>32,785</u>	<u>984,263</u>	<u>18,918</u>
1100	Excess (deficiency) of revenues over expenditures	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>23,261</u>	<u>-0-</u>
0100	Fund balances - beginning				<u>357,174</u>	
3000	Fund balances - ending	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 380,435</u>	<u>\$ -0-</u>

Revenue Funds							
255 ESEA, Title I Part A: Teacher and Principal Training and Recruitment	263 Title II Part A Language Education Program	289 Summer School Language Education program	404 Accelerated Reading Program	410 Instructional Materials Allotment (MA)	429 AP/IB Campus Awards	480 Local Grants	481 Security Grants
\$ 5,183	\$	\$	\$ 5,587	\$ 201,995	\$	\$ 27,514	\$ 1,450
<u>77,714</u>	<u>1,546</u>	<u>1,115</u>	<u>5,587</u>	<u>201,995</u>	<u>-</u>	<u>27,514</u>	<u>1,450</u>
<u>82,897</u>	<u>1,546</u>	<u>1,115</u>	<u>5,587</u>	<u>201,995</u>	<u>-0-</u>	<u>27,514</u>	<u>1,450</u>
58,903	922	1,115	4,862	205,159	138	27,304	
2,077	624		725				
17,906							
2,172							
1,839						210	
							1,450
<u>82,897</u>	<u>1,546</u>	<u>1,115</u>	<u>5,587</u>	<u>205,159</u>	<u>138</u>	<u>27,514</u>	<u>1,450</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>( 3,164 )</u>	<u>( 138 )</u>	<u>-0-</u>	<u>-0-</u>
				<u>3,164</u>	<u>138</u>		
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED AUGUST 31, 2013**

**EXHIBIT H-2**  
**Page 2 of 2**

Data Control Codes		60	60	60
		Total Special Revenue Fund	Capital Projects Fund	Total Non-major Governmental Funds
	REVENUES:			
5700	Local and intermediate sources	\$ 421,824	\$ 1,410	\$ 423,234
5800	State program revenues	221,101	64	221,165
5900	Federal program revenues	<u>1,336,170</u>	<u>        </u>	<u>1,336,170</u>
5020	Total revenues	<u>1,979,095</u>	<u>1,474</u>	<u>1,980,569</u>
	EXPENDITURES:			
	Current:			
0011	Instruction	880,667	22,835	903,502
0013	Curriculum and staff development	3,426		3,426
0021	Instructional leadership	52,044		52,044
0023	School leadership	2,172		2,172
0031	Guidance, counseling and evaluation services	31,081		31,081
0033	Health services	210		210
0034	Student (pupil) transportation	-0-	87,999	87,999
0035	Food Service	984,263		984,263
0036	Extracurricular activities	-0-	58,362	58,362
0041	General administration	-0-		-0-
0051	Plant maintenance and operations	-0-	135,055	135,055
0052	Security and monitoring services	1,450	35,102	36,552
0053	Data processing services	-0-	203,174	203,174
0081	Facilities acquisition and construction	-0-	1,307,191	1,307,191
0093	Payments related to shared service arrangements	<u>3,823</u>	<u>        </u>	<u>3,823</u>
6030	Total expenditures	<u>1,959,136</u>	<u>1,849,718</u>	<u>3,808,854</u>
1100	Excess (deficiency) of revenues over expenditures	<u>19,959</u>	<u>( 1,848,244 )</u>	<u>( 1,828,285 )</u>
0100	Fund balances - beginning	<u>360,476</u>	<u>2,273,149</u>	<u>2,633,625</u>
3000	Fund balances - ending	<u>\$ 380,435</u>	<u>\$ 424,905</u>	<u>\$ 805,340</u>

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**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF DELINQUENT TAXES RECEIVABLE**  
**YEAR ENDED AUGUST 31, 2013**

Last Ten Years Ended August 31,	1		2	3	10
	Tax Rates			Assessed/Appraised Value for School Tax Purposes	Beginning Balance September 1, 2012
	Maintenance	Debt Service			
2004 and Prior	\$ 1.50000	\$ 0.17500	\$	1,486,317,791	\$ 261,784
2005	1.50000	0.19200		1,368,708,806	23,687
2006	1.50000	0.17100		1,417,483,853	31,171
2007	1.50000	0.17170		1,536,479,758	34,534
2008	1.37000	0.17170		1,499,562,717	29,452
2009	1.04000	0.17170		1,687,030,453	39,870
2010	1.04000	0.17170		1,397,632,087	45,493
2011	1.04000	0.17170		1,291,306,512	63,231
2012	1.04000	0.17170		1,266,082,281	152,908
2013 (School Year Under Audit)	1.04000	0.17170		1,273,678,303	
1000 Totals					\$ <u>682,130</u>

20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance August 31, 2013
\$	\$ 12,052	\$ 1,268	\$( 16,297)	\$ 232,167
	1,256	161	( 776)	21,494
	5,542	632	( 465)	24,532
	6,882	863	( 402)	26,387
	5,015	828	( 390)	23,219
	6,820	1,126	( 1,279)	30,645
	12,336	2,037	( 1,386)	29,734
	22,042	3,639	( 456)	37,094
	113,378	18,718	36,455	57,267
<u>15,433,160</u>	<u>13,563,873</u>	<u>2,239,343</u>	<u>511,270</u>	<u>141,214</u>
<u>\$ 15,433,160</u>	<u>\$ 13,749,196</u>	<u>\$ 2,268,615</u>	<u>\$ 526,274</u>	<u>\$ 623,753</u>

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES FOR COMPUTATION OF**  
**INDIRECT COST FOR 2013-2014**  
**GENERAL AND SPECIAL REVENUE FUNDS**  
**YEAR ENDED AUGUST 31, 2013**

**EXHIBIT J-2**  
**Page 1 of 1**

Account Number	Account Name	1 (702) School Board	2 (703) Tax Office	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Costs	6 (Other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$	\$	\$ 255,736	\$ 234,690	\$ 606	\$ 22,852	\$ 513,884
6149	Fringe benefits (unused leave for separating employees in function 41 and related 53)							-0-
6149	Fringe benefits (unused leave for separating employees in all functions except 41 and related 53)							-0-
6211	Legal services	29,357						29,357
6212	Audit services				34,074			34,074
6213	Tax appraisal & collection		118,409					118,409
621X	Other professional services							-0-
6220	Tuition & transfer payments							-0-
6230	Education service centers							-0-
6240	Contract maint. & repair				470		45,707	46,177
6250	Utilities							-0-
6260	Rentals			3,804	2,362			6,166
6290	Miscellaneous contract			5,628	31,559			37,187
6320	Textbooks & reading			215				215
6330	Testing materials							-0-
63XX	Other supplies/materials			12,773	2,044			14,817
6410	Travel, subsistence, stipends	10,531		2,909	715		347	14,502
6420	Ins. & bonding costs	7,034						7,034
6430	Election costs	2,052						2,052
6490	Miscellaneous operating	15,595		608	1,476			17,679
6500	Debt service							-0-
6600	Capital outlay							-0-
<b>TOTAL</b>		<u>\$ 64,569</u>	<u>\$ 118,409</u>	<u>\$ 281,673</u>	<u>\$ 307,390</u>	<u>\$ 606</u>	<u>\$ 68,906</u>	<u>\$ 841,553</u>

Total expenditures for General and Special Revenue Funds (Exhibit C-2) (9) \$ 17,850,245  
**FISCAL YEAR**

Total Capital Outlay (6600)	(10) \$ 1,708,304
Total Debt & Lease (6500)	(11) -0-
Plant Maintenance (Function 51, 6100-6400)	(12) 1,806,043
Food (Function 35, 6341 and 6499)	(13) 431,312
Stipends (6413)	(14) -0-
Column 4 (above) - Total Indirect Cost	<u>307,390</u>
Subtotal	<u>4,253,049</u>
Net Allowed Direct Cost	<u>\$ 13,597,196</u>

**CUMULATIVE**

Total Cost of Buildings before Depreciation	(15) \$ 69,386,468
Historical Cost of Buildings over 50 years old	(16) \$ 6,048,773
Amount of Federal Money in Building Cost (Net of Above)	(17) \$ -0-
Total Cost of Furniture and Equipment before Depreciation	(18) \$ 3,337,324
Historical Cost of Furniture & Equipment over 16 years old	(19) \$ 303,220
Amount of Federal Money in Furniture & Equipment (Net of Above)	(20) \$ -0-

Note A - \$ 68,906 in Function 53 expenditures are included in this report on administrative costs.  
 \$ 118,409 in Function 99 expenditures are included in this report on administrative costs.

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET**  
**GENERAL FUND**  
**AUGUST 31, 2013**  
**UNAUDITED**

*EXHIBIT J-3*  
*Page 1 of 1*

Data Control Code	Explanation	Amount
1	Total General Fund Balance as of 08/31/13 (Exhibit C-1 object 3000 for the General Fund only)	\$ <u>5,521,002</u>
2	Total Non-Spendable Fund Balance (from Exhibit C-1 - total of object 3410-3440 for the General Fund only)	67,219
3	Total Restricted Fund Balance (from Exhibit C-1 - total of object 3450-3490 for the General Fund only)	
4	Total Committed Fund Balance (from Exhibit C-1 - total of object 3510-3445 for the General Fund only)	600,000
5	Total Assigned Fund Balance (from Exhibit C-1 - total of object 3550-3590 for the General Fund only)	1,200,000
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds representing deferred revenues)	759,684
7	Estimate of two month's average cash disbursements during the fiscal year.	2,648,518
8	Estimate of delayed payments from state sources (58XX)	
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	
10	Estimate of delayed payments from federal sources (59XX)	
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	<u>                    </u>
12	Optimum fund balance and cash flow (2+3+4+5+6+7+8+9+10)	<u>5,275,421</u>
13	Excess (deficit) undesignated unreserved General Fund fund balance (1-11)	\$ <u>245,581</u>

Note: The excess fund will be used to offset the budgeted deficit for 2013-2014, which is currently \$ 937,526.

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE – NONMAJOR FUND**  
**– FOOD SERVICE SPECIAL REVENUE FUND**  
**YEAR ENDED AUGUST 31, 2013**

**EXHIBIT J-4**  
**Page 1 of 1**

Data Control Codes		Food Service Special Revenue Fund			Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and intermediate sources	\$ 391,000	\$ 391,000	\$ 387,677	\$( 3,323)
5800	State program revenues	14,473	14,473	13,519	( 954)
5900	Federal program revenues	<u>603,300</u>	<u>603,300</u>	<u>606,328</u>	<u>3,028</u>
5020	Total revenues	<u>1,008,773</u>	<u>1,008,773</u>	<u>1,007,524</u>	<u>( 1,249)</u>
	EXPENDITURES:				
	Current:				
0035	Food service	<u>993,780</u>	<u>1,014,071</u>	<u>984,263</u>	<u>29,808</u>
6030	Total expenditures	<u>993,780</u>	<u>993,780</u>	<u>984,263</u>	<u>29,808</u>
1100	Excess (deficiency) of revenues over expenditures	<u>14,993</u>	<u>( 5,298)</u>	<u>23,261</u>	<u>28,559</u>
0100	Fund balances – beginning	<u>357,174</u>	<u>357,174</u>	<u>357,174</u>	<u>-0-</u>
3000	Fund balances – ending	<u>\$ 372,167</u>	<u>\$ 351,876</u>	<u>\$ 380,435</u>	<u>\$ 28,559</u>

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE – DEBT SERVICE FUND**  
**YEAR ENDED AUGUST 31, 2013**

**EXHIBIT J-5**  
**Page 1 of 1**

Data Control Codes		Debt Service Fund			Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and intermediate sources	\$ 2,391,477	\$ 2,391,477	\$ 2,468,596	\$ 77,119
5020	Total revenues	2,391,477	2,391,477	2,468,596	77,119
	EXPENDITURES:				
	Current:				
0071	Principal on long-term debt	1,802,307	1,955,000	1,955,000	-0-
0072	Interest on long-term debt	845,114	684,275	590,245	94,030
0073	Bond issuance costs and fees	2,000	98,354	163,029	(64,675)
6030	Total expenditures	2,649,421	2,737,629	2,708,274	29,355
1100	Excess (deficiency) of revenues over expenditures	(257,944)	(346,152)	(239,678)	106,474
	OTHER FINANCING SOURCES (USES):				
7911	Issuance of bonds		8,405,000	8,405,000	-0-
7916	Premium on issuance of bonds		1,083,822	1,148,351	64,529
8949	Payments to escrow agent		(9,389,893)	(9,389,893)	-0-
7900	Total other financing sources and (uses)	-0-	98,929	163,458	64,529
1200	Net change in fund balances	(257,944)	(247,223)	(76,220)	171,003
0100	Fund balances – beginning	1,213,153	1,213,153	1,213,153	-0-
3000	Fund balances – ending	\$ 955,209	\$ 965,930	\$ 1,136,933	\$ 171,003

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**FEDERAL AWARDS SECTION**

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# KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

**Lake Jackson Office:**  
8 West Way Court  
Lake Jackson, Texas 77566

**El Campo Office:**  
201 W. Webb  
El Campo, Texas 77437

**Houston Office:**  
10260 Westheimer, Suite 410  
Houston, Texas 77042

## Independent Auditor's Report

On Internal Control over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards*

To the Board of Trustees  
Sweeny Independent School District  
Sweeny, Texas 77480

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sweeny Independent School District (the "District"), as of and for year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 20, 2013.

### **Internal Control over Financial Reporting**

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

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

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See finding reference numbers 2013-01, 2013-02 and 2013-03.

### **Compliance and Other Matters**

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

### **Sweeny Independent School District's Response to Finding**

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*Kennemer, Masters & Hunzford, LLC*

Lake Jackson, Texas  
December 20, 2013

# KENNEMER, MASTERS & LUNSFORD

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

**Lake Jackson Office:**  
8 West Way Court  
Lake Jackson, Texas 77566

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El Campo, Texas 77437

**Houston Office:**  
10260 Westheimer, Suite 410  
Houston, Texas 77042

## Independent Auditor's Report

On Compliance for Each Major Program and on Internal  
Control over Compliance Required by OMB Circular A-133

To the Board of Trustees  
Sweeny Independent School District  
Sweeny, Texas 77480

### **Report on Compliance for Each Major Federal Program**

We have audited Sweeny Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2013. 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.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

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### ***Opinion on Each Major Federal Program***

In our opinion, the Sweeny Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013.

### **Report on Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2013-3 to be a significant deficiency.

### **Sweeny Independent School District's Response to Finding**

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Board of Trustees  
Sweeny Independent School District  
Sweeny, Texas 77480  
Page 3

**Purpose of this Report**

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

*Kennemer, Masters & Hungford, LLC*

Lake Jackson, Texas 77566  
December 20, 2013

I. Summary of auditors' results:

1. Type of auditors' report issued on the financial statements: Unmodified.
2. Three internal control findings, required to be reported in this schedule, were disclosed in the audit of the financial statements.
3. Noncompliance which is material to the financial statements: None.
4. One internal control finding, required to be reported in this schedule, was disclosed in the audit of major programs.
5. Type of auditors' report on compliance for major programs: Unmodified
6. Did the audit disclose findings which are required to be reported under Sec.\_510(a): No
7. Major programs include:  
IDEA Part B Cluster Programs:
  - IDEA Part B Formula Program – CFDA #84.027
  - IDEA Part B Preschool Program – CFDA #84.173
8. Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000
9. Low risk auditee: Yes.

II. Findings related to the financial statements:

1. Schedule reference number 2013-01, expenditures in excess of appropriations at the function level.

Criteria: The Texas Education Agency's Financial Accountability and Resource Guide (FASRG) require the District to amend its budget on a regular basis to ensure that expenditures do not exceed appropriations at the function level.

Condition: During our audit procedures we noted that expenditures exceeded appropriations at the functional level in five separate functions (four in the General Fund, and one in the Debt Service Fund).

Effect: Due to the number of functions reflecting expenditures in excess of appropriations, it appears that internal control over the budget is not functioning as designed.

Cause: These unfavorable variances were created primarily by an underestimation of year-end accruals and an underestimation of debt service bond issuance costs related to the 2012 Unlimited Tax Refunding Bonds. Further, personnel changes in the Business Office; was a contributing factor.

II. Findings related to the financial statements (Continued)

Recommendations: The Business Office should monitor the estimated year-end accruals, including the calculation of Chapter 41 costs to ensure that the current budget appropriations are adequate to cover these expenditures. If not, obtain a budget amendment. Further, the Business Office should identify the results of debt transactions as they occur to ensure debt transactions (principal, interest, and fees) do not exceed budget amounts.

Questioned Cost/Basis: None.

2. Schedule reference number 2013-02, the District failed to maintain adequate pledged securities as of October 11, 2012 (date of highest cash balance).

Criteria: Under Texas state law, a bank serving as the school depository must have a bond or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC coverage.

Condition: During our audit procedures we identified the date and amount of highest cash balance with the depository and confirmed with third parties that the pledged securities on October 11, 2012 were inadequate to cover said balances.

Effect: On October 11, 2012 the districts deposits with its depository were under pledged by \$ 472,671.

Cause: This resulted from an underestimation of cash collections during the period around October 11, 2012. State warrants were received on that date and amounted to \$668,255.

Recommendations: The Business Office should monitor its pledged securities to ensure that the depository maintains adequate pledged securities to cover all anticipated deposits. This requires the monitoring of historical cash receipts and ensuring that the pledged collateral is adequate for the anticipated highest amounts that will occur during the year.

Questioned Cost/Basis: None.

3. Schedule reference number 2013-03: Direct Expenditure of Program Intent Code 22 Career & Technology Block Grant. Direct (unallocated and allocated) expenditures toward state career & technology block grant failed to exceed 58% of Foundation School Program (FSP) allotment for the 2012-2013.

Criteria: Procedures should be in place to ensure that the District appropriately expends at least 58% of all FSP basic programs.

II. Findings related to the financial statements (Continued)

Condition: District (allocated) expenditures for the career & technology block grant programs were \$ 601,238 less than the 58% requirement of \$ 689,831 (FSP allotment of \$ 1,189,364 times 58%) during the year ended August 31, 2013. This resulted from an inadequate amount of direct expenditures being budgeted for career and technology.

Effect: Expenditures for career and technology were less than the required amounts based upon FSP funding.

Cause: The District failed to monitor the amount of program intent code expenditures required to expended during the year ended August 31, 2013. This variance was noted during comparison of actual to FSP allotments from the near final summary of finances for all basic programs.

Recommendation: The Business Office should review the budgets in relation to all FSP allocated basic programs to ensure that adequate amounts are available to satisfy the 58% expenditure requirement. Further, periodic reviews of changes in FSP allocated amounts and actual expenditures should be performed throughout the school year.

Questioned costs/basis: \$ 88,593.

III. Findings and questioned costs related to the federal awards.

1. Schedule reference number 2013-04, the District failed to request reimbursement for program expenditures incurred during the previous school year for Title I, Part A Improving basic programs (\$ 13,212); IDEA Part B Formula programs (\$ 13,781); IDEA Part B Preschool programs (\$ 872); and, Title II, Part A Teacher/Principal programs (\$ 2,855).

Criteria: In order to receive amounts earned under grant programs, the District is required to present periodic reimbursement reports related to federal and state programs. Since most federal and state programs have different physical years, the grant programs encompass multiple school years.

Condition: During our compliance testing and reconciliation procedures for "Reporting" we noted that the expenditures from the prior school year (2011-2012) had not been requested for reimbursement in any of the reimbursement requests. Since we discovered this, the District was able to request reimbursement on the final reports.

Effect: Until identified by the auditors, approximately \$ 30,720 had not been requested for reimbursement.

Cause: The District utilized the "Current Program Expenditures reports rather that the "Program Expenditure" reports to request reimbursement for the aforementioned federal programs. The "Current" reports only include the amounts expended during the current school year and the "Program" reports include the total of each program regardless of fiscal school year. Further, personnel changes in the Business Office; was a contributing factor.

Recommendations: The Business Office and Federal Program Administrator should work together to ensure that all reimbursement reports are both accurate and timely. Reimbursement reports should be prepared from cumulative program reports to ensure the inclusion of all expenditures subject for reimbursement.

Questioned Cost/Basis: None.

**PRIOR YEAR'S FINDING/NONCOMPLIANCE**

Schedule reference number 2012-01: Child Nutrition Cluster Programs (Eligibility testing). The District did not appropriately maintain documentation for one student when the student's eligibility status had been changed.

Corrective action taken: The District communicated the requirements of proper documentation to staff responsible for maintaining student status and has worked work to maintain proper documentation when any change occurs to status.

1. Schedule reference number 2013-01; expenditures in excess of appropriations at the function level.

Corrective action planned: The Business Director and staff will continuously monitor expenditures at the function level to ensure compliance going forward.

2. Schedule reference number 2013-02, the District failed to maintain adequate pledged securities as of October 11, 2012 (date of highest cash balance).

Corrective action planned: The Business Director will monitor the deposits and related pledged securities on a monthly basis to ensure compliance going forward.

3. Schedule reference number 2013-03: Direct Expenditure of Program Intent Code 22 Career & Technology Block Grant. Direct (unallocated) expenditures toward state career & technology block grant failed to exceed 58% of Foundation School Program (FSP) allotment for the 2012-2013.

Corrective action planned: The Business Director is currently monitoring expenditure classifications on a daily basis while approving purchase orders to ensure compliance.

4. Schedule reference number 2013-04, the District failed to request reimbursement for program expenditures incurred during the previous school year for Title I, Part A Improving basic programs (\$ 13,212); IDEA Part B Formula programs (\$ 13,781); IDEA Part B Preschool programs (\$ 872); and, Title II, Part A Teacher/Principal programs (\$ 2,855).

Corrective action planned: The Business Director will work in conjunction with the Compliance Office to account for expenditure reimbursements.

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED AUGUST 31, 2013**

**EXHIBIT K-1**  
**Page 1 of 2**

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Passed Through State Department of Education:			
ESEA, Title I, Part A, Improving Basic Programs	84.010	13610101020906	\$ 231,516
ESEA, Title I, Part A, Improving Basic Programs	84.010	14610101020906	<u>11,534</u>
			<u>243,050</u>
IDEA - B, Formula	84.027	13660001020906	342,003
IDEA - B, Formula	84.027	14660001020906	<u>12,711</u>
			<u>354,714</u>
IDEA - B, Preschool	84.173	13661001020906	30,983
IDEA - B, Preschool	84.173	14661001020906	<u>1,802</u>
			<u>32,785</u>
Vocational Education, Basic Grant	84.048	1342000602090604	<u>18,918</u>
ESEA, Title II, Part A: Teacher and Principal Training And Recruiting	84.367A	13694501020906	74,519
ESEA, Title II, Part A: Teacher and Principal Training And Recruiting	84.367A	14694501020906	<u>3,195</u>
			<u>77,714</u>
Title III, English Language Acquisition and Enhancement	84.243	---	<u>1,546</u>
Summer School Language Education Program	84.369A	69551202	<u>1,115</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 729,842</u>
<u>U.S. Department of Agriculture</u>			
Direct Program:			
Commodity Supplement Program*	10.555	--	<u>\$ 34,426</u>
Passed Through State Department of Education:			
School Breakfast Program*	10.553	71401301	138,852
National School Lunch Program*	10.555	71301301	<u>433,050</u>
			<u>571,902</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>\$ 606,328</u>

(continued)

**SWEENEY INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED AUGUST 31, 2013**

*EXHIBIT K-1*  
*Page 2 of 2*

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Interior</u>			
Passed Through Brazoria County, Texas: Refuge Revenue Sharing Act of 1978	15.000	---	\$ <u>29,257</u>
TOTAL DEPARTMENT OF INTERIOR			\$ <u>29,257</u>
TOTAL FEDERAL ASSISTANCE			\$ <u>1,365,427</u>
*Cluster Programs			
Reconciliation:			
Federal program revenues (Exhibit C-2)			\$ 1,367,822
Less: School Health and Related Services (SHARS) not considered federal revenue for the Schedule of Federal Awards			<u>2,395</u>
Total federal financial assistance (Schedule of Expenditures of Federal Awards).			\$ <u>1,365,427</u>

See notes to supplemental Schedule of Expenditures of Federal Awards.

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

**NOTE 1 – BASIS OF ACCOUNTING**

The District accounts for all awards under federal programs in the General and certain special revenue funds in accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current position.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for 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 unearned revenues until earned. Generally unused balances are returned to the grantor at the close of specified project periods.

Commodity Supplement (CFDA 10.555) received like kind goods and no grant revenue received was reported on the schedule for the monetary value of these goods. The monetary value of goods received was \$ 52,993, while the monetary value of goods used and recognized as income and expenditures was \$ 34,426.

**NOTE 2 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

**NOTE 3 – RECONCILIATION TO BASIC FINANCIAL STATEMENTS**

The following is a reconciliation of expenditures of federal awards program per Exhibit K-1 and expenditures reported on Exhibit C-3:

Total shown on Schedule of Expenditures of Federal Awards (Exhibit K-1))	\$ 1,365,427
Federal Revenue Not Included in the Schedule of Federal Awards:	
School Health and Related Services (SHARS)	<u>2,395</u>
Total federal revenue (Exhibit C-3)	<u>\$ 1,367,822</u>

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**SCHEDULE FOR ELECTRONIC FILING**

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**SWEENEY INDEPENDENT SCHOOL DISTRICT**

REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS  
AUGUST 31, 2013

SCHEDULE L-1  
Page 1 of 1

<u>Code</u>	<u>Questions</u>	<u>Responses</u>
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	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ 7,870

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